Concord Medical Services Holdings Ltd
Form 20-F
April 28, 2016

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

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from to

or

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

Date of event requiring this shell company report

Commission file number 001-34563

Concord Medical Services Holdings Limited
(Exact Name of Registrant as Specified in Its Charter)

Cayman Islands
(Jurisdiction of Incorporation or Organization)

18/F, Tower A, Global Trade Center
36 North Third Ring Road, Dongcheng District
Beijing 100013
People's Republic of China
(Address of Principal Executive Offices)

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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**
Class A 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 Class A ordinary shares. The ADSs are registered under the Securities Act of 1933, as amended, pursuant to a registration statement on Form F-6. Accordingly, the ADSs are exempt from registration under Section 12(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 12a-8 thereunder.

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

None

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

None

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

132,994,201 Class A Ordinary Shares Issued and Outstanding

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

U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

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

Item 17 ¨ Item 18 ¨

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

TABLE OF CONTENTS

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 Class A 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$0.0001 per share, which can be divided into Class A ordinary shares and Class B ordinary shares;
- "PRC subsidiaries" are to our subsidiaries incorporated in the People's Republic of China, including Beijing Meizhong Jiahe Hospital Management Co., Ltd., Beijing Yundu Internet Technology Co., Ltd., Shenzhen Aohua Medical Technology Development Co., Ltd., Tianjin Concord Medical Technology Limited, Medstar (Shanghai) Leasing Co., Ltd., Guangzhou Concord Cancer Hospital Co., Ltd., Beijing Century Friendship Science & Technology Development Co., Ltd., Guangzhou Jinkangshenyou Investment Co., Ltd., Shanghai Concord Cancer Hospital Co., Ltd, Shenzhen Concord Medical Investment Limited, Beijing Allcure Medical Science & Technology Ltd., Beijing Concord Medical Technology Limited, Beijing Proton Medical Center, Shanghai Taifeng Medical Techology Ltd., Datong Meizhong Jiahe Cancer Center and Wuxi Concord Medical Development Ltd.
- "RMB" and "Renminbi" are to the legal currency of China;
- "US$" and "U.S. dollars" are to the legal currency of the United States;
- "£" is to the legal currency of the United Kingdom of Great Britain and Northern Ireland; and
- "SGD" and "Singapore dollars" are to the legal currency of Singapore.

Our reporting currency is the Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars for the convenience of the reader. Conversions of Renminbi into U.S. dollars in this annual report are based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.4778 to US$1.00, the noon buying rate in effect as of December 31, 2015. 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, 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 22, 2016, the noon buying rate was RMB6.5004 to US$1.00.

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 (loss) and other consolidated financial data for the years ended December 31, 2013, 2014 and 2015 (other than the income (loss) per ADS data) and the selected consolidated balance sheets data as of December 31, 2014 and 2015 have been derived from our audited consolidated financial statements, which are included elsewhere in this annual report on Form 20-F. The selected consolidated statements of comprehensive income (loss) data for the years ended December 31, 2011 and 2012 and the selected consolidated balance sheets data as of December 31, 2011, 2012 and 2013 have been derived from our audited consolidated financial statements, which are not included in this annual report on Form 20-F. You should read the selected consolidated financial data in conjunction with those financial statements and the related notes and "Item 5. Operating and Financial Review and Prospects" included elsewhere in this annual report on Form 20-F. Our consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. Our historical results are not necessarily indicative of our results expected for any future periods.

	Concord Medical					
	Year Ended December 31,					
	2011	2012	2013	2014	2015	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands, except share, per share and per ADS data)					
Selected Consolidated Statements of Comprehensive Income (Loss) Data						
Revenues, net of business tax, value-added tax and related surcharges	450,125	455,651	563,124	606,883	616,485	95,169
Cost of revenues	(159,416)	(164,523)	(217,655)	(274,562)	(353,336)	(54,546)
Gross profit	290,709	291,128	345,469	332,321	263,149	40,623
Operating expenses:						
Selling expenses[(1)]	(37,453)	(53,911)	(104,667)	(95,096)	(112,815)	(17,416)
General and administrative expenses[(2)]	(80,628)	(61,106)	(84,506)	(53,576)	(132,952)	(20,524)
Impairment of long-lived assets	(333,934)	(3,360)	—	—	(23,125)	(3,570)
Other operating income	—	9,185	—	—	—	—
Operating income (loss)	161,306	181,936	156,296	183,649	(5,743)	(887)
Interest expense	(6,454)	(12,452)	(36,884)	(53,470)	(53,214)	(8,215)
Foreign exchange (loss) gains, net	(10,975)	(117)	784	9,585	10,348	1,597
Gain (loss) from disposal of property, plant and equipment	—	4,432	(1,235)	(3,955)	(4,220)	(651)
Interest income	13,357	5,853	9,828	21,208	22,447	3,465
Changes in fair value of derivatives	—	—	—	2,605	33,731	5,207
Loss on debt extinguishment	—	—	—	—	(36,648)	(5,657)
Income (loss) from equity method investments	—	1,790	13,470	13,911	(5,572)	(860)
Other income (expense), net	346	(307)	2,010	2,113	33,617	5,190
Income (loss) from continuing operations before income taxes	(165,032)	181,135	144,269	175,646	(5,254)	(811)
Income tax expenses	(46,320)	(54,249)	(63,838)	(80,850)	(74,025)	(11,427)
Net (loss) income from continuing operations	(211,352)	126,886	80,431	94,796	(79,279)	(12,238)
Net income from discontinued operations	—	7,594	10,765	25,476	—	—
Net income (loss)	—	134,480	91,196	120,272	(79,279)	(12,238)
Net income (loss) attributable to non-controlling interests	3,651	3,649	5,303	(4,437)	(975)	(151)
Net (loss) income attributable to ordinary shareholders	(215,003)	130,831	85,893	124,709	(78,304)	(12,087)
(Loss) earnings per share – basic / diluted	(1.51)	0.95	0.64	0.92	(0.58)	(0.09)
From continuing operations	(1.51)	0.95	0.61	0.70	(0.58)	(0.09)
From discontinued operations	—	—	0.03	0.22	—	—
(Loss) earnings per ADS – basic / diluted	(4.53)	2.84	1.92	2.76	(1.75)	(0.27)
From continuing operations	(4.53)	2.84	1.83	2.10	(1.75)	(0.27)
From discontinuing operations	—	—	0.09	0.66	—	—

(1)

Our selling expenses included share-based compensation of RMB2.4 million in 2011, RMB2.3 million in 2012, RMB2.3 million in 2013, RMB0.7 million in 2014 and RMB0.8 million (US$0.1 million) in 2015.

(2) Our general and administrative expenses included share-based compensation expenses related to certain share options granted in 2011, 2012, 2013, 2014 and 2015 of RMB6.9 million, RMB6.8 million, RMB6.5 million, RMB6.6 million and RMB7.3 million (US$1.1 million), respectively.

	Concord Medical As of December 31,					
	2011 RMB	2012 RMB	2013 RMB	2014 RMB	2015 RMB	US$
	(in thousands)					
Selected Consolidated Balance Sheets Data						
Cash	219,078	75,382	283,033	478,682	485,440	74,938
Total current assets	733,657	853,133	1,300,010	1,463,682	1,505,065	232,342
Property, plant and equipment, net	1,068,703	1,522,920	1,492,573	749,683	918,815	141,841
Goodwill	—	292,885	292,885	—	—	—
Intangible assets, net	129,018	146,512	116,843	61,243	43,453	6,708
Total assets	2,393,446	3,665,220	4,093,557	2,959,332	3,601,422	555,964
Total current liabilities	859,533	1,174,659	769,819	769,819	1,510,995	233,257
Long-term bank borrowings, current portion	77,479	191,473	273,310	246,233	350,786	54,152
Total equity	2,038,096	2,339,910	2,433,717	1,800,058	1,433,788	221,339
Total liabilities and equity	2,393,446	3,665,220	4,093,557	2,959,332	3,601,422	555,964

	Concord Medical Year Ended December 31,					
	2011 RMB	2012 RMB	2013 RMB	2014 RMB	2015 RMB	US$
	(in thousands)					
Selected Consolidated Statements of Cash Flow Data						
Net cash generated from (used in) operating activities	137,102	259,515	259,033	490,381	(175,138)	(27,038)
Net cash (used in) generated from investing activities[(1)]	(494,867)	(659,290)	(133,540)	287,055	(391,083)	(60,372)
Net cash generated from (used in) financing activities	41,785	255,932	77,722	(579,144)	590,398	91,141
Exchange rate effect on cash	(725)	147	4,436	(2,643)	(17,419)	(2,689)
Net (decrease) increase in cash	(316,705)	(143,696)	207,651	195,649	6,758	1,042

(1) Net cash used in investing activities in 2011, 2012, 2013 and 2015 includes acquisitions, net of cash acquired, of RMB20.3 million, RMB223.4 million, nil and RMB250.1 million (US$38.6 million), respectively. Net cash generated from investing activities in 2014 and 2015 includes disposal, net of cash disposal, of RMB280.1 million and RMB78.8 million (US$12.2 million), respectively.

	Concord Medical Year Ended December 31,				
	2011	2012	2013	2014	2015

	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
Total net revenues generated by our primary medical equipment under lease and management services arrangements:						
Linear accelerators	114,250	115,009	135,268	144,694	111,922	17,278
Head gamma knife systems	77,035	76,239	68,553	58,509	53,895	8,320
Body gamma knife systems	42,512	31,365	42,016	31,478	32,959	5,088
PET-CT scanners	59,054	71,895	107,536	116,078	140,598	21,704
MRI scanners	65,031	79,220	83,619	103,197	106,085	16,377
Others[(1)]	22,576	38,602	61,564	57,635	79,749	12,311
Total net revenues — lease and management services	380,457	412,330	498,556	511,591	525,208	81,078

(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.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Company

We plan to establish and operate proton centers, premium cancer hospitals and 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 and operate proton centers, premium cancer hospitals and specialty cancer hospitals that will focus on providing a variety of radiotherapy services as well as diagnostic imaging services, chemotherapy and surgery. For example, at the Beijing Proton Medical Center, our planned proton center, 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 centers and hospitals, or in providing many of the services that we plan to offer in such centers and 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 own centers and 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 centers and 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 centers and 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 operational and financial conditions and results will be adversely affected if we could not effectively manage our capital expenditures.

We plan to build one proton center in Beijing and two premium cancer hospitals in 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 proton center and premium cancer hospitals need to train our staff members properly, provide services and treatment environment superior to local hospitals as well as to install high-end equipment, including CyberKnife, IMRT (Intensity-Modulated Radiation Therapy) and proton beam therapy. The required capital expenditures will be substantial. The process of capital expenditures planning, designing and construction of the proton center and premium cancer 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 hospital projects of the planned size. If we cannot manage the process properly, our operating and financial results would be adversely affected.

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

We plan to build proton centers, premium cancer hospitals and specialty cancer hospitals in multiple regions in China. These free-standing centers and hospitals will not be affiliated with local government hospitals like our current cooperative 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 and hospitals by taking into consideration a number of factors including regional market size, existing competition and potential strategic partners. There are uncertainties regarding how successfully we can identify the suitable market, acquire required government approvals in a timely manner and control planned investments. In addition, we may face competition from our existing cooperative centers.

