Concord Medical Services Holdings Ltd
Form 424B4
December 11, 2009

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PROSPECTUS

Filed pursuant to Rule 424(b)(4)
Registration No. 333-163155

12,000,000 American Depositary Shares

Concord Medical Services Holdings Limited

REPRESENTING 36,000,000 ORDINARY SHARES

Concord Medical Services Holdings Limited is offering 12,000,000 American Depositary Shares, or ADSs. Each ADS represents three ordinary shares, par value US$0.0001 per share. This is our initial public offering and no public market exists for our ADSs or our ordinary shares.

We have received approval to list the ADSs on the New York Stock Exchange under the symbol CCM.

Investing in the ADSs involves risks. See Risk Factors beginning on page 18.

PRICE $11.00 AN ADS

	Price to Public	***Underwriting Discounts and Commissions***	***Proceeds to Company***

Per ADS	*$11.00*	*$0.77*	*$10.23*
Total	*$132,000,000*	*$9,240,000*	*$122,760,000*

The selling shareholders identified in this prospectus have granted the underwriters the right to purchase up to an aggregate of 1,800,000 additional ADSs to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the ADSs to purchasers on or about December 16, 2009.

MORGAN STANLEY *J.P.MORGAN* *CICC*

December 11, 2009

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Cms O J centers in .30 cities* Concord Medical operates the largest network of radiotherapy and diagnostic imaging centers in China** 1 As ot September 30,2009. In terms of revenues and the total number of centers in operation in 2008, according to a Frost & Sullivan report commissioned by Concord Medical.

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You should rely only on the information contained in this prospectus or any free writing prospectus filed with the Securities and Exchange Commission, or the SEC, in connection with this offering. We have not authorized anyone to provide you with information that is different from that contained in this prospectus or in any filed free writing prospectus. We are offering to sell, and seeking offers to buy, the ADSs only in jurisdictions where offers and sales are permitted. The information contained in this prospectus or in any filed free writing prospectus is current only as of its date, regardless of the time of its delivery or of any sale of the ADSs.

We have not taken any action to permit a public offering of the ADSs outside of the Untied States or to permit the possession or distribution of this prospectus or any filed free writing prospectus outside the United States. Persons outside of the United States who come into possession of this prospectus or any filed free writing prospectus must inform themselves about and observe any restrictions relating to the offering of the ADSs and the distribution of this prospectus or any filed free writing prospectus outside of the United States.

Until January 5, 2010 (the 25th day after the date of this prospectus), all dealers that buy, sell or trade ADSs, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, especially the risks of investing in the ADSs discussed under Risk Factors, before deciding whether to buy our ADSs. Unless the context indicates otherwise, all share and per share data in this prospectus give effect to a 1-for-100 share split that became effective on November 17, 2009.

Our Business

We operate the largest network of radiotherapy and diagnostic imaging centers in China in terms of revenues and the total number of centers in operation in 2008, according to a report by Frost & Sullivan commissioned by us that compared our pro forma revenues against the revenues of our competitors in 2008 and our number of centers and units of equipment against those of our competitors as of the end of 2008. As of September 30, 2009, our network comprised 83 centers based in 55 hospitals, spanning 36 cities across 21 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, or the MOH. Cancer was the leading cause of death in China in 2008 according to the MOH, and there is a relatively low penetration of radiotherapy and diagnostic imaging equipment compared to developed countries. We believe that our leading network and our experience and expertise uniquely position us to address the underserved market in China for radiotherapy and diagnostic imaging services.

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

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

To complement our organic growth, we have also selectively acquired businesses to expand our network. In July 2008, we acquired China Medstar Pte. Ltd., or China Medstar, a company then publicly listed on the Alternative Investment Market of the London Stock Exchange, or the AIM, for approximately £17.1 million or approximately

RMB238.7 million (US$35.0 million). At the time of the acquisition, China Medstar jointly managed 23 centers with its hospital partners across 14 cities in China.

To further enhance our reputation and to employ high quality doctors, we plan to establish and operate specialty cancer hospitals in China. We intend for our specialty cancer hospitals to be centers of excellence. Our first specialty cancer hospital, the Chang an CMS International Cancer Center, in Xi an, Shaanxi Province, is expected to commence operation in early 2010. We are also in the process of establishing the Beijing Proton Medical Center, another specialty cancer hospital, which is expected to commence operation in 2012. We expect that the Beijing Proton Medical Center will be the first proton beam therapy treatment center in China equipped with a proton beam therapy system licensed for clinical use.

Our business has grown significantly in recent years through development of new centers, increases in the number of patient cases of existing centers and acquisitions. We have increased the number of centers in our network from 41 at the end of 2007 to 72 at the end of 2008 and to 83 as of September 30, 2009. Our total net revenues were RMB67.4 million, RMB14.0 million and RMB171.8 million (US$25.2 million) for the period from January 1, 2007 to October 30, 2007, the period from September 10, 2007 to December 31, 2007 and for the year ended December 31, 2008. Our total net revenues increased to RMB205.7 million (US$30.1 million) for the nine months ended September 30, 2009 from RMB102.0 million for the same period in 2008, due primarily to an increase in the number of centers in our network, including centers added to our network as a result of our acquisition of China Medstar, and an increase in the number of patient cases in existing centers. For periods prior to October 30, 2007, our predecessor is deemed the reporting entity for financial reporting purposes as a result of our reorganization. We report the financial statements of our successor entity from September 10, 2007, the date of inception of our successor entity. For additional information as to our history and reorganization and our financial presentation, see Our History and Corporate Structure and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Our Industry

The radiotherapy and diagnostic imaging market in China has several favorable characteristics. The market is expected to grow, with a compound annual growth rate, or CAGR, of 22.4% between 2008 and 2015, according to a report by Frost & Sullivan, due to the increasing incidence rate of cancer in China and awareness among physicians and patients and their adoption of advanced radiotherapy and diagnostic imaging technologies, rising household disposable income and government healthcare expenditures that will increase the affordability of such cancer treatment and diagnosis technologies. Moreover, China s relatively underdeveloped medical infrastructure has resulted in significant unmet demand for cancer radiotherapy and diagnostic imaging services, with the per capita number of units of such medical equipment in China being significantly lower than in developed countries. For example, Frost & Sullivan estimates that China had only 0.7 linear accelerators per million people at the end of 2008 compared to 9.5 in the United States, 6.6 in Japan, 5.6 in France and 3.0 in the United Kingdom. Hospitals in China often lack the financial resources to purchase, and the experienced radiation oncologists and radiologists to operate, advanced radiotherapy and diagnostic imaging equipment. We believe that we are well positioned to benefit from these market dynamics through our ability to provide equipment and expertise to hospitals in China to establish and operate radiotherapy and diagnostic imaging centers.

Our Competitive Strengths

We believe that the following competitive strengths have, and will continue to, uniquely position us to capitalize on growth opportunities in the cancer treatment market in China:

- leading market position and successful track record;
- doctors with extensive cancer treatment experience developed and supported by our network;
- market-oriented management of centers;

successful track record of new center development and acquisitions; and

strong and experienced management team.

Our Strategies

We intend to further strengthen our leading position in radiotherapy and diagnostic imaging market in China by pursuing the following strategies:

- continue to develop new radiotherapy and diagnostic imaging centers;
- increase marketing efforts to drive growth in patient cases at our existing centers;
- establish specialty cancer hospitals;
- introduce advanced cancer treatment options and diagnostic technology in our network; and
- complement our development of new centers with selected acquisitions.

Our Challenges

We believe that the following are some of the major risks and uncertainties that may materially affect us:

- we may encounter difficulties in successfully opening new centers or renewing agreements for existing centers due to the limited number of suitable hospital partners and their potential ability to finance the purchase of medical equipment directly;
- we have historically derived a significant portion of our revenues from centers located at a limited number of our hospital partners and regions;
- we conduct our business in a heavily regulated industry;
- 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; and
- our business may be harmed by technological and therapeutic changes or by shifts in doctors or patients preferences for alternative treatments.

See Risk Factors and other information included in this prospectus for a discussion of these and other risks and uncertainties.

Our History and Corporate Structure

Concord Medical Services Holdings Limited, or Concord Medical, was incorporated in the Cayman Islands on November 27, 2007 and 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 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 prospectus. Prior to the OMS reorganization, OMS, together with Shenzhen Aohua Medical Services Co., Ltd., or Aohua Medical, in which OMS effectively held all of the equity interest at the time, operated all of our business.

Aohua Medical was incorporated by OMS on July 23, 1997 and OMS contributed RMB4.8 million to Aohua Medical, representing 90% of the equity interest in Aohua Medical. The other 10% of 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 do 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, Medstar (Shanghai) Leasing Co., Ltd., or Shanghai Medstar, for

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approximately £17.1 million or approximately RMB238.7 million (US$35.0 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 August 17, 2009, 100% of the equity interest in Shanghai Medstar was transferred from China Medstar to Ascendium.

On October 28, 2008, we acquired control of Beijing Xing Heng Feng Medical Technology Co., Ltd., or Xing Heng Feng Medical, through our subsidiaries Aohua Leasing and CMS Hospital Management Co., Ltd., or CMS Hospital Management, by acquiring 100% of its equity interest, which corresponded to its then paid-in registered capital. We paid total consideration of approximately RMB35.0 million (US$5.1 million) for this acquisition.

We currently conduct substantially all of our operations through the following subsidiaries in the PRC:

Shenzhen Aohua Medical Services Co., Ltd., our wholly owned subsidiary incorporated in the PRC that engages in the provision of radiotherapy and diagnostic center management services to hospitals in the PRC;

Shenzhen Aohua Medical Leasing and Services Co., Ltd., our wholly owned subsidiary incorporated in the PRC that engages in the provision of radiotherapy and diagnostic equipment leasing services to hospitals in the PRC;

Medstar (Shanghai) Leasing Co., Ltd., our wholly owned subsidiary incorporated in the PRC that engages in the sale of medical equipment and the provision of radiotherapy and diagnostic equipment leasing and management services to hospitals in the PRC;

CMS Hospital Management Co., Ltd., our wholly owned subsidiary incorporated in the PRC that engages in the provision of radiotherapy and diagnostic equipment management services to hospitals in the PRC; and

Beijing Xing Heng Feng Medical Technology 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.

The following diagram illustrates our corporate structure and the place of organization of each of our subsidiaries as of the date of this prospectus.

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Corporate Information

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.

Investor inquiries should be directed to us at the address and telephone number of our principal executive offices set forth above. Our website is www.cmsholdings.com. The information contained on our website is not part of this prospectus. Our agent for service of process in the United States is National Registered Agents, Inc., located at 875 Avenue of the Americas, Suite 501, New York, New York 10001.

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Conventions That Apply to This Prospectus

Unless otherwise indicated, references in this prospectus to:

- ADRs are to the American depositary receipts, which, if issued, evidence our ADSs;
- ADSs are to our American depositary shares, each of which represents three ordinary shares;
- China and the PRC are to the People s Republic of China, excluding, for the purposes of this prospectus only, Taiwan and the special administrative regions of Hong Kong and Macau;
- ordinary shares are to our ordinary shares, par value US$0.0001 per share;
- PRC subsidiaries are to our subsidiaries incorporated in the People s Republic of China, including Aohua Medical, Aohua Leasing, Shanghai Medstar, CMS Hospital Management Co., Ltd., or CMS Hospital Management, and Xing Heng Feng Medical;
- RMB and Renminbi are to the legal currency of China;
- US$ and U.S. dollars are to the legal currency of the United States;
- we, us, our company and our are to Concord Medical Services Holdings Limited, its predecessor entities and its consolidated subsidiaries; and
- £ is to the legal currency of the United Kingdom of Great Britain and Northern Ireland.

Unless otherwise indicated, information in this prospectus: (i) assumes that the underwriters do not exercise their option to purchase up to an aggregate of 1,800,000 additional ADSs representing 5,400,000 ordinary shares from the selling shareholders, and (ii) does not include 4,765,800 ordinary shares reserved for issuance under our 2008 share incentive plan.

This prospectus contains translations of certain Renminbi amounts into U.S. dollars at specified rates. For all dates through December 31, 2008, all translations from Renminbi to U.S. dollars were made at the noon buying rate in the City of New York for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate. For January 1, 2009 and all later dates and periods, the exchange rate refers to the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise stated, the translation of Renminbi into U.S. dollars has been made at the noon buying rate in effect on September 30, 2009, which was RMB6.8262 to US$1.00. We make no representation that the Renminbi or U.S. dollar amounts referred to in this prospectus 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. See Risk Factors Risks Related to Doing Business in China Fluctuations in the value of the Renminbi may have a material adverse effect on your investment. On December 4, 2009, the noon buying rate was RMB6.8261 to US$1.00.

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THE OFFERING

Price per ADS	The initial public offering price is US$11.00 per ADS.
ADS offered by us	12,000,000 ADSs
The ADSs	Each ADS represents three ordinary shares, par value US$0.0001 per share. The ADSs may be evidenced by an ADR. The depositary will be the holder of the ordinary shares underlying the ADSs and you will have the rights of an ADS holder as provided in the deposit agreement among us, the depositary and owners and beneficial owners of ADSs from time to time. You may surrender your ADSs to the depositary to withdraw the ordinary shares underlying your ADSs. The depositary will charge you a fee for such an exchange. We may amend or terminate the deposit agreement for any reason without your consent. If an amendment becomes effective, you will be bound by the deposit agreement as amended if you continue to hold your ADSs. To better understand the terms of the ADSs, you should carefully read the section in this prospectus entitled Description of American Depositary Shares. We also encourage you to read the deposit agreement, which is an exhibit to the registration statement that includes this prospectus.
Over-allotment option	The selling shareholders identified in this prospectus have granted the underwriters an option, exercisable within 30 days from the date of this prospectus, to purchase up to an aggregate of 1,800,000 additional ADSs representing 5,400,000 ordinary shares.
Ordinary shares outstanding immediately after the offering	147,455,500 ordinary shares, excluding 4,765,800 ordinary shares reserved for issuance under our 2008 share incentive plan.
ADSs outstanding immediately after the offering	12,000,000 ADSs (or 13,800,000 ADSs if the underwriters exercise the option to purchase additional ADSs in full).
Use of proceeds	We estimate that we will receive net proceeds from this offering of approximately US$119.5 million, after deducting the underwriting discounts and commissions and estimated aggregate offering expenses payable by us. We intend to use a portion of the net proceeds we receive from this offering for the following purposes: approximately US$50 million to US$60 million to expand our network of centers;

approximately US$25 million to US$30 million to develop our Beijing Proton Medical Center; and

approximately US$20 million to US$25 million to develop our Chang an CMS International Cancer Center.

We will use any remaining portion of the net proceeds we receive from this offering for general corporate purposes, including potential

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	acquisitions of, or investments in, other businesses or technologies that we believe will complement our current operations and expansion strategies. See Use of Proceeds for additional information. We will not receive any of the proceeds from the sale of the ADSs by the selling shareholders.
Listing	We have received approval to list our ADSs on the New York Stock Exchange, or the NYSE. Our ordinary shares will not be listed on any exchange or quoted for trading on any over-the-counter trading system.
NYSE trading symbol	CCM
Lock-up	We, our directors, executive officers and all existing shareholders have agreed with the underwriters, subject to certain exceptions, not to sell, transfer or dispose of any of our ADSs, ordinary shares or similar securities for a period of 180 days after the date of this prospectus. See Underwriting.
Reserved ADSs	At our request, the underwriters have reserved for sale, at the public offering price, up to an aggregate of 600,000 ADSs offered by this prospectus to our directors, officers, employees, business associates and related persons through a reserved share program.
Depositary	JPMorgan Chase Bank, N. A.
Payment and settlement	The ADSs are expected to be delivered against payment on December 16, 2009. The ADSs will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company, or DTC, in New York, New York. Initially, beneficial interests in the ADSs will be shown on, and transfers of these beneficial interest will be effected through, records maintained by DTC and its direct and indirect participants.
Risk factors	See Risk Factors and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in the ADSs.

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SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

Concord Medical was incorporated on November 27, 2007. On March 7, 2008, the shareholders of Ascendium exchanged their shares in Ascendium for shares of Concord Medical. As a result, Concord Medical became our ultimate holding company. Our financial statements have been prepared as if the current corporate structure had been in existence from September 10, 2007, the date on which Ascendium was incorporated. Prior to the OMS reorganization, which became effective on October 30, 2007, OMS, together with Aohua Medical, in which OMS effectively held all of the equity interest at the time, operated all of the business of our company. As a result of the OMS reorganization, there was a change in control of OMS with the Ascendium shareholders effectively acquiring OMS from the OMS shareholders. For additional information relating to our history and reorganization, see Our History and Corporate Structure. For financial statements reporting purposes, OMS is deemed to be the predecessor reporting entity for periods prior to October 30, 2007. In our discussion for the year ended December 31, 2007, we refer to certain financial statement line items as combined for comparative purposes, which do not comply with U.S. GAAP. The unaudited combined amounts represent the addition of the amounts for certain financial statement line items of OMS, our predecessor, for the period from January 1, 2007 to October 30, 2007, and the amounts for the corresponding line items of Concord Medical for the period from September 10, 2007 to December 31, 2007. We have included these unaudited combined amounts as we believe they are helpful for the reader to gain a better understanding of results of operations for a complete fiscal year and to improve the comparative analysis against the results of operations for the year ended December 31, 2008. These unaudited combined amounts do not purport to represent what our financial position, results of operations or cash flows would have been if the OMS reorganization had occurred on January 1, 2007.

The following summary consolidated statements of operations and other consolidated financial data for the period from January 1, 2007 to October 30, 2007, for the period from September 10, 2007 to December 31, 2007 and for the year ended December 31, 2008 (other than income (loss) per ADS data) and the summary consolidated balance sheet data as of December 31, 2007 and 2008 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The following summary consolidated statements of operations and other consolidated financial data for the nine months ended September 30, 2008 and 2009 (other than income (loss) per ADS data) and summary consolidated balance sheet data as of September 30, 2009 have been derived from our unaudited condensed consolidated financial statements, which are included elsewhere in this prospectus. We have prepared the unaudited condensed consolidated financial statements on the same basis as our audited consolidated financial statements. The unaudited condensed consolidated financial statements include all adjustments, consisting only of normal and recurring adjustments, which we consider necessary for a fair presentation of our financial position and operating results for the periods presented. You should read the summary consolidated financial data in conjunction with those financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. Our consolidated financial statements are prepared and presented in accordance with United States generally accepted accounting principles, or US GAAP. Our historical results are not necessarily indicative of our results expected for future periods.

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	Predecessor Period from January 1, 2007 to October 30, 2007	Concord Medical (Successor) Period from September 10, 2007 to December 31, 2007	Combined Year Ended December 31, 2007	Concord Medical (Successor) Year Ended December 31, 2008		Nine Months Ended Septemb 2008	2009
	RMB	RMB	RMB	RMB	US$	RMB	RMB
	(in thousands, except share, per share and per ADS data)						
ed s of s Data							
net of x, d tax and harges:							
nt services	63,082	13,001	76,083	155,061	22,716	94,296	184,937
nt services	4,340	982	5,322	12,677	1,857	7,519	20,096
				4,051	593	178	624
venues	67,422	13,983	81,405	171,789	25,166	101,993	205,657
enues:							
nt services	(20,396)	(1,908)	(22,304)	(25,046)	(3,669)	(14,671)	(42,144)
on of tangibles		(2,002)	(2,002)	(20,497)	(3,003)	(13,671)	(20,388)
nt services	(20)	(4)	(24)	(54)	(8)	(19)	(9)
of revenues	(20,416)	(3,914)	(24,330)	(45,597)	(6,680)	(28,361)	(62,541)
t	47,006	10,069	57,075	126,192	18,486	73,632	143,116
xpenses:							
enses	(1,601)	(757)	(2,358)	(5,497)	(805)	(3,275)	(4,463)
d ive	(8,467)	(57,171)	(65,638)	(18,869)	(2,764)	(12,468)	(19,687)
ncome	36,938	(47,859)	(10,921)	101,826	14,917	57,889	118,966
) income	(2,494)	(649)	(3,143)	578	84	(5,262)	(4,275)
me before es	34,444	(48,508)	(14,064)	102,404	15,001	52,627	114,691
	(15,014)	182	(14,832)	(23,335)	(3,418)	(12,611)	(25,734)

(expense)								
ncome	19,430	(48,326)	(28,896)	79,069	11,583	40,016	88,957	
f Series A y preferred				(270,343)	(39,604)	(262,286)	(23,851)	
f Series B y preferred				(304,763)	(44,646)		(38,383)	
(loss) to areholders	19,430	(48,326)	(28,896)	(496,037)	(72,667)	(222,270)	26,723	
ss) per ic and	0.39	(0.97)	(0.58)	(8.63)	(1.26)	(3.67)	0.38	
ss) per ic and	1.17	(2.91)	(1.74)	(25.89)	(3.78)	(11.01)	1.14	
l in n basic (2)	50,000,000	50,000,000	50,000,000	57,481,400	57,481,000	60,621,700	70,428,100	70
in n basic	16,666,667	16,666,667	16,666,667	19,160,467	19,160,467	20,207,233	23,476,033	2

(1) Our general and administrative expenses include share-based compensation expenses related to certain share options granted in 2007 that amounted to RMB49.5 million, RMB4.2 million (US$0.6 million) and RMB4.2 million in 2007, 2008 and for the nine months ended September 30, 2008, respectively. We did not recognize any share-based compensation expenses for the nine months ended September 30, 2009.

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

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	Actual					Pro Forma as Adjusted as of September 30, 2009(1)	
	As of December 31,			As of September 30, 2009			
	2007	2008	2008				
	RMB	RMB	US$	RMB	US$	RMB	US$
				(in thousands)			
Summary Consolidated Balance Sheet Data							
Cash	39,792	353,991	51,858	285,703	41,854	1,101,297	161,334
Total current assets	66,135	492,978	72,219	466,487	68,338	1,282,081	187,818
Property, plant and equipment, net	54,703	349,121	51,144	557,433	81,661	557,433	81,661
Goodwill	259,282	300,163	43,972	300,163	43,972	300,163	43,972
Acquired intangible assets, net	129,998	181,838	26,638	161,450	23,652	161,450	23,652
Total assets	543,023	1,514,395	221,850	1,673,254	245,122	2,488,848	364,602
Long-term bank borrowings, current portion		39,840	5,836	44,880	6,575	44,880	6,575
Long-term bank borrowings, non-current portion		52,120	7,636	104,912	15,369	104,912	15,369
Series A contingently redeemable convertible preferred shares		254,358	37,262	269,017	39,410		
Series B contingently redeemable convertible preferred shares		411,101	60,224	434,036	63,584		
Total shareholders equity	394,878	565,020	82,772	591,582	86,663	2,110,229	309,137
Total liabilities and shareholders equity	543,023	1,514,395	221,850	1,673,254	245,122	2,488,848	364,602

(1) Pro forma as adjusted summary consolidated balance sheet data take into account (i) the automatic conversion of all our outstanding contingently redeemable convertible preferred shares into 41,027,400 of our ordinary shares

immediately upon the completion of this offering and (ii) the issuance and sale of 36,000,000 ordinary shares in the form of ADSs by us in this offering, at an initial public offering price of US$11.00 per ADS, after deducting the underwriting discounts and commissions and estimated aggregate offering expenses payable by us and assuming no exercise of the underwriters option to purchase additional ADSs.

	Predecessor	Concord Medical (Successor)					
	Period from January 1, 2007 to October 30, 2007	Period from September 10, 2007 to December 31, 2007	Year Ended December 31, 2008		Nine Months Ended September 30,		
					2008	2009	
	RMB	RMB	RMB	US$	RMB	RMB	US$
				(in thousands)			
Selected Consolidated Statements of Cash Flow Data							
Net cash generated from operating activities	44,593	6,103	46,774	6,852	27,370	104,500	15,308
Net cash used in investing activities(1)	(50,452)	(30,441)	(376,371)	(55,136)	(300,692)	(223,426)	(32,731)
Net cash generated from financing activities	6,020	63,225	649,494	95,147	278,407	50,829	7,448
Exchange rate effect on cash		138	(5,698)	(834)	(5,949)	(191)	(29)
Net increase (decrease) in cash	161	39,025	314,199	46,029	(864)	(68,288)	(10,004)

(1) Net cash used in investing activities in 2008 and for the nine months ended September 30, 2008 and 2009 includes cash used for acquisitions, net of cash acquired, of RMB231.5 million (US$33.9 million), RMB219.1 million and RMB21.5 million (US$3.2 million), respectively.

	Predecessor	Concord Medical (Successor)	Combined	Concord Medical (Successor)
	Period from January 1,	Period from September 10,		

	2007 to October 30, 2007	2007 to December 31, 2007	Year Ended December 31, 2007	Year Ended December 31, 2008		Nine Months Ended September 30,		
						2008	2009	
	RMB	RMB	RMB	RMB	US$	RMB	RMB	US$
				(in thousands)				
Non-GAAP Financial Data								
Adjusted EBITDA[(1)]	54,844	4,753	59,597	144,167	21,120	85,188	174,455	25,556

(1) Adjusted EBITDA is defined as net (loss) income plus interest, taxes, depreciation and amortization, share-based compensation expenses and other adjustments. Adjusted EBITDA is used by management to evaluate our financial performance and determine the allocation of resources and provides the management with the ability to determine our return on capital expenditure relating to our purchase of medical equipment used in our network of centers and businesses acquired. Items that are eliminated from the calculation of Adjusted EBITDA are collectively managed by our senior executive officers, taking into consideration our strategic, business and financial goals. Depreciation and amortization are primarily managed by our chief executive officer, our chief operating officer and our chief financial officer. Share-based compensation expense is primarily managed by our chief executive officer and our financial officers. Interest expense and income, income tax expense or benefit and all other items eliminated from the calculation of Adjusted EBITDA are primarily managed by our chief executive officer, our financial controller and corporate vice president. In addition, we believe that Adjusted EBITDA will be a key metric analyzed in determining the amount of new debt financing that may be available to us and, therefore, we believe this measure provides investors with additional information about our ability to fund our growth through debt financing, if needed. Furthermore, Adjusted EBITDA eliminates the impact of items that we do not consider indicative of the performance of our network of centers. For example, depreciation and amortization expenses relating to the medical equipment used in our network of centers and acquired intangibles represented historical accrued expenditures that are not indicative of the operating performance of our network of centers during the periods presented. We believe investors will similarly use Adjusted EBITDA as one of the key metrics to evaluate our financial performance and to compare our current operating results with corresponding historical periods and with other companies in the healthcare services industry. The presentation of Adjusted EBITDA should not be construed as an indication that our future results will be unaffected by other charges and gains we consider to be outside the ordinary course of our business.