We may encounter difficulties in successfully opening new cooperative centers or renewing agreements for existing cooperative 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 entering into new agreements primarily 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 National Health and Family Planning Commission of the PRC, or the NHFPC. 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 cooperative centers generally involves a ramp-up period during which time the operating efficiency of such cooperative centers may be lower than our established cooperative centers, which may negatively affect our profitability.

We have historically derived a significant portion of our revenues from cooperative 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 2013, 2014 and 2015, net revenues derived from our top five hospital partners amounted to approximately 24.2%, 22.5% and 25.3% of our total net revenues, respectively. Our largest hospital partner accounted for 5.6%, 6.4% and 7.5% of our total net revenues during those periods, respectively. In addition, cooperative centers located in Beijing, Henan province and Sichuan Province accounted for 17.1%, 9.4% and 8.5% of our total net revenues in 2013, respectively, cooperative centers located in Beijing, Shandong and Jiangsu accounted for 15.0%, 8.9% and 7.7% of our total net revenue in 2014, respectively, and cooperative centers located in Beijing, Shandong and Shanghai accounted for 16.7%, 14.6% and 12.8% of our total net revenues in 2015, 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 cooperative centers located at these hospital partners;
- loss of key experienced medical professionals;
- decrease in the profitability of such centers;
- failure to maintain or renew our agreements with these hospital partners;
- any failure of these hospital partners to pay us our contracted percentage of any such center's revenue net of specified operating expenses;

- any regulatory changes in the geographic areas where our hospital partners are located; or
- any other disputes with these hospital partners.

In addition, the top ten of our hospital partners in terms of revenue contribution, accounted for 42.5% of our total network accounts receivable as of December 31, 2015. Any significant delay in the payment of such accounts receivable could have a material impact on our financial condition and results of operations.

We conduct our business in a heavily regulated industry.

The operation of our network of centers and our hospitals 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 cooperative 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 and our hospital partners' ability to recruit, train, manage and retain doctors and other 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 in our network of centers are employed by our hospital partners rather than by us. As a result, we may have little control over whether such medical professionals will continue to work in the cooperative centers within 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 Singapore, and we 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 we or our hospital partners fail to recruit and retain a sufficient number of these medical professionals, the resulting shortage could adversely affect the operation of cooperative centers in our network and our hospital 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 cooperative 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 cooperative 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 RMB272.3 million, RMB265.0 million and RMB215.8 million (US$33.3 million) as of December 31, 2013, 2014 and 2015, respectively. As of December 31, 2015, approximately 10.2% of the accounts receivable for our network business reported on our consolidated balance sheets as of December 31, 2014 were still outstanding. The average turnover days of our network accounts receivable in 2015 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 cooperative 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 and hospitals through the selective acquisition of hospital businesses in China and overseas or assets or the formation of joint ventures, and we may continue to do so in the future. For example, in December 2012, we acquired 19.98% of equity interest in The University of Texas MD Anderson Cancer Center Proton Therapy Center, or the MD Anderson Proton Therapy Center, a leading proton treatment center in the world, and later in August 2015, we acquired an additional 7.04% of its equity interest from an existing owner of the general partner. In April 2015, we acquired 100% of the equity interest in Concord Healthcare Singapore Pte. Ltd., or Concord Cancer Hospital, from Fortis Healthcare International Pte. Limited. In January 2016, we acquired 100% equity interest in Beijing Century Friendship Science & Technology Development Co., Ltd., which owns 55% of our Beijing Proton Medical Center, from Chang'an Information Industry (Group) Co., Ltd. The identification of suitable acquisition targets or joint venture candidates can be difficult, time consuming and costly, and we may not be able to successfully capitalize on identified opportunities. We may not be able to continue to grow our business as anticipated if we are unable to successfully identify and complete potential acquisitions in the future. Even if we successfully complete an acquisition or establish a joint venture, we may not be able to successfully integrate the acquired businesses or assets or cooperate successfully with the joint venture partner. For example, in December 2014 we disposed our 52% equity interest in Chang'an Hospital which we acquired in 2012, in order to fully concentrate on building a nationwide network of diagnosis and treatment centers and hospitals. Integration of acquired businesses or assets or cooperation with 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 divert key members of our management's focus from other important aspects of our business.

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

We had net current liabilities as of December 31, 2015 and we cannot assure you that we will not experience net current liabilities in the future.

We had net current liabilities of RMB5.9 million (US$0.9 million) as of December 31, 2015, primarily due to cost incurred in connection with the acquisition of Concord Cancer Hospital. and investment in additional equity interest in the MD Anderson Proton Therapy Center in 2015. The total consideration we paid for the acquisition of Concord Cancer Hospital. and the additional equity interest in the MD Anderson Proton Therapy Center was US$39.1 million

and US$4.6 million, respectively. 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 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 NHFPC 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 cooperative 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 cooperative centers in our network may be subject to sanctions or fines and our reputation could be adversely affected by any negative publicity stemming from such incidents.

We rely on the doctors and other medical professionals providing services in our network of centers and our hospital 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 and our hospital 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 cooperative 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 cooperative 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 cooperative centers in our network have experienced claims as to a limited number of medical disputes since they commenced operations. Any expenses resulting from such liability claims are generally required to be accounted for as expenses of the relevant cooperative center, which could reduce our revenue derived from such center. Furthermore, any incorrect clinical decisions on the part of doctors and other medical professionals in our own hospital or our failure to properly manage the clinical activities of our own hospital will subject us to direct liability claims for any such accidents, which could result in significant legal defense costs for us, harm our brand name and have a material adverse effect on our business, financial condition and results of operations. We do not carry malpractice or other liability insurance at many of the cooperative centers in our network, and at those cooperative centers and our own hospital that do carry such insurance, it may not be sufficient to cover any potential liability that may result from such claims. For our planned proton center, premium cancer hospitals and specialty cancer hospitals, we will likely face direct liability claims for any such incidents.

When we open our proton centers, premium cancer hospitals and specialty cancer hospitals, we expect to face the risk of increased exposure to liability claims and our malpractice insurance may not be sufficient to cover such increased liability exposure.

Our planned proton center, premium cancer hospitals and specialty cancer hospitals are currently under development or held for future development. We expect to open the first of our specialty cancer hospitals, Datong Meizhong Jiahe Cancer Center, in the second half of 2016. Once we start operating these hospitals, it is possible that claims alleging medical malpractice against us in these hospitals may arise from time to time. We may need to obtain the types of insurance that we do not currently carry for the coverage of additional liability exposure associated with the operation by us of these hospitals once these hospitals are in operation. However, there can be no assurance that such insurance coverage will be available at a reasonable price or that we will be able to maintain adequate levels of liability insurance coverage, if at all. Any failure for us to maintain sufficient liability insurance coverage for our operation of these hospitals at a reasonable price could subject us to substantial cost and diversion of resources arising out of liability claims and such insurance coverage could also increase our expenses and decrease our profitability, which would have an adverse effect on our business, financial condition and results of operations.

Any failures or defects of the medical equipment in our network of centers or any failure of the medical personnel who work at the cooperative 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 adequate technical training on the proper operation of our complex medical systems to the medical technicians who work in our network of centers. 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 cooperative 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 cooperative center, which could reduce our revenue derived from such center. We do not carry product liability insurance at any of the cooperative centers in our network.

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

Significant downtime associated with the maintenance and repair of medical equipment used in our network of centers and our hospital would result in the inability of our cooperative centers and our hospital 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 our cooperative centers in our network and our hospital 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 cooperative centers in our network, our partner hospitals, our own hospital and our company.

We rely on a limited number of equipment manufacturers.

Much of the medical equipment used in our network of centers and our hospital 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 cooperative centers in our network and our hospital 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 cooperative centers and our planned hospitals or negatively affect the operation of existing cooperative centers and our hospital and could have a material adverse effect on our business, financial condition and results of operations.

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

We have applied for and obtained the registration of our trademark “Medstar” and nine other trademarks including “Concord Medical” in China to protect our corporate name. As of December 31, 2015, we also owned the rights to 122 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 cooperative centers in our network may be prohibited from using such equipment, either of which could damage our reputation and have a material adverse effect on our business prospects, financial condition and results of operations. In addition, any such proceeding may also be costly to defend and may divert our management’s attention and other resources away from our business. Furthermore, the standard equipment purchase agreements that we enter into with our equipment manufacturers typically do not contain indemnification provisions for intellectual property claims. Although we have obtained specific indemnity from one equipment manufacturer for a patent infringement claim, there can be no assurance that we would be able to recover any damages, lost profits or litigation

costs resulting from any intellectual property infringement claims or proceedings in which we are named as a party.

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

Damage to, or the loss of, such uninsured equipment due to natural disasters, such as fires, floods or earthquakes, could have an adverse effect on our financial condition and results of operation. In addition, the operations of our network of centers and our hospital may be particularly vulnerable to natural disasters that disrupt transportation since many patients travel long distances to reach such centers and hospital. 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 cooperative 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 and our hospital, 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 or us to handle or dispose of such radioactive materials in accordance with PRC and Singapore laws and regulations may have an adverse effect on the operation of such centers and hospital.

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

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

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

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

Recently, there were increases in number of incidents of patient-doctor conflicts and litigations in China. Patients in China are demanding higher-service quality of the medical services and treatments they receive from hospitals. In our centers and hospitals, 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 cooperative centers and our hospital in operation 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 hospitals, we may face increasing risks of litigation and our reputation among patients may be affected adversely.

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

The financial and operational performance of our existing hospital and our planned proton center, premium cancer hospitals and specialty cancer hospitals depend significantly on our ability to attract and retain quality doctors, nurses, hospital administrators and managers. Under the current regulatory environment in 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, 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, such as overseas training and exchange, and include the medical team into our employee share incentive plan. These measures may result in higher compensation and administrative expenses and therefore might have an adverse effect on our financial and operational results.

Our business is subject to seasonality.

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

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

We depend on key members of our management team and that of our material subsidiary, which include Dr. Jianyu Yang, chairman and our chief executive officer, Dr. Zheng Cheng, a director, Mr. Adam Jigang Sun, our chief investment officer, Mr. Jing Zhang, the president of Beijing Meizhong Jiahe Hospital Management Co., Ltd., Mr. Yaw Kong Yap, our chief financial officer, as well as other key personnel for the continued growth of our business. The loss of any of these members of our management team and that of our material subsidiary 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 that 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 and that of our material subsidiary or other key personnel planning to retire or leave us, if one or more of such personnel are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Consequently, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers. In addition, we do not maintain key employee insurance. We have entered into employment agreements and confidentiality agreements with all of the key members of our management team and other key personnel. However, if any disputes arise between any of our key members of our management team or other key personnel and us, we cannot assure you, in light of uncertainties associated with the PRC legal system, the extent to which any of these agreements could be enforced in China, where all key members of our management team and other key personnel reside and hold some of their assets. See "—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could have a material adverse effect on us."