The use of Adjusted EBITDA has certain limitations. Items excluded from Adjusted EBITDA are significant components in understanding and assessing our operating and financial performance. Depreciation and amortization expense, income tax expense, interest expense and interest income as well as share-based compensation expenses have been and will be incurred in our business and are not reflected in the presentation of Adjusted EBITDA. Each of these items should also be considered in the overall evaluation of our results. Additionally, Adjusted EBITDA does not consider capital expenditures and other investing activities and should not be considered as a measure of our liquidity. We compensate for these limitations by providing the relevant disclosure of our depreciation and amortization expense, interest expense and interest income, income tax expense, capital expenditures as well as share-based compensation expenses and other relevant items both in our reconciliations to the U.S. GAAP financial measures and in our consolidated financial statements, all of which should be considered when evaluating our performance. The term Adjusted EBITDA is not defined under U.S. GAAP, and Adjusted EBITDA is not a measure of net income, operating income, operating performance or liquidity presented in accordance with U.S. GAAP. When assessing our operating and financial performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance measure that is calculated in accordance with U.S. GAAP. In addition, our Adjusted EBITDA may not be comparable to Adjusted EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate Adjusted EBITDA in the same manner as we do.

The following table is a reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP:

Concord Medical

	Predecessor Period from January 1, 2007 to October 30, 2007	(Successor) Period from September 10, 2007 to December 31, 2007	Combined Year Ended December 31, 2007	Concord Medical (Successor) Year Ended December 31, 2008		Nine Months Ended September 30, 2008	2009	
	RMB	RMB	RMB	RMB	US$	RMB	RMB	US$
				(in thousands)				
Net (loss) income	19,430	(48,326)	(28,896)	79,069	11,583	40,016	88,957	13,031
Interest expense, net	939	279	1,218	7,025	1,029	5,177	4,057	594
Income tax expense (benefit)	15,014	(182)	14,832	23,335	3,418	12,611	25,734	3,770
Depreciation and amortization	17,906	3,086	20,992	38,126	5,585	23,084	55,489	8,129
Share-based compensation expenses		49,526	49,526	4,215	617	4,215		
Other adjustments*	1,555	370	1,925	(7,603)	(1,114)	85	218	32
Adjusted EBITDA	54,844	4,753	59,597	144,167	21,120	85,188	174,455	25,556

* Other adjustments include change in fair value of convertible notes, foreign exchange loss and other income.

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Operating Data[(1)]	As of December 31, 2007	2008	As of September 30, 2009
Number of primary medical equipment owned:			
Linear accelerators	1	12	16(2)
Head gamma knife systems	15	15	16
Body gamma knife systems	8	9	10
PET-CT scanners		3	7
MRI scanners	2	10	16
Others[(3)]	8	15	16
Total	34	64	81

	Year Ended December 31, 2007	2008	Nine Months Ended September 30, 2009
Number of patient cases treated or diagnosed by our primary medical equipment:			
Linear accelerators	697	4,678	8,554
Head gamma knife systems	8,493	9,455	7,767
Body gamma knife systems	2,635	3,057	2,706
PET-CT scanners		1,929	3,766
MRI scanners	11,830	31,827	57,972

	Predecessor	Concord Medical (Successor)	Combined	Concord Medical (Successor)		
	Period from January 1, 2007 to October 30, 2007	Period from September 1, 2007 to December 31, 2007	Year Ended December 31, 2007	Year Ended December 31, 2008	Nine Months Ended September 30, 2008	2009
	(in RMB thousands)					
Total net revenues generated by our primary medical equipment under lease and management services arrangements:						

Linear accelerators	3,206	877	4,083	40,506	21,588	60,183
Head gamma knife systems	40,408	8,731	49,139	65,365	47,096	51,673
Body gamma knife systems	13,537	2,565	16,102	20,071	12,225	18,204
PET-CT scanners				5,241	578	14,289
MRI scanners	2,899	437	3,336	15,123	7,515	27,618
Others(3)	3,032	391	3,423	8,755	5,294	12,970
Total net revenues lease and management services	63,082	13,001	76,083	155,061	94,296	184,937

(1) Excluding data from seven, eight and two centers under service-only agreements as of December 31, 2007, December 31, 2008 and September 30, 2009, respectively.

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

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

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SUMMARY UNAUDITED PRO FORMA CONSOLIDATED COMBINED FINANCIAL DATA FOR THE YEAR ENDED DECEMBER 31, 2008

The following summary unaudited pro forma combined financial information has been derived by the application of pro forma adjustments to the historical consolidated financial statements of Concord Medical and the financial statements of China Medstar for the year ended December 31, 2008. Concord Medical s and China Medstar s historical information has been derived from their respective audited financial statements, included elsewhere in this prospectus. The unaudited pro forma combined income statement data give effect to our acquisition of China Medstar as if it had been completed on January 1, 2008.

The following unaudited pro forma combined financial information should be read in conjunction with our and China Medstar s historical financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. The preparation of the unaudited pro forma combined financial data appearing below is based on financial statements prepared in accordance with U.S. GAAP. These principles require the use of estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. While the unaudited pro forma combined financial information is helpful in showing the financial characteristics of the combined companies, it is not intended to show how the combined companies would have actually performed if the events described above had in fact occurred on the dates assumed or to project the results of operations for any future date or period. We have included in the unaudited pro forma combined financial statements all the adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations in the historical periods. The actual consolidated results of operations may differ significantly from the pro forma amounts reflected below.

	Concord Medical	China Medstar	Pro Forma Adjustment	Pro Forma Combined	
	Year Ended December 31, 2008	Seven-month Period Ended July 31, 2008		2008	
	RMB	RMB		RMB	US$
	(in thousands, except share, per share and per ADS data)				
Summary Unaudited Pro Forma Condensed Combined Statement of Operations Data					
Revenue, net of business tax, value-added tax and related surcharges:					
Lease and management services	155,061	48,745		203,806	29,856
Management services	12,677	7,980		20,657	3,026
Other, net	4,051	6,148		10,199	1,494
Total net revenues	171,789	62,873		234,662	34,377
Cost of revenues:					
Lease and management services	(25,046)	(14,806)	5,624(1)	(34,228)	(5,014)
Amortization of acquired intangibles	(20,497)		(5,743)(1)	(26,240)	(3,844)
Management services	(54)	(63)		(117)	(17)
Total cost of revenues	(45,597)	(14,869)		(60,585)	(8,875)
Gross profit	126,192	48,004		174,077	25,501
Operating expenses:					
Selling expenses	(5,497)	(1,581)		(7,078)	(1,037)
General and administrative expenses	(18,869)	(8,340)		(27,209)	(3,986)
Operating income	101,826	38,083		139,790	20,478
Interest expense	(7,455)	(1,585)		(9,040)	(1,324)
Change in fair value of convertible notes	(464)			(464)	(68)
Foreign exchange loss	(325)	(230)		(555)	(81)
Loss from disposal of equipment	658			658	96
Interest income	430	32		462	68
Other income (expense)	7,734	(200)		7,534	1,104

Income before income taxes	102,404	36,100		138,385	20,273
Income tax expenses	(23,335)	(8,445)	21(2)	(31,759)	(4,653)
Net income from continuing operations	79,069	27,655		106,626	15,620
Pro forma income per share from continuing operations					
Basic and diluted	1.38			1.85	0.27
Weighted average number of ordinary shares outstanding:					
Basic and diluted	57,481,400			57,481,400	57,481,400

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(1) The aggregate purchase price of approximately £17.1 million (RMB238.7 million or US$35.0 million) for the purchase of China Medstar is comprised of the following:

	RMB	US$
	(in thousands)	
Goodwill	21,210	3,107
Current assets	77,053	11,287
Long-term receivable	9,397	1,377
Property, plant and equipment	217,965	31,931
Other intangible assets- customer relationships and operating leases	52,380	7,673
Deposit for property, plant and equipment	83,505	12,233
Deferred tax assets, non-current portion	23,089	3,382
Deferred tax liabilities, non-current portion	(12,529)	(1,835)
Liabilities assumed	(233,323)	(34,180)
Total consideration paid	238,747	34,975

The preliminary purchase price allocation and preliminary intangible asset valuations described above were based on valuation work determined by us with the assistance of American Appraisal China Limited, an independent valuation firm. The valuation report utilizes and considers generally accepted valuation methodologies such as the income, market, cost and actual transaction of shares approach. We have incorporated certain assumptions which include projected cash flows and replacement costs.

This adjustment of RMB5.6 million reflects an additional seven full months of amortization of the acquired intangibles recorded as a result of our acquisition of China Medstar on July 31, 2008 as if the acquisition had been consummated on January 1, 2008.

This adjustment of RMB5.7 million reflects an additional reduction in depreciation expense as if the acquisition had been consummated on January 1, 2008 related to medical equipment because the assigned estimated fair values are lower than the net book values as at the acquisition date.

(2) Reflects the adjustment to income tax expense based on the pro forma adjusting entries to depreciation expense and amortization expense discussed above.

RISK FACTORS

You should carefully consider the risks described below in conjunction with the other information and the financial statements and related notes included elsewhere in this prospectus before making an investment decision. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of our ADSs could decline due to any of these risks, and you may lose all or part of your investment. This prospectus also contains forward-looking statements relating to events subject to risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements due to the material risks that we face described below.

Risks Related to Our Company

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

Our growth was driven by our ability to expand our network of radiotherapy and diagnostic imaging centers by primarily entering into new agreements with top-tier hospitals in China, which are 3A hospitals, the highest ranked hospitals by quality and size in China as determined in accordance with the standards of the MOH. 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. Agreements with our hospital partners for three of the centers in our network, which accounted for 10.0% of our total net revenues in the nine months ended September 30, 2009, will expire in 2010. Some of our competitors may have greater financial resources than us, which may provide them with an advantage in negotiating new agreements with hospitals, including our existing hospital partners. In addition, if adequate funding becomes available for hospitals to purchase medical equipment directly, hospitals may choose to purchase and manage radiotherapy and diagnostic imaging equipment on their own instead of entering into or renewing agreements with us or our competitors. If we are unable to compete effectively in entering into agreements with new hospital partners or to renew existing agreements on favorable terms, or at all, or if hospitals choose to purchase and manage their own medical equipment, our growth prospects could be materially and adversely affected. Finally, the development of new centers generally involves a ramp-up period during which time the operating efficiency of such centers may be lower than our established centers, which may negatively affect our profitability.

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

We have historically derived a large portion of our total net revenues from a limited number of our partner hospitals. For the period from January 1, 2007 to October 30, 2007, the period from September 10, 2007 to December 31, 2007, for the year ended December 31, 2008 and for the nine months ended September 30, 2008 and 2009, net revenues derived from our top five hospital partners amounted to approximately 61.6%, 64.7%, 37.8%, 42.2% and 34.1% of our total net revenues, respectively. For these same five periods, three, three, one, one and two of our hospital partners, respectively, accounted for more than 10.0% of our total net revenues, and our largest hospital partner accounted for 21.7%, 24.2%, 13.5%, 14.4% and 10.7% of our total net revenues during those periods, respectively. In addition, centers located in Beijing, Henan province and Guangdong province accounted for 26.1%, 11.0% and 8.0% of our total net revenues in 2008, respectively, and 21.9%, 10.6% and 9.0% of our total net revenues for the nine months ended September 30, 2009, respectively. We may continue to experience such

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revenue concentration in the future. Due to the concentration of our revenues and dependence on a limited number of hospital partners, any one or more of the following events, among others, may cause material fluctuations or declines in our revenues and could have a material adverse effect on our financial condition, results of operations and prospects:

reduction in the number of patient cases at the centers located at these partner hospitals;

loss of key experienced medical professionals;

decrease in the profitability of such centers;

failure to maintain or renew our agreements with these hospital partners;

any failure of these hospital partners to pay us our contracted percentage of any such center s revenue net of specified operating expenses;

any regulatory changes in the geographic areas where our hospital partners are located; or

any other disputes with these hospital partners.

In addition, three of our hospital partners, including two of our top five hospital partners, accounted for 36.4% of our total accounts receivable as of September 30, 2009. Any significant delay in the payment of such accounts receivable could have a material impact on our financial condition and results of operations.

We conduct our business in a heavily regulated industry.

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

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

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

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

Most of the centers in our network are established through long-term lease and management services arrangements entered into with our hospital partners. We also provide management services to certain radiotherapy and diagnostic imaging centers through service-only agreements. Payments for treatment and diagnostic imaging services provided in the centers in our network are typically collected by our hospital partners who then pass on to us our contracted percentage of such revenue net of specific operating expenses on a periodic basis. Our total outstanding accounts receivable from our hospital partners were RMB92.8 million (US$13.6 million) and RMB119.1 million (US$17.5 million) as of December 31, 2008 and September 30, 2009, respectively. As of September 30, 2009, approximately 22.6% of our accounts receivable reported on our consolidated balance sheet as of December 31, 2008 were still outstanding. The average turnover days of the accounts receivable for the nine months ended September 30, 2009 were 117 days. Any failure by our hospital partners to pay us our contracted percentage, or any disputes over or significant delays in receiving such payments from our hospital partners, for any reason, could negatively impact our financial condition. Accordingly, any failure by us to maintain good working relationships with our hospital partners, or any dissatisfaction on the part of our hospital partners with our services, could negatively affect the operation of the centers and our ability to collect revenue, reduce the likelihood that our agreements with hospital partners will be renewed, damage our reputation and otherwise have a material adverse effect on our business, financial condition and results of operation.

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

We have historically complemented our organic development of new centers through the selective acquisition of complementary businesses or assets or the formation of joint ventures, and we may continue to do so in the future. For example, we recently experienced a significant growth in our business and increase in our results of operations as a result of our acquisition of China Medstar and other businesses. The identification of suitable acquisition targets or joint venture candidates can be difficult, time consuming and costly, and we may not be able to successfully capitalize on identified opportunities. We may not be able to continue to grow our business as anticipated if we are unable to successfully identify and complete potential acquisitions in the future. Even if we successfully complete an acquisition or establish a joint venture, we may not be able to successfully integrate the acquired businesses or assets or cooperate successfully with the joint venture partner. Integration of the acquired business or assets or cooperation with the joint venture partners can be expensive, time consuming and may strain our resources. Such integration or cooperation could also require significant attention from our management team, which may prevent key members of our management from focusing on other important aspects of our business.

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

Since the effectiveness in September 2000 of the *Implementation Opinions on the Classified Management of Urban Medical Institutions*, which was promulgated by the MOH, the State Administration of Traditional Chinese Medicine, the Ministry of Finance and the National Development Reform Committee, or NDRC, non-profit civilian medical institutions are no longer permitted to enter into cooperation agreements or to continue to operate under existing cooperation agreements with third parties pursuant to which the parties jointly invest in or cooperate to set up for-profit centers or units that are not independent legal entities. However, according to the *Opinions on Certain Issues Regarding Classified Management of Urban Medical Institutions* issued in July 2001 by the same authorities, a non-profit civilian medical institution may, if lacking sufficient funds to purchase medical equipment outright, enter into a leasing agreement pursuant to which the medical institution leases medical equipment from its partner at market rates. To comply with these regulatory changes, we have transitioned most of our cooperation agreements with non-profit civilian hospitals to lease and management agreements. However, we are still negotiating the transition of our cooperation agreements relating to 13 of our centers located at eight of our partner hospitals, which centers combined revenues in 2008 and for the nine months ended September 30, 2009 constituted approximately 17.3% and 11.6% of our total net revenues during those two periods, respectively. Although neither we nor any of our hospital partners have incurred any penalties to date for continuing to operate under cooperation agreements at these centers, there can be no assurance that we will not incur penalties in the future or that we will be able to successfully negotiate the conversion of these agreements. If we are unable to successfully negotiate the conversion of our cooperation agreements with these hospitals or if government authorities decide to assess penalties against either us or our hospital partners or to suspend the operation of these centers before we are able to complete the transition, our business, financial condition and results of operation could be materially and adversely affected.

We are not aware of any similar restriction imposed by military healthcare administrative authorities on the cooperation agreements that we have entered into with military hospitals, which are hospitals regulated by the military but most of which are otherwise the same as other government-owned civilian hospitals open to the public. Accordingly, we have maintained our cooperation agreements with nine military hospitals as of September 30, 2009. However, as military hospitals are also government-owned, if military hospitals are required by military healthcare administrative authorities to transition away from cooperation agreements in the future, we will have to negotiate a similar conversion of the agreements with our military hospital partners. If we are unable to successfully negotiate lease and management or other alternative agreements with our existing military hospital partners on terms not less favorable than those under our cooperation agreements, our business, financial condition and results of operation may be adversely affected.

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

Based on the opinion of our PRC counsel, Jingtian & Gongcheng Attorneys At Law, 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 and our PRC counsel cannot assure you that the MOH or other competent authorities will not interpret these regulations differently to find that our lease and management agreements are still not in compliance with such regulations, in which instance, such authorities could, among other things, declare our lease and management agreements to be void, order our civilian hospital partners to terminate such agreements with us, order our civilian hospitals partners to suspend or cease operation of the centers governed by such agreements, suspend the use of our medical equipment, or confiscate revenues generated under the noncompliant agreements. Furthermore, we may have to change our business model which may not be successful. If any of the above were to occur, our business, financial condition and results of operation could be materially and adversely affected.

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

There may be corrupt practices in the healthcare industry in China. For example, in order to secure agreements with hospital partners or to increase direct sales of medical equipment or patient referrals, our competitors, other service providers or their personnel or equipment manufacturers may engage in corrupt practices in order to influence hospital personnel or other decision-makers in violation of the anti-corruption laws of China and the U.S. Foreign Corrupt

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

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

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

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

Finally, if our plans change for any reason or the anticipated timetable or costs of development change for our specialty cancer hospitals, our business and future prospects may be negatively impacted. We currently expect to obtain bank loans of approximately RMB190.0 million (US$27.8 million) in 2010 to fund the development of our specialty cancer hospitals. We may not be able to obtain such loans on terms acceptable to us, or at all. Furthermore, such loans would increase our interest expenses and could subject us to various covenants that may, among other things, restrict our ability to pay dividends or to obtain additional financing. If we are not able to obtain these bank loans, we may not be able to complete the planned specialty cancer hospitals on our expected timeline, or at all. There can be no assurance that the planned specialty cancer hospitals will be completed or that, if completed, they will achieve sufficient patient cases to generate positive operating margins. In addition, as our currently planned specialty cancer hospitals are to be established through joint ventures with other parties, we also may not be successful in cooperating with such joint venture partners in operating our specialty cancer hospitals. See Risk Factors Related to Our Business We may not be able to effectively manage the expansion of our operations through any new acquisitions or joint ventures, which we may not be able to successfully execute.

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

We rely on the doctors and other medical professionals who work in our network to make proper clinical decisions regarding the diagnosis and treatment of their patients. Although we develop treatment protocols for doctors, provide periodic training for medical professionals in our network of centers on proper treatment procedures and techniques and host seminars and conferences to facilitate consultation among doctors providing services in our network of centers, we ultimately rely on our hospital partners to maintain proper control over the clinical activities of each center and over the doctors and other medical professionals who work in such centers. Any incorrect clinical decisions on the part of doctors and other medical professionals or any failure by our hospital partners to properly manage the clinical activities of each center may result in unsatisfactory treatment outcomes, patient injury or possibly death. Although part of the liability for any such incidents may rest with our partner hospitals and the doctors and other medical professionals they employ, we may be made a party to any such liability claim which, regardless of its merit or eventual outcome, could result in significant legal defense costs for us, harm our reputation, and otherwise have a material adverse effect on our business, financial condition and results of operations. The centers in our network have experienced claims as to a limited number of medical disputes since they commenced operations. As of September 30, 2009, three centers in our network agreed to pay an aggregate amount of approximately RMB100,000 (US$14,649) to settle such claims. Any expenses resulting from such liability claims are generally required to be accounted for as expenses of the relevant center, which could reduce our revenue derived from such center. We do not carry malpractice or other liability insurance at many of the centers in our network, and at those centers that do carry such insurance, it may not be sufficient to cover any potential liability that may result from such claims. For our specialty cancer hospitals that are currently under development, we will likely face direct liability claims for any such incidents.

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

Our business exposes us to liability risks that are inherent in the operation of complex medical equipment, which may contain defects or experience failures. We rely to a large degree on equipment manufacturers to provide technical training to the medical technicians who work in our network of centers on the proper operation of our complex medical systems. If such medical technicians are not properly and adequately trained by the equipment manufacturers or by us, they may misuse or ineffectively use the complex medical equipment in our network of centers. These medical technicians may also make errors in the operation of the complex medical equipment even if they are properly trained. Any medical equipment defects or failures or any failure of the medical personnel who work in the centers to properly operate the medical equipment could result in unsatisfactory treatment outcomes, patient injury or possibly death. Although the liability for any such incidents rests with the equipment manufacturers or the medical technicians, we may be made a party to any such liability claim which, regardless of its merit or eventual outcome, could result in significant legal defense costs for us, harm our reputation, and otherwise have a material adverse effect on our business, financial condition and results of operations. In addition, any expenses resulting from such liability claims may be accounted for as expenses of the center, which could reduce our revenue derived from such center. We do not carry product liability insurance at any of the centers in our network.

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

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

We rely on a limited number of equipment manufacturers.

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

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

We have applied in the PRC for the registration of our trademark Medstar to protect our corporate name. We also own the rights to 146 domain names that we use in connection with the operation of our business. We believe that such domain names provide us with the opportunity to enhance our marketing efforts for the treatments and services provided in our network and enhance patients knowledge as to cancers, the benefits of radiotherapy and the various treatment options that are available. Our failure to protect our trademark or such domain names may undermine our marketing efforts and result in harm to our reputation and the growth of our business.

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

On December 4, 2009, we received a notice that a legal proceeding was initiated against us that alleges a gamma knife system currently in use in certain centers in our network was previously found to infringe upon the patent of a third party. This claim relates to a patent used in the head gamma knife system manufactured by one of our equipment manufacturers, Our Medical New Technology Co., Ltd., or Our Medical New Technology. A previous legal proceeding involving such patent was initiated in June 2000 against Our Medical New Technology, its related parties and our subsidiary, AMS. The relevant PRC court determined in 2004 that all head gamma knife systems manufactured by Our Medical New Technology after the patent owner began to contest the use of such patent on

December 23, 1999 were manufactured without the requisite consent to use the patent in question. The relevant PRC court also ordered the use of such equipment to cease. We are currently assessing the validity and the potential impact of the claim filed against us. Based on our current assessment, we have identified one head gamma knife system in one of the centers in our network that may be subject to such claim. Revenue derived from such center represented approximately 1.5% and 1.0% of our total net revenues in 2008 and for the nine months ended September 30, 2009, respectively. Our Medical New Technology, the manufacturer of the head gamma knife system that may be subject to this claim, has agreed to indemnify us for any damages or losses that we may incur from any intellectual property infringement by such system. We are also continuing to assess whether there is any other medical equipment in our network that might be subject to this claim.

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

We depend on key members of our management team, which includes Mr. Jianyu Yang, a director and our chief executive officer and president, Dr. Zheng Cheng, a co-chairman of our board of directors and our chief operating officer, Mr. Steve Sun, a co-chairman of our board of directors and our chief financial officer, Mr. Jing Zhang, a director and our executive president, Mr. Yaw Kong Yap, a director and our financial controller, and Mr. Boxun Zhang, our corporate vice president, as well as other key personnel for the continued growth of our business. The loss of any of these members of our management team or other key employees could delay the implementation of our business strategy and adversely affect our operations. Our future success will also depend in large part on our continued ability to attract and retain highly qualified management personnel. The process of hiring suitable, qualified personnel is often lengthy and such talented and highly qualified management personnel is often in short supply in China. If our recruitment and retention efforts are unsuccessful in the future, it may be more difficult for us to execute our business strategy. 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 key members of our management team or other key personnel planning to retire or leave us, if one or more of such personnel are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Consequently, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers. In addition, we do not maintain key employee insurance. We have entered into employment agreements and confidentiality agreements with all of the key members of our management team and other key personnel. However, if any disputes arise between any of our key members of our management team or other key personnel and us, we cannot assure you, in light of uncertainties associated with the PRC legal system, the extent to which any of these agreements could be enforced in China, where all key members of our management team and other key personnel reside and hold some of their assets. See Risks Related to Doing Business in China Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

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

As a result of the OMS reorganization in October 2007 and our acquisitions of China Medstar and other businesses in 2008, we have recorded goodwill as well as certain acquired intangibles, which intangibles are amortized over their respective estimated useful lives. In addition, we may continue to selectively acquire complementary businesses in the future that may result in increases in recorded goodwill and acquired intangibles. Such goodwill is tested for impairment by us annually or more frequently if an event occurs or a circumstance develops that would require more frequent assessments. Examples of such events or circumstances include, but are not limited to, a significant adverse change in the legal or business climate, an adverse regulatory action or unanticipated competition. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Goodwill; Acquired Intangible Assets, net. In the future, we could recognize impairment losses on the intangible assets and goodwill, which could result in a charge to our reported results of operations and cause our reported earnings to decline.

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

We do not have insurance for six units of our medical equipment, which are electroencephalography and thermotherapy equipment from which centers we derived less than 1.0% of our total revenues in 2008 and for the nine months ended September 30, 2009. Damage to, or the loss of, such uninsured equipment due to natural disasters, such as fires, floods or earthquakes, could have an adverse effect on our financial condition and results of operation. In addition, the operations in our network of centers may be particularly vulnerable to natural disasters that disrupt transportation since many patients travel long distances to reach such centers. Also, we do not have any business interruption insurance. Any business disruption could result in substantial expenses and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations. For example, the strong earthquake that struck Sichuan Province in May 2008 resulted in the suspension of operations at three of our centers in Chengdu, the provincial capital of Sichuan Province, for approximately one month due to the diversion of hospital resources toward the treatment of earthquake victims.

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

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

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

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

Our directors, executive officers and significant shareholders have substantial influence over our company and their interests may not be aligned with the interests of our other shareholders.

As of the date of this prospectus, our directors, executive officers and significant shareholders beneficially owned approximately 86.0% of our outstanding share capital prior to this offering and will beneficially own approximately 65.0% of our outstanding share capital upon completion of this offering, assuming no exercise of the over-allotment option. As such, they have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders, including those who purchase ADSs in this offering.

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

Our third amended and restated articles of association will become effective immediately upon the completion of this offering. Our new 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 be unable to establish and maintain an effective system of internal control over financial reporting, and as a result we may be unable to accurately report our financial results or prevent fraud.

Prior to this offering, we have been a private company with limited accounting personnel and other resources with which to address our internal controls and procedures. In connection with the audits of our consolidated financial statements for the period from January 1, 2007 to December 31, 2008, our independent registered public accounting firm communicated to us a material weakness and certain significant and other deficiencies in our internal control procedures, which could adversely affect our ability to initiate, authorize, record, process and report financial data reliably in accordance with U.S. GAAP. As a result, there is more than a remote likelihood that a more than inconsequential misstatement of our consolidated financial statements will not be prevented or detected. Specifically, the material weakness identified consists of an ineffective control environment over financial reporting due to (i) an insufficient number of financial reporting personnel with an appropriate level of knowledge, experience and training; (ii) insufficient controls around the establishment and maintenance of an oversight function and communication of internal controls, policies and procedures to support our financial reporting obligations; and (iii) a lack of a comprehensive set of internal control policies and procedures and related controls to monitor the operating effectiveness of these controls. The significant deficiencies identified consist of (i) a lack of a timely formal review process for outstanding accounts receivable; (ii) a lack of a process to document investment proposals and lack of a formal policy for equipment impairment assessment; and (iii) a lack of controls over agreements and contracts with our hospital partners. We are in the process of remediating such material weakness and significant and other deficiencies. See Management s Discussion and Analysis of Financial Condition and Results of Operations Internal Control Over Financial Reporting. However, the remedial measures that we have taken or intend to take may not fully address such material weakness and significant and other deficiencies, and additional material weakness and significant and other deficiencies, in our internal control over financial reporting may be identified in the future.

Upon the completion of this offering, we will become a public company in the United States subject to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act, or Section 404, will require that we include a management assessment of, and a report by our independent registered public accounting firm on, the effectiveness of our internal control over financial reporting in our annual report on Form 20-F beginning with our annual report for the fiscal year ending December 31, 2010. During the assessment process that we will undertake for compliance with Section 404, we may identify material weaknesses or significant deficiencies in our internal control over financial reporting that we may not be able to remediate in time to meet the deadline imposed by Section 404, and our management may conclude that our internal control over financial reporting is not effective. In addition, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may determine that our internal controls over financial reporting is not effective and may issue an adverse opinion on the effectiveness of our internal control over financial reporting. Our failure to establish and maintain effective internal control over financial reporting

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could increase the risk of material misstatements in our financial statements and cause failure to meet our financial and other reporting obligations, which would likely cause investors to lose confidence in our reported financial information and lead to a significant decline in the trading price of our ADSs.

In addition, unlike most companies, our internal controls over financial reporting will need to be designed to cover a significant number of our hospital partners located in cities throughout China due to the fact that we are heavily dependent on timely and accurate receipt of key financial information from our hospital partners so we can complete our financial reporting process. We may identify control deficiencies as a result of the assessment process that we will undertake to comply with Section 404, including but not limited to internal audit resources and formalized and documented closing and reporting processes. We plan to remediate control deficiencies identified in time to meet the deadline imposed by the requirements of Section 404 but we may be unable to do so. Our failure to establish and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial reporting processes, which in turn could harm our business and negatively impact the trading price of our ADSs.

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. We currently expect to obtain bank loans of approximately RMB190.0 million (US$27.8 million) in 2010 to fund the development of our specialty cancer hospitals. Although we currently do not expect that we will require funding in addition to these bank loans to finance our future growth, 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. 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.

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 RMB112.8 million (US$16.5 million) and RMB179.8 million (US$26.3 million) as of December 31, 2008 and September 30, 2009, respectively, we have granted security interests in equipment with a net carrying value of RMB81.6 million (US$12.0 million) and RMB217.6 million (US$31.9 million), respectively, representing 23.4% and 39.0% of the net value of our net property, plant and equipment of RMB349.1 million (US$51.1 million) and RMB557.4 million (US$81.7 million), 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, including the bank borrowings of approximately RMB190.0 million (US$27.8 million) that we expect to obtain in 2010 to fund the development of our specialty cancer hospitals.

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

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

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

We adopted our 2008 share incentive plan on October 16, 2008, which was subsequently amended on November 17, 2009. We are required to account for share-based compensation in accordance with Financial Accounting Standards Board, or FASB, Statement No. 123(R), Share-Based Payment, 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, we granted options to purchase an aggregate of 4,765,800 ordinary shares under our 2008 share incentive plan, of which options to purchase an aggregate of 1,716,500 ordinary shares were granted to our executive officers and directors, and the remainder to other employees. We also 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 approximately RMB49.5 million for the period from September 10, 2007 to December 31, 2007 and RMB4.2 million (US$0.6 million) in 2008 related to such options, which resulted in us incurring a net loss for the period from September 10, 2007 to December 31, 2007 of RMB48.3 million. 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. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Note 19 to our consolidated financial statements included in this prospectus for a more detailed presentation of accounting for our share-based compensation plan.

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 U.S. public company.

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You may have difficulty enforcing judgments obtained against us.

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

We are exempt from certain corporate governance requirements of the NYSE.

We are exempt from certain corporate governance requirements of 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 will establish a compensation committee, 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 adopt and disclose 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 do not expect to be considered a passive foreign investment company, or PFIC, for United States federal income tax purposes for our taxable year ending December 31, 2009. However, we must make a separate determination each year as to whether we are a PFIC and we cannot assure you that we will not be a PFIC for our taxable year ending December 31, 2009 or any future taxable year. 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. 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 after this offering. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering. If we are treated as a PFIC for any taxable year during which United States Holders (as defined in 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 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 MOH, the NDRC, and the Ministry of Finance. Pursuant to these rules, quotas for large medical equipment are set by the NDRC and the MOH 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 MOH and the NDRC and large medical equipment procurement licenses are issued by the MOH. 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 MOH 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 stipulate that from 2007 to 2010, the issuance of procurement licenses for no more than 60 head gamma knife systems shall be approved nationwide. Of these 60 systems, 37 have already been allocated as of the date of this prospectus, out of which four have been allocated to our hospital partners. In addition, procurement regulations stipulate that from 2008 to 2010, the total number of PET-CT large medical equipment procurement licenses issued in China cannot exceed 38. Of these 38 systems, 26 have already been allocated as of the date of this prospectus, out of which none has been allocated to our hospital partners since all of our partner hospitals where our PET-CT scanners are located are military hospitals as of the date of this prospectus. 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 we do not expect the current number of procurement licenses available to have a significant impact on our existing expansion plan until the end of 2010, any unexpected change as to the number of procurement licenses currently available as a result of any change in government policy, increases in competition and the number of applicants for the procurement licenses or other factors, or any failure of our hospital partners to obtain such licenses as expected, could all adversely affect our existing expansion plan resulting in a material and adverse effect on our business, financial condition and results of operations. In addition, the limitation on the number of procurement licenses available and any adverse change to such procurement licenses available in the future may affect our expansion plan after 2010, which could have a material adverse effect on our future prospects.

In addition, for most of the medical equipment that we intend to install and operate in our specialty cancer hospitals, we will need to obtain large medical equipment procurement licenses from the MOH or provincial level healthcare administrative authorities. Such licenses might not be obtained in a timely manner or at all, which could delay or prevent the opening of our specialty cancer hospitals, and could have a material adverse effect on our growth strategy and results of operations. See Risks Related to Our Business We are planning to establish and operate specialty cancer hospitals that are 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 in lieu thereof. As of the date of this prospectus, of the 73 units of medical equipment in the centers in our network that are subject to large medical equipment procurement quota requirements, 41 were issued with a procurement license, three were issued with an interim procurement permit subsequent to the implementation of the quota requirement, 21 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 eight, which accounted for approximately 8.4% and 7.2% of our total net revenues in 2008 and for the nine months ended September 30, 2009, respectively, have not yet been issued with any procurement license or permit. Although our hospital partners have applied to the competent regulatory authorities for procurement licenses for these last 29 centers, we cannot assure you that they will be successful. If our hospital partners fail to receive either a procurement license or an interim procurement permit, the centers in our network operating such medical equipment may be required to discontinue operations and may be deprived of the revenue derived from the operation of such equipment or assessed a fine, any of which could have a material adverse effect on our business, financial condition and results of operation.

Based on the opinion of our PRC counsel, Jingtian & Gongcheng Attorneys At Law, we believe that the 21 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 21 units of equipment accounted for approximately 28.6% and 19.6% of our total net revenues in 2008 and for the nine months ended September 30, 2009, respectively. In addition, for the three units of medical equipment that were issued with interim procurement permits subsequent to the implementation of the quota requirement, the relevant regulations require that hospitals pay taxes derived from the use of equipment covered by such interim permits, which may increase the operating costs of the centers in our network that operate such equipment. Also, upon the expiration of the useful life of medical equipment issued with interim procurement permits, hospitals are not permitted to replace such medical equipment with a newer model, in which case we may not be able to continue or renew our agreements with such hospital partners with interim procurement permits for medical equipment reaching the end of its life unless they are able to obtain a new procurement license.

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

Centers in our network are primarily located in non-profit civilian and military hospitals in China. The medical service fees charged by these non-profit hospitals are subject to price ceilings set by the relevant provincial or regional price control authorities and healthcare administrative authorities in accordance with the *Opinion Concerning the Reform of Medical Service Pricing Management* issued on July 20, 2000 by the NDRC and the MOH. See Regulation of Our

Industry. 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

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since 2007. The relevant price control authorities and healthcare administrative authorities provide notices to hospitals, who 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 MOH 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.

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

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

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

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

Our business may be adversely affected by impending healthcare reforms in China.

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 MOH 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.

Some details of the implementation of the healthcare reform that have been published, including a policy drafted jointly by five ministries, including the Ministry of Finance, NDRC and MOH, providing general principles and guidelines for government subsidies and investments in the public healthcare system, a policy statement allowing doctors to practice in up to three hospital within the same province, and the release of a list of 307 essential drugs whose prices are subject to central government guidelines and provincial government tenders. The distribution of these drugs is expected to encompass all government-owned healthcare facilities by 2020.

In addition, the government has implemented a pilot plan as to the new rural healthcare insurance program whereby patients are required to pay hospitals only a portion of their medical expenses upfront and hospitals are required to seek payment of the balance from the government. Any resulting disputes or late or delinquent reimbursement payments may affect the collection of revenue at our network of centers and could increase our accounts receivables days.

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

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

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

Although self payments account for a high percentage of total medical expenses in China, approximately 20.4% of total medical expenses were sourced from direct payments by the government and approximately 34.5% of total medical expenses were sourced from government-directed public medical insurance schemes, commercial insurance plans and employers in 2007, according to the MOH. 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. See Regulation of Our Industry Medical Insurance Coverage for more information. 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.

Risks Related to Doing Business in China

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

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

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

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

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

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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 approval of the PRC Securities Regulatory Commission, or the CSRC, may be required in connection with this offering under a recently adopted PRC regulation.

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A rule, which took effect on September 8, 2006, to more effectively regulate foreign investment in PRC domestic enterprises. The M&A rule also contains a provision requiring offshore special purpose vehicles, or SPVs, formed for overseas listing purposes and controlled by PRC individuals to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

The application of this 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 us to 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 Aohua Medical and Shanghai Medstar were already foreign-invested enterprises before September 8, 2006, the effective date of the M&A rule. Jingtian & Gongcheng Attorneys At Law has further advised us that their opinions summarized above are subject to the timing and content of any new laws, rules and regulations or clear implementations and interpretations from the CSRC in any form relating to the M&A rule.

However, if the CSRC or another PRC regulatory agency subsequently determines that prior CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations, limit our operating privileges, delay or

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restrict the repatriation of the proceeds from this offering into China or payment or distribution of dividends by our PRC subsidiaries, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. The CSRC or other PRC regulatory agencies also may take actions requiring us, or making it advisable for us, to halt this offering before settlement and delivery of the ADSs offered hereby. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur. Also, if the CSRC later requires that we obtain its approval, we may be unable to obtain a waiver of the CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding this CSRC approval requirement could have a material adverse effect on the trading price of our ADSs.

We cannot predict when the CSRC may promulgate additional implementing rules or other guidance, if at all. If implementing rules or guidance is issued prior to the completion of this offering and consequently we conclude we are required to obtain CSRC approval, this offering will be delayed until we obtain CSRC approval, which may take several months or longer. Furthermore, any delay in the issuance of such implementing rules or guidance may create additional uncertainties with respect to this offering. Moreover, implementing rules or guidance, to the extent issued, may fail to resolve current ambiguities under the M&A Rule. Uncertainties and/or negative publicity regarding the M&A Rule could have a material adverse effect on the trading price of our ADSs.

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.

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

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

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

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC subsidiaries.

In utilizing the proceeds from this public offering or any further offerings, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by us to our wholly owned PRC subsidiaries in China, each of which is a foreign-invested enterprise, to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart.

We may also decide to finance our PRC subsidiaries through capital contributions. These capital contributions must be approved by the Ministry of Commerce in China or its local counterpart. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of this offering and to capitalize our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

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

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

We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we receive from this offering and to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business

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 July 21, 2005, 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 0.3% 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 our initial public offering into Renminbi for our operations, appreciation of the Renminbi against the

U.S. dollar would have an adverse effect on the Renminbi amount that we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

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

Our PRC subsidiaries are incorporated in the PRC and are governed by applicable PRC income tax laws and regulations. Prior to January 1, 2008, entities established in the PRC were generally subject to a 30% state and 3% local enterprise income tax rate. There were various preferential tax treatments promulgated by national tax authorities that were available to foreign-invested enterprises or enterprises located in certain areas of China. In addition, some local tax authorities may allow enterprises registered in their tax jurisdiction to enjoy lower preferential tax treatments according to local preferential tax policy. For example, Shanghai Medstar was entitled to a reduced enterprise income tax rate of 15% before January 1, 2008 due to its status as a foreign-invested manufacturing enterprise registered in the Shanghai Waigaoqiao free trade zone.

The PRC Enterprise Income Tax Law, or the EIT Law, was enacted on March 16, 2007 and became effective on January 1, 2008. The implementation regulations under the EIT Law issued by the PRC State Council became effective January 1, 2008. Under the EIT Law and the implementation regulations, the PRC has adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted in accordance with the then prevailing tax laws and regulations prior to January 1, 2008. Enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the EIT Law. In 2009, our subsidiaries Aohua Medical and Shanghai Medstar each had a preferential income tax rate of 20% that is scheduled to increase to 22% in 2010, 24% in 2011 and 25% in 2012. We cannot assure you that the preferential income tax rates that we enjoy will not be phased out at a faster rate or will not be discontinued altogether, either of which could result in a decrease of our net income and materially and adversely affect our financial condition and results of operations.

Also, the reduced enterprise income tax rate of 15%, as described above, that our subsidiary Shanghai Medstar enjoyed before January 1, 2008, for which only foreign-invested manufacturing enterprises registered in the Shanghai Waigaoqiao free trade zone were eligible, 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 the 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 fee. If we are required to make such retroactive tax payments due to the retroactive cancellation of Shanghai Medstar s preferential reduced enterprise income tax rate of 15%, our financial condition and results of operation could be materially and adversely affected.

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

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

In addition, under the EIT law, the *Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates*, or Notice 112, which was issued on January 29, 2008, the *Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion*, 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 may 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 Double Taxation Arrangement (Hong Kong), Notice 112 and Notice 601, 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 distributing the dividend and can be considered as a beneficial owner and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). Thus, as Cyber Medical Network Limited, or 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 Double Taxation Arrangement (Hong Kong). 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 Double Taxation Arrangement (Hong Kong). 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 Double Taxation Arrangement (Hong Kong).

The British Virgin Islands, where OMS, the direct holding company of Aohua Medical and Aohua Leasing, 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 Medical and Aohua Leasing.

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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 de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. In addition, a recent circular issued by the State Administration of Taxation 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 recent 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 de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the recent circular mentioned above sets out criteria for determining whether de facto management bodies 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 de facto management bodies for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. Therefore, although substantially all of our management is currently located in the PRC, it remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. We do not currently consider our company to be a PRC resident enterprise. However, if the PRC tax authorities disagree with our assessment and determine that we are a resident enterprise, we may be subject to enterprise income tax at a rate of 25% on our worldwide income and dividends paid by us to our non-PRC shareholders as well as capital gains recognized by them with respect to the sale of our shares may be subject to a PRC withholding tax. This will have an impact on our effective tax rate, a material adverse effect on our net income and results of operations, and may require us to withhold tax on our non-PRC shareholders.

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

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

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

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

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that the relevant PRC government authorities will not determine that we have not been in compliance with certain laws or regulations.

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. In April 2009, an outbreak of the H1N1 virus, also commonly referred to as swine flu , occurred in Mexico and has spread to other countries, including China. If the outbreak of swine flu were to become widespread in China or increase in severity, it could have an adverse effect on economic activity in China, and our business and operations could be adversely affected. Any future natural disasters or health epidemics in the PRC could also have a material adverse effect on our business and results of operations.

Risks Related to This Offering

There has been no public market for our ordinary shares or ADSs prior to this offering, and you may not be able to resell our ADSs at or above the price you paid, or at all.

We have received approval to list our ADSs on the NYSE. However, prior to this initial public offering, there has been no public market for our ordinary shares or ADSs. In addition, our ordinary shares will not be listed on any exchange or quoted for trading on any over-the-counter trading system. If an active trading market for our ADSs does not develop after this offering, the market price and liquidity of our ADSs will be materially and adversely affected.

The initial public offering price for our ADSs will be determined by negotiations between us and the underwriters and may bear no relationship to the market price for our ADSs after this initial public offering. We cannot assure you that an active trading market for our ADSs will develop or that the market price of our ADSs will not decline below the initial public offering price.

The market price for our ADSs may be volatile.

The market price for our ADSs is likely 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; and

sales or perceived sales of additional ordinary shares or ADSs.

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. These market fluctuations may also have a material adverse effect on 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.

Because the initial public offering price is substantially higher than our net tangible book value per share, you will incur immediate and substantial dilution.

If you purchase ADSs in this offering, you will pay more for your ADSs than the amount paid by our existing shareholders for their ordinary shares on a per ADS basis. As a result, you will experience immediate and substantial dilution of approximately US$6.17 per ADS, representing the difference between our net tangible book value per ADS as of September 30, 2009 after giving effect to this offering. In addition, you may experience further dilution to the extent that our ordinary shares are issued upon the exercise of stock options. See Dilution for a more complete description.

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 after this offering, or the perception that these sales could occur, could cause the market price of our ADSs to decline. Upon completion of this offering and assuming the underwriters do not exercise the option to purchase additional ADSs, we will have 147,455,500 ordinary shares outstanding, including 36,000,000 ordinary shares represented by 12,000,000 ADSs. All ADSs sold in this offering will be freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. The remaining ordinary shares outstanding after this offering will be available for sale, upon the expiration of the 180-day lock-up period beginning from the date of this prospectus, subject to volume and other restrictions as applicable under Rule 144 and Rule 701 under the Securities Act. Any or all of these shares may be released prior to expiration of the applicable lock-up period at the discretion of the underwriters. To the extent shares are released before the expiration of the applicable lock-up period and these shares are sold into the market, the market price of our ADSs could decline. In addition, we have granted holders of our Series A and Series B contingently redeemable convertible preferred shares certain registration rights. Such registration rights provide that no later than 181 days after this offering or the expiration of the lock-up agreements entered into in connection with this offering, whichever date is later, we shall file a shelf registration statement with the SEC covering the resale of all of the registrable securities held by such shareholders. We shall use our best efforts to cause such shelf registration statement to become effective on or prior to the 90th day following the filing of the shelf registration statement and to keep such shelf registration statement effective until all of the registrable securities held by the holders of our Series A and Series B contingently redeemable convertible preferred shares have been resold.

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

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

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in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ordinary shares are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholder meeting.

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

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

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.

We have not determined any specific use for a portion of the net proceeds to us from this offering and we may use such portion of the net proceeds in ways with which you may not agree.

We have not allocated a portion of the net proceeds to us from this offering for any specific purpose. Rather, our management will have considerable discretion in the application of such portion of the net proceeds received by us. See Use of Proceeds. You will not have the opportunity, as part of your investment decision, to assess whether such proceeds are being used appropriately. You must rely on the judgment of our management regarding the application of such proceeds that we receive from this offering. Such proceeds may be used for corporate purposes that do not improve our profitability or increase our ADS price or may also be placed in investments that do not produce income or that may lose value.

We will incur increased costs as a result of being a public company.

Upon completion of this offering, we will become a public company in the United States. As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the

Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, as well as rules and regulations implemented by the SEC and the NYSE, require significantly heightened corporate governance practices to be kept by public companies. We expect that these rules and regulations will increase our legal, accounting and financial compliance costs and will make certain corporate activities more time-consuming and costly. Compliance with these rules and requirements may be especially difficult and costly for us because we may have difficulty locating sufficient personnel in China with experience and expertise relating to U.S. GAAP and U.S. public-company reporting requirements, and such personnel may command high salaries relative to what similarly experienced personnel would command in the United States. If we cannot employ sufficient personnel to ensure compliance with these rules and regulations, we may need to rely more on outside legal, accounting and financial experts, which may be very costly. In addition, we will incur additional costs associated with our public company reporting requirements. We cannot predict or estimate the amount of additional costs that we may incur or the timing of such costs. If we fail to comply with these rules and requirements, or are perceived to have weaknesses with respect to our compliance, we could become the subject of a governmental enforcement action and investor confidence could be negatively impacted and the market price of our ADSs could decline.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that relate to our current expectations and views of future events. The forward-looking statements are contained principally in the sections entitled Prospectus Summary, Risk Factors, Use of Proceeds, Management s Discussion and Analysis of Financial Condition and Results of Operations , Our Industry and Business. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under Risk Factors, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as may, will, expect, anticipate, aim, estimate, intend, plan, believe, potential, continue, is/are likely to or other similar ex have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- the risks, challenges and uncertainties in the radiotherapy and diagnostic imaging industry and for our business generally;
- our beliefs regarding our strengths and strategies;
- our current expansion strategy, including our ability to expand our network of centers and to establish specialty cancer hospitals;
- our ability to maintain strong working relationships with our hospital partners;
- our expectations regarding patients and their referring doctors demand for and acceptance of the radiotherapy and diagnostic imaging services offered by our centers;
- changes in the healthcare industry in China, including changes in the healthcare policies and regulations of the PRC government;
- technological or therapeutic changes affecting the field of cancer treatment and diagnostic imaging;
- our ability to comply with all relevant environmental, health and safety laws and regulations;
- our ability to obtain and maintain permits, licenses and registrations to carry on our business;
- our planned use of proceeds;
- our future prospects, business development, results of operations and financial condition; and
- fluctuations in general economic and business conditions in China.

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

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately US$119.5 million, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use a portion of the net proceeds we receive from this offering for the following purposes:

- approximately US$50 million to US$60 million to expand our network of centers;
- approximately US$25 million to US$30 million to develop our Beijing Proton Medical Center; and
- approximately US$20 million to US$25 million to develop our Chang an CMS International Cancer Center.

We will use any remaining portion of the net proceeds we receive from this offering for general corporate purposes, including potential acquisitions of, or investments in, other businesses or technologies that we believe will complement our current operations and expansion strategies.

The foregoing use of our net proceeds from this offering represents our current intentions based upon our present plans and business condition. The amounts and timing of any expenditure will vary depending on the amount of cash generated from our operations, competitive developments and the rate of growth, if any, of our business. Accordingly, our management will have significant discretion in the allocation of the net proceeds we will receive from this offering. Depending on future events and other changes in the business climate, we may determine at a later time to use the net proceeds for different purposes. Pending their use, we intend to place our net proceeds in short-term bank deposits.