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

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

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

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

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

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, or require us to provide notice or obtain consent for certain significant

corporate events. Some of our loan agreements may even contain cross-default provisions where a technical default on one of our obligations under other agreements will trigger a technical default under such agreements. 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. If we need to obtain waivers from lenders in the future with respect to prepayment or to amend financial covenants or other relevant provisions under such loan agreements to address potential breaches, we cannot assure you that we would be able to reach agreements with the lenders to avoid a breach. If we are required to repay a significant portion or all of our existing indebtedness prior to their maturity, we may lack sufficient financial resources to do so. Furthermore, a breach of those financial covenants will also restrict our ability to pay dividends. Any of those events could have a material adverse effect on our financial condition, results of operations and business prospects.

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

In order to secure bank loans in an aggregate amount of RMB1,086.2 million, RMB903.8 million and RMB1,190.0 million (US$183.7 million) as of December 31, 2013, 2014 and 2015, respectively, we have granted security interests in equipment with a net carrying value of RMB502.6 million , RMB164.9 million and RMB138.3 million (US$21.4 million), respectively, representing 33.7% , 22.0% and 15.1% of the net value of our net property, plant and equipment of RMB1,492.6 million, RMB749.7 million and RMB918.8 million (US$141.8 million) as of December 31, 2013, 2014 and 2015, respectively. Any failure on our part to satisfy our obligations under these loans could lead to the forced sale of our medical equipment that secure these loans, the suspension of the operation of the centers in which such medical equipment is used, or otherwise damage our relationship with our hospital partners and our reputation in the medical community, all of which could have a material adverse effect on our business, financial condition and results of operation. We may grant additional security interests in our equipment in order to secure future bank borrowings.

If we fail to maintain an effective system of internal control over financial reporting, we may lose investor confidence in the reliability of our financial statements.

We are subject to reporting obligations under the U.S. securities laws. The U.S. Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on the company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal control over financial reporting. In addition, an independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. We have been subject to these requirements since the fiscal year ended December 31, 2010.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2015. See "Item 15. Controls and Procedures." Our independent registered public accounting firm has issued an attestation report, which has concluded that our internal control over financial reporting was effective in all material aspects as of December 31, 2015. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could in turn result in loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

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

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

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

We adopted our 2008 share incentive plan on October 16, 2008, which was subsequently amended on November 17, 2009 and November 26, 2011. We are required to account for share-based compensation in accordance with ASC 718, *Compensation-Stock Compensation*, which requires a company to recognize, as an expense, the fair value of share options and other equity incentives to employees based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. On November 27, 2009 and September 30, 2011, we granted options to purchase 4,765,800 ordinary shares at an exercise price of US$3.67 and US$2.17 per share, respectively, under our 2008 share incentive plan to our directors and employees. We did not grant any option under our 2008 share incentive plan in 2012 and 2013. On February 18, 2014, we granted option to purchase 3,479,604 ordinary shares at an exercise price of US$2.037 per share. We also granted 1,370,250 restricted shares, 21,132 restricted shares and 69,564 restricted shares, respectively, on February 18, 2014, July 1, 2014 and August 1, 2014 to certain directors, officers and employees. We granted share options in 2007, before adopting our 2008 share incentive plan, to certain executive officers that were subsequently exercised in 2008. As a result, we have incurred share-based compensation expenses of RMB8.8 million in 2013, RMB7.3 million in 2014 and RMB8.1 million (US$1.2 million) in 2015 related to share-based awards. 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 and Singapore. 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;
- 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, 2015, and we do not expect to become one for our current taxable year or in the future, although there can be no assurance in this regard. The determination of whether or not we are a PFIC is made on an annual basis and depends on the composition of our income and assets. A non-U.S. corporation will be considered a PFIC for any taxable year if either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (which includes cash). The market value of our assets may be determined in large part by the market price of our ADSs and ordinary shares, which is likely to fluctuate. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend our cash. If we are treated as a PFIC for any taxable year during which United States Holders (as defined in "Item 10. Additional Information—E. Taxation—United States Federal Income Taxation") hold ADSs or ordinary shares, certain adverse United States federal income tax consequences could apply to such United States Holders. See "Item 10. Additional Information—E. Taxation—United States Federal Income Taxation— Passive Foreign Investment Company."

Risks Related to Our Industry

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

The procurement, installation and operation of large medical equipment in China are regulated by the Rules on Procurement and Use of Large Medical Equipment issued on December 31, 2004 by the Ministry of Health, the NDRC, and the Ministry of Finance. Pursuant to these rules, quotas for large medical equipment are set by the NDRC and the Ministry of Health or the relevant provincial healthcare administrative authorities, and hospitals must obtain a large medical equipment procurement license prior to the procurement of any such equipment. For medical equipment classified as Class A large medical equipment, which includes gamma knife systems, proton beam therapy systems and PET-CT scanners, procurement planning and approval are conducted by the NHFPC and the NDRC and large medical equipment procurement licenses are issued by the NHFPC. 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 NHFPC 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 2016, 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 and our planned hospital(s) to obtain such licenses as expected, may affect our expansion plan after 2016, 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 planned proton center, premium cancer hospitals and specialty cancer hospitals, we will need to obtain large medical equipment procurement licenses from the NHFPC 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 planned 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 proton centers, premium cancer hospitals and 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, 2015, of the 120 units of medical equipment in the cooperative centers in our network that are subject to large medical equipment procurement quota requirements, 105 were issued with a procurement license, ten 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 five have not yet been issued with any procurement license or permit, which accounted for approximately 1.5%, 3.4% and 3.0% of our total net revenues in 2013, 2014 and 2015 respectively. Although our hospital partners have applied to the competent regulatory authorities for procurement licenses for these last six centers, we cannot assure you that they will be successful. If our hospital partners fail to receive either a procurement license or an interim procurement permit, the cooperative centers in our network operating such medical equipment may be required to discontinue operations and may be deprived of the revenue derived from the operation of such equipment or assessed a fine, any of which could have a material adverse effect on our business, financial condition and results of operation.

We believe that the ten 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 ten units of equipment accounted for approximately, 3.7% , 7.9% and 5.0% of our total net revenues in 2013 , 2014 and 2015, respectively. In addition, for the ten 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.

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

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

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

The treatment of cancer patients is subject to potentially revolutionary technological and therapeutic changes. Future technological developments could render our equipment and the services provided in our network of centers and our hospital 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 proton center, premium cancer hospitals and specialty cancer hospitals in China 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 proton center, premium cancer hospitals and 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 proton centers, premium cancer hospitals and specialty cancer hospitals that will be majority owned by us and are subject to significant risks."

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

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

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

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

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

As China's healthcare reform deepens and more private hospitals enter into the market, more hospitals will be established to offer differentiated services that are currently unavailable in China's healthcare service market. The high-net-worth population usually has access and resources to the best hospitals and medical experts in China. In order to reach this group of patients, we need to establish our industry position and reputation as the best cancer specialty service provider in China, which offers comparable or better services than other domestic and international hospitals. Our planned proton centers, premium cancer hospitals and specialty 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 planned proton center, premium cancer hospitals and specialty 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. Concord Cancer Hospital and the MD Anderson Proton Therapy Center also receive patients from mainland China.

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 proton center will offer the most advanced and cutting-edge treatment to cancer patients in China, including proton beam therapy, the most sophisticated radiotherapy currently 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 proton center 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We receive substantially 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.

On March 30, 2015, SAFE promulgated the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, or SAFE Circular No. 19, which replaced the former notice on the conversion by a foreign-invested company of foreign currency into Renminbi. Pursuant to SAFE Circular No. 19, among other things, the foreign exchange capital of foreign-invested enterprises shall be subject to the discretional foreign exchange settlement and for domestic equity investment made with the capital obtained from foreign exchange settlement, the invested enterprises first shall handle the registration of domestic reinvestment at the foreign exchange bureaus (banks) at the places of registration and open the corresponding Account Pending for Foreign Exchange Settlement Payment, and then the enterprises making the investment shall transfer the capital in Renminbi obtained from foreign exchange settlement based on the actual investment scale to the Account Pending for Foreign Exchange Settlement Payment opened by the invested enterprises, which may facilitate foreign-invested enterprises in carrying out domestic equity investment with the capital obtained from foreign exchange settlement to some extent.

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

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

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

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

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

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

Shenzhen Aohua Medical Technology Development Co., Ltd., or Aohua Technology, our wholly owned subsidiary in Shenzhen, has applied for the preferential tax treatment for high technology companies in 2013 and received the Certificate of High Technology Company, which entitled AMT to a preferential enterprise income tax rate of 15% for three years, subject to the annual review of the local tax authority. However, in 2013, 2014 and 2015, we did not utilized the preferential tax rate based on self-review and after consulting with our auditors.

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

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

In addition, under the EIT law, the Circular issued by the State Administration of Taxation on January 29, 2008 regarding a summary on the dividend rates under the double tax treaties, or Notice 112, the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or PRC-HK DTA, or the Double Taxation Arrangement (Hong Kong), which became effective on December 8, 2006, and the Notice of the State Administration of Taxation Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties, or Notice 601, which became effective on October 27, 2009, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary may be subject to a withholding tax at a rate of 10%, or at a rate of 5% if our Hong Kong subsidiary is considered as a "beneficial owner" that is generally engaged in substantial business activities and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). Furthermore, the ultimate tax rate will be determined by treaty between the PRC and the tax residence of the holder of the PRC subsidiary. We are actively monitoring the proposed withholding tax and are evaluating appropriate organizational changes to minimize the corresponding tax impact.

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

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

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

The British Virgin Islands, where Our Medical Services, Ltd., or OMS, the direct holding company of Aohua 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.

27

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 have no actual controller 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, except for the income from equity investment income such as dividend and bonus between "resident enterprise," and other resident enterprises of China, which shall be identified as tax-exempted income, may be subject to a PRC withholding tax. This will have an impact on our effective tax rate, a material adverse effect on our net income and results of operations, and may require us to withhold tax on our non-PRC shareholders.

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

Under the EIT Law and implementation regulations issued by the State Council, a 10% PRC income tax is applicable to dividends payable to investors that are "non-resident enterprises," which do not have an establishment or place of business in the PRC or which have such establishment or place of business but have income not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. Similarly, any gain realized on the transfer of ADSs or shares by such investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. It is unclear whether dividends paid on our ordinary shares or ADSs, or any gain realized from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and would as a result be subject to PRC tax. If we are considered a PRC "resident enterprise," then any dividends paid to our overseas shareholders or ADS holders that are "nonresident

enterprises" may be regarded as being derived from PRC sources and, as a result, would be subject to PRC withholding tax at a rate of 10%. In addition, if we are considered a PRC "resident enterprise," non-resident enterprise shareholders of our ordinary shares or ADSs may be eligible for the benefits of income tax treaties entered into between China and other countries. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are "non-resident enterprises," or if you are required to pay PRC income tax on the transfer of our ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially and adversely affected.

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

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

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

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

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

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

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

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

the requirements of the Exchange Act.

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

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

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

Risks Related to Our Ordinary Shares and ADSs

The market price for our ADSs may be volatile.

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

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

- sales or perceived sales of additional ordinary shares or ADSs; and

- general economic or political conditions in China or elsewhere in the world.

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

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

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

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

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

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

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. We plan to exchange Class A ordinary shares held by Morgancreek Investment Holding Limited, or Morgancreek, which is beneficially owned by Dr. Jianyu Yang and Dr. Zheng Cheng, with Class B ordinary shares at one-to-one ratio, after which Morgancreek will hold 59,770,876 Class B ordinary shares, or 44.7% of the combined total

outstanding ordinary shares (representing 93.7% of the total voting rights) in our company. Their shareholding, in particular the greater voting rights of the Class B ordinary shares, gives Class B ordinary shareholders the power to control any actions that require shareholder approval under Cayman Islands law, our amended and restated memorandum and articles of association and the NYSE requirements, including the election and removal of any member of our board of directors, mergers, consolidations and other business combinations, changes to our amended and restated memorandum and articles of association, the number of shares available for issuance under share incentive plans and the issuance of significant amounts of our ordinary shares in private placements. Due to the disparate voting rights attached to the two classes of our ordinary shares, holders of our Class B ordinary shares could have sufficient voting rights to determine the outcome of all matters requiring shareholder approval even if it should, at some point in the future, hold considerably less than a majority of the combined total of our outstanding Class A and Class B ordinary shares.

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

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

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

Your ADSs are transferable on the books of the 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.

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 Service Co., Ltd., or Aohua Medical, in which OMS effectively held all of the equity interest at the time, operated all of our business.

Aohua Medical was incorporated by OMS on July 23, 1997 and OMS contributed RMB4.8 million to Aohua Medical, representing 90% of the equity interest in Aohua Medical. The remaining 10% equity interest in Aohua Medical was held by two nominees who acted as the custodians of such equity interest. On June 10, 2009, this 10% equity interest was transferred to our subsidiary Shenzhen Aohua Medical Leasing and Services Co., Ltd., or Aohua Leasing. The two nominees have not maintained their required capital contributions at any time subsequent to the incorporation of Aohua Medical. Due to this capital deficiency as well as other legal conditions, the two nominees had no legal rights to participate either retrospectively or prospectively at any time in any profits or losses of Aohua Medical or to share in any residual assets or any proceeds in the event that Aohua Medical encountered a liquidation event. For these reasons, we did not account for this 10% equity interest as a minority interest in our consolidated results of operations or financial position.

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

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

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

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

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

In December 2012, we acquired 19.98% of equity interest in the MD Anderson Proton Therapy Center, a leading proton treatment center in the world, for a total consideration approximately US$32.3 million. In August 2015, we acquired additional equity interest of 7.04% in the MD Anderson Proton Therapy Center from an existing owner of the general partner, for a total consideration of approximately US$4.6 million.

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

- Shenzhen Aohua Medical Technology Development Co., Ltd., or Aohua Technology, 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;

- Shanghai Medstar, 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;

- Beijing Meizhong Jiahe Hospital Management Co., Ltd., or Meizhong Jiahe or MHM, formerly known as 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; and

- Tianjin Concord Medical Technology Limited, formerly known as Tianjing Kangmeng Radiology Equipment Management Co., Ltd, our wholly owned subsidiary incorporated in the PRC that manages four radiotherapy and diagnostic imaging centers in Hebei province;

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

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

In January 2015, our shareholders approved the creation of a dual class share structure. As of the date of this annual report, we had 133,709,620 Class A ordinary shares issued and outstanding.

In April 2015, we acquired 100% of the equity interest in Fortis Healthcare Singapore Pte. Limited, or Fortis Surgical Hospital, for SGD55.0 million (RMB253.5 million) in cash, from Fortis Healthcare International Pte. Limited, or Fortis Healthcare International, a subsidiary of Fortis Healthcare Ltd. In October 2015, we changed the name of Fortis Surgical Hospital to Concord Cancer Hospital, which provides oncology as its main service, including medical oncology and surgical oncology, in Singapore.

On January 25, 2016, our indirectly wholly-owned subsidiary, Meizhong Jiahe, completed its listing on the National Equities Exchange and Quotations, or the NEEQ, which is also known as the New Third Board in China, for private

placement financing. Meizhong Jiahe will focus on providing management services to our existing network centers and specialty cancer hospital projects in the future. As of the date of this annual report, Meizhong Jiahe has not completed any share issuance under the private placement mechanism of the NEEQ.

In January 2016, we acquired 100% equity interest in Beijing Century Friendship Science & Technology Development Co., Ltd., or Beijing Century Friendship, from Chang'an Information Industry (Group) Co., Ltd. for a cash consideration of RMB70.0 million. Beijing Century Friendship is currently a 55% shareholder of Beijing Proton Medical Center and has engaged in the proton center's establishment and construction.

On February 22, 2016, the board of Meizhong Jiahe approved a restructuring plan, pursuant to which, Meizhong Jiahe is acquiring 100% of the equity interest of Aohua Technology in a cash transaction for approximately RMB322.7 million and 100% of the equity interest of Beijing Century Friendship, which in turn owns 55% of Beijing Proton Medical Center, in a cash transaction for approximately RMB70.0 million, respectively, or the Reorganization. Our Reorganization is expected to be completed in the second quarter of 2016. After the Reorganization, Meizhong Jiahe will become the holding entity of our network business that currently is under Aohua Technology's management and our cancer radiotherapy hospital business in China.

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.

Initial Public Offering

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

ADS Repurchases

On August 10, 2015, we announced the implementation of a share repurchase program of up to US$20.0 million worth of our outstanding ADSs for cash in the open market transactions or in privately negotiated transactions as long as the price per ADS is no more than US$7.99, depending on market conditions and other factors through September 2016. See "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers."

B. Business Overview

Overview

We operate an extensive network of radiotherapy and diagnostic imaging centers in China. As of December 31, 2015, our network comprised of 127 cooperative centers based in 76 hospitals, spanning 53 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 National Health and Family Planning Commission in China (formerly the Ministry of Health). Since April 2015, we started to operate Concord Cancer Hospital in Singapore that we acquired from Fortis Healthcare International, providing oncology as its main service, including medical oncology and surgical oncology, in Singapore. We plan to establish Concord Cancer Hospital as a platform for high-end medical treatment that will also include academic research targeting patients in Singapore as well as patients coming from China as part of our efforts to expand overseas business.

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

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

Most of the cooperative 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 cooperative center's revenue net of specified operating expenses. Each cooperative 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 cooperative 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 cooperative 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 cooperative centers.

To complement our organic growth, we have also selectively acquired businesses to expand our network of centers. 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.

Since 2010, we have shifted our focus to developing our own proton centers, premium cancer hospitals and specialty cancer hospitals. We are currently establishing freestanding radiotherapy cancer centers in our network of centers in China which will be wholly owned by us and registered as specialty cancer hospitals with required departments, including radiation, imaging, test laboratory, inpatient and nursing. As of the date of this annual report, our first specialty cancer hospital, Datong Meizhong Jiahe Cancer Center, is under construction and is expected to commence operations in the second half of 2016. We plan to establish further specialty cancer hospitals in Taizhou, Wuxi, Hangzhou and Nanchang in the future.

We also plan to establish and operate premium cancer hospitals and proton centers in and out of China to develop our hospital business as part of our growth strategy. Our premium cancer hospitals, which will provide premium cancer treatment services to our patients, currently include Concord Cancer Hospital in Singapore that we acquired in April 2015 from Fortis Healthcare International and two planned hospitals in China, Shanghai Concord Cancer Hospital Co., Ltd. and Guangzhou Concord Cancer Hospital Co., Ltd., that are scheduled to commence construction in late 2016. We believe our planned proton center will offer the most advanced and cutting-edge treatment to cancer patients by providing services such as proton beam therapy, the most sophisticated radiotherapy currently available in the market. We are in the process of establishing the Beijing Proton Medical Center, which we expect to be the first proton beam therapy treatment center in China equipped with a proton beam therapy system licensed for clinical use and is scheduled to commence construction in the third quarter of 2016. In December 2012, we acquired 19.98% of indirect ownership of the MD Anderson Proton Therapy Center, and in August 2015, we acquired additional equity interest of 7.04% in the MD Anderson Proton Therapy Center from an existing owner of the general partner to expand our expertise and knowledge base in preparation for the operation of future proton centers in China.

Our business has grown steadily in recent years through development of new centers and hospitals, increases in the number of patient cases of existing cooperative centers and hospitals and our acquisitions as part of our strategic business expansion. Our total net revenues were RMB563.1 million, RMB606.9 million and RMB616.5 million (US$95.2 million) for the year ended December 31, 2013, 2014, and 2015 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, 2015, we operated an extensive network of 127 cooperative centers based in 76 hospitals, spanning 53 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 59 radiotherapy centers and 61 diagnostic imaging centers and 7 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 cooperative 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 cooperative center is located on the premises of our hospital partners with the facilities of the centers provided by the hospitals. Each cooperative 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.

Our Arrangements with Hospital Partners

Lease and Management Services Arrangements

As of December 31, 2015, we had 115 cooperative centers that were established under lease and management services arrangements. We typically establish such centers with hospitals by entering into a lease agreement and a management agreement.

Under these lease and management services arrangements, we are responsible for purchasing the medical equipment used in these cooperative centers. We lease this medical equipment to the hospitals for a fixed period of time and establish and manage the cooperative 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 cooperative 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 cooperative centers typically include variable expenses such as the salaries and benefits of the medical and other personnel at the cooperative 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 cooperative 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 cooperative 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 23 cooperative centers in our network with our hospital partners primarily due to the unsatisfactory performances of the cooperative 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, 2015, we had such agreements for eight cooperative centers. Unlike the cooperative centers established under lease and management services arrangements, we do not purchase and lease to the hospitals the medical equipment used at the cooperative centers established under service-only agreements. Rather, we only manage such cooperative centers in exchange for a management fee typically consisting of a contracted percentage of the revenue net of specified operating expenses of the cooperative 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, 2015, we had such agreements at four cooperative centers. Similar to management services arrangements, we do not invest in the medical equipment installed at the cooperative centers. Instead, we provide technical support, equipment and software maintenance and tele-diagnosis services to these cooperative centers in exchange for a fixed fee. The terms are usually similar to our lease and management services contracts. As our telemedicine business continues to grow, we expect to enter into more of the technical services agreements with other hospitals in the future.

Service Offerings in Our Network

Each of the cooperative 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 cooperative centers.

Linear Accelerators External Beam Radiotherapy

As of December 31, 2015, we owned 26 linear accelerators. Linear accelerators use microwave technology to deliver a high-energy x-ray beam directed at the tumor. Linear accelerators can be used to treat tumors in the brain or elsewhere in the body. A typical course of treatment given to a patient ranges from 20 to 40 daily sessions and with each session lasting for 10 to 20 minutes. Since linear accelerators move during treatment, they are not as precise as gamma knife systems. However, linear accelerators are capable of treating larger tumors. Linear accelerators can also be integrated with specialized computer software and advanced imaging and detection equipment to provide more effective and advanced treatments. Such advanced treatments include three-dimensional conformal radiation therapy, which uses imaging equipment to create detailed, three-dimensional representations of the tumor and surrounding organs. The radiation beam can then be shaped to match the patient’s tumor, thereby reducing the radiation damage to healthy tissues. In general, such advanced modalities increase the medical service fees that can be charged as compared to the maximum medical service fees that can be charged for treatments.