In utilizing the proceeds of this offering, we, as an offshore holding company, are permitted under PRC laws and regulations to provide funding to our PRC subsidiaries only through loans or capital contributions and to other entities only through loans. Subject to satisfaction of applicable government registration and approval requirements, we may extend inter-company loans to our PRC subsidiaries or make additional capital contributions to our PRC subsidiaries to fund their capital expenditures or working capital. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all. See Risk Factors Risks Related to Doing Business in China PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC subsidiaries.

We will not receive any of the proceeds from the sale of the ADSs by the selling shareholders.

DIVIDEND POLICY

Our board of directors has complete discretion on whether to pay dividends on our ordinary shares. If our board of directors decides to pay dividends on our ordinary shares, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. Shareholders of our Series A and Series B contingently redeemable convertible preferred shares are entitled to an annual dividend equal to the higher of (a) the product of the number of ordinary shares into which such Series A and Series B contingently redeemable convertible preferred shares may then be converted multiplied by the dividend amount declared on each ordinary share or (b) 5% of the original issuance price of each Series A and Series B contingently redeemable convertible preferred share.

On November 17, 2009, we declared a dividend on our ordinary shares that amounted to an aggregate of approximately US$2.4 million payable to holders of our ordinary shares on record as of November 17, 2009. On November 17, 2009, we also declared a dividend that amounted to an aggregate of approximately US$1.6 million payable to shareholders of our Series A and Series B contingently redeemable convertible preferred shares. Dividends declared for our ordinary shares and our Series A and Series B contingently redeemable convertible preferred shares were paid on November 27, 2009. Other than such dividends, we have never declared or paid any other dividends since our incorporation, nor do we have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See Description of American Depositary Shares. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

We are a holding company incorporated in the Cayman Islands. In order for us to distribute any dividends to our shareholders and ADS holders, we will rely on dividends distributed by our PRC subsidiaries. Certain payments from our PRC subsidiaries to us are subject to PRC taxes, such as withholding income tax. In addition, regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated profits as determined in accordance with its articles of association and the accounting standards and regulations in China. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit based on PRC accounting standards every year to a statutory common reserve fund until the aggregate amount of such reserve fund reaches 50% of the registered capital of such subsidiary. Such statutory reserves are not distributable as loans, advances or cash dividends. Also, our PRC subsidiaries may set aside a portion of its after-tax profits to staff welfare and bonus funds, which allocated portion may not be distributed as cash dividends. The amount to be provided is discretionary and is determined by each such subsidiary s ultimate decision-making body each calendar year. Instruments governing debt incurred by our PRC subsidiaries may also restrict their ability to pay dividends or make other distributions to us. See Risk Factors Risks Related to Doing Business in China 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. Under PRC tax law, dividends paid from our PRC subsidiaries to us through our Hong Kong subsidiary, Cyber Medical Network Limited, or Cyber Medical, are subject to a 5% withholding tax, provided that such Hong Kong subsidiary is not considered to be a PRC tax resident enterprise and is considered to be a beneficial owner and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). Any dividends paid by our PRC subsidiaries to us through our non-Hong Kong subsidiaries outside of China will be subject to a 10% withholding tax, provided that such subsidiaries outside of China are not considered to be a PRC tax resident enterprise. Such withholding tax on dividends may be exempted or reduced by the PRC State Council. However, if we or our subsidiaries outside of China are considered to be a PRC tax resident enterprise domiciled in the PRC for tax purposes, then any dividends we pay to our overseas shareholders or ADS holders that are non-PRC resident enterprises may be regarded as income derived from sources within the PRC, and as a result subject to PRC withholding tax at a rate of up to 10%. The ultimate tax rate will be determined by a treaty between the PRC and the tax residence of the holder of the PRC subsidiary. For additional information, see Taxation People s Republic of China Taxation. We are actively monitoring withholding taxes and evaluating appropriate organizational changes to minimize the corresponding tax impact.

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CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2009:

on an actual basis; and

on a pro forma as adjusted basis to reflect (i) the automatic conversion of all our outstanding Series A and B contingently redeemable convertible preferred shares into 41,027,400 of our ordinary shares immediately upon the completion of this offering and (ii) the issuance and sale of 36,000,000 ordinary shares represented by 12,000,000 ADSs by us in this offering, at an initial public offering price of US$11.00 per ADS, after deducting the underwriting discounts and commissions and estimated aggregate offering expenses payable by us and assuming no exercise of the underwriters option to purchase additional ADSs.

You should read this table together with our consolidated financial statements and the related notes included elsewhere in this prospectus and the information under Management s Discussion and Analysis of Financial Condition and Results of Operations.

	As of September 30, 2009			
	Actual		Pro Forma as Adjusted	
	RMB	US$	RMB	US$
	(in thousands)			
Long-term bank borrowings, non-current portion	104,912	15,369	104,912	15,369
Obligations under capitalized leases, non-current portion	8,719	1,277	8,719	1,277
Series A contingently redeemable convertible preferred shares: US$0.01 par value, 200,000 shares authorized; 176,942 shares issued and outstanding on an actual basis; and nil shares issued and outstanding on a pro forma as adjusted basis	269,017	39,410		
Series B contingently redeemable convertible preferred shares: US$0.01 par value, 300,000 shares authorized; 233,332 shares issued and outstanding on an actual basis; and nil shares issued and outstanding on a pro forma as adjusted basis	434,036	63,584		
Ordinary shares: US$0.0001 par value, 450,000,000 shares authorized; 70,428,100 shares issued and outstanding on an actual basis; and 147,455,500 shares issued and outstanding on a pro forma as adjusted basis(1)	55	8	108	16
Additional paid-in capital	1,113,204	163,078	2,631,798	385,544
Accumulated other comprehensive loss	(4,037)	(592)	(4,037)	(592)
Accumulated deficit	(517,640)	(75,831)	(517,640)	(75,831)
Total shareholders equity	591,582	86,663	2,110,229	309,137

Total capitalization	1,408,266	206,303	2,223,860	325,783

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

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DILUTION

If you invest in our ADSs, your interest will be diluted to the extent of the difference between the initial public offering price per ADS and our net tangible book value per ADS after this offering. Dilution results from the fact that the initial public offering price per ordinary share is substantially in excess of the book value per ordinary share attributable to the existing shareholders for our presently outstanding ordinary shares.

Our net tangible book value as of September 30, 2009 was approximately RMB806.4 million (US$118.1 million), or RMB7.24 (US$1.06) per ordinary share and US$3.18 per ADS, after giving effect to the conversion of all our outstanding Series A and B contingently redeemable convertible preferred shares into ordinary shares upon the completion of this offering. Net tangible book value represents the amount of our total consolidated assets, excluding deferred tax assets, deferred IPO costs, goodwill and intangible assets, net of total consolidated liabilities. Without taking into account any other changes in such net tangible book value after September 30, 2009 other than to give effect to our sale of the ADSs offered in this offering at the initial public offering price of US$11.00 per ADS, and after deduction of underwriting discounts and commissions and estimated offering expenses of this offering payable by us, our adjusted net tangible book value as of September 30, 2009 would have increased to US$237.6 million or US$1.61 per ordinary share and US$4.83 per ADS. This represents an immediate increase in net tangible book value of US$0.55 per ordinary share and US$1.65 per ADS to the existing shareholders and an immediate dilution in net tangible book value of US$2.06 per ordinary share and US$6.17 per ADS to investors purchasing ADSs in this offering. The following table illustrates such per share dilution:

Initial public offering price per ordinary share	US$	3.67
Net tangible book value per ordinary share as of September 30, 2009[1]	US$	1.06
Amount of dilution in net tangible book value per ordinary share to new investors in this offering	US$	2.06
Amount of dilution in net tangible book value per ADS to new investors in this offering	US$	6.17

(1) After giving effect to the conversion of all our outstanding Series A and B contingently redeemable convertible preferred shares into ordinary shares upon the completion of this offering.

The following table summarizes, on a pro forma basis as of September 30, 2009, the differences between existing shareholders and the new investors with respect to the number of ordinary shares (in the form of ADSs or shares) purchased from us, the total consideration paid and the average price per ordinary share and per ADS. In the case of ADS purchased by new investors, the consideration and price amounts are paid before deducting the underwriting discounts and commissions and estimated offering expenses, at an initial public offering price of US$11.00 per ADS. The total number of ordinary shares in the following table does not include ordinary shares underlying the ADSs issuable upon the exercise of the option to purchase additional ADSs granted to the underwriters.

Ordinary Shares Purchased		Total Consideration		Average Price per Ordinary Share	Average Price per ADSs
Number	Percent	Amount	Percent		
(in thousands, except for percentages)					

Existing shareholders	111,456	75.6%	US$	115,996(1)	46.8%	US$	1.04	US$	3.12
New investors	36,000	24.4	US$	132,000	53.2	US$	3.67	US$	11.00
Total	147,456	100.0%	US$	247,996	100.0%				

(1) Includes US$5.5 million paid to OMS, the predecessor entity.

The discussion and tables above also assume no exercise of any outstanding share options. As of September 30, 2009, there were 1,321,800 ordinary shares available for future issuance upon the exercise of future grants under our share incentive plan. The number of ordinary shares available for future issuance upon the exercise of future grants under our share incentive plan was increased to 4,765,800 through an amendment to our 2008 share incentive plan on November 17, 2009. On November 27, 2009, we granted options to purchase an aggregate of 4,765,800 ordinary shares under our 2008 share incentive plan. To the extent that any of these options are exercised, there will be further dilution to new investors.

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EXCHANGE RATE INFORMATION

Our business is primarily conducted in China and all of our revenues are denominated in Renminbi. Periodic reports made to shareholders will be expressed in Renminbi with translations of Renminbi amounts into U.S. dollars at the then current exchange rate solely for the convenience of the reader. Conversions of Renminbi into U.S. dollars in this prospectus are based on, for all dates through December 31, 2008, at the noon buying rate in the City of New York for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, and for January 1, 2009 and all later dates and periods, the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this prospectus were made at a rate of RMB6.8262 to US$1.00, the noon buying rate in effect as of September 30, 2009. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. On December 4, 2009, the noon buying rate was RMB6.8261 to US$1.00.

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

	Noon Buying Rate			
Period	Period End	Average(1)	Low	High
	(RMB per US$1.00)			
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009 (through September 30)	6.8262	6.8306	6.8470	6.8176
2009				
June	6.8302	6.8334	6.8371	6.8264
July	6.8319	6.9186	6.8342	6.8300
August	6.8299	6.8323	6.8358	6.8299
September	6.8262	6.8277	6.8303	6.8247
October	6.8264	6.8267	6.8292	6.8248
November	6.8265	6.8271	6.8300	6.8255
December (through December 4)	6.8261	6.8265	6.8270	6.8260

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

ENFORCEABILITY OF CIVIL LIABILITIES

We are incorporated in the Cayman Islands to take advantage of certain benefits associated with being a Cayman Islands exempted company, such as:

- political and economic stability;
- an effective judicial system;
- a favorable tax system;
- the absence of exchange control or currency restrictions; and
- the availability of professional and support services.

However, certain disadvantages accompany incorporation in the Cayman Islands. These disadvantages include:

- the Cayman Islands has a less developed body of securities laws as compared to the United States and provides significantly less protection to investors; and
- Cayman Islands companies do not have standing to sue before the federal courts of the United States.

Our constituent documents do not contain provisions requiring that disputes, including those arising under the securities laws of the United States, between us, our officers, directors and shareholders, be arbitrated.

Substantially all of our current operations are conducted in China, and substantially all of our assets are located in China. A majority of our directors and officers are nationals or residents of jurisdictions other than the United States and a substantial portion of their assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon us or such persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

We have appointed National Registered Agents, Inc. as our agent to receive service of process with respect to any action brought against us in the United States District Court for the Southern District of New York under the federal securities laws of the United States or of any state in the United States or any action brought against us in the Supreme Court of the State of New York in the County of New York under the securities laws of the State of New York.

Walkers, our counsel as to Cayman Islands law, and Jingtian & Gongcheng Attorneys At Law, our counsel as to PRC law, have advised us, respectively, that there is uncertainty as to whether the courts of the Cayman Islands and the PRC, respectively, would:

- recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States; or
- entertain original actions brought in each respective jurisdiction against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

Walkers has further advised us that:

a final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable, other than a sum payable in respect of taxes, fines, penalties or similar charges, and which was neither obtained in a waiver nor is of a kind of enforcement which is contrary to natural justice or the public policy of the Cayman Islands, may be subject to enforcement proceedings as a debt in the courts of the Cayman Islands under common law; and

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it is unlikely that a monetary award ordered by a U.S. court as a result of a fine or a penalty arising under the U.S. federal securities laws would be recognized as valid, or enforced, by the courts of the Cayman Islands.

Jingtian & Gongcheng Attorneys At Law has advised us further that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between the PRC and the country where the judgment is made or on reciprocity between jurisdictions, provided that the foreign judgments do not violate the basic principles of laws of the PRC or its sovereignty, security or social and public interests. As there is currently no treaty or other form of reciprocity between the PRC and the United States governing the recognition of judgments, there is uncertainty on whether and/or upon what basis a PRC court would enforce judgments rendered by courts in the United States.

OUR HISTORY AND CORPORATE STRUCTURE

Our History

Concord Medical was incorporated in the Cayman Islands on November 27, 2007 and became our ultimate holding company on March 7, 2008, when the shareholders of Ascendium, a holding company incorporated in the British Virgin Islands on September 10, 2007, exchanged all of their shares 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 prospectus. Prior to the OMS reorganization, OMS, together with 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 other 10% of 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 do 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, a Singapore company, together with its wholly owned PRC subsidiary, Medstar (Shanghai) Leasing Co., Ltd., or Shanghai Medstar, for approximately £17.1 million or approximately RMB238.7 million (US$35.0 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 August 17, 2009, 100% of the equity interest in Shanghai Medstar was transferred from China Medstar to Ascendium.

On October 28, 2008, we acquired control of Beijing Xing Heng Feng Medical Technology Co., Ltd., or Xing Heng Feng Medical, through our subsidiaries Aohua Leasing and CMS Hospital Management Co., Ltd., or CMS Hospital Management, by acquiring 100% of its equity interest, which corresponded to its then paid-in registered capital. We paid total consideration of approximately RMB35.0 million (US$5.1 million) for this acquisition.

We currently conduct substantially all of our operations through the following subsidiaries in the PRC:

Shenzhen Aohua Medical Services Co., Ltd., our wholly owned subsidiary incorporated in the PRC that engages in the provision of radiotherapy and diagnostic center management services to hospitals in the PRC;

Shenzhen Aohua Medical Leasing and Services Co., Ltd., our wholly owned subsidiary incorporated in the PRC that engages in the provision of radiotherapy and diagnostic equipment leasing services to hospitals in the PRC;

Medstar (Shanghai) Leasing Co., Ltd., our wholly owned subsidiary incorporated in the PRC that engages in the sale of medical equipment and the provision of radiotherapy and diagnostic equipment leasing and management services to hospitals in the PRC;

CMS Hospital Management Co., Ltd., our wholly owned subsidiary incorporated in the PRC that engages in the provision of radiotherapy and diagnostic equipment management services to hospitals in the PRC; and

Beijing Xing Heng Feng Medical Technology 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.

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Our Corporate Structure

The following diagram illustrates our corporate structure and the place of organization of each of our subsidiaries as of the date of this prospectus:

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SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following tables set forth the selected consolidated financial and operating data of us and our predecessor, OMS, for the periods indicated. Concord Medical was incorporated on November 27, 2007. On March 7, 2008, the shareholders of Ascendium exchanged their shares in Ascendium for shares of Concord Medical at the rate of 10 shares in Concord Medical for one share in Ascendium. As a result, Concord Medical became our ultimate holding company. Our financial statements have been prepared as if the current corporate structure had been in existence from September 10, 2007, the date on which Ascendium was incorporated. Prior to the OMS reorganization, which became effective on October 30, 2007, OMS, together with Aohua Medical, in which OMS effectively held all of the equity interest at the time, operated all of the business of our company. As a result of the OMS reorganization, there was a change in control of OMS with the Ascendium shareholders effectively acquiring OMS from the OMS shareholders. For additional information relating to our history and reorganization, see Our History and Corporate Structure. For financial statements reporting purposes, OMS is deemed to be the predecessor reporting entity for periods prior to October 30, 2007.

The following selected consolidated statements of operations and other consolidated financial data for the period from January 1, 2007 to October 30, 2007, for the period from September 10, 2007 to December 31, 2007 and for the year ended December 31, 2008 (other than the income (loss) per ADS data) and the selected consolidated balance sheet data as of December 31, 2007 and 2008 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The following selected consolidated statements of operations for the year ended December 31, 2006 and the selected consolidated balance sheet data as of December 31, 2006 have been derived from our unaudited consolidated financial statements, which are not included in this prospectus. The following selected consolidated statements of operations and other consolidated financial data for the nine months ended September 30, 2008 and 2009 (other than the income (loss) per ADS data) and selected consolidated balance sheet data as of September 30, 2009 have been derived from our unaudited interim condensed consolidated financial statements, which are included elsewhere in this prospectus. We have prepared the unaudited interim condensed consolidated financial statements on the same basis as our audited consolidated financial statements. The unaudited interim condensed consolidated financial statements include all adjustments, consisting only of normal and recurring adjustments, which we consider necessary for a fair presentation of our financial position and operating results for the periods presented. You should read the selected consolidated financial data in conjunction with those financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. Our historical results do not necessarily indicate our results expected for any future periods. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. The consolidated financial statements of each of us and our predecessor are prepared and presented in accordance with U.S. GAAP. Our historical results are not necessarily indicative of our results expected for any future periods.

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	Predecessor		Concord Medical (Successor)				
	Year Ended December 31, 2006	Period from January 1, 2007 to October 30, 2007	Period from September 10, 2007 to December 31, 2007	Year Ended December 31, 2008		Nine Months Ended September 30, 2008	2009
	RMB	RMB	RMB	RMB	US$	RMB	RMB
	(in thousands, except share, per share and per ADS data)						
ed s of s Data							
net of x, d tax and harges:							
nt services	61,440	63,082	13,001	155,061	22,716	94,296	184,937
nt services	876	4,340	982	12,677	1,857	7,519	20,096
				4,051	593	178	624
venues	62,316	67,422	13,983	171,789	25,166	101,993	205,657
enues:							
nt services	(22,388)	(20,396)	(1,908)	(25,046)	(3,669)	(14,671)	(42,144)
on of tangibles			(2,002)	(20,497)	(3,003)	(13,671)	(20,388)
nt services	(24)	(20)	(4)	(54)	(8)	(19)	(9)
f revenues	(22,412)	(20,416)	(3,914)	(45,597)	(6,680)	(28,361)	(62,541)
t	39,904	47,006	10,069	126,192	18,486	73,632	143,116
xpenses:							
enses	(1,267)	(1,601)	(757)	(5,497)	(805)	(3,275)	(4,463)
d ive	(15,600)	(8,467)	(57,171)	(18,869)	(2,764)	(12,468)	(19,687)
ncome	23,037	36,938	(47,859)	101,826	14,917	57,889	118,966
ense	(1,710)	(954)	(279)	(7,455)	(1,092)	(5,293)	(4,880)
air value le notes			(341)	(464)	(68)	(464)	
change loss			(4)	(325)	(48)	(13)	(218)
from equipment	(469)	(1,555)	(25)	658	96	392	
ome	68	15		430	63	116	823
ne				7,734	1,133		

ss) before es	20,926	34,444	(48,508)	102,404	15,001	52,627	114,691
(expenses)	(4,097)	(15,014)	182	(23,335)	(3,418)	(12,611)	(25,734)
(loss)	16,829	19,430	(48,326)	79,069	11,583	40,016	88,957
f Series A y preferred				(270,343)	(39,604)	(262,286)	(23,851)
f Series B y preferred				(304,763)	(44,646)		(38,383)
(loss) to areholders	16,829	19,430	(48,326)	(496,037)	(72,667)	(222,270)	26,723
ss) per ic and	0.34	0.39	(0.97)	(8.63)	(1.26)	(3.67)	0.38
ss) per ic and	1.02	1.17	(2.91)	(25.89)	(3.78)	(11.01)	1.14
l in n basic (2)	50,000,000	50,000,000	50,000,000	57,481,400	57,481,000	60,621,700	70,428,100
in n basic	16,666,667	16,666,667	16,666,667	19,160,467	19,160,467	20,207,233	23,476,033

(1) Our general and administrative expenses include share-based compensation expenses related to certain share options granted in 2007 that amounted to RMB49.5 million, RMB4.2 million (US$0.6 million) and RMB4.2 million in 2007, 2008 and for the nine months ended September 30, 2008, respectively. We did not recognize any share-based compensation expenses in 2006 and for the nine months ended September 30, 2009.

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

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	As of December 31,				As of September 30,	
	2006	2007	2008	2008	2009	
	RMB	RMB	RMB	US$	RMB	US$
	(in thousands)					
Selected Consolidated Balance Sheet Data						
Cash	606	39,792	353,991	51,858	285,703	41,854
Total current assets	23,333	66,135	492,978	72,219	466,487	68,338
Property, plant and equipment, net	231,215	54,703	349,121	51,144	557,433	81,661
Goodwill		259,282	300,163	43,972	300,163	43,972
Acquired intangible assets, net		129,998	181,838	26,638	161,450	23,652
Total assets	256,330	543,023	1,514,395	221,850	1,673,254	245,122
Long-term bank borrowings, current portion			39,840	5,836	44,880	6,575
Long-term bank borrowings, non-current portion			52,120	7,636	104,912	15,369
Series A contingently redeemable convertible preferred shares			254,358	37,262	269,017	39,410
Series B contingently redeemable convertible preferred shares			411,101	60,224	434,036	63,584
Total shareholders equity	134,264	394,878	565,020	82,772	591,582	86,663
Total liabilities and shareholders equity	256,330	543,023	1,514,395	221,850	1,673,254	245,122

	Predecessor	Concord Medical (Successor)					
	Period from January 1, 2007 to October 30, 2007	Period from September 10, 2007 to December 31, 2007	Year Ended December 31, 2008		Nine Months Ended September 30, 2008	2009	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in thousands)						
Selected Consolidated Statements of Cash Flow Data							
Net cash generated from	44,593	6,103	46,774	6,852	27,370	104,500	15,308

operating activities							
Net cash used in investing activities[(1)]	(50,452)	(30,441)	(376,371)	(55,136)	(300,692)	(223,426)	(32,731)
Net cash generated from financing activities	6,020	63,225	649,494	95,147	278,407	50,829	7,448
Exchange rate effect on cash		138	(5,698)	(834)	(5,949)	(191)	(29)
Net increase (decrease) in cash	161	39,025	314,199	46,029	(864)	(68,288)	(10,004)

(1) Net cash used in investing activities in 2008 and for the nine months ended September 30, 2008 and 2009 includes acquisition, net of cash acquired, of RMB231.5 million (US$33.9 million). RMB219.2 million and RMB21.5 million (US$3.2 million), respectively.

Operating Data[1]	**As of December 31, 2007**	**2008**	**As of September 30, 2009**
Number of primary medical equipment owned:			
Linear accelerators	1	12	16(2)
Head gamma knife systems	15	15	16
Body gamma knife systems	8	9	10
PET-CT scanners		3	7
MRI scanners	2	10	16
Others[3]	8	15	16
Total	34	64	81

	Year Ended December 31, 2007	**2008**	**Nine Months Ended September 30, 2009**
Number of patient cases treated or diagnosed by our primary medical equipment:			
Linear accelerators	697	4,678	8,554
Head gamma knife systems	8,493	9,455	7,767
Body gamma knife systems	2,635	3,057	2,706
PET-CT scanners		1,929	3,766
MRI scanners	11,830	31,827	57,972

	Predecessor	**Concord Medical (Successor)**	**Combined**	**Concord Medical (Successor)**		
	Period from January 1, 2007 to October 30, 2007	**Period from September 1, 2007 to December 31, 2007**	**Year Ended December 31, 2007**	**Year Ended December 31, 2008**	**Nine Months Ended September 30, 2008**	**2009**
	(in RMB thousands)					
Total net revenues generated by our primary medical equipment under lease and management						

services arrangements:						
Linear accelerators	3,206	877	4,083	40,506	21,588	60,183
Head gamma knife systems	40,408	8,731	49,139	65,365	47,096	51,673
Body gamma knife systems	13,537	2,565	16,102	20,071	12,225	18,204
PET-CT scanners				5,241	578	14,289
MRI scanners	2,899	437	3,336	15,123	7,515	27,618
Others[3]	3,032	391	3,423	8,755	5,294	12,970
Total net revenues lease and management services	63,082	13,001	76,083	155,061	94,296	184,937

(1) Excluding data from seven, eight and two centers under service-only agreements as of December 31, 2007, December 31, 2008 and September 30, 2009, respectively.

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

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section entitled Selected Consolidated Financial Data and our consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors and elsewhere in this prospectus.

Concord Medical was incorporated on November 27, 2007. On March 7, 2008, the shareholders of Ascendium exchanged their shares in Ascendium for shares of Concord Medical. As a result, Concord Medical became our ultimate holding company. Our financial statements have been prepared as if the current corporate structure had been in existence from September 10, 2007, the date on which Ascendium was incorporated. Prior to the OMS reorganization, which became effective on October 30, 2007, OMS, together with Aohua Medical, in which OMS effectively held all of the equity interest at the time, operated all of the business of our company. As a result of the OMS reorganization, there was a change in control of OMS with the Ascendium shareholders effectively acquiring OMS from the OMS shareholders. For additional information relating to our history and reorganization, see Our History and Corporate Structure. In our discussion for the year ended December 31, 2007, we refer to certain financial statement line items as combined for comparative purposes, which do not comply with U.S. GAAP. The unaudited combined amounts represent the addition of the amounts for certain financial statement line items of OMS, our predecessor, for the period from January 1, 2007 to October 30, 2007, and the amounts for the corresponding line items of Concord Medical for the period from September 10, 2007 to December 31, 2007. We have included these unaudited combined amounts as we believe they are helpful for the reader to gain a better understanding of results of operations for a complete fiscal year and to improve the comparative analysis against the results of operations for the year ended December 31, 2008. These unaudited combined amounts do not purport to represent what our financial position, results of operations or cash flows would have been if our reorganization had occurred on January 1, 2007.