Gamma Knife Radiosurgery

A gamma knife is used in radiosurgery for the treatment of tumors and other abnormal growths. A gamma knife uses multiple radiation sources, which differentiates it from traditional radiotherapy where only a single radiation source is used. These radioactive sources, which are typically cobalt-60, a radioactive isotope, emit gamma rays that are passed through a collimator unit to produce a highly-focused beam of radiation. The individual beams then converge to deliver an extremely concentrated dose of radiation to locations within the patient that are identified using imaging guidance systems, such as PET-CT or MRI scanners. The intense radiation produced by a gamma knife at a precise target point destroys tumor cells, while minimizing damage to the surrounding healthy tissues. The treatment procedure is minimally or non-invasive and may be used as a primary or supplementary treatment option for cancer patients. The treatment requires no general anesthesia and provides an alternative treatment option to patients who may not be good candidates for surgery. In addition, the gamma knife procedure usually involves shorter patient hospitalization, is more cost effective than surgery and avoids many of the potential risks and complications that are associated with other treatment options. Our network of centers currently operates two types of gamma knife systems, head gamma knife systems and body gamma knife systems. As of December 31, 2015, we owned 34 gamma knife systems, including 22 head gamma knife systems and 12 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 noncancerous 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, 2015, we have two Cyber-knife centers in China. Our first CyberKnife® Robotic Radiosurgery System, or the CyberKnife System, is located in Changhai Hospital, which has treated over 812 patients in 2015. Our second Cyber-knife center is in Jinan City of Shandong Province, which has treated over 415 patients in 2015.

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 cooperative centers

include MRI. MRI scanners use a powerful magnetic field, radio frequency pulses and computers to produce detailed pictures of organs, soft tissues, bone and virtually all other internal body structures. MRI technology, which does not involve radiation, is typically able to provide a much greater level of contrast between the different soft tissues of the body than CT, making it especially useful in neurological or oncological imaging. As of the date of this annual report, we owned 19 PET-CT scanners and 25 MRI scanners.

Medical Equipment Procurement

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

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

Once non-profit hospitals have obtained large medical equipment procurement licenses, the purchase of medical equipment for such hospitals is conducted through a collective tender process. The tender process is centralized in accordance with the relevant PRC laws and regulations and is supervised by the NHFPC 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 of centers also includes cooperative 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 2013, 2014 and 2015, revenues derived from cooperative centers that provide such other services were approximately 12.8%, 11.3% and 8.9%, respectively, of our total net revenues.

Financing Leases and Other Business Arrangements

We entered into financing lease agreements in connection with sale and leaseback agreements 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 three to 10 years. The net investment in financing lease is in the range of RMB11.4 million to RMB78.0 million, depending on the types of equipment subject to the leases.

We have, from time to time, purchased medical equipment from manufacturers or distributors for re-sale to hospitals. We also have contractual relationships with certain equipment manufacturers and 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.

Specialty Cancer Hospitals

In addition to our cooperative centers, 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 expect these hospitals to be centers of excellence in our network providing cancer treatments to patients using the latest radiotherapy technology in China in our network of centers. 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 wholly owned and operated by us. We will purchase all the medical equipment for these hospitals and employ and manage all the personnel, including doctors, nurses, medical technicians and administrative personnel. The specialty cancer hospitals will be licensed as for-profit hospitals in China and 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 bank loans and cash on hand.

In October 2014, we established a wholly-owned radiotherapy cancer center, Datong Meizhong Jiahe Cancer Center in Datong City, Shanxi Province, to provide advanced, best-practice diagnostic and radiotherapy services with 100 beds with a planned gross floor area of 3,323 sq.m. It will be the first free-standing center in our network of centers. This center is currently under construction and is expected to commence operations in the second half of 2016. The center will be registered as a specialty cancer hospital with required departments, including radiation, imaging, test laboratory, inpatient, and nursing. This center will apply to join the local social insurance coverage. This free-standing center facility is an important step of our broader strategy to build a nationwide chain of free-standing cancer treatment and diagnosis centers in the future. We also plan to establish specialty cancer hospitals in Taizhou, Wuxi, Hangzhou and Nanchang in the future.

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 of centers.

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 cooperative 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 cooperative centers and other general administrative duties such as arranging for the repair and maintenance of medical equipment. Budgets for each cooperative center are established annually based on discussions between our hospital partners and us. Costs incurred at the cooperative centers usually require approval of both our hospital partners and us. As a matter of practice, certain major expenditures of the cooperative 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 cooperative 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 cooperative 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 cooperative center. We actively monitor the activities of each cooperative center and conduct scheduled annual evaluations for all of cooperative 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 cooperative centers. We receive weekly reports on the operating activities for each cooperative 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 cooperative center, we also typically staff each cooperative center with dedicated marketing and accounting personnel. Our hospital partners appoint medical directors to the cooperative centers and, except in very limited cases, they also assign all of the doctors and other medical personnel to the cooperative centers. However, we also help our hospital partners to recruit many of the doctors or medical personnel providing services at the cooperative center. We provide feedback to our hospital partners as to the suitability and performance of the doctors and other medical personnel at each cooperative center, and work with our hospital partners to ensure that each cooperative 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 cooperative 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 Datong Meizhong Jiahe Cancer Center. We will be responsible for employing and managing all personnel of such specialty cancer hospitals, including doctors and other medical personnel, in the future.

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 each 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 cooperative center and can be followed by doctors in our network of centers. We also evaluate the clinical activities of each cooperative 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 cooperative center in our network are primarily initiated and implemented by the marketing personnel or the operations director or project manager situated at each cooperative center with the support of our headquarters. Each center's marketing efforts are directed at other doctors in the hospital where the cooperative 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 cooperative 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 cooperative 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 cooperative centers. We assist the cooperative 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 expect to begin operating the first of our specialty cancer hospitals in the second half of 2016, we plan to begin centralizing certain of our 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 cooperative center in our network with our hospital partners periodically. After the revenue net of specified operating expenses of a cooperative 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 cooperative centers in our network, and perform periodic reviews to ensure that such activities are properly

conducted. For our specialty cancer hospitals, we are responsible for patient billing and fee collection.

Medical Equipment Maintenance and Repair

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

Pricing of Medical Services

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 nonprofit 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.” 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.

Our Premium Cancer Hospitals

Permits Needed to Establish a Medical Institution

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

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

Shanghai Concord Cancer Hospital

In April 2014, we received the relevant government approval for the establishment of Shanghai Concord Cancer Hospital Co., Ltd., or Shanghai Concord Cancer Hospital, a 400-bed cancer specialty hospital with a planned gross floor area of 150,500 sq.m. in Shanghai New Hongqiao International Medical Center. Our Shanghai Concord Cancer Hospital will utilize the advance domestic and international therapeutic methods, medical process and management system. It plans to install the most advanced cancer diagnosis and treatment equipment and multidiscipline system. We are in the process of finalizing the pre-construction work. The construction of this hospital project is scheduled to commence at the end of 2016 with an estimated construction period of 3.5 years.

Guangzhou Concord 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 Cancer Hospital Co., Ltd., or Guangzhou Concord Cancer Hospital, a 400-bed specialty hospital in Guangzhou with a planned gross floor area of 40,000 sq.m. for cancer diagnosis and treatment. In May 2012, we obtained the approval of establishing medical institution from the Ministry of Health of Guangdong province. Guangzhou Concord Cancer Hospital was granted the land usage rights from the local land administrative bureau in 2012 and obtained the relevant land use rights certificate in 2013. Currently, we are undertaking pre-construction preparatory works. The construction of this hospital project is expected to commence in the third quarter of 2016 with an estimated construction period of 3.5 years.

Concord Cancer Hospital

As a part of our overseas business expansion, we acquired 100% of the equity interest in Fortis Surgical Hospital from Fortis Healthcare International, a subsidiary of Fortis Healthcare Ltd., for SGD55.0 million (RMB253.5 million) in cash in April 2015 and changed its name to Concord Cancer Hospital, in October 2015. Concord Cancer Hospital has 31-bed patient capacity and provides oncology as its main service, including medical oncology and surgical oncology, in Singapore. Concord Cancer Hospital is a private facility in Singapore that was originally established in July 2012. We plan to establish Concord Cancer Hospital as a platform for high-end medical treatment that will also include academic research targeting patients in Singapore as well as patients coming from China as part of our efforts to expand overseas business.

Our Proton Centers

Beijing Proton Medical Center

We have entered into a framework agreement with Chang'an Information Industry (Group) Co., Ltd. and China-Japan Friendship Hospital to establish 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 equipped with 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 12,555 square meters and 50 licensed patient beds. The Beijing Proton Medical Center will primarily offer treatments using a proton beam therapy system, which are designed to be non-invasive and usually do not require hospitalization.

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.

The framework agreement contemplates that we are to invest equity capital to the Beijing Proton Medical Center project that was previously invested and developed by Chang'an Information Industry (Group) Co., Ltd., King Cheers Holdings Ltd. (HK) and China-Japan Friendship Hospital. In January 2016, we acquired 100% equity interest in Beijing Century Friendship, an entity set up for the construction of the Beijing Proton Medical Center, from Chang'an Information Industry (Group) Co., Ltd. for a cash consideration of RMB70.0 million. Currently, Beijing Century Friendship and King Cheers Holdings Ltd. (HK) both of which are our wholly subsidiaries, own approximately 55.0% and 25.0% of the Beijing Proton Medical Center, respectively. As a result, we ultimately own approximately 80.0% of the Beijing Proton Medical Center, with the remaining equity interest owned by China-Japan Friendship Hospital. As of the date of this annual report, we have received the relevant government approvals for the establishment of Beijing Proton Medical Center. The construction of this hospital project is expected to commence in the third quarter of 2016 with an estimated construction period of 3.5 years.

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

In December 2012, we acquired 19.98% of indirect ownership of the MD Anderson Proton Therapy Center, and in August 2015, we acquired additional equity interest of 7.04% in the MD Anderson Proton Therapy Center from an existing owner of the general partner. The MD Anderson Proton Therapy Center is a leading proton treatment center in the world. As we plan to invest and operate two proton centers in China in the future, this transaction will enable us to expand our expertise and knowledge base in preparation for the operation of future proton centers. After the closing of the transaction, we became the second largest owner of the MD Anderson Proton Therapy Center, behind The University of Texas MD Anderson Cancer Center. We joined both the Board of Directors of PTC-Houston Management, LP, the general partner of the center, and the center's advisory committee.

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

The 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. Its 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 patients.

Business Development

We have a business development team responsible for pursuing opportunities to develop cooperative centers with hospitals and a hospital investment team responsible for pursuing opportunities to establish proton centers, premium cancer hospitals and 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 and hospitals 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 for our planned cooperative centers.

After each potential opportunity is identified and evaluated by the business development team or the hospital investment team, as applicable, the opportunity is presented to our investment committee for review. Our investment committee is comprised of several of our senior executives and members of our board of directors, and includes Mr. Adam Jigang Sun, our CIO and chairman of the committee, Dr. Jianyu Yang, 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 markets in China and Singapore are fragmented and the competition is intense. The cooperative centers in our network and our hospital 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 cooperative centers in our network and our hospital among doctors and patients in China and Singapore and level of patient service and satisfaction.

In addition, we also compete with those who offer other types of available treatment methods that we do not offer, such as chemotherapy, surgery, different forms of radiotherapy that we do not currently offer, other alternative treatment methods commercialized in recent years and certain treatments that are currently in the experimental stage. These treatments may be more effective or less costly, or both, compared to the treatment methods that our centers and hospital 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 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.” We are responsible for the disposal of the medical waste generated from our own hospital in Singapore. For our planned proton center, premium cancer hospitals and specialty cancer hospitals, we will also 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 cooperative 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 cooperative centers, we have obtained malpractice liability insurance for a limited number of centers. We have also obtained malpractice liability insurance for our hospital in Singapore. We do not maintain product liability insurance for the medical equipment.

Except for our own hospital in Singapore we do not maintain real property insurance on the cooperative 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 proton center, premium cancer hospitals and 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 centers and 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

In February 2016, Tianjin Concord Medical Technology Limited, or Tianjin Concord Medical, sued Chinese PLA 252 Hospital, or 252 Hospital, in Baoding City Intermediate People's Court in Hebei Province for financial disputes arising out of their business cooperation. The first instance trial of this lawsuit is scheduled to be heard on May 11, 2016. This lawsuit is pending before the Baoding City Intermediate People's Court as of the date of this annual report. We are unable to reliably estimate the probability of prevailing in the case and the scope of any liabilities.

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

Regulation of Our Industry

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

Regulations in China

General Regulatory Environment

China's healthcare industry is regulated by various government agencies, including the National Health and Family Planning Commission, or the NHFPC. The NHFPC has branch offices across China that oversee the healthcare industry at the provincial and county levels, which branch offices, together with the NHFPC, 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, 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 our aforementioned subsidiaries have obtained medical equipment operating enterprise permits.

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. Shanghai Medstar has received a radiation safety permit, but the radiation safety permit of Aohua Technology expired on October 14, 2014 and has not been obtained from the relevant authorities due to the fact that Aohua Technology has stopped selling radioactive materials or devices in the PRC.

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

Leasing Company Permit

As foreign-invested companies engaged in the leasing or financial leasing business, certain of our subsidiaries must obtain a Foreign-invested Enterprise Approval Certificate from the MOFCOM or its competent local branch. Each such certificate will specify the permitted business scope of the foreign-invested company as either leasing or financial leasing. Foreign-invested leasing companies are permitted to operate their businesses for no more than 30 years after obtaining such certificates, after which time they are required to apply for and obtain an extension of the term of their certificate. Foreign-invested leasing companies are also required to observe the rules for the registered capital and total investment provided in the Company Law issued by the Standing Committee of National People's Congress of the PRC on December 29, 1993, as amended from time to time, and other relevant regulations. Foreign-invested financial leasing companies, such as our subsidiary, Shanghai Medstar, are required to have qualified professionals and senior managers with professional qualifications and with no less than 3 years of management experience. Our subsidiary, Shanghai Medstar, has 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 proton center, premium cancer hospitals and 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 and amended on February 6, 2016 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 proton center, premium cancer hospitals and specialty cancer hospitals that we intend to establish would need to obtain such a medical institution practicing license.

Large Medical Equipment Procurement License

The procurement, installation and operation in China of large medical equipment, which is defined as any medical equipment valued at over RMB5.0 million or listed in the medical equipment administration catalogue of the Ministry of Health, is regulated by the Rules on Procurement and Use of Large Medical Equipment issued on December 31, 2004 by the Ministry of Health, the NDRC and the Ministry of Finance, which became effective on March 1, 2005. Pursuant to these rules, quotas for large medical equipment are set by the NHFPC 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 NHFPC and the NDRC and large medical equipment procurement licenses are issued by the NHFPC. 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 NHFPC 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 cooperative 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 interim permits. For more information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Industry—Certain of our hospital partners have not received large medical equipment procurement licenses or interim procurement permits for some of the medical equipment in our network of centers which could result in fines or the suspension from use of such medical equipment.”

Radiotherapy Permit

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

Radiation Worker Permit

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

Regulation of Military Hospitals

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

Restrictions on Cooperation Agreements

Since the effectiveness in September 2000 of the Implementation Opinions on the Management by Classification of Urban Medical Institutions by the Ministry of Health, the State Administration of Traditional Chinese Medicine, the Ministry of Finance and the NDRC, non-profit medical institutions other than military hospitals have been prohibited from entering into new cooperation agreements or continuing to operate under existing cooperation agreements with third parties pursuant to which the parties jointly invest in or cooperate to set up for-profit centers or units that are not independent legal entities. However, according to the Opinions on Certain Issues Regarding Management by Classification of Urban Medical Institutions issued on July 20, 2001 by the Ministry of Health, the State

Administration of Traditional Chinese Medicine, the Ministry of Finance and the NDRC, a non-profit medical institution that lacks sufficient funds to purchase medical equipment outright may enter into a leasing agreement pursuant to which the medical institution leases medical equipment at market rates. In response to this regulatory change, we have replaced the majority of our cooperation agreements with non-profit civilian hospitals with leasing and management agreements.

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 his/her 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, a doctor may, within his/her 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 to practise in different medical institutions. The measures are currently effective for a trial period of three years.

Pricing of Medical Services

Pursuant to the Opinion Concerning the Reform of Medical Service Pricing Management issued by the NDRC and the Ministry of Health on July 20, 2000, medical services fees generated through the use of both Class A and Class B large medical equipment at nonprofit 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 treatment fees for large medical equipment. See "Item 3. Key Information—D. Risk Factors—Pricing for the services provided by our network of centers may be adversely affected by reductions in treatment and examination fees set by the Chinese government."

Medical Insurance Coverage

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

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

	Urban Employees Basic Medical Insurance Program	**Urban Residents Basic Medical Insurance Program**	**Rural Cooperative Medical Program**
Launch Time	1998	2007	2003
Participants	Urban employees	Urban non-employees	Rural residents
Participation	Mandatory	Voluntary	Voluntary
Number of People covered in 2010	Approximately 237 million (36% of China's urban population)	Approximately 195 million (29% of China's urban population)	Approximately 815 million (96% of China's rural population)
Total reimbursement amount	RMB280 billion in 2009	N/A	RMB66.2 billion in 2010
Funding	Employers and employees: · employer contributes approximately 6% of each employee's total salary; and · employee contributes approximately 2% of such	Households and the government: · monthly premium are paid by each household; and · Government subsidies no less than RMB80 per person annually 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 · government subsidizes RMB40 per person

	employee's total salary.	RMB40 per person annually for the mid/western regions of China, with greater subsidies provided to low-income families and disabled persons.	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.

	Urban Employees Basic Medical Insurance Program	**Urban Residents Basic Medical Insurance Program**	**Rural Cooperative Medical Program**
	· 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 Shanghai from the previous year.	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.
	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	Anhui Province: maximum reimbursement amount for hospitalization is approximately RMB30,000 per person per year.

	annual salary in Guangdong province from the previous year.

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

54

Foreign Exchange Control and Administration

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

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

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

SAFE Circular No. 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such

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

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

Dividend Distributions

Pursuant to the Foreign Exchange Administration Regulation promulgated in 1996, as amended in 1997 and 2008, and various regulations issued by the SAFE and other relevant PRC government authorities, the PRC government imposes restrictions on the convertibility of Renminbi into foreign currencies and, in certain cases, on the remittance of currency out of China. Our PRC subsidiaries are regulated under the Foreign Investment Enterprise Law, which was issued on April 12, 1986 and amended on October 31, 2000, the Implementation Rules of the Foreign Investment Enterprise Law, which was issued on October 28, 1990 and amended on April 12, 2001, and the newly revised PRC Company Law, which became effective as of December 28, 2013. Pursuant to these regulations, each of our PRC subsidiaries must allocate at least 10.0% of its after-tax profits to a statutory common reserve fund. When the accumulated amount of the statutory common reserve fund exceeds 50.0% of the registered capital of such subsidiary, no further allocation is required. Funds allocated to a statutory common reserve fund may not be distributed to equity owners as cash dividends. Furthermore, each of our PRC subsidiaries may allocate a portion of its after-tax profits, as determined by such subsidiary's ultimate decision-making body, to its staff welfare and bonus funds, which allocated portion may not be distributed as cash dividends.

Regulations Relating to Employee Share Options

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

Pursuant to Circular No. 106, employee stock award plans of SPVs and employee share option plans of SPVs must be filed with the SAFE while applying for the registration for the establishment of the SPVs. After employees exercise their options, they must apply for an amendment to the registration for the SPV with the SAFE. We intend to comply with these regulations and to ask our PRC optionees to comply with these regulations. In accordance with the Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Used

for Domestic Individuals' Participation in Equity Incentive Plans of Companies Listed Overseas issued by SAFE on February 15, 2012, individuals who participate in equity incentive plans of the same overseas listed company shall, through the domestic company to which the said company is affiliated, collectively entrust a domestic agency to handle issues like foreign exchange registration, account establishment, funds transfer and remittance, and entrust an overseas institution to handle issues like exercise of options, purchase and sale of corresponding stocks or equity, and transfer of corresponding funds. However, as these rules have only been recently promulgated, it is currently unclear how these rules will be interpreted and implemented. If the applicable authorities determine that we or our PRC optionees have failed to comply with these regulations, we or our PRC optionees may be subject to fines and legal sanctions.

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

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

Regulations in Singapore

Singapore's healthcare regulatory is regulated by the Ministry of Health of Singapore along with its statutory boards, or the MOH of Singapore. All healthcare facilities such as hospitals, medical centers, community health centers, nursing homes, clinics (including dental clinics) and clinical laboratories (including x-ray laboratories) are required to apply for licenses under The Private Hospitals and Medical Clinics Act (Chapter 248) and the regulations made thereunder, or the PHMC Act/Regulations. All healthcare facilities are also required to maintain a good standard of medical / clinical services under the PHMC Act/Regulations.

License Required by Our Company

Pursuant to the PHMC Act which was issued in 1980 and revised in 1999, no premises or conveyance shall be used as a private hospital or healthcare establishment except under the authority and in accordance with the terms and conditions of a license issued by the MOH of Singapore; if a private hospital or healthcare establishment is not licensed or is used otherwise than in accordance with the terms and conditions of its license, every person having the management or control thereof shall be guilty of an offence and shall be liable on conviction to a fine not exceeding SGD20,000 or to imprisonment for a term not exceeding 2 years or to both; the MOH of Singapore may order the person having the management or control of any unlicensed private hospital or healthcare establishment to close that private hospital or healthcare establishment either forthwith or within such time as they may specify; and if the person to whom an order is given fails to comply with the order, he shall be guilty of an offence and shall be liable on conviction to a fine not exceeding SGD10,000 or to imprisonment for a term not exceeding 12 months or to both and, in the case of a continuing offence, to a further fine not exceeding SGD1,000 for every day or part thereof during which the offence continues after conviction. Our subsidiary, Concord Cancer Hospital. has obtained a license from the MOH of Singapore to operate Concord Cancer Hospital.