Overview

We operate the largest network of radiotherapy and diagnostic imaging centers in China in terms of revenues and the total number of centers in operation in 2008, according to a report by Frost & Sullivan commissioned by us that compared our pro forma revenues against the revenues of our competitors in 2008 and our number of centers and units of equipment against those of our competitors as of the end of 2008. Most of the centers in our network are established through long-term lease and management services arrangements typically ranging from six to 20 years entered into with hospitals. Under these arrangements, we receive a contracted percentage of each center s revenue net of specified operating expenses. Such contracted percentages typically range from 50% to 90% and are adjusted based on a declining scale over the term of the arrangement but in certain circumstances, are fixed for the duration of the arrangement. Each center is located on the premises of our hospital partners and is typically equipped with a primary unit of advanced radiotherapy or diagnostic imaging equipment, such as a linear accelerator, head gamma knife system, body gamma knife system, PET-CT scanner or MRI scanner. We manage each center jointly with our hospital partner and we purchase the medical equipment used in our network of centers and lease such equipment to our hospital partners.

To complement our organic growth, we have also selectively acquired businesses to expand our network. In July 2008, we acquired China Medstar, a company then publicly listed on the AIM, for approximately £17.1 million or approximately RMB238.7 million (US$35.0 million). At the time of the acquisition, China Medstar jointly managed

23 centers with its hospital partners across 14 cities in China. In addition to our acquisition of China Medstar, we have also acquired other businesses in 2008, including Xing Heng Feng Medical, a company that managed two centers providing PET-CT scan diagnosis with its hospital partners, in October 2008.

To further enhance our reputation as a leading provider of radiotherapy treatment service and attract high quality doctors, we plan to establish and operate specialty cancer hospitals in China. Our first specialty cancer hospital, the Chang an CMS International Cancer Center, in Xi an, Shaanxi Province, is expected to commence operation in early 2010. In addition, we are in the process of establishing another specialty cancer hospital, the Beijing Proton Medical Center, which is expected to commence operation in 2012.

Our business has grown significantly in recent years through development of new centers, increases in the number of patient cases in our network and acquisitions. We have increased the number of centers in our network from 41 at the end of 2007 to 72 at the end of 2008 and to 83 as of September 30, 2009. Our total net revenues were RMB67.4 million, RMB14.0 million and RMB171.8 million (US$25.2 million) for the period from January 1, 2007 to October 30, 2007, the period from September 10, 2007 to December 31, 2007 and in 2008, respectively. Our total net revenues in 2008 on a pro forma basis, which gives effect to our acquisition of China Medstar as if it had been completed on January 1, 2008, were RMB234.7 million (US$34.4 million). Our total net revenues increased to RMB205.7 million (US$30.1 million) for the nine months ended September 30, 2009 from RMB102.0 million for the same period in 2008, due primarily to an increase in the number of centers in our network, including centers added to our network as a result of our acquisition of China Medstar, and an increase in the number of patient cases in existing centers. On a pro forma basis, which gives effect to our acquisition of China Medstar as if it had been completed on January 1, 2008, our total net revenues for the nine months ended September 30, 2008 were RMB164.9 million.

Factors Affecting Our Results of Operations

Our financial performance and results of operations are generally affected by the number of cancer patients in China. According to a report by Frost & Sullivan, patients diagnosed with cancer in China increased from approximately 2.8 million patients in 2003 to 3.5 million patients in 2008. Frost & Sullivan further estimates that new cancer cases will increase to approximately 4.1 million in China in 2015. Based on a survey conducted by the MOH, 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 Regulation of Our Industry.

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

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

Our Ability to Expand Our Network of Centers

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

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

In 2008, we added 32 new centers under lease and management services arrangements, of which 25 were added through various acquisitions in 2008. During the nine months ended September 30, 2009, we added 19 new centers to our network under similar lease and management services arrangements, five of which were converted in August 2009 from six centers that were previously managed under service-only agreements.

The Number of Patient Cases Treated in Our Network

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

The Operational Arrangements with Our Hospital Partners

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

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

- the size and location of potential hospital partner;

the length of the arrangement;

the type of medical equipment to be installed in the hospital s center;

the capabilities of the doctors that will provide services at the centers; and

the potential growth of such center.

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

We also provide management services to a small number of centers through service-only agreements where we receive a management fee equal to a contracted percentage of each center s revenue net of specified operating expenses. Such service-only agreements typically increase our profitability as we do not own the medical equipment used by such centers, and thus do not incur the associated depreciation expenses. However, service-only agreements are usually short-term in nature, and the risk of non-renewal of such agreements is high. We also typically receive a lower contracted percentage under such service-only agreements compared to the percentage we receive from centers managed under lease and management services arrangements. Accordingly, we do not intend to substantially increase the number of service-only agreements in the future. In addition, we have in August 2009 converted six centers under service-only agreements to five centers managed under lease and management services arrangements by purchasing from Chang an Hospital Co., Ltd., or Chang an Hospital, six units of radiotherapy and diagnostic imaging equipment that were located at the six centers managed under service-only agreements.

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

The Range and Mix of Services Provided in Our Network

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

The Cost of Our Medical Equipment

Depreciation expense associated with the medical equipment that we purchase and use in the centers 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 Reorganization and Acquisitions

Prior to the OMS reorganization on October 30, 2007, OMS, together with Aohua Medical, in which OMS effectively held all of the equity interest at the time, operated all of our business. As part of the OMS reorganization, there was a change in control of OMS whereby the Ascendium shareholders effectively acquired OMS from the OMS shareholders through the issuance of Ascendium shares. For financial statements reporting purposes, OMS is deemed to be our predecessor reporting entity for periods prior to October 30, 2007. The purchase price for the acquisition was determined to be RMB393.4 million (US$57.6 million), which represented the fair value of the Ascendium shares issued as consideration to the OMS shareholders. This transaction established a new basis of accounting with the purchase price allocated to OMS s tangible and identifiable intangible assets and liabilities based on their estimated fair value as of October 30, 2007, including RMB259.3 million as to goodwill, RMB132.0 million as to other intangible assets customer relationships and operating leases and RMB53.8 million (new basis) in property, plant and equipment. The effect of the new basis includes the reduction of the book value of medical equipment used in our network of centers to their fair value as at October 30, 2007, which reduces the depreciation expenses of the medical equipment, and results in an incremental amortization expense of the acquired intangible assets.

We completed the following acquisition of four businesses in 2008:

- China Medstar in July 2008 for approximately £17.1 million or approximately RMB238.7 million (US$35.0 million);
- Xing Heng Feng Medical in October 2008 for approximately RMB35.0 million (US$5.1 million);
- certain medical equipment located in Tianjin People s Liberation Army 272 Hospital and the related business from a third party for RMB14.0 million (US$2.1 million); and
- certain medical equipment located in People s Liberation Army 254 Hospital and the related business from another third party for RMB4.0 million (US$0.6 million).

The consideration 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. The results of operations of China Medstar were consolidated into our results of operations commencing in August 2008 and the results of operations of Xing Heng Feng Medical were consolidated into our results of operations commencing in November 2008.

Revenues

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

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percentage is fixed for the duration of the arrangement. Revenues derived from such centers are accounted for as lease and management services on our consolidated statement of operation.

We also provide management services to a limited number of centers through service-only agreements under which the medical equipment is owned by the hospital or other third parties. We typically receive a management fee from each center equal to a contracted percentage of the center s revenue net of specified operating expenses. We also provide management services to Chang an Hospital through a service-only agreement under which we receive a management fee equal to a percentage of the total revenues of the general hospital. Revenues derived from providing management services through service-only agreements are accounted for as management services on our consolidated statement of operation. As of September 30, 2009, we managed two centers under service-only agreements. We converted six centers managed under service-only agreements in August 2009 to five centers managed under lease and management services arrangement by purchasing the medical equipment housed in the six centers. As a result, we expect our total net revenues from management services to decrease in the near future due to a decrease in the number of centers under service-only agreements.

We also generate revenues, which are reported as net, from the sale of medical equipment we have purchased to hospitals and receive commissions from manufacturers for acting as their agent for the sale of such medical equipment to hospitals. We typically enter into a separate purchase agreement with manufacturers or the distributors of such manufacturers each time we purchase medical equipment for sale.

The following table sets forth the breakdown of our total net revenues for the periods indicated:

	Year Ended December 31,					Nine Months Ended September 30,				
	2007[1]		2008			2008		2009		
	RMB	% of Total Net Revenues	RMB	US$	% of Total Net Revenues	RMB	% of Total Net Revenues	RMB	US$	% o Tota Net Reven
	(in thousands, except for percentages)									
se and agement services	76,083	93.5	155,061	22,716	90.3	94,296	92.5	184,937	27,092	89
nagement services	5,322	6.5	12,677	1,857	7.4	7,519	7.4	20,096	2,944	9
er, net			4,051	593	2.3	178	0.1	624	91	0
al net revenues	81,405	100.0	171,789	25,166	100.0	101,993	100.0	205,657	30,127	10

(1) Represent the addition of the amounts for the specific line items of OMS, our predecessor, for the period from January 1, 2007 to October 30, 2007, and the amounts for the corresponding line items of Concord Medical for the period from September 10, 2007 to December 31, 2007. For the period from September 10, 2007, the date of inception of Ascendium, to October 30, 2007, during which period the financial statements of our predecessor and those of Concord Medical overlap, Ascendium did not engage in any business or operations. The unaudited combined financial data for the year ended December 31, 2007 do not comply with U.S. GAAP.

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

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In the past, we have recorded limited amounts of uncollectible accounts receivable. Our allowance for doubtful accounts amounted to RMB3.8 million (US$0.6 million) and RMB3.8 million (US$0.6 million) as of December 31, 2008 and September 30, 2009, respectively.

We have historically derived a large portion of our total net revenues from a limited number of our hospital partners. For the period from January 1, 2007 to October 30, 2007, the period from September 10, 2007 to December 31, 2007, for the year ended December 31, 2008 and for the nine months ended September 30, 2008 and 2009, net revenue derived from our top five hospital partners amounted to approximately 61.6%, 64.7%, 37.8%, 42.2% and 34.1%, respectively, of our total net revenues. For these same five periods, three, three, one, one and two, respectively, of our hospital partners, accounted for more than 10.0% of our total net revenues, and our largest hospital partner accounted for 21.7%, 24.2%, 13.5%, 14.4% and 10.7%, 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.

Our largest hospital partner in terms of revenue contribution for the nine months ended September 30, 2009 was the Chinese People s Liberation Army Navy General Hospital. We have entered into lease and management services arrangements for six centers with such hospital partner, with terms that range from 10 to 20 years. A lease and management services arrangement for one of the centers was newly entered into in July 2009 and such center has not begun operation as of September 30, 2009, but is expected to begin operation at the end of 2009. We receive from our largest hospital partner a contracted percentage of each center s revenue net of specified operating expenses, which include variable expenses such as the salaries and benefits of the medical and other personnel at the center, the cost of medical consummables, marketing expenses, training expenses, utility expenses and routine equipment repair and maintenance expenses. The contracted percentages are typically adjusted based on a declining scale over the term of the arrangements. Typically, these arrangements may be terminated upon the mutual agreement of the parties if the centers experience an operating loss for a specified period of time or failed 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. Under the arrangements for certain centers and in the event of early termination as a result of adjustments of relevant policies, our largest hospital partner may be required to purchase the medical equipment from us at the price set forth in the agreements.

Chang an Hospital accounted for approximately 10.1% of our total net revenues for the nine months ended September 30, 2009. We provide management services to Chang an Hospital through a service-only agreement and receive a management fee equal to a percentage of the total revenues of Chang an Hospital. In addition, we will be eligible to receive annual bonuses from Chang an Hospital calculated on the basis of the annual growth rates of Chang an Hospital s total revenues. Under the service-only agreement, we are required to pay a performance deposit of RMB15.0 million (US$2.2 million), which will be refunded to us after the termination or expiration of the agreement. The service-only agreement can be terminated upon the default or failure by either party to perform its respective obligations under the agreement. We also managed six centers in Chang an Hospital prior to August 2009 through service-only agreements. In August 2009, we purchased the six units of the medical equipment housed in these six centers from Chang an Hospital. Two of the six units of medical equipment were combined into one center and we subsequently entered into a long-term lease and management services arrangement with Chang an Hospital to manage all the five centers. Under the lease and management services arrangement with Chang an Hospital, we receive a contracted percentage of each center s revenue net of specified operating expenses. The contracted percentage is adjusted based on a declining scale over the term of the arrangement. The arrangement may be terminated due to changes in government policies that prohibit the lease of such medical equipment and Chang an Hospital will be required to pay us an amount equal to the purchase price of the medical equipment less depreciation. In addition, the arrangement can be terminated by us upon the default or failure by Chang an Hospital to perform its obligations.

We are subject to approximately 5% business tax and related surcharges on certain of our revenues. Such taxes and surcharges amounted to RMB0.4 million, RMB0.2 million, RMB4.5 million (US$0.7 million), RMB1.9 million and

RMB7.5 million (US$1.1 million) for the period from January 1, 2007 to October 30, 2007, the period from September 10, 2007 to December 31, 2007, in 2008 and for the nine months ended September 30, 2008 and 2009, respectively, and are deducted prior to deriving our total net revenues. In addition,

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revenue derived from the sale of medical equipment are net of value-added tax of 17% which amounted to RMB0.9 million (US$0.1 million) and RMB0.1 million (US$15,000) in 2008 and for the nine months ended September 30, 2009, respectively.

We are also currently in the process of establishing two specialty cancer hospitals in China that will be majority owned and operated by us. The Chang an CMS International Cancer Center is expected to commence operation in early 2010 and the Beijing Proton Medical Center is expected to commence operation in 2012. We expect such specialty cancer hospitals to contribute favorably to our total net revenues in the future.

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,					**Nine Months Ended September 30,**				
	2007[1]		**2008**			**2008**		**2009**		
	RMB	**% of Total Net Revenues**	**RMB**	**US$**	**% of Total Net Revenues**	**RMB**	**% of Total Net Revenues**	**RMB**	**US$**	**% of Total Net Revenue**
	(in thousands, except for percentages)									
Cost of revenues:										
Lease and management services	22,304	27.4	25,046	3,669	14.6	14,671	14.4	42,144	6,174	20.5
Amortization of acquired intangibles	2,002	2.5	20,497	3,003	11.9	13,671	13.4	20,388	2,987	9.9
Management services	24	0.0	54	8	0.0	19	0.0	9	1	0.0
Total cost of revenues	24,330	29.9	45,597	6,680	26.5	28,361	27.8	62,541	9,162	30.4
Gross Profit	57,075	70.1	126,192	18,486	73.5	73,632	72.2	143,116	20,965	69.6
Operating expenses:										
Selling expenses	2,358	2.9	5,497	805	3.2	3,275	3.2	4,463	654	2.2
General and administrative expenses[2]	65,638	80.6	18,869	2,764	11.0	12,468	12.2	19,687	2,884	9.6
Total operating expenses	67,996	83.5	24,366	3,569	14.2	15,743	15.4	24,150	3,538	11.7

(1) Represent the addition of the amounts for the specific line items of OMS, our predecessor, for the period from January 1, 2007 to October 30, 2007, and the amounts for the corresponding line items of Concord Medical for the period from September 10, 2007 to December 31, 2007. For the period from September 10, 2007, the date of inception of Ascendium, to October 30, 2007, during which the financial statements of our predecessor and those of Concord Medical overlap, Ascendium did not engage in any business or operations. The unaudited combined

financial data for the year ended December 31, 2007 do not comply with U.S. GAAP.

(2) Our general and administrative expenses include share-based compensation expenses related to certain share options granted in 2007 that amounted to RMB49.5 million, RMB4.2 million (US$0.6 million) and RMB4.2 million in 2007, 2008 and for the nine months ended September 30, 2008, respectively. We did not recognize any share-based compensation expenses for the nine months ended September 30, 2009.

Cost of Revenues

Our cost of revenues primarily consists of the amortization of acquired intangibles and the depreciation of medical equipment purchased, installed and operated in our network of centers. 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. In addition, as a result of the OMS reorganization, the acquisitions of China Medstar, Xing Heng Feng Medical and certain other businesses, our cost of revenues also include amortization of acquired intangibles during the period

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starting from September 10, 2007 to December 31, 2007. We expect our amortization of acquired intangibles in connection with the OMS reorganization and the acquisition of China Medstar and other businesses in 2008 to be between approximately RMB26.8 million (US$3.9 million) and RMB18.9 million (US$2.8 million) annually between 2009 and 2013.

Once our specialty cancer hospitals are established, our cost of revenues will also include costs associated with the operations of such hospitals. We expect such costs of revenue to include depreciation and amortization of the properties, buildings and equipment that are used by our specialty cancer hospitals, the salaries and benefits associated with our medical and non-medical personnel and overhead costs, which include the cost of materials for medical procedures and utility, repair and maintenance expenses.

Selling Expenses

Selling expenses consist primarily of expenses associated with the development of new centers and specialty cancer hospitals, such as salaries and benefits for our business development personnel, marketing expenses and travel related expenses. Selling expenses have increased in absolute amount from 2007 to 2008 and from the nine months ended September 30, 2008 to the nine months ended September 30, 2009 as a result of increased efforts to expand our network of centers and our specialty cancer hospitals. We expect our selling expenses to increase in absolute amount in the future, in line with the expansion of our network and the growth in our total net revenues.

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 2007, 2008 and for the nine months ended September 30, 2008 that amounted to RMB49.5 million, RMB4.2 million (US$0.6 million) and RMB4.2 million, respectively, which significantly increased our general and administrative expenses for those periods. See Share-based Compensation. On November 27, 2009, we granted options to purchase an aggregate of 4,765,800 ordinary shares to our executive officers, directors and other employees pursuant to our 2008 share incentive plan. Consequently, we expect to start recording share-based compensation expense associated with this grant commencing in the quarter ending December 31, 2009. Without taking into account the share-based compensation expenses, our general and administrative expenses have increased in absolute dollar terms as we have recruited additional general and administrative employees and have incurred additional costs related to the growth of our business. We expect such expenses to continue to increase in absolute dollar terms in the future, in line with the expansion of our network of centers and the growth in our total net revenues.

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 (US$5.0 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 (US$0.6 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 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, we granted options to purchase 4,765,800 ordinary shares, of which options to purchase 1,716,500 ordinary shares were granted to our executive officers and directors, and the remainder to other employees.

Accretion of Series A and Series B Contingently Redeemable Convertible Preferred Shares

Under the terms of the Amended and Restated Shareholders Agreement dated as of October 20, 2008, which was subsequently amended on November 17, 2009 and on December 7, 2009, by and among us, our shareholders and certain other parties named therein, holders of the Series A and Series B redeemable convertible preferred shares have the right to require us to repurchase their preferred shares if (i) three years after the closing date of the subscription of the Series B contingently redeemable convertible preferred shares a qualified initial public offering has not taken place, (ii) any of certain of our key directors has resigned which resulted in or would be likely to result in a material adverse effect on our business, or (iii) we or any of our subsidiaries have breached or failed to be in compliance with any applicable laws which has had or would be reasonably likely to have a material adverse effect on our business. In the event of a repurchase under this right, we are required to repurchase all of the outstanding Series A or Series B contingently redeemable convertible preferred shares at a repurchase price equal to the original issue price of the preferred shares, plus an amount which would have accrued on the original issue price at a compound annual rate of at least 12.5% from the date of issuance up to and including the date on which such repurchase price is paid. The accretion of the Series A and Series B contingently redeemable convertible preferred shares is reflected as a charge against net income (loss) attributable to ordinary shareholders and totaled RMB270.3 million (US$39.6 million) and RMB304.8 million (US$44.6 million) in 2008 for Series A and Series B contingently redeemable convertible preferred shares, respectively. Such accretion charge is not expected to continue after our initial public offering since all of our Series A and Series B contingently redeemable convertible preferred shares will be converted into ordinary shares at that time.

Taxation

Cayman Islands

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

British Virgin Islands

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

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Hong Kong

We did not have any assessable profits subject to the Hong Kong profits tax in 2007 and 2008. 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 in 2007 and 2008. We do not anticipate having any income subject to income taxes in Singapore in the foreseeable future.

People s Republic of China

Our PRC subsidiaries are incorporated in the PRC and are governed by applicable PRC income tax laws and regulations. The EIT Law was enacted on March 16, 2007 and became effective on January 1, 2008. The implementation regulations under the EIT Law issued by the PRC State Council became effective January 1, 2008. Under the EIT Law and the implementation regulations, the PRC has adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and has revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that were registered on or before March 16, 2007 and received preferential tax treatments granted by relevant tax authorities prior to January 1, 2008. Some enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the EIT Law. In 2008, our subsidiaries Aohua Medical and Shanghai Medstar each had a preferential income tax rate of 18% that is scheduled to increase to 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. Our other PRC subsidiaries are subject to the tax rate of 25% in 2008.

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

Under the EIT Law, a maximum withholding income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are non-resident enterprises, to the extent such dividends are derived from sources within the PRC, and the State Council has reduced such rate to 10% through the implementation regulations. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our operating subsidiaries located in the PRC. According to the *Double Taxation Arrangement (Hong Kong)*,

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dividends paid to enterprises incorporated in Hong Kong are subject to a withholding tax of 5% provided that a Hong Kong resident enterprise owns no less than 25% of the PRC enterprise distributing the dividend and can be considered as a beneficial owner and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). Thus, dividends paid to us through our Hong Kong subsidiary by our subsidiaries in China may be subject to the 5% income tax if the Cayman Islands holding company and our Hong Kong subsidiary are considered as non-resident enterprises under the EIT Law and our Hong Kong subsidiary is considered to be a beneficial owner and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). If we are required under the EIT Law to pay income tax for any dividends we receive from our subsidiaries, it will materially and adversely affect the amount of dividends, if any, we may pay to our shareholders and ADS holders.

Critical Accounting Policies

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

Revenue

Lease and Management Services. The majority of our revenues are derived directly from hospitals that enter into medical equipment lease and management service arrangements with us. A lease and management service arrangement will typically include the purchase and installation of diagnostic imaging and/or radiation oncology system (medical equipment) at the hospital, and the full-time deployment of a qualified system technician that are responsible for certain management services of managing radiotherapy or diagnostic services such that the hospital and doctors can provide specialized services to their patients. Under lease and management service arrangements with independent hospitals, with terms ranging from six to 20 years in duration, we receive a specified percentage of the net profit of the hospital unit that delivers the diagnostic imaging and/or radiation oncology services determined in accordance with the terms of the arrangement.

We have determined that the lease and management service arrangements contain a lease of medical equipment pursuant to FASB ASC Subtopic 840-10, Leases Overall, or ASC 840-10, (formerly referenced as EITF 01-8, Determining Whether an Arrangement Contains a Lease , or EITF 01-8). The hospital has the ability and the right to operate the medical equipment while obtaining more than a minor amount of the output. The arrangement also contains a non-lease deliverable as the management service element. The arrangement consideration is allocated between the lease element and the non-lease deliverables on a relative fair value basis. FASB ASC 840 Leases, or ASC 840, (formerly referenced as SFAS 13, Accounting for leases , or SFAS 13) is applied to the lease elements of the arrangement and SEC Staff Accounting Bulletin No. 104, or SAB 104, is applied to other elements of the arrangement not within the scope of ASC 840.

Revenues generated by the lease arrangement are based purely on a profit share formula. Certain of the lease and management services arrangements may include a transfer of ownership or bargain purchase option at the end of the lease term. Due to the length of the lease term, the collectibility of these minimum lease payments are not considered predictable and there are important uncertainties regarding the future costs to be incurred by us relating to the arrangement. Therefore, the lessor s additional criteria for capital lease classification in FASB ASC 840-10-25-42 to 840-10-25-44, Leases Overall Recognition Lessors (ASC 840-10-25-42 to ASC 840-10-25-44) (formerly referenced as SFAS 13 par. 8 (a) and (b)) was not met even if any of the ASC 840-10-25-1, Leases

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Overall Recognition General, or ASC 840-10-25-1, (formerly referenced as SFAS 13 par. 7) criteria for capital leases are met. Consequently, we account for all lease arrangements as operating leases. As the collectability of the minimum lease rental is not considered predictable, and the remaining rental is considered contingent, we recognize revenue when the lease payments under the arrangement become due, that is, when the profit share under the arrangement is determined and agreed upon by both parties to the agreement. For the service element of the arrangement, revenue is only considered determinable at the time the payments under the arrangement become due, that is, when the profit share under the arrangement is determined and agreed upon by both parties. Revenue is recognized when determined if all other basic criteria have also been met.

Revenue derived from the lease and management service arrangement is recorded under Lease and management service in the consolidated statements of operations and is recorded net of business tax of 5%

Management Services. To a lesser extent, we provide stand-alone management services to certain hospitals which are already in possession of medical equipment. The fee for the management service arrangement is either based on a contracted percentage of monthly revenue generated by the specified hospital unit (revenue share) or in limited instances on a fixed monthly fee. The consideration that is based on a contracted percentage of revenue is recognized when the monthly fees under the arrangement become due, when the revenue share under the arrangement is determined and agreed upon by both parties to the arrangement. Revenue derived from stand-alone management services is recorded under Management Services in the consolidated statements of operations.