Registration of Medical Practitioner

The Singapore Medical Council, a statutory board under the MOH of Singapore, maintains the Register of Medical Practitioners in Singapore, administers the compulsory continuing medical education (CME) programme and also governs and regulates the professional conduct and ethics of registered medical practitioners. Pursuant to the Medical Registration Act (Chapter 174) which was issued in 1997 and revised in 2014, no person shall practice as a medical practitioner or do any act as a medical practitioner unless he is registered under this act and has a valid practicing certificate.

Duties and Responsibilities of Persons who Manage a Private Hospital

Pursuant to Guidelines under the PHMC Act (1980) and Regulations (1991), any person who manages a private hospital, medical clinic or clinical laboratory shall, where applicable: (a) at all times exercise close personal supervision of the premises and the persons employed therein and cause all orders and directions of the medical practitioner in charge of the patients to be faithfully and diligently carried out; (b) keep and maintain all materials, equipment and appliances necessary for the proper diagnosis, care or treatment of patients or running of the services and shall provide any additional equipment and appliances as may be directed by the MOH of Singapore from time to time; (c) accept for admission into the private hospital (excluding nursing homes) only those patients recommended by a registered medical practitioner; (d) be responsible for the maintenance of the standards of practice acceptable to the MOH of Singapore; and (e) be responsible for the notification for any patient with or suspected to have a notifiable disease, as required under the Infectious Diseases Act of Singapore.

Requirements of Drugs, etc

Pursuant to Guidelines under the PHMC Act (1980) and Regulations (1991), every private hospital shall maintain: (a) storage of all antiseptics, drugs for external use and disinfectants separate from internal and injectable medication; (b) an adequate supply of medicinal products and appropriate records of such products; and (c) a means of identifying the signatures of all medical practitioners authorised to use the pharmaceutical services for prescriptions.

58

Requirements of Equipment

Pursuant to Guidelines under the PHMC Act (1980) and Regulations (1991), every private hospital shall ensure that procedures are drawn up regarding the proper use, care and maintenance of all equipment used in the private hospital and shall comply with established or recommended procedures; and every piece of equipment used in any endoscopic, operative or invasive procedure shall be rendered sterile by the appropriate procedure.

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.

Note: On February 22, 2016, the board of Meizhong Jiahe approved a restructuring plan, pursuant to which, Meizhong Jiahe is acquiring 100% of the equity interest of Aohua Technology in a cash transaction for approximately RMB322.7 million and 100% of the equity interest of Beijing Century Friendship, which in turn owns 55% of Beijing Proton Medical Center, in a cash transaction for approximately RMB70.0 million, respectively. Such Reorganization is expected to be completed in the second quarter of 2016. After the Reorganization, Meizhong Jiahe will become the holding entity of our network business that currently is under Aohua Technology's management and our cancer radiotherapy hospital business in China.

D. Property, Plant and Equipment

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 1,930 square meters, pursuant to lease agreements entered into in January 2012. The following table sets forth our leased properties for office space use as of the date of this annual report:

Location	**Size (in square meters)**	**Expiration Date**	**Usage of Property**
Beijing	1,930	May 2018	Office space
Beijing	29	June 2016	Office space
Beijing	253	December 2018	Office space
Shanghai	24	October 2016	Office space
Shanghai	342	April 2019	Office space
Shenzhen	522	December 2018	Office space
Tianjin	342	April 2019	Office space

We also own certain properties in China and Singapore to establish and operate premium cancer hospitals and specialty cancer hospitals as part of our business expansion. When we state that we own certain properties in China, we own the relevant land use rights because land is owned by the PRC government under the PRC land system. The following table sets forth the details of our leased and self-owned properties for hospital and medical center use as of the date of this annual report:

Location	**Planned/Actual Size (in square meters)**	**Planned/ Actual Capacity (beds)**	**Usage of Property**	**Nature of Properties**	**Status**[4][5]
Singapore	2,544	31	Concord Cancer Hospital	Owned	Acquired in 2015
Shanghai[1]	150,500	400	Shanghai Concord Cancer Hospital	Owned	Held for futuredevelopment
Guangzhou[2]	40,000	400	Guangzhou Concord Cancer Hospital	Owned	Held for future development
Wuxi[3]	TBD	TBD	Planned Specialty Cancer Hospital Project	Owned	Held for future development
Datong	3,323	100	Datong Meizhong Jiahe Cancer Center	Leased (Expire in September 2034)	Under construction

Notes:

(1) In July 2015, we entered into the land grant contract for one land parcel in Shanghai with an aggregate site area of approximately 47,867 sq.m. for the construction of our planned Shanghai Concord Cancer Hospital.

(2) In August 2012, we entered into the land grant contract for one land parcel in Guangzhou with an aggregate site area of approximately 33,340 sq.m. for the construction of our planned Guangzhou Concord Cancer Hospital.

(3) In January 2016, we entered into the land grant contract for one land parcel in Wuxi, Jiangsu Province with an aggregate site area of 8,743 sq.m. for our planned specialty cancer hospital project in Wuxi.

(4) See “Item 4. Information on the Company—B. Business Overview—Our Network of Centers,” “Item 4. Information on the Company—B. Business Overview—Our Premium Cancer Hospitals” and “Item 4. Information on the Company—B. Business Overview—Our Proton Centers” for more details of each our hospital projects.

(5) See “Item 5. Operating and Financial Review and Prospects—A. Liquidity and Capital Resources—Acquisitions and Capital Expenditures” for more details of the capital expenditures plans of our planned hospital projects.

The cooperative centers in our network typically have gross floor area ranging from approximately 100 to 400 square meters depending on the services provided at the cooperative center.

We owned the following primary medical equipment as of December 31, 2015, which are located in the various centers across our network:

Number of primary medical equipment owned[1] :	
Linear accelerators	24
Head gamma knife systems	22
Body gamma knife systems	12
PET-CT scanners	17
MRI scanners	26
Others[2]	22
Total	123

(1) Excluding data from four centers under service-only agreements as of December 31, 2015.

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. Operating Results

Overview

We operate an extensive network of radiotherapy and diagnostic imaging centers in China. Most of the cooperative centers in our network are established through long-term lease and management services arrangements typically ranging from five to 20 years entered into with hospitals. Under these arrangements, we receive a contracted percentage of each center's revenue net of specified operating expenses. Such contracted percentages typically range from 50% to 90% and are adjusted based on a declining scale over the term of the arrangement. Each cooperative 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 cooperative center jointly with our hospital partner and we purchase the medical equipment used in our network of centers and lease such equipment to our hospital partners. In June 2012, we acquired 52% of the equity interest in Chang'an Hospital for a total cash consideration of approximately RMB248.8 million. After this acquisition, the results of operations of Chang'an Hospital were consolidated into our results of operation commencing in the third quarter of 2012. In December 2014, we sold the 52% equity interest in Chang'an Hospital and WHT for a total cash consideration of approximately RMB397.9 million (US$64.1 million), in order to fully concentrate on building a nationwide network of diagnosis and treatment centers and specialized cancer hospitals. Financial results from Chang'an Hospital and WHT prior to the disposal were reclassified as "net income from discontinued operations" in the consolidated statements of comprehensive income (loss). In April 2015, we acquired 100% of the equity interest in Concord Cancer Hospital for a total cash consideration of SGD55.0 million (RMB253.5 million). After the completion of this acquisition, the results of operations of Concord Cancer Hospital were consolidated into our results of operation commencing in the second quarter of 2015.

Our business has grown steadily in recent years through development of new centers and hospitals, increases in the number of patient cases in our network and hospitals and acquisitions as part of our strategic business expansion. Our total net revenues increased to RMB616.5 million (US$95.2 million) in 2015 from RMB606.9 million in 2014 and RMB563.1 million in 2013, primarily due 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 and in the regions in which we have business operations. 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. According to CA Cancer J Clin, new cancer cases will increase to approximately 4.3 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 and our hospitals in and out of China;
- the number of patient cases treated in our network and our hospitals;
- the operational arrangements with our hospital partners;
- the range and mix of services provided in our network and our hospitals; and
- the cost of our medical equipment.

Our Ability to Expand Our Network of Centers and Our Hospitals in and out of China

As of December 31, 2015, our network comprised 127 cooperative centers based in 76 hospitals, spanning 53 cities across 25 provinces and administrative regions in China. Our ability to expand, and to optimize the number of, 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 cooperative 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. In addition to our cooperative centers, we are currently establishing specialty cancer hospitals in our network as well as proton centers and premium cancer hospitals in China. The development of these hospitals is an important step of our broader strategy and will also become the key driver of our future growth. Each additional center and hospital that we develop increases the number of patient cases treated in our network and hospitals and contributes to our continued revenue growth. However, new cooperative centers developed through our entering into new arrangements with hospital partners and our planned hospitals generally involve a ramp-up period during which time the operating efficiency of such centers and hospitals may be lower than that of our established centers, which may negatively affect our profitability. In addition, if we establish additional cooperative centers and hospitals 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 cooperative centers and hospitals 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 and our hospitals. Our ability to expand, and to optimize the number of cooperative centers and specialty cancer hospitals in our network and our hospitals will depend on a number of factors, such as:

- the reputation of our existing network of cooperative centers and doctors providing services in our network of centers and our hospitals;

- our financial resources;
- our ability to timely establish and manage new cooperative centers in conjunction with our hospital partners and our own planned hospitals;
- our relationship with our hospital partners; and
- performance of our hospital partners and our own planned hospitals.

In 2013, we added 14 new cooperative centers to our network, of which six were under lease and management services arrangements. In 2014, we added six new cooperative centers to our network, all of which were under lease agreement services arrangements. We closed six cooperative centers, 11 cooperative centers and 12 cooperative centers in 2013, 2014 and 2015, respectively due to expiry of the arrangements with certain of these cooperative centers as well as our focus on developing our hospital business going forward. As of the date of this annual report, our first specialty cancer hospital, Datong Meizhong Jiahe Cancer Center, is under construction and is expected to commence operations in the second half of 2016. We plan to establish further specialty cancer hospitals in Taizhou, Wuxi, Hangzhou and Nanchang in the future.

Our premium cancer hospitals, which will provide premium cancer treatment services to our patients, currently include Concord Cancer Hospital in Singapore that we acquired in April 2015 from Fortis Healthcare International and two planned hospitals in China, Shanghai Concord Cancer Hospital Co., Ltd. and Guangzhou Concord Cancer Hospital Co., Ltd., that are scheduled to commence construction in late 2016. We are in the process of establishing the Beijing Proton Medical Center, which we expect to be the first proton beam therapy treatment center in China equipped with a proton beam therapy system licensed for clinical use and is scheduled to commence construction in the third quarter of 2016. In December 2012, we acquired 19.98% of indirect ownership of the MD Anderson Proton Therapy Center, and in August 2015, we acquired additional equity interest of 7.04% in the MD Anderson Proton Therapy Center from an existing owner of the general partner to expand our expertise and knowledge base in preparation for the operation of future proton centers in China.

The Number of Patient Cases Treated in Our Network and Our Hospitals

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 and our hospitals based on factors such as the reputation of the center and hospital, the location of the center and hospital and the reputation of the doctors who provide services in the center and hospital. 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 and our hospital. 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 and our hospital. There is also typically a ramp-up period for newly established centers and hospital during which time acceptance by doctors and patients of such new centers and hospital gradually pick up and the number of patient cases increase. The numbers of our treatment and diagnostic patient cases were 25,074 and 309,694 in 2015, respectively, representing decreases of 15.8% and 4.3% from 2014, respectively.

The Operational Arrangements with Our Hospital Partners

The majority of our total net revenues is derived from our lease and management services arrangements with our hospital partners which typically range from five to 20 years and under which we receive a contracted percentage of each cooperative center's revenue net of specified operating expenses. Such contracted percentage typically range 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 cooperative center, we would collect no revenues from such center. As a result, our ability to negotiate a higher contracted percentage and our ability to contain operating expenses will have a significant effect on our revenues and profitability.

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

- the size and location of potential hospital partner;
- the length of the arrangement;
- the type of medical equipment to be installed in the hospital's center;
- the capabilities of the doctors that will provide services at the cooperative 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 cooperative centers. We believe that our contracted percentage of cooperative 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 cooperative centers through service-only agreements where we receive a management fee equal to a contracted percentage of each cooperative 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 cooperative 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 proton centers, premium cancer hospitals and 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 and Our Hospitals

The medical service fees charged for the services provided in our network of centers and our hospitals vary by the type of medical equipment used as well as the provinces or regions in China and Singapore in which such centers and hospitals 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 and hospitals established in provinces or regions with a significantly higher price ceiling may result in an increase in our revenues derived from such centers and hospitals and higher profit margin for the centers and hospitals, 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 our centers and hospitals represents a significant portion of our cost of revenues. Our ability to reduce the price of medical equipment purchased, thereby reducing the depreciation expense associated with the medical equipment purchased, will serve to increase our profitability. Our extensive network of centers has provided us with increased bargaining power with equipment manufacturers. We have entered into strategic agreements with certain medical equipment manufacturers in order to lower the average cost of our equipment. Such agreements provide that we will receive preferential pricing if we purchase a certain number of units of equipment from a manufacturer within a given period of time. However, we are not required by such agreements to commit to purchase a minimum number of units of equipment from such manufacturers or precluded from purchasing equipment from other manufacturers. We aim to continue to enter into additional strategic agreements with medical equipment manufacturers to further reduce the cost of our equipment in the future. Furthermore, we expect the purchase prices of our primary medical equipment to decrease over time as a result of technological advancement and increased competition.

Financial Impact of Our Acquisitions and Disposals

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

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

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

In April 2015, we acquired 100% equity interest in Concord Cancer Hospital for a total cash consideration of SGD55.0 million (RMB253.5 million). After the completion of this acquisition, the results of operations of Concord Cancer Hospital were consolidated into our results of operation commencing in the second quarter of 2015.

In December 2012, we acquired 19.98% equity interest in the MD Anderson Proton Therapy Center, a leading proton treatment center in the world, for a total consideration approximately US$32.3 million. In August 2015, we acquired additional equity interest of 7.04% in the MD Anderson Proton Therapy Center from an existing owner of the general partner, for a total consideration of approximately US$4.6 million. Financial results from the MD Anderson Proton Therapy Center were reported as income (loss) from equity method investments since 2015.

In January 2016, we acquired 100% equity interest in Beijing Century Friendship Science & Technology Development Co., Ltd., or Beijing Century Friendship, from Chang'an Information Industry (Group) Co., Ltd. for a cash consideration of RMB70.0 million. Beijing Century Friendship is currently a 55% shareholder of Beijing Proton Medical Center and has engaged in the proton center's establishment and construction.

Revenues

Our revenues are generated from our network business and our hospital business. The following table sets forth revenue contribution from our network business and our hospital business for the periods indicated:

	Year Ended December 31,						
	2013		2014		2015		
	RMB	% of Total Net Revenues	RMB	% of Total Net Revenues	RMB	US$	% of Total Net Revenues
	(in thousands, except for percentages)						
Net Revenues							
Network business	563,124	100.0	606,883	100.0	597,746	92,276	97.0
Hospital business	—	—	—	—	18,739	2,893	3.0
Total net revenues	563,124	100.0	606,883	100.0	616,485	95,169	100.0

The following table sets forth our total net revenues by geographic regions for the periods indicated:

	Year Ended December 31,						
	2013		2014		2015		
	RMB	% of Total Net Revenues	RMB	% of Total Net Revenues	RMB	US$	% of Total Net Revenues
	(in thousands, except for percentages)						
PRC	563,124	100.0	606,883	100.0	597,746	92,276	97.0
Singapore	—	—	—	—	18,739	2,893	3.0
Total net revenues	563,124	100.0	606,883	100.0	616,485	95,169	100.0

Network business

Revenues generated from our network business consists of revenues derived from our network of centers that are directly related to the number of patient cases treated in our cooperative centers. 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 cooperative centers. The specified operating expenses of cooperative centers typically include variable expenses, such as salaries and benefits of the medical and other personnel at the cooperative 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 cooperative 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 cooperative 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 cooperative 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 cooperative 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 cooperative center equal to a contracted percentage of the cooperative 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, 2015, we managed four centers under service-only agreements.

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

In the past, we have recorded uncollectible accounts receivable. Our allowance for doubtful accounts amounted to RMB3.1 million, RMB2.3 million and RMB1.8 million(US$0.3 million) as of December 31, 2013, 2014 and 2015, 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, 2013, 2014 and 2015, net revenue derived from our top five hospital partners amounted to approximately 24.2%, 22.5% and 25.3%, respectively, of our total net revenues. Our largest hospital partner accounted for 5.6%, 6.4% and 7.5%, respectively, of our total net revenues during those periods. We expect this revenue concentration to decline over time as our network of centers continues to expand.

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

	Number of centers	Aggregate revenues in 2015		**Percentage to total revenues**	
		RMB'000	US$'000		
2016	4	9,234	1,426	1.5	%
2017	20	136,799	21,118	22.2	%
2018	13	96,001	14,820	15.6	%
2019	15	63,360	9,781	10.3	%
2020	11	99,118	15,301	16.1	%
Total	63	404,513	62,446	65.6	%

Hospital business

Revenues generated from our hospital business consists of medicine income and medical service income generated from our self-owned hospitals. Medicine income includes medicine prescribed to patients during or after treatment by the doctors in our hospitals. 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. In 2015, we derived all of our revenues from hospital business from the operation of Concord Cancer Hospital in Singapore.

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,						
	2013		2014		2015		
	RMB	% of Total Net Revenues	RMB	% of Total Net Revenues	RMB	US$	**% of Total Net**

							Revenues
	(in thousands, except for percentages)						
Cost of revenues	217,655	38.7	274,562	45.2	353,336	54,546	57.3
Gross profit	345,469	61.3	332,321	54.8	263,149	40,623	42.7
Operating expenses:							
Selling expenses[(1)]	104,667	18.6	95,096	15.7	112,815	17,416	18.3
General and administrative expenses[(1)]	84,506	15.0	53,576	8.8	132,952	20,524	21.6
Impairment of long-lived assets	—	—	—	—	23,125	3,570	3.8
Total operating expenses	189,173	33.6	148,672	24.5	268,892	41,510	43.7

(1) Our selling expenses included share-based compensation in the amount of RMB2.3 million, RMB0.7 million and RMB0.8 million (US$0.1 million) in 2013, 2014 and 2015, respectively, which was related to certain share options granted in 2009, 2011 and 2014. Our general and administrative expenses included share-based compensation expenses in the amount of RMB6.5 million, RMB6.6 million and RMB7.3 million (US$1.1 million) in 2013, 2014 and 2015, respectively, which was related to certain share options granted in 2009, 2011 and 2014. We did not grant any share options under our 2008 share incentive plan in 2012 and 2013. We granted 1,370,250 restricted shares, 21,132 restricted shares and 69,564 restricted shares, respectively, on February 18, 2014, July 1, 2014 and August 1, 2014. We also granted options to purchase 3,479,604 ordinary shares at an exercise price of US$2.037 per share on February 18, 2014.

Cost of Revenues. Our cost of revenues for network business primarily consists of the amortization of acquired intangibles, the depreciation of medical equipment purchased, installed and operated in our network of centers and other costs, including material cost of disposal medical supplies. With the exception of the amortization of acquired intangible assets, we expect such cost of revenues to increase in the future in line with the growth in our total net revenues as we continue to expand our network of centers and purchase more medical equipment. Our cost of revenues also include salaries and benefits for personnel employed by us and assigned to centers in our network, such as our project managers, as well as other costs that include certain training, marketing and selling and equipment repair and maintenance expenses that are not accounted for as the centers' operating expenses in accordance with the terms of our lease and management services arrangements with our hospital partners. In addition, certain expenses are allocated as our cost of revenues instead of centers' operating expenses if such expenses are incurred across several centers and cannot be allocated to one individual center. Our amortization of acquired intangibles in connection with the OMS reorganization, the acquisition of China Medstar, Tianjin Kangmeng Radiology Equipment Management Co., Ltd., and other businesses was RMB29.7 million, RMB23.1 million and RMB15.9 million (US$2.5 million) in 2013, 2014 and 2015, 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 RMB13.0 million and RMB2.3 million annually between 2016 and 2020.

Our cost of revenues for hospital business primarily consists of 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.

Selling Expenses. Selling expenses consist primarily of expenses associated with the development of new centers and hospitals, such as salaries and benefits for our business development personnel, marketing expenses and travel related expenses. Selling expenses decreased in absolute amount from 2013 to 2014 due to decreased advertising, reception, entertainment and conference expense. Selling expenses increased in absolute amount from 2014 to 2015 due to increased conference, office, and travel expenses for our network business. We expect our selling expenses to continue to increase in absolute amount in the future, in line with the expansion of our network and our hospital business and the growth in our total net revenues. Our selling expenses include share-based compensation, RMB2.3 million in 2013, RMB0.7 million and RMB0.8 million (US$0.1 million) in 2015.

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 2013, 2014 and 2015 that amounted to RMB6.5 million, RMB6.6 million and RMB7.3 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 business and hospital business and the growth in our total net revenues.

Impairment of long-lived assets. Our impairment of long-lived assets was nil, nil and RMB23.1 million (US$3.6 million) for the year ended December 31, 2013, 2014 and 2015.

Share-based Compensation

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

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

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

Taxation

Cayman Islands

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

British Virgin Islands

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

United States

We had assessable profits subject to U.S. Federal Income Tax (graduated income tax rate up to 35%) in 2014. We did not have any assessable profits subject to the United States profits tax in 2013 and 2015.

Hong Kong

We did not have any assessable profits subject to the Hong Kong profits tax in 2013, 2014 and 2015. 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 2013, 2014 and 2015.

People's Republic of China

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