Medical Equipment Sales. Revenues arising from sales of medical equipment and services are recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, collectability is reasonably assured and the delivery of the medical equipment or services has occurred. When the fees associated with an arrangement containing extended payment terms are not considered to be fixed or determinable at the outset of arrangement, revenue is recognized as payments become due, and all of the other criteria above have been met. Pursuant to the application of FASB ASC Subtopic 605-45, Revenue Recognition Principal Agent Consideration, or ASC 605-45, (formerly referenced as EITF 99-19, Reporting Revenue Gross as Principal versus Net as an Agent , or EITF 99-19,) we record revenue related to medical equipment sales on a net basis when the equipment is delivered to the customer and the sales price is determinable. Revenue derived from Medical Equipment sales is recorded under Other in the consolidated statements of operations.

Accounts receivable and allowance for doubtful accounts

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

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired in a business combination. Under FASB ASC 350, Intangibles Goodwill and other, (formerly referenced as Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets , or SFAS 142) goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. We assess goodwill for impairment in accordance with ASC 350 at the reporting unit level. ASC 350 describes the reporting unit as an operating segment or one level below the operating segment, depending on whether certain criteria are met. We determined that we have only one reporting unit and have assigned goodwill to the reporting unit and tested for impairment annually as of December 31.

An impairment loss must be measured if the sum of the expected future undiscounted cash flows from the use and eventual disposition of the asset is less than the net book value of the asset. The amount of the impairment loss will generally be measured as the difference between the net book value of the asset and their estimated fair value. The Company determined it has one reporting unit in which all goodwill was tested for impairment at each reporting period end resulting in no impairment charge.

Acquired Intangible Asset, net

We depreciate and amortize our property, plant and equipment and acquired intangibles over the shorter of their estimated useful lives or contract terms using the straight-line method of accounting of the assets which closely approximates the pattern in which the economic benefits of the asset are consumed. We make estimates of the useful lives in order to determine the amount of depreciation and amortization expense to be recorded during each reporting period. We estimate the useful lives at the time the assets are acquired based on historical experience with similar assets as well as anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, we might shorten the useful lives assigned to these assets, which would result in the recognition of increased depreciation and amortization expense in future periods. There has been no change to the estimated useful lives during the period presented.

We evaluate long-lived assets, including property, plant and equipment and acquired intangibles, which are subject to depreciation and amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We assess recoverability by comparing the carrying amount of an asset to its estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, we recognize an impairment charge based on the amount by which the carrying amount of the asset exceeds the fair value of the asset. We estimate the fair value of the asset based on the best information available, including prices for similar assets and in the absence of an observable market price, the results of using a present value technique to estimate the fair value of the asset.

Share-based Compensation

We account for share-based compensation under FASB ASC 718, or ASC 718, Compensation Stock Compensation (formerly referenced as Statement of Financial Accounting Standards No. 123-R, Share-Based Payment , or SFAS No. 123R). Under ASC 718, the cost of all share-based payment transactions must be recognized in our consolidated financial statements based on their grant-date fair value over the required period, which is generally the period from the date of grant to the date when the share compensation is no longer contingent upon additional service from the employee, or the vesting period. This statement also requires us to adopt a fair value- based method of measuring the compensation expense related to share-based compensation. For options granted to employees, we record share-based compensation expenses for the fair value of the options at the grant date. Currently, consistent with the job functions of the grantees, we categorize these share-based compensation expenses in our general and administrative expenses.

The determination of fair value of equity awards such as options requires making complex and subjective judgments about the projected financial and operating results of the subject company. It also requires making certain assumptions such as cost of capital, general market and macroeconomic conditions, industry trends, comparable companies, share price volatility of the subject company, expected lives of options and discount rates. These assumptions are inherently uncertain. Changes in these assumptions could significantly affect the amount of employee share-based compensation expense we recognize on our consolidated financial statements. We engaged an independent valuation firm to assist us in assessing the fair value of our share options and underlying ordinary shares on a contemporaneous basis.

Changes in our estimates and assumptions regarding the expected volatility of our ordinary shares could significantly impact the estimated fair values of our share options and, as a result, our net income and the net income available to our ordinary shareholders.

Business combinations

We have made a number of acquisitions and may make strategically important acquisitions in the future. When recording an acquisition, we allocate the purchase price of the acquired company to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. With the assistance of a valuation firm, we determined the fair values of identifiable intangible assets, including acquired lease agreements. These valuations require us to make significant estimates and assumptions which include future expected cash flows from the acquired lease agreements, discount rates, and assumptions regarding the period of time the acquired lease agreements, services agreements and customer relationships will continue. Such assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions and estimates.

Assessing the Fair Value of the Company s Shares

Determining the fair value of our ordinary shares also requires making complex and subjective judgments regarding projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of grant. The assumptions used in deriving the fair value of our ordinary shares include: i) there will be no material change in the existing political, legal, technological, fiscal or economic condition of China that may adversely affect our business; ii) the contracts and agreements we entered into will be honored; and iii) our competitive advantages and disadvantages do not change significantly during the period under consideration. These assumptions are inherently uncertain. If different assumptions were used, our share-based compensation expenses, net income and income per share could have been significantly different.

In determining our enterprise value at each measurement date, the independent valuation firm considered the results of both the income approach (discounted cash flow method) and the market approach (guideline company method). There was no significant difference between the enterprise value of our valuation derived using the income approach and the enterprise value derived using the market approach. For the market approach, the independent valuation firm considered the market profile and performance of guideline companies with businesses similar to those of us to derive market multiples and then calculated the following three multiples for the guideline companies: enterprise value to sales multiple, enterprise value to earnings before interest, tax, depreciation and amortization, or EBITDA, multiple and enterprise value to earnings before interest and tax, or EBIT, multiple. Due to the different growth rates, profit margins and risk levels of us and the guideline companies, price multiple adjustments were made.

In the income approach, the value depends on the present worth of future economic benefits to be derived from our projected sales income. Indications of value are developed by discounting projected future net cash flows available for payment of shareholders interest to their present worth at a discount rate that reflects a number of factors, including the current cost of financing and the risk considered inherent in the business. A discount rate represents an estimate of the rate of return required by a third party investor for an investment of this type. The rate of return expected from an investment by an investor relates to the perceived risk of the investment. The calculation of the discount rate is based on the weighted-average cost of capital, or WACC, of the company. The WACC takes into account both the cost of equity and the cost of debt depending on the capital structure of the company. To determine the cost of equity, the independent valuation firm applied the Capital Asset Pricing Model, which takes into account the risk free rates, beta of selected comparable medical equipment leasing companies, market returns in comparative markets in each respective valuation periods and our company specific risks, including business risk, small size risk and country risk. The independent valuation firm determined our company s WACC, which was used a discount rate, of 19% to 22%.

The independent valuation firm also applied a discount for lack of marketability of 17% to 19% in the valuation of our enterprise value between November 2007 and October 2008 to reflect the fact that there is no readily available market for shares in a closely held company like ours. Because ownership interests in closely held companies are typically not readily marketable compared to similar public companies, we believe, a share in a privately held company is usually worth less than an otherwise comparable share in a publicly held company and, therefore, applied a discount for the lack of marketability of the privately held shares. When determining the discount for lack of marketability, the Black-Scholes option model was used. Under option pricing method, the cost of the put option, which can hedge the price change before the privately held shares can be sold, was considered as a basis to determine the discount for lack of marketability. The option pricing method was used because it takes into account certain company-specific factors, including the size of our business and volatility of the share price of comparable companies engaged in the same industry.

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Significant Factors, Assumptions and Methodologies Used in Determining the Fair Value of Series A and B Contingently Redeemable Convertible Preferred Shares, Employee Share Options and Convertible Notes

Because the interest in the equity value of our company includes both contingently redeemable convertible preferred shares and ordinary shares, the fair value of the equity interest is allocated to contingently redeemable convertible preferred shares and ordinary shares using the option-pricing method. Under the option-pricing method, the independent valuation firm treats ordinary shares and contingently redeemable convertible preferred shares as call options on our company s value, with exercise prices based on the value of the liquidation preference of the contingently redeemable convertible preferred shares. Because a call option is used, the Black-Scholes model, which is commonly adopted in the option-pricing method, is applied to price the call option. The independent valuation firm considered various terms of the contingently redeemable convertible preferred shares and ordinary shares, including the level of seniority, dividend policy, conversion ratios, probability of the completion of an IPO, special redemption terms and preferential allocation upon liquidation of the enterprise in the option-pricing method.

We have granted employee share options which are required to be recorded at the fair value of the options measured on the grant date. An independent valuation firm applied a Binomial-Lattice model to estimate the fair value of the share-based awards on the respective grant dates. The Binomial-Lattice model requires certain subjective inputs including the risk-free interest rate, the company s dividend yield, the sub optimal early exercise factor, and the expected volatility range of our ordinary shares. We applied a risk-free rate as relevant to conducting financing activities in China. Our company has not declared dividends since inception and therefore the dividend yield was assessed to be nil. The sub optimal early exercise factor is an estimate that an employee will exercise the share option immediately once the company s underlying share price reaches 1.5 times the exercise price.

The expected volatility of our ordinary shares was based on the price volatility of the shares of comparable companies in the medical equipment leasing business, which are listed and publicly traded over the most recent period, equal to the expected term to expiry of the issued share options. These companies were used for comparative purposes because we did not have a trading history at the time the share options were issued and, therefore, did not have sufficient share price history to calculate our own historical volatility. The selection of such comparable companies is highly subjective. The estimated fair value of our ordinary shares on the date of grant was determined by contemporaneous valuations as of their respective measurement dates, performed by an independent valuation firm.

The Tranche A and Tranche B Convertible Notes, or convertible notes, are accounted for in accordance with FASB ASC 480, Distinguishing Liabilities from Equity, ASC 480 (formerly referenced as SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity or SFAS 150,) as a liability recorded at fair value, because the convertible notes are convertible into Series A Preferred Shares which are redeemable instruments. An independent valuation firm determined the fair value of the convertible notes using the binomial model, which requires the development of a complex model requiring many highly subjective inputs including identifying conditions that lead to specific outcomes and the respective probabilities of achieving those conditions. Some of the conditions that may lead to differences in the fair value of the convertible notes include the underlying value of a Series A contingently redeemable preferred share, the probability of completing an initial public offering, the level of net income earned in 2008, and the value of the underlying debt component.

Internal Control Over Financial Reporting

Prior to this offering, we have been a private company with limited accounting personnel and other resources to address our internal controls and procedures. In connection with the audits of our consolidated financial statements for the period from January 1, 2007 to December 31, 2008, our independent registered public accounting firm identified and communicated to us a material weakness and certain significant and other deficiencies. As a result, there is more than a remote likelihood that a more than inconsequential misstatement of our consolidated financial statements will not be prevented or detected. Specifically, the material weakness identified consists of an ineffective control environment over financial reporting due to (i) an insufficient number of financial reporting personnel with an appropriate level of knowledge, experience and training; (ii) insufficient controls around the establishment and maintenance of an oversight function and communication of internal controls, policies and procedures to support our financial reporting obligations; and (iii) a lack of a comprehensive set of internal control policies and procedures and related controls to monitor the operating effectiveness of these controls. The significant deficiencies identified consist of (i) a lack of a timely formal review process for outstanding accounts receivable; (ii) a lack of a process to document investment proposals and lack of a formal policy for equipment impairment assessment; and (iii) a lack of controls over agreements and contracts with our hospital partners.

Following the identification of the material weakness and the significant and other deficiencies, we are in the process of implementing a number of measures to improve our internal control over financial reporting, including:

- hiring a professional consulting firm to help us to improve internal control in preparation for compliance with the Sarbanes-Oxley Act and other applicable SEC rules and regulations;

- hiring additional qualified personnel with U.S. GAAP expertise and SEC reporting experience to further build an internal finance team and a dedicated internal audit department;

- improving internal control procedures and standards, including compiling an internal accounting policies and procedures manual, and implementing policies as to the inspections and reporting of the medical equipment used in our network of centers;

- enhancing the periodic and systematic physical inspections of the medical equipment used in our network of centers to monitor the working condition of the equipment and to report damages in a timely manner;

- enhancing the management of agreements with our hospital partners and establishing standard policies and procedures governing agreement terms and approval process; and

- conducting accounting and financial reporting training for our existing personnel as part of our commitment to provide ongoing U.S. GAAP trainings to our employees.

In addition, upon the completion of this offering, we will appoint an independent director with extensive knowledge of U.S. GAAP and SEC reporting experience and will establish an audit committee under our board of directors in accordance with the applicable SEC and NYSE requirements to provide adequate independent oversight with respect to our accounting and financial reporting. However, the process of designing and implementing an effective financial reporting system is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to devote significant resources to maintain a financial reporting system that is adequate to satisfy our reporting obligations. The remedial measures that we intend to take may not fully address the material weaknesses or significant and other deficiencies that have been identified by our independent registered public accounting firm, and material weaknesses or significant deficiencies in our internal control over financial reporting may be identified in the future. See Risk Factors   Risks Related to Our Company   We may be unable to establish and maintain an effective system of internal control over financial reporting, and as a result we may be unable to accurately report our financial results or prevent fraud.

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Consolidated Results of Operations

The following table sets forth a summary of our statements of income for the periods indicated.

redecessor eriod from uary 1, 2007 to ber 30, 2007		Concord Medical (Successor) Period from September 10, 2007 to December 31, 2007		Combined Year Ended December 31, 2007		Year Ended December 31, 2008			Concord Medical (Successor) Nine Months End 2008		
B	%	RMB	%	RMB	%	RMB	US$	%	RMB	%	RI
						(in thousands, except for percentages)					
082	93.6	13,001	93.0	76,083	93.5	155,061	22,716	90.3	94,296	92.5	18
340	6.4	982	7.0	5,322	6.5	12,677	1,857	7.4	7,519	7.4	2
						4,051	593	2.3	178	0.1	
422	100.0	13,983	100.0	81,405	100.0	171,789	25,166	100.0	101,993	100.0	20
396)	(30.3)	(1,908)	(13.6)	(22,304)	(27.4)	(25,046)	(3,669)	(14.6)	(14,671)	(14.4)	(4
		(2,002)	(14.3)	(2,002)	(2.5)	(20,497)	(3,003)	(11.9)	(13,671)	(13.4)	(2
(20)	(0.0)	(4)	(0.1)	(24)	(0.0)	(54)	(8)	(0.0)	(19)	(0.0)	
416)	(30.3)	(3,914)	(28.0)	(24,330)	(29.9)	(45,597)	(6,680)	(26.5)	(28,361)	(27.8)	(6
006	69.7	10,069	72.0	57,075	70.1	126,192	18,486	73.5	73,632	72.2	14
601)	(2.4)	(757)	(5.4)	(2,358)	(2.9)	(5,497)	(805)	(3.2)	(3,275)	(3.2)	(
467)	(12.6)	(57,171)	(408.9)	(65,638)	(80.6)	(18,869)	(2,764)	(11.0)	(12,468)	(12.2)	(1
938	54.8	(47,859)	(342.3)	(10,921)	(13.4)	101,826	14,917	59.3	57,889	56.8	11
954)	(1.4)	(279)	(2.0)	(1,233)	(1.5)	(7,455)	(1,092)	(4.3)	(5,293)	(5.2)	(
		(341)	(2.4)	(341)	(0.4)	(464)	(68)	(0.3)	(464)	(0.5)	
		(4)	(0.0)	(4)	(0.0)	(325)	(48)	(0.2)	(13)	(0.0)	

555)	(2.3)	(25)	(0.2)	(1,580)	(1.9)	658	96	0.4	392	0.4	
15	0.0			15	0.0	430	63	0.3	116	0.1	
						7,734	1,133	4.5			
444	51.1	(48,508)	(346.9)	(14,064)	(17.3)	102,404	15,001	59.6	52,627	51.6	11
014)	(22.3)	182	1.3	(14,832)	(18.2)	(23,335)	(3,418)	(13.6)	(12,611)	(12.4)	(2
430	28.8	(48,326)	(345.6)	(28,896)	(35.5)	79,069	11,583	46.0	40,016	39.2	8

(1) Our general and administrative expenses include share-based compensation expenses related to certain share options granted in 2007 that amounted to RMB49.5 million, RMB4.2 million (US$0.6 million) and RMB4.2 million in 2007, 2008 and for the nine months ended September 30, 2008, respectively. We did not recognize any share-based compensation expenses for the nine months ended September 30, 2009.

As a result of our acquisition of China Medstar on July 31, 2008, China Medstar became our consolidated subsidiary and its results of operations from August 2008 to December 31, 2008 have been consolidated in our results of operations for the year ended December 31, 2008. As a result, our results of operations for the year ended December 31, 2008 and for the nine months ended September 30, 2009 are not necessarily comparable to our results of operations for the year ended December 31, 2007 as presented on a combined basis and for the nine months ended September 30, 2008, respectively.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Total Net Revenues. Our total net revenues increased by 101.6% to RMB205.7 million (US$30.1 million) for the nine months ended September 30, 2009 from RMB102.0 million for the same period in 2008 principally as a result of an increase in the number of centers in our network, including the 23 centers added as a result of our acquisition of China Medstar, and an increase in patient cases from existing centers. The increase in our total net revenues was also due to the increase in management services as a result of revenues derived from Chang an Hospital during the nine months ended September 30, 2009 that we did not have during the same period in 2008.

Cost of Revenues. Total cost of revenues increased by 120.5% to RMB62.5 million (US$9.2 million) for the nine months ended September 30, 2009 from RMB28.4 million for the same period in 2008. This increase was due primarily to an increase in our cost of revenues for lease and management services to RMB42.1 million (US$6.2 million) for the nine months ended September 30, 2009 from RMB14.7 million for the same period in 2008. This was a result of an increase in the number of centers in our network principally as a result of our acquisition of China Medstar and the resulting increase in salaries and benefits to additional personnel employed by us and assigned to the centers, as well as other expenses associated with marketing and training activities. The increase in our cost of revenues is also due to an increase in amortization of acquired intangibles to RMB20.4 million (US$3.0 million) from RMB13.7 million as a result of our acquisition of China Medstar in August 2008.

Cost of revenues as a percentage of our total net revenues increased to 30.4% for the nine months ended September 30, 2009 from 27.8% for the same period in 2008. This increase was due primarily to:

- an increase in the number of new centers that are in operation and the higher cost of revenues as a percentage of total net revenues associated with such centers during their ramp-up period; and

- an increase in the number of new centers that offer diagnostic imaging services, which have a higher cost of revenues as a percentage of total net revenues as compared to radiotherapy treatments.

This increase in cost of revenues as a percentage of total net revenues was partially offset by an increase in net revenues derived from centers managed under service-only agreements as a percentage of our total net revenues to 9.8% for the nine months ended September 30, 2009 from 7.4% for the same period in 2008. Centers managed under service-only agreements have a lower cost of revenues as a percentage of total net revenues as compared to centers managed under lease and management services arrangements. This is because we do not purchase the medical equipment used in the centers managed under service-only agreements and, as a result, do not incur the associated equipment depreciation and amortization expenses.

Gross Profit and Gross Margin. As a result of the foregoing, our gross profit increased by 94.4% to RMB143.1 million (US$21.0 million) for the nine months ended September 30, 2009 from RMB73.6 million for the same period in 2008. Our gross margin decreased to 69.6% for the nine months ended September 30, 2009 from 72.2% for the same period in 2008.

Operating Expenses. Our operating expenses increased by 53.4% to RMB24.2 million (US$3.5 million) for the nine months ended September 30, 2009 from RMB15.7 million for the same period in 2008 due primarily to an increase in salaries and benefits payment associated with an increased headcount primarily as a result of our acquisition of China Medstar. Operating expenses as a percentage of our total net revenues decreased to 11.7% for the nine months ended September 30, 2009 from 15.4% for the same period in 2008 due primarily to increased economies of scale.

Selling Expenses. Our selling expenses increased by 36.3% to RMB4.5 million (US$0.6 million) for the nine months ended September 30, 2009 from RMB3.3 million for the same period in 2008. This increase in our selling expenses was due primarily to an increase in salaries and benefits payment associated with an increased headcount as a result of our acquisition of China Medstar, an increase in marketing expenses and salaries and benefits payment in connection with an increase in our business development efforts for the nine months ended September 30, 2009 as compared to the same period in 2008 to increase the number of new centers and for the development of specialty cancer hospitals. Selling expenses as a percentage of our total net revenues decreased to 2.1% for the nine months ended September 30, 2009 from 3.2% for the same period in 2008. This was due primarily to increased economies of scale.

General and Administrative Expenses. Our general and administrative expenses increased by 57.9% to RMB19.7 million (US$2.9 million) for the nine months ended September 30, 2009 from RMB12.5 million for the same period in 2008. This increase was due primarily to increases in salaries and benefits payment in connection with the increased headcount of our personnel and their travel related expenses principally as a result of our acquisition of China Medstar and also in connection with the continued expansion of our business. Our general and administrative expenses include charges of RMB4.2 million for the nine months ended September 30, 2008 related to share-based compensation. General and administrative expenses as a percentage of our total net revenues decreased to 9.6% for the nine months ended September 30, 2009 from 12.2% for the same period in 2008. This was due primarily to share-based compensation expenses that were incurred during the nine months ended September 30, 2008 that we did not incur for the same period in 2009. On November 27, 2009, we granted options to purchase pursuant to our 2008 share incentive plan an aggregate of 4,765,800 ordinary shares to our executive officers, directors and other employees. Consequently, we expect to start recording share-based compensation expense associated with this grant commencing in the quarter ending December 31, 2009.

Operating Income. As a result of the foregoing, our operating income increased by 105.5% to RMB119.0 million (US$17.4 million) for the nine months ended September 30, 2009 from RMB57.9 million for the same period in 2008. Operating margin increased to 57.9% for the nine months ended September 30, 2009 from 56.8% for the same period in 2008.

Interest Expense. Our interest expense decreased by 7.8% to RMB4.9 million (US$0.7 million) for the nine months ended September 30, 2009 from RMB5.3 million for the same period in 2008. This decrease was due primarily to a decrease in interest rate on our borrowings for the nine months ended September 30, 2009 from the same period in 2008.

Change in Fair Value of Convertible Notes. We recorded a gain of RMB0.5 million from change in fair value of convertible notes for the nine months ended September 30, 2008. As all convertible notes were converted into our Series A contingently redeemable preferred shares in 2008, we did not record such gain for the nine months ended September 30, 2009.

Foreign Exchange Loss. Our foreign exchange loss increased by 1,576.9% to RMB0.2 million (US$32,000) for the nine months ended September 30, 2009 from RMB13,000 for the same period in 2008. This was due primarily to depreciation of our cash balances held in U.S. dollars against the Renminbi.

Gain from Disposal of Equipment. We recorded a gain of RMB0.4 million from the disposal of equipment for the nine months ended September 30, 2008 while we did not dispose of any equipment for the same period in 2009.

Interest Income. Our interest income increased by 609.5% to RMB0.8 million (US$0.1 million) for the nine months ended September 30, 2009 from RMB0.1 million for the same period in 2008. This increase was due primarily to an increase in cash balances during the nine months ended September 30, 2009 as compared to the same period in 2008 primarily as a result of proceeds received from the issuance of our Series B contingently convertible preferred shares in October 2008.

Income Tax Expense. Our income tax expense increased by 104.1% to RMB25.7 million (US$3.8 million) for the nine months ended September 30, 2009 from RMB12.6 million for the same period in 2008. This increase was due primarily to increase in our taxable profits and to a lesser extent, a higher effective enterprise income tax rate for the nine months ended September 30, 2009 as compared to the same period in 2008.

Net Income and Net Margin. As a result of the foregoing, our net income increased by 122.3% to RMB89.0 million (US$13.0 million) for the nine months ended September 30, 2009 from RMB40.0 million for the same period in 2008. Net margin increased to 43.3% for the nine months ended September 30, 2009 from 39.2% for the same period in 2008.

The Year Ended December 31, 2008 (Successor Period) Compared to the Period From January 1, 2007 to October 30, 2007 (Predecessor Period) and the Period from September 10, 2007 to December 31, 2007 (Successor Period)

Total Net Revenues. Our total net revenues were RMB171.8 million (US$25.2 million) in 2008. Our total net revenues from leasing and management services were RMB155.1 million (US$22.7 million) in 2008, which accounted for approximately 37.6% of the total medical service fees received in our network of centers in 2008. Our total net revenues were RMB67.4 million for the period from January 1, 2007 to October 30, 2007 and RMB14.0 million for the period from September 10, 2007 to December 31, 2007.

In 2008, our total net revenues increased due to the addition of China Medstar s network of 23 centers that became consolidated in our results of operations from August 2008 onwards, the revenue contribution from the additional centers established by us during 2008 and an increase in patient cases for existing centers.

Our total net revenues also increased due to additional revenue from management services provided under service-only agreements as a result of an increase in the number of patients at centers managed under service-only agreements and revenue derived from Chang an Hospital that we began to manage in 2008. Total net revenues derived from our management services increased from 6.4% for the period from January 1, 2007 to October 30, 2007, to 7.0% for the period from September 10, 2007 to December 31, 2007 and to 7.4% in 2008.

Cost of Revenues. Our cost of revenues was RMB45.6 million (US$6.7 million) in 2008. Our cost of revenues was RMB20.4 million for the period from January 1, 2007 to October 30, 2007 and RMB3.9 million for the period from September 10, 2007 to December 31, 2007. Our cost of revenue as a percentage of total net revenues was 26.5% in 2008. Our cost of revenues as a percentage of total net revenues was 30.3% for the period from January 1, 2007 to October 30, 2007 and 28.0% for the period from September 10, 2007 to December 31, 2007. Our cost of revenue as a percentage of our total net revenues for the period from September 10, 2007 to December 31, 2007 and in 2008 was affected by the downward purchase price adjustment to the fair value of the medical equipment used in our network of centers and a decrease in depreciation expenses as a result, which was partially offset by the increase in amortization of acquired intangibles. Our cost of revenues as a percentage of total net revenues is also affected by the increase in net revenues derived from service-only agreements as a percentage of our total revenue. Service-only agreements do not require us to the purchase medical equipment and, as a result, we do not incur the associated depreciation expenses for the medical equipment used in centers that we manage under service-only agreements, resulting in a lower cost of revenues as a percentage of total net revenues.

Gross Profit and Gross Margin. As a result of the foregoing, our gross profit was RMB126.2 million (US$18.5 million) in 2008. Our gross profit was RMB47.0 million for the period from January 1, 2007 to October 30, 2007 and RMB10.1 million for the period from September 10, 2007 to December 31, 2007. Our gross margin was 73.5% in 2008. Our gross margin was 69.7% for the period from January 1, 2007 to October 30, 2007 and 72.0% for the period from September 10, 2007 to December 31, 2007.

Operating Expenses. Our operating expenses were RMB24.4 million (US$3.6 million) in 2008. Our operating expenses were RMB10.1 million for the period from January 1, 2007 to October 30, 2007 and RMB57.9 million for the period from September 10, 2007 to December 31, 2007. Our operating expenses as a percentage of total net revenues were 14.2% in 2008. Our operating expenses as a percentage of total net revenues were 14.9% for the period from January 1, 2007 to October 30, 2007 and 414.3% for the period from September 10, 2007 to December 31, 2007.

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Selling Expenses. Our selling expenses were RMB5.5 million (US$0.8 million) in 2008. Our selling expenses were RMB1.6 million for the period from January 1, 2007 to October 30, 2007 and RMB0.8 million for the period from September 10, 2007 to December 31, 2007. Our selling expenses as a percentage of total net revenues were 3.2% in 2008. Our selling expenses as a percentage of total net revenues were 2.4% for the period from January 1, 2007 to October 30, 2007 and 5.4% for the period from September 10, 2007 to December 31, 2007.

General and Administrative Expenses. Our general and administrative expenses were RMB18.9 million (US$2.8 million) in 2008. Our general and administrative expenses were RMB8.5 million for the period from January 1, 2007 to October 30, 2007 and RMB57.2 million for the period from September 10, 2007 to December 31, 2007. Our general and administrative expenses as a percentage of total net revenues were 11.0% in 2008. Our general and administrative expenses as a percentage of total net revenues were 12.6% for the period from January 1, 2007 to October 30, 2007 and 408.9% for the period from September 10, 2007 to December 31, 2007. The general and administrative expenses for the period from September 10, 2007 to December 31, 2007 were affected by the share-based compensation expenses from the grant of certain OMS share options, which amounted to RMB49.5 million. The general and administrative expenses in 2008 were also affected by the share-based compensation expenses that amounted to RMB4.2 million (US$0.6 million) from the transfer of vested options of certain OMS share options to three of our executive directors.

Operating (Loss) Income. As a result of the foregoing, our operating income was RMB101.8 million (US$14.9 million) in 2008. Our operating income was RMB36.9 million for the period from January 1, 2007 to October 30, 2007 and we had an operating loss of RMB47.9 million for the period from September 10, 2007 to December 31, 2007.

Interest Expense. Our interest expenses was RMB7.5 million (US$1.1 million) in 2008. Our interest expenses was RMB1.0 million for the period from January 1, 2007 to October 30, 2007 and RMB0.3 million for the period from September 10, 2007 to December 31, 2007.

Change in Fair Value of Convertible Notes. We recorded a loss from change in fair value of convertible notes of RMB0.5 million (US$68,000) in 2008. We recorded a loss from change in fair value of convertible notes was RMB0.3 million for the period from September 10, 2007 to December 31, 2007 while we did not record such loss for the period from January 1, 2007 to October 30, 2007.

Foreign Exchange Loss. Our foreign exchanges loss was RMB0.3 million (US$48,000) in 2008. Our foreign exchange loss was RMB4,000 for the period from September 10, 2007 to December 31, 2007 while we did not record any foreign exchange loss for the period from January 1, 2007 to October 30, 2007.

(Loss) Gain from Disposal of Equipment. Our gain from disposal of equipment under capital lease was RMB0.7 million (US$0.1 million) in 2008. Our loss from disposal of equipment under capital lease was RMB1.6 million for the period from January 1, 2007 to October 30, 2007 and was RMB25,000 for the period from September 10, 2007 to December 31, 2007.

Interest Income. Our interest income was RMB0.4 million (US$63,000) in 2008. Our interest income was RMB15,000 for the period from January 1, 2007 to October 30, 2007 while we did not record such income for the period from September 10, 2007 to December 31, 2007.

Other Income. We had other income of RMB7.7 million (US$1.1 million) in 2008 that was the result of restitution payments from certain employees and former employees related to the return of corporate funds that they had misappropriated.

Income Tax Expense. Our income tax expense was RMB23.3 million (US$3.4 million) in 2008. Our income tax expense was RMB15.0 million for the period from January 1, 2007 to October 30, 2007 and our income tax benefit was RMB0.2 million for the period from September 10, 2007 to December 31, 2007.

Net (Loss) Income and Net Margin. As a result of the foregoing, our net income was RMB79.1 million (US$11.6 million) in 2008. Our net income was RMB19.4 million for the period from January 1, 2007 to

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October 30, 2007 and our net loss was RMB48.3 million for the period from September 10, 2007 to December 31, 2007.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007 on a Combined Basis

Total Net Revenues. Our total net revenues increased by 111.1% to RMB171.8 million (US$25.2 million) in 2008 from RMB81.4 million in 2007. This increase was due primarily to the increase in lease and management services revenues which was a result of 23 centers of China Medstar that are consolidated in our results of operations from August 2008, seven new centers that we established in 2008 and an increase in patient cases from existing centers. The increase in our total net revenues was also due to the increase in an increase in the number of patients for centers managed under service-only agreements and revenues derived from Chang an Hospital that we began to manage in 2008.

Cost of Revenues. Total cost of revenues increased by 87.7% to RMB45.6 million (US$6.7 million) in 2008 from RMB24.3 million in 2007. This increase in our cost of revenues was due primarily to an increase in amortization of acquired intangibles to RMB20.5 million (US$3.0 million) from RMB2.0 million as a result of the OMS reorganization, our acquisition of China Medstar in 2008 and an increase in the number of centers in our network from 2007 to 2008, which has resulted in an increase in salaries and benefits to additional personnel employed by us and assigned to the centers and other expenses associated with marketing and training activities. Cost of revenues as a percentage of our total net revenues decreased to 26.5% in 2008 from 29.9% in 2007. This decrease was due primarily to:

- the downward purchase price adjustment to the fair value of the medical equipment used in our network of centers and a decrease in depreciation expenses as a result;
- an increase in net revenues derived from centers managed under service-only agreements as a percentage of our total net revenues to 7.4% in 2008 from 6.5% in 2007. Centers managed under service-only agreements have a lower cost of revenues as a percentage of total net revenues as compared to centers managed under lease and management services arrangements. This is because we do not purchase the medical equipment used in the centers managed under service-only agreements and, as a result, do not incur the associated equipment depreciation expenses; and
- our acquisition of China Medstar, which had a lower cost of revenues as a percentage of total net revenues as compared to our company. This was because of the higher cost of certain of our installed medical equipment as compared to the cost of China Medstar s medical equipment, which had a higher depreciation expenses.

Gross Profit and Gross Margin. As a result of the foregoing, our gross profit increased by 121.1% to RMB126.2 million (US$18.5 million) in 2008 from RMB57.1 million in 2007. Our gross margin increased to 73.5% in 2008 from 70.1% in 2007.

Operating Expenses. Our operating expenses decreased by 64.1% to RMB24.4 million (US$3.6 million) in 2008 from RMB68.0 million in 2007 due primarily to a significant decrease in our general and administrative expenses as a result of a decrease in share-based compensation expenses in 2008 as compared to 2007. Operating expenses as a percentage of our total net revenues decreased to 14.2% in 2008 from 83.5% in 2007 due primarily to a decrease in share-based compensation expenses in 2008 as compared to 2007.

Selling Expenses. Our selling expenses increased by 129.2% to RMB5.5 million (US$0.8 million) in 2008 from RMB2.4 million in 2007. This increase in our selling expenses was due primarily to an increase in marketing expenses and salaries and benefits payment in connection with an increase in our business development efforts in 2008 as compared to 2007 to increase the number of new centers and for the development of specialty cancer hospitals. Selling expenses as a percentage of our total net revenues in 2008 remained in line with 2007 and increased slightly to 3.2% in 2008 from 2.9% in 2007.

General and Administrative Expenses. Our general and administrative expenses decreased by 71.2% to RMB18.9 million (US$2.8 million) in 2008 from RMB65.6 million in 2007. Our general and administrative expenses include charges of RMB4.2 million (US$0.6 million) and RMB49.5 million in 2008 and 2007, respectively, related to share-based compensation. Our general and administrative expenses, not including the share-based compensation expenses, have also increased in 2008 from 2007, which was due primarily to increases in salaries and benefits payments in connection with the increased headcount of our personnel as well as their travel related expenses.

Operating Income (Loss). As a result of the foregoing, we had operating income of RMB101.8 million (US$14.9 million) in 2008 as compared to an operating loss of RMB10.9 million in 2007. Operating margin in 2008 was 59.3% as compared to a negative 13.4% in 2007.

Interest Expense. Our interest expense increased by 525.0% to RMB7.5 million (US$1.1 million) in 2008 from RMB1.2 million in 2007. This increase was due primarily to increased bank borrowings in 2008 and the increase in the average balance of convertible notes that were outstanding during 2008 as compared to 2007.

Change in Fair Value of Convertible Notes. Loss from change in fair value of convertible notes we recorded increased by 36.1% to RMB0.5 million (US$68,000) in 2008 from RMB0.3 million in 2007.

Foreign Exchange Loss. Our foreign exchange loss increased by 8,025.0% to RMB0.3 million (US$48,000) in 2008 from RMB4,000 in 2007. This increase was due primarily to an increase in average foreign currency balance in 2008 as compared to 2007.

(Loss) Gain from Disposal of Equipment. We recorded a gain of RMB0.7 million (US$0.1 million) from the disposal of equipment in 2008 while we incurred a loss of RMB1.6 million from the disposal of equipment in 2007.

Interest Income. Our interest income increased by 2,766.7% to RMB0.4 million in 2008 from RMB15,000 in 2007. This increase was due primarily to an increase in cash balances in 2008 as compared to 2007.

Other Income. We had other income of RMB7.7 million (US$1.1 million) in 2008 that was the result of restitution payments from certain employees and former employees related to the return of corporate funds that they had misappropriated. We did not record such other income in 2007.

Income Tax Expense. Our income tax expense increased by 57.3% to RMB23.3 million (US$3.4 million) in 2008 from RMB14.8 million in 2007. This increase was due primarily to increase in our taxable profits and higher effective enterprise income tax rate in 2008 as compared to 2007.

Net (Loss) Income and Net Margin. As a result of the foregoing, our net income was RMB79.1 million (US$11.6 million) in 2008 as compared to a net loss of RMB28.9 million in 2007. Net margin was 46.0% 2008 as compared to negative 35.5% in 2007.

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Selected Quarterly Results

The following table sets forth our unaudited consolidated quarterly results for the seven quarters ended September 30, 2009. You should read the following table in conjunction with our audited consolidated financial statements and related notes contained elsewhere in this prospectus. The consolidated quarterly results information includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented. These quarterly operating results are not indicative of results that may be expected for any future quarters or for a full year.

	For the Three Months Ended						
	March 31, 2008	June 30, 2008	September. 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009
	(in RMB thousands)						
Revenues, net of business tax, value-added tax and related surcharges:							
Lease and management services	20,672	23,813	49,811	60,765	47,349	66,696	70,892
Management services	2,013	2,751	2,755	5,158	8,323	5,084	6,689
Other, net			178	3,873	79	137	408
Total net revenues	22,685	26,564	52,744	69,796	55,751	71,917	77,989
Cost of revenues:							
Lease and management services	(3,092)	(3,335)	(8,244)	(10,375)	(11,171)	(15,270)	(15,703)
Amortization of acquired intangible assets	(4,008)	(4,008)	(5,655)	(6,826)	(6,882)	(6,882)	(6,624)
Management services	(7)	(7)	(5)	(35)	(3)	(4)	(2)
Total cost of revenues	(7,107)	(7,350)	(13,904)	(17,236)	(18,056)	(22,156)	(22,329)
Gross profit	15,578	19,214	38,840	52,560	37,695	49,761	55,660
Operating expenses:							
Selling expenses	(799)	(1,053)	(1,423)	(2,222)	(1,316)	(1,671)	(1,476)
General and administrative expenses	(2,407)	(2,742)	(7,319)	(6,401)	(5,754)	(5,722)	(8,211)
Operating income	12,372	15,419	30,098	43,937	30,625	42,368	45,973
Interest expense	(1,006)	(1,732)	(2,555)	(2,162)	(1,638)	(1,571)	(1,671)
Change in fair value of convertible notes	(883)	1,297	(878)				
Foreign exchange (loss) income	(76)	109	(46)	(312)	(663)	542	(97)
Gain from disposal of equipment		127	265	266			
Interest income	3	52	61	314	224	423	176
Other income				7,734			

Income before income taxes	10,410	15,272	26,945	49,777	28,548	41,762	44,381
Income tax expenses	(3,062)	(3,651)	(5,898)	(10,724)	(6,709)	(8,826)	(10,199)
Net income	7,348	11,621	21,047	39,053	21,839	32,936	34,182

The following table sets forth our unaudited consolidated selected quarterly results, as a percentage of our total net revenues, for the seven quarters ended September 30, 2009.

	For the Three Months Ended						
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009
Revenues, net of business tax, value-added tax and related surcharges:							
Lease and management services	91.1%	89.6%	94.4%	87.1%	84.9%	92.7%	90.9%
Management services	8.9	10.4	5.2	7.4	15.1	7.1	8.6
Other, net			0.4	5.5		0.2	0.5
Total net revenues	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of revenues:							
Lease and management services	(13.6)	(12.6)	(15.6)	(14.9)	(20.0)	(21.2)	(20.1)
Amortization of acquired intangible assets	(17.7)	(15.1)	(10.8)	(9.7)	(12.4)	(9.6)	(8.5)
Management services				(0.1)			
Total cost of revenues	(31.3)	(27.7)	(26.4)	(24.7)	(32.4)	(30.8)	(28.6)
Gross profit	68.7	72.3	73.6	75.3	67.6	69.2	71.4
Operating expenses:							
Selling expenses	(3.5)	(4.0)	(2.7)	(3.2)	(2.4)	(2.3)	(1.9)
General and administrative expenses	(10.6)	(10.3)	(13.8)	(9.2)	(10.3)	(8.0)	(10.6)
Operating income	54.6	58.0	57.1	62.9	54.9	58.9	58.9
Interest expense	(4.4)	(6.5)	(4.8)	(3.1)	(2.9)	(2.2)	(2.1)
Change in fair value of convertible notes	(3.9)	4.9	(1.7)	(0.1)			
Foreign exchange (loss) income	(0.3)	0.4	(0.1)	(0.4)	(1.2)	0.8	(0.1)
Gain from disposal of equipment		0.5	0.5	0.4			
Interest income		0.2	0.1	0.5	0.4	0.6	0.2
Other income				11.1			
Income before income taxes	46.0	57.5	51.1	71.3	51.2	58.1	56.9
Income tax expenses	(13.5)	(13.8)	(11.2)	(15.3)	(12.0)	(12.3)	(13.1)
Net income	32.5	43.7	39.9	56.0	39.2	45.8	43.8

Our business is subject to seasonality factors that have resulted in fluctuations in our total net revenues and net income in the seven quarters ended September 30, 2009. Our network of centers typically treats fewer patients during the first quarter as compared to other quarters as a result of the Chinese New Year holidays in the first quarter of every year. Patients typically choose not to undergo radiotherapy treatment or receive diagnostic imaging services during holidays. We believe that our revenues will continue to be affected in the future by the seasonality of our business. Our business is also subject to the effect of acquisitions. We experienced a significant increase in our total net revenues and results of operations in the three months ended December 31, 2008, which was primarily the result of our acquisition of China Medstar that added 23 centers into our network of centers. We plan to continue the expansion of our network of centers through selective strategic acquisitions in the future, and therefore our results in future quarters may be materially impacted.

Our cost of revenues varies from quarter to quarter and does not necessarily correspond to changes in our total net revenues. Our cost of revenues are primarily comprised of depreciation and amortization expenses associated with the costs of the medical equipment and our acquired intangible assets, which are not necessarily indicative of the performance of our network of centers during the relevant quarter.

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Liquidity and Capital Resources

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

	Predecessor	Concord Medical (Successor)					
	Period from January 1, 2007 to October 30, 2007	Period from September 10, 2007 to December 31, 2007	Year Ended December 31,		Nine Months Ended September 30,		
			2008	2008	2008	2009	
	RMB	RMB	RMB	US$	RMB	RMB	US$
			(in thousands)				
Net cash generated from operating activities	44,593	6,103	46,774	6,852	27,370	104,500	15,308
Net cash used in investing activities	(50,452)	(30,441)	(376,371)	(55,136)	(300,692)	(223,426)	(32,731)
Net cash generated from financing activities	6,020	63,225	649,494	95,147	278,407	50,829	7,448
Exchange rate effect on cash		138	(5,698)	(834)	(5,949)	(191)	(29)
Net increase (decrease) in cash	161	39,025	314,199	46,029	(864)	(68,288)	(10,004)
Cash at beginning of the period/year	606	767	39,792	5,829	39,792	353,991	51,858
Cash at end of the period/year	767	39,792	353,991	51,858	38,928	285,703	41,854

To date, we have financed our operations primarily through cash flows from operations and short- and long-term bank borrowings, as well as the issuance of convertible notes and contingently redeemable convertible preferred shares. As of December 31, 2007 and 2008 and as of September 30, 2009, we had RMB39.8 million, RMB354.0 million (US$51.9 million) and RMB285.7 million (US$41.9 million) in cash, respectively. As of September 30, 2009, we had RMB30.0 million (US$4.4 million) in short-term borrowings outstanding and RMB149.8 million (US$21.9 million) in long-term borrowings outstanding, including the current portion of such long-term borrowings outstanding. As of December 31, 2008, we had RMB20.8 million (US$3.0 million) in short-term bank borrowings outstanding and RMB92.0 million (US$13.5 million) in long-term bank borrowings outstanding, including the current portion of such long-term borrowings outstanding. We did not have any short-term and long-term bank borrowings outstanding as of December 31, 2007. Our cash primarily consists of cash on hand and bank deposits.

On November 17, 2009, we entered into a framework strategic cooperation agreement with China Construction Bank Company Limited, Shenzhen Branch, or CCB Shenzhen. Under the agreement, subject to compliance by CCB Shenzhen with relevant laws and regulations, credit approval by CCB Shenzhen and the negotiation and signing of definitive loan agreements, CCB Shenzhen intends to grant us credit facilities up to an amount equivalent to RMB1.5 billion (US$219.7 million), either in RMB or in foreign currencies, over the course of the next three years to support our development. The credit facilities may be in the form of, among others, working capital loans, fixed asset project loans, bridge loans or guarantees. No assurance can be given that any portion of such credit facilities will be eventually granted to us as currently contemplated in this agreement or at all.

Operating Activities

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

Net cash generated from operating activities increased by 281.8% to RMB104.5 million (US$15.3 million) for the nine months ended September 30, 2009 from RMB27.4 million for the same period in 2008. Net cash generated from operating activities for the nine months ended September 30, 2009 was due primarily to cash received from an increased number of hospital partners which, in turn, was primarily a result of our acquisition of China Medstar. This increase was partially offset by an increase in accounts receivable and a decrease in accrued expenses and other liabilities.

Net cash generated from operating activities in 2008 was RMB46.8 million (US$6.9 million). Net cash generated from operating activities was due primarily to cash received from our hospital partners, which was partially offset by deposits made by us that amounted to RMB15.0 million (US$2.2 million) to Chang an Hospital as performance guarantee, a decrease in accounts payable that amounted to RMB20.2 million (US$3.0 million) and an increase in accounts receivable that amounted to RMB19.3 million (US$2.8 million).

Net cash generated from operating activities for the period from September 10, 2007 to December 31, 2007 was RMB6.1 million. Net cash generated from operating activities was due primarily to an increase in accrued expenses and other liabilities that amounted to RMB2.0 million and a decrease in advance made to a hospital of RMB2.7 million.

Net cash generated from operating activities for the period from January 1, 2007 to October 30, 2007 was RMB44.6 million. Net cash generated from operating activities was due primarily to cash received from our hospital partners and an increase in accrued expenses and other liabilities of RMB4.1 million, which was partially offset by an increase in accounts receivable of RMB5.4 million and an increase in prepayments and other current assets of RMB4.8 million.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2009 was RMB223.4 million (US$32.7 million). Net cash used in investing activities for the nine months ended September 30, 2009 was due primarily to (i) deposits paid for the purchase of medical equipment for new centers that amounted to RMB116.1 million (US$17.0 million), (ii) the purchase of medical equipment for new centers (including the purchase from Chang an Hospital of the six units of radiotherapy and diagnostic imaging equipment) that amounted to RMB74.0 million (US$10.8 million) and (iii) the payment of the remaining acquisition consideration for Xing Heng Feng Medical and certain other business of RMB21.5 million (US$3.2 million).

Net cash used in investing activities in 2008 was RMB376.4 million (US$55.1 million). Net cash used in investing activities in 2008 was due primarily to our acquisitions of China Medstar, Xing Heng Feng Medical and certain other businesses to expand our network that amounted to RMB231.5 million (US$33.9 million), deposits paid for the purchase of medical equipment for new centers that amounted to RMB95.1 million (US$13.9 million) and the purchase of medical equipment for new centers that amounted to RMB31.6 million (US$4.6 million).

Net cash used in investing activities for the period from September 10, 2007 to December 31, 2007 was RMB30.4 million. Net cash used in investing activities for the period was due primarily to the purchase of medical equipment for new centers that amounted to RMB22.5 million and the deposits paid for the purchase of medical equipment for new centers that amounted to RMB13.6 million.

Net cash used in investing activities for the period from January 1, 2007 to October 30, 2007 was RMB50.5 million. Net cash used in investing activities for the period was due primarily to the purchase of medical equipment for new centers that amounted to RMB43.4 million and the deposits paid for the purchase of medical equipment for new centers that amounted to RMB13.0 million.

Financing Activities

Net cash generated from financing activities for the nine months ended September 30, 2009 was RMB50.8 million (US$7.4 million). Net cash generated from financing activities for the nine months ended September 30, 2009 was due primarily to the proceeds from long-term bank borrowings of RMB128.8 million (US$18.9 million) and the proceeds from short-term bank borrowings of RMB19.0 million (US$2.8 million), which were partially offset by the repayment of long-term bank borrowings of RMB70.9 million (US$10.4 million), the repayment of short-term bank borrowings of RMB9.8 million (US$1.4 million) and an increase in restricted cash of RMB7.2 million (US$1.1 million).

Net cash generated from financing activities in 2008 was RMB649.5 million (US$95.1 million). Net cash generated from financing activities in 2008 was due primarily to proceeds received from the issuance of our Series A and Series B contingently redeemable convertible preferred shares and convertible notes that amounted to RMB613.2 million (US$89.8 million), proceeds received from the exercise of share options that amounted to RMB114.6 million (US$16.8 million) and proceeds from short-term bank borrowings of RMB20.8 million

(US$3.0 million), which was partially offset by repayments of loans from certain related parties that amounted to RMB41.7 million (US$6.1 million), the repayment of long-term bank borrowings of RMB37.9 million (US$5.6 million) and the repayment of short-term bank borrowings of RMB21.5 million (US$3.1 million).

Net cash generated from financing activities for the period from September 10, 2007 to December 31, 2007 was RMB63.2 million. Net cash generated from financing activities for the period was due primarily to proceeds received from the issuance of our convertible notes that amounted to RMB36.5 million and loan received from certain shareholders that amounted to RMB32.4 million.

Net cash generated from financing activities for the period from January 1, 2007 to October 30, 2007 was RMB6.0 million. Net cash generated from financing activities for the period was due primarily to loan received from certain shareholders that amounted to RMB6.8 million which was partially offset by repayment of obligations under capitalized leases of RMB0.8 million.

Acquisitions and Capital Expenditures

In July 2008, we acquired China Medstar for £17.1 million, or approximately RMB238.7 million (US$35.0 million) in cash. The transaction was accepted by the shareholders of China Medstar and closed on July 31, 2008.

We also acquired control of Xing Heng Feng Medical in October 2008 for total consideration of RMB35.0 million (US$5.1 million). As of December 31, 2008, RMB18.0 million (US$2.6 million) of the acquisition consideration was still payable which was subsequently paid in January 2009.

We also acquired certain other businesses related to radiotherapy and diagnostic imaging centers managed by third parties for total consideration of RMB14.0 million (US$2.0 million). As of September 30, 2009, the acquisition consideration of RMB6.5 million (US$1.0 million) was still payable. We expect to pay the remaining RMB6.5 million (US$1.0 million) before the end of 2009.

In 2007 and 2008 and for the nine months ended September 30, 2009, our capital expenditures totaled RMB65.9 million, RMB31.6 million (US$4.6 million) and RMB74.0 million (US$10.8 million), respectively. In past years, our capital expenditures related primarily to the purchase of medical equipment and the acquisition of assets from third parties. Capital expenditure decreased in 2008 as compared to 2007 due to our expansion of our network through the acquisitions of China Medstar, Xing Heng Feng Medical and other businesses in 2008. In August 2009, we purchased from Chang an Hospital the six units of radiotherapy and diagnostic imaging equipment that were located at the six centers that we previously managed under service-only agreements with Chang an Hospital. The total agreed upon consideration for such equipment was approximately RMB72.7 million (US$10.7 million), of which RMB50.0 million (US$7.3 million) was paid as of September 30, 2009. We paid an additional RMB20.0 million (US$2.9 million) of the consideration in October 2009 and we expect to pay the remaining RMB2.7 million (US$0.5 million) before the end of 2009. We subsequently entered into a long-term lease and management services arrangement with Chang an Hospital pursuant to which we leased these six units of equipment to Chang an Hospital. Two of the six units of equipment were combined into one center and we provide lease and management services to the five remaining centers in which these six units of equipment are located. We estimate that our aggregate capital expenditures for the balance of 2009 and in 2010 will be approximately RMB1,200.0 million (US$175.8 million), which we will use mainly for the continued expansion of our network, including for the purchase of medical equipment and for the establishment of our specialty cancer hospitals.

We believe that our current levels of cash and cash flows from operations, combined with the net proceeds from this offering and bank loans of approximately RMB190.0 million (US$27.8 million) that we expect to obtain in 2010 to fund the development of our specialty cancer hospitals, will be sufficient to meet our anticipated cash needs for at least the next 12 months following this offering. However, we may need additional cash resources in the future if we experience changed business conditions or other developments or if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If we ever determine that our cash requirements exceed our amounts of cash on hand, we may seek to issue debt or equity securities or obtain a credit facility. Any issuance of equity or equity-linked securities could cause dilution for our shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and finance covenants. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all.

Contractual Obligations

The following table sets forth our contractual obligations at December 31, 2008:

	Contractual Obligations				
	Less Than 1 Year RMB	1-3 Year RMB	3-5 Year RMB	More Than 5 Years RMB	Total RMB
			(in thousands)		
Short-term debt obligations	20,800				20,800
Long-term debt obligations	39,840	52,120			91,960
Capital lease obligations	5,084	7,562	6,392		19,038
Operating lease obligations	2,700	2,703	1,144		6,547
Purchase obligations	115,919				115,919
Total	184,343	62,385	7,536		254,264

Our short- and long-term debt obligations as of December 31, 2008 represent bank borrowings obtained by our subsidiary Shanghai Medstar. All such borrowings were entered into with the Agricultural Bank of China and are secured by medical equipment under capital lease. Our short-term bank borrowing outstanding as of December 31, 2008 had a weighted average interest rate of 6.66% per annum. Our long-term bank borrowing outstanding as of December 31, 2008 had a weighted average interest rate of 7.47% per annum.

As of September 30, 2009, we had RMB30.0 million (US$4.4 million) in short-term borrowings outstanding and RMB149.8 million (US$21.9 million) in long-term borrowings outstanding, including the current portion of such long-term borrowings outstanding. Our short-term borrowing bore a weighted average interest of 5.07% per annum and our long-term borrowings bore a weighted average interest of 5.18% per annum.

Shanghai Medstar entered into three additional long-term borrowing arrangements with the Agricultural Bank of China with a total amount of RMB53.8 million (US$7.9 million), all with a term to maturity of three years. These long-term borrowing arrangements each has a variable annual interest rate equal to 90% of the benchmark lending rate of the People s Bank of China adjusted every three months. Shanghai Medstar is required to make monthly payments beginning in October 2009 in an amount equal to RMB170,000 (US$24,900) and a final payment of RMB50,000 (US$7,300) at maturity related to one of the borrowings and monthly payments beginning in November 2009 in an amount equal to RMB1.2 million (US$0.2 million) and a final payment of RMB0.4 million (US$0.1 million) at maturity related to another borrowing.

Shanghai Medstar entered into a RMB6.8 million (US$1.0 million) long-term borrowing arrangement with the Agricultural Bank of China in December 2009 that matures in November 2012. The long-term borrowing arrangement has a variable annual interest rate equal to 90% of the benchmark lending rate of the People s Bank of China adjusted every three months. Shanghai Medstar is required to make monthly payments beginning in January 2010 in an amount equal to RMB190,000 (US$27,800) and a final payment of RMB150,000 (US$22,000) at maturity.

Shanghai Medstar also entered into a short-term loan agreement in June 2009 with HSBC Bank (China) Company Limited for RMB15.0 million (US$2.2 million) that matures in June 2010 bearing interest at a rate of 5.16%, secured by account receivables of Shanghai Medstar and guaranteed by Aohua Medical. This borrowing contains restrictive covenants requiring the maintenance of tangible net worth of RMB400.0 million and RMB180.0 million by China Medstar and Aohua Medical, respectively, and a total liability to tangible net worth ratio of 0.5 times and 0.36 times at all time for China Medstar and Aohua Medical, respectively.

Aohua Medical has entered into a long-term loan agreement in January 2009 with China Construction Bank, Shenzhen Branch for RMB20.0 million (US$2.9 million) that matures in January 2012. This long-term borrowing has a variable annual interest rate equal to 110% of the benchmark lending rate of the People s Bank of China, adjusted every 12 months, secured by accounts receivable of Aohua Medical and Aohua Leasing and guaranteed by Aohua Leasing. Aohua Medical is required to make monthly repayments as to the principal of the borrowing beginning on the fourth month after the loan is obtained.

Aohua Medical obtained a bank loan facility in the principal amount of RMB20.0 million (US$2.9 million) from China Merchant Bank Company Limited in September 2009 that expires in September 2010. This bank loan facility is guaranteed by Aohua Leasing. Interest rate for this bank loan facility is to be determined in accordance with the specific loan agreement entered into every time the facility is drawn down. As of September 30, 2009, Aohua Medical had drawn down RMB4.0 million (US$0.6 million) of this facility.

Aohua Leasing entered into a RMB100.0 million (US$14.6 million) banking facility with China Construction Bank in August 2009 that matures in August 2012. This banking facility bears interest rate equal to a floating rate of the People s Bank of China s benchmark lending rate adjusted every twelve months, which was 5.4% in August 2009. We expect to use this banking facility for the purchase of medical equipment in the future and any amount drawn under the facility will be secured by the respective medical equipment to be purchased and accounts receivable of Aohua Leasing, as well as guaranteed by Aohua Medical and Shanghai Medstar. Aohua Leasing is required under the facility agreement to make quarterly repayments of the principal.

Aohua Leasing obtained a trade financing facility in the principal amount of RMB20.0 million (US$2.9 million) from China Construction Bank in August 2009 that expires in 2010. Under this trade financing facility, Aohua Leasing is required to pay a management fee to China Construction Bank in an amount equal to 5.5% of the total principal amount under this facility. This trade financing facility is secured by accounts receivable of Aohua Leasing and guaranteed by Aohua Medical and Shanghai Medstar.

We expect to obtain bank loans of approximately RMB90.0 million (US$13.2 million) in 2010 to fund the development of the Chang an CMS International Cancer Center. We also expect to obtain bank loans of approximately RMB100.0 million (US$14.6 million) in 2010 to fund the development of the Beijing Proton Medical Center.

During the nine months ended September 30, 2009, we entered into two non-cancellable corporate office operating leases with a lease term of two and three years, respectively. As of September 30, 2009, our operating lease obligation for the remainder of 2009, 2010, 2011 and 2012 was RMB1.3 million (US$0.2 million), RMB5.1 million (US$0.8 million), RMB4.8 million (US$0.7 million) and RMB2.3 million (US$0.3 million), respectively.

As of September 30, 2009, we had purchase obligation for certain medical equipment that amounted to RMB102.7 million (US$15.0 million), which are all scheduled to be paid within one year.

Off-Balance Sheet Arrangements

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

Inflation

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the change in China s Consumer Price Index was 1.5%, 4.8% and 5.9% in the years 2006, 2007 and 2008, respectively. If inflation continues to rise, it may materially and adversely affect our business.

Quantitative and Qualitative Disclosure about Market Risk

Foreign Exchange Risk

All of our revenues and substantially all of our expenditures are denominated in Renminbi. However, the price of medical equipment that we purchase from foreign manufacturers is denominated in U.S. dollars. We pay for such equipment in Renminbi through importers at a pre-determined exchange rate that is typically agreed to at the time of purchase that will be adjusted to a certain extent if there is significant fluctuation as to the exchange rate. As a result, fluctuations in the exchange rate between the U.S. dollar and the Renminbi will affect the cost of such medical equipment to us and will affect our results of operation and financial condition. Such fluctuations will also affect us with respect to the translation of the net proceeds that we will receive from this offering into Renminbi. The Renminbi s exchange rate with the U.S. dollar and other currencies is affected by, among other things, changes in China s political and economic conditions. See Risk Factors Risks Related to Doing Business in China Fluctuations in the value of the Renminbi may have a material adverse effect on your investment. Any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. Based on the amount of our cash denominated in U.S. dollar as of September 30, 2009, a 10% change in the exchange rates between the Renminbi and the U.S. dollar would result in an increase or decrease of RMB24.3 million (US$3.6 million) in our total cash position.

The functional currency of our company and our subsidiaries, including Ascendium, CMS Holdings, OMS, Cyber Medical and China Medstar, is the U.S. Dollar. Our PRC subsidiaries have determined their functional currencies to be the Renminbi based on the criteria of Statement of Financial Accounting Standards No. 52, Foreign Currency Translation, or SFAS 52. We use the Renminbi as our reporting currency. We use the monthly average exchange rate for the year and the exchange rate at the balance sheet date to translate the operating results and financial position of our PRC subsidiaries, respectively. Translation differences are recorded in accumulated other comprehensive income, a component of shareholders equity. Transactions denominated in foreign currencies are remeasured into our functional currency at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are remeasured at the balance sheet date exchange rate. Exchange gains and losses are included in the consolidated statements of income.

Interest Rate Risk

Our exposure to interest rate risk relates to interest expenses incurred by our short-term and long-term bank borrowings and interest income on our interest-bearing bank deposits. We have not used any derivative financial instruments or engaged in any interest rate hedging activities to manage our interest rate risk exposure. Our future interest expense on our short-term and long-term borrowings may increase or decrease due to changes in market interest rates. During 2008, our short-term and long-term bank borrowings, all of which were denominated in Renminbi, had a weighted average interest rate of 6.66% per annum and 7.47% per annum, respectively. Our future interest income on our interest-bearing cash and pledged deposit balances may increase or decrease due to changes in market interest conditions. We monitor interest rates in conjunction with our cash requirements to determine the appropriate level of bank borrowings relative to other sources of funds. Based on our outstanding borrowings during the six months ended September 30, 2009, a 10% change in the interest rates would result in an increase or decrease of RMB0.5 million (US$0.1 million) of our total amount of interest expense for the nine months ended September 30, 2009. Based on our outstanding interest earning instruments during the nine months ended September 30, 2009, a 10% change in the interest rates would result in an increase or decrease of RMB 82,000 (US$12,000) in our total amount of interest income for the nine months ended September 30, 2009.

Recent Accounting Pronouncements

There have been no developments to recently issued accounting standards, including the expected dates of adoption and estimated effects on the Group s consolidated financial statements, from those disclosed in the Group s consolidated financial statements for the year ended December 31, 2008, except for the following:

In April 2009, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Codification 805-20, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, or ASC 805-20, to amend SFAS 141 (revised 2007) Business Combinations. ASC 805-20 addresses the initial recognition, measurement and subsequent accounting for assets and liabilities arising from contingencies in a business combination, and requires that such assets acquired or liabilities assumed be initially recognized at fair value at the acquisition date if fair value can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the asset acquired or liability assumed arising from a contingency is recognized only if certain criteria are met. ASC 805-20 also requires that a systematic and rational basis for subsequently measuring and accounting for the assets or liabilities be developed depending on their nature. The Company does not anticipate that the adoption of this statement will have a material impact on its consolidated financial statements, absent any material business combinations.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140, or SFAS 166. SFAS 166 seeks to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. Specifically, SFAS 166 eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor s interest in transferred financial assets. The Company does not anticipate that the adoption of this statement will have a material impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), or SFAS 167. SFAS 167 amends FASB Interpretation No. 46(R), Variable Interest Entities for determining whether an entity is a variable interest entity, or VIE, and requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a VIE. Under SFAS 167, an enterprise has a controlling financial interest when it has a) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. SFAS 167 also requires an enterprise to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining whether it has power to direct the activities of the VIE that most significantly impact the entity s economic performance. SFAS 167 also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE, requires enhanced disclosures and eliminates the scope exclusion for qualifying special-purpose entities. The Company is currently evaluating the impact the adoption of SFAS 167 will have on its consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standard, or SFAS, No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162. This statement modifies the Generally Accepted Accounting Principles, or GAAP, hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification™, or ASC, also known collectively as the Codification, is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. Nonauthoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issue Papers and Technical Practice Aids and accounting textbooks. The Codification was developed to organize U.S. GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. This statement applies beginning in third quarter 2009. All accounting references have been updated, and therefore U.S. GAAP standards have been replaced with ASC references. This standard had no impact on the Company s financial position, results of operations or cash flows.

In August 2009, the FASB issued Accounting Standards Update No. 2009-5, Measuring Liabilities at Fair Value, or ASU 2009-05. ASU 2009-05 amends Accounting Standards Codification Topic 820, Fair Value Measurements. Specifically, ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) a valuation technique that is consistent with the principles of Topic 820 of the Accounting Standards Codification (e.g. an income approach or market approach). ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. The Company does not anticipate that the adoption of this statement will have a material impact on its consolidated financial statements.

In September 2009, the Emerging Issues Task Force, or EITF, reached final consensus on ASC 605-25, Revenue Arrangements with Multiple Deliverables. ASC 605-25 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and how the arrangement consideration should be allocated among the separate units of accounting. EITF 08-1 may be applied retrospectively or prospectively for new or materially modified arrangements and early adoption is permitted. The Company does not anticipate that the adoption of this statement will have a material impact on its consolidated financial statements.

OUR INDUSTRY

Cancer was the leading cause of death in China in 2008 according to the MOH. Approximately 3.5 million patients were diagnosed with cancer in 2008 in China, according to a commissioned report by Frost & Sullivan. Frost & Sullivan also estimated that the cancer radiotherapy and diagnostic imaging market in China was RMB16.6 billion (US$2.4 billion) in 2008 and is expected to grow to RMB68.3 billion (US$10.0 billion) in 2015, representing a CAGR of 22.4%. Among the factors contributing to this growth rate are significant projected growth in the number of new cancer cases due to the continued aging and urbanization of the Chinese population, increased affordability of cancer diagnosis and treatment as a result of rising disposable income and increased government expenditure on healthcare and growing awareness and adoption of advanced cancer diagnosis and treatment modalities by Chinese patients and physicians.

Cancer in China

Cancer was the leading cause of death in China in 2008. Based on MOH data, cancer accounted for 2.1 million deaths, or 26.2% of total deaths in China in 2008. There were approximately 3.5 million patients diagnosed with cancer in China in 2008, according to a report by Frost & Sullivan. Frost & Sullivan further estimates that new cancer cases will increase to approximately 4.1 million in China in 2015, representing CAGR of 2.6%, compared to an estimated CAGR of 1.5% for the United States over the same period.

According to a survey conducted by the MOH in 2008, the increase in cancer cases in China is primarily attributable to demographic changes and urbanization, since elderly and urban populations exhibit higher rates of cancer compared to the overall population. With respect to demographic changes, China s population increased by 9.6% from approximately 1.2 billion in 1995 to approximately 1.3 billion in 2008, while the number of individuals over 65 years old increased by 46.8% from 75.1 million to 110.2 million over the same period. In contrast, according to United States Census Bureau, the U.S. population increased by 14.1% from 266.6 million in 1995 to 304.1 million in 2008, while the number of individuals over 65 years old increased by 15.2% from 33.8 million to 38.9 million over the same period. Additionally, China s urban population increased by 72.5% from 351.7 million in 1995 to 606.7 million in 2008. According to the MOH, tobacco usage and environmental pollution have also contributed to higher rates of cancer for China s urban residents. All of these factors suggest a significant increase in potential demand for cancer diagnosis and treatment in the future.

Cancer Diagnosis and Treatment

Modern cancer treatments rely heavily on the utilization of advanced diagnostic imaging technologies such as computerized tomography, or CT, magnetic resonance imaging, or MRI and positron emission tomography, or PET. Principal cancer treatments include various types of radiotherapy, chemotherapy and surgery, which may be used alone or in combination with each other. With respect to radiotherapy, there are several different treatment options, including gamma knife systems and linear accelerators, as well as the more advanced proton therapy systems. The choice of cancer treatment options depends upon the location of the tumor in the body, the type of the tumor and the stage of the disease, as well as the general state of health of the patient. The WHO reported in its 2008 World Cancer Report that a little over 50% of all patients who develop cancer will require some type of radiotherapy during their illness. According to a report by Frost & Sullivan, the percentage of cancer patients who underwent surgery, chemotherapy and radiotherapy in China in 2008 was approximately 74.0%, 70.3% and 32.6%, respectively.

Radiotherapy (also called radiation therapy or radiation treatment) utilizes focused doses of intense radiation to kill cancer cells and shrink tumors. Radiotherapy can be used to treat almost every type of malignant solid tumor as well as benign tumors. Advances in different imaging modalities (e.g., PET-CT) and the integrated use of these modalities with radiotherapy are expected to enhance the precision of radiotherapy treatments.

Provision of Healthcare Services in China

Healthcare services in China are provided primarily at hospitals. Patients visit the hospital for both in-patient and most out-patient care. Physicians are typically employed by hospitals and work on the hospital premises. According to the MOH and the general logistics department of the PLA, at the end of 2008, there were approximately 19,800 hospitals in China, including approximately 115 specialty cancer hospitals. Approximately 80% of hospitals in China are owned by the government, government agencies, government controlled corporations or the military. Such

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hospitals (including military hospitals) typically serve the general public. While these hospitals are owned in some way by the government, they receive little direct government funding and are individually financed. These government hospitals also operate largely independently of each other and generally do not operate as groups of hospitals under common control. Ownership of privately-owned hospitals in China is also fragmented, with a lack of dominant groups of hospitals.

China has a relatively underdeveloped medical infrastructure, which has resulted in significant unmet demand for medical services in China. According to the WHO, there were 22 hospital beds per 10,000 people in China in 2008 versus 31, 39, 86 and 140 hospital beds per 10,000 people in the United States, the United Kingdom, Korea and Japan, respectively. The average occupancy rate for China s hospitals in 2008 was 74.6%, while the average occupancy rate for China s specialty cancer hospitals during that same period was a much higher 104.1%, according to the MOH.

The largest portion of healthcare expenses in China is funded by private individuals. The MOH reported that in 2007, self payment accounted for 45.2% of China s total medical expenses, whereas payment by public medical insurance schemes, commercial insurance plans and employers accounted for another 34.5%, and the direct payment by the government accounted for the remaining 20.4%. In China, most patients currently pay medical expenses out-of-pocket prior to receiving medical services and later seek insurance reimbursement, to the extent, if any, that they are covered by medical insurance schemes. The up-front collection of medical fees, whether or not the patient is insured, together with China s lack of emergency medical treatment laws such as those in the United States, which require the treatment of the uninsured, results in very low bad debt and charity care expenditures for hospitals and other healthcare service providers in China. Due to cultural factors, the high percentage of out-of-pocket expenses and the need to pay for medical services upfront, family members of Chinese patients frequently contribute to the payment of healthcare expenses, particularly in the case of non-discretionary healthcare expenses, such as the diagnosis and treatment of cancer.

Source: MOH

Radiotherapy and Diagnostic Imaging in China

The Chinese radiotherapy and diagnostic imaging market has grown steadily over the years. According to a report by Frost & Sullivan, there were approximately 1,187 linear accelerators, 159 head gamma knife systems, 86 body gamma knife systems, 122 PET-CT scanners and 2,260 MRI scanners installed across the country in 2008. CAGRs of such installed equipment were 16.4%, 18.9%, 16.0%, 16.9% and 22.6% from 2003 to 2008, respectively.

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Source: Frost & Sullivan, 2008

Despite this high level of growth, the number of units of radiotherapy and diagnostic imaging equipment per capita in China is significantly lower than in developed countries. The Frost & Sullivan report estimates that at the end of 2008, China had only 0.7 linear accelerators per million people, compared to 9.5 in the United States, 6.6 in Japan, 5.6 in France and 3.0 in the United Kingdom during the same period. The relatively low penetration of radiotherapy equipment in China contributes to the low rate of treatment using radiotherapy received by cancer patients in China. We also believe that a generally low level of education amongst Chinese physicians about advanced radiotherapy is a key contributor to the relatively low rate of usage of radiotherapy for the treatment of cancer patients in China.

Source: Frost & Sullivan, 2008

The vast majority of radiotherapy and diagnostic imaging services are performed in hospitals. Hospitals are motivated to offer high-end services such as radiotherapy and diagnostic imaging services to attract patients and increase hospital revenues. The challenge, however, is that many hospitals in China cannot fund expensive equipment purchases due to limited operating cash flows, inability to raise equity funding, limited access to debt financing and the absence of vendor financing. Hospitals in China generally also lack experienced radiologists and technicians and management experience in operating radiotherapy and diagnostic imaging centers.

While most of the expenses for radiotherapy and diagnostic imaging services are paid up-front by patients, some reimbursement is available to patients through government-directed insurance schemes. We believe that

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radiotherapy modalities including head gamma knife systems, body gamma knife systems and linear accelerators are currently covered by most government-directed medical insurance schemes in China, but reimbursement rates differ depending on geographical locations. MRI scans are commonly covered by various government-directed medical insurance schemes in China, while PET-CT scans are generally not covered by such schemes. For more information, see Regulation of Our Industry Medical Insurance Coverage.

According to a report by Frost & Sullivan, the China cancer radiotherapy and diagnostic imaging market is expected to continue to grow. It is estimated that the linear accelerator market will increase from RMB4.2 billion (US$612.7 million) in 2008 to RMB 17.9 billion (US$2.6 billion) in 2015, representing a CAGR of 23.0%. The gamma knife systems market is expected to grow from RMB1.3 billion (US$194.9 million) in 2008 to RMB6.7 billion (US$977.6 million) in 2015, representing a CAGR of 25.9%. The diagnostic imaging market, primarily consisting of MRI, PET-CT and CT, is expected to grow from RMB10.7 billion (US$1.6 billion) in 2008 to RMB23.9 billion (US$3.5 billion) in 2015, representing a CAGR of 12.1%. The following are the primary factors contributing to the growing demand for cancer radiotherapy and diagnostic imaging services:

Increasing cancer incidence rate: The cancer incidence rate in China has grown from approximately 0.216% in 2003 to approximately 0.260% in 2008, an increase of 20.4%, according to a report by Frost & Sullivan. It is expected that demographic changes and urbanization will lead to further increases in the number of cancer cases in China.

Increasing physician adoption of advanced diagnostic imaging equipment: With the modernization of medical care in China, more physicians are expected to utilize more advanced diagnostic imaging equipment, such as MRI and PET-CT.

Increasing percentage of cancer patients treated with radiotherapy: The percentage of cancer patients treated with radiotherapy is expected to increase due to improving awareness of radiotherapy among the doctors and patients, and increased availability of radiotherapy and diagnostic imaging equipment.

Increasing affordability and potentially increased accessibility: China s rising disposable income and increasing government expenditure on healthcare are also expected to stimulate the overall demand for radiotherapy and diagnostic imaging services. In addition, China recently approved a new round of healthcare reforms that encourage the investment of private capital in non-profit hospitals, which may potentially increase the accessibility of radiotherapy and diagnostic imaging services to patients.

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BUSINESS

Overview

We operate the largest network of radiotherapy and diagnostic imaging centers in China in terms of revenue and the total number of centers in operation in 2008, according to a report by Frost & Sullivan commissioned by us that compared our pro forma revenues against the revenues of our competitors in 2008 and our number of centers and units of equipment against those of our competitors as of the end of 2008. As of September 30, 2009, our network comprised 83 centers based in 55 hospitals, spanning 36 cities across 21 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 MOH. Cancer was the leading cause of death in China in 2008 according to the MOH, and there is a relatively low penetration of radiotherapy and diagnostic imaging equipment compared to developed countries. We believe that our leading network and our experience and expertise uniquely position us to address the underserved market in China for radiotherapy and diagnostic imaging services.

Most of the centers in our network are established through long-term lease and management services arrangements entered into with our hospital partners. Under these arrangements, we receive a contracted percentage of each center s revenue net of specified operating expenses. Each center is located on the premises of our hospital partners and is typically equipped with a primary unit of advanced radiotherapy or diagnostic imaging equipment, such as a linear accelerator, head gamma knife system, body gamma knife system, PET-CT scanner or MRI scanner. We provide clinical support services to doctors who work in the centers in our network, which include developing treatment protocols for doctors and organizing joint diagnosis between doctors in our network and clinical research. In addition, we help recruit and determine the compensation of doctors and other medical personnel in our network and are typically in charge of most of the non-clinical aspects of the centers daily operations, including marketing, training and administrative duties. Our hospital partners are responsible for the centers clinical activities, the medical decisions made by doctors, and the employment of the doctors in accordance with regulations.

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

To complement our organic growth, we have also selectively acquired businesses to expand our network. In July 2008, we acquired China Medstar, a company then publicly listed on the AIM, for approximately £17.1 million or approximately RMB238.7 million (US$35.0 million). At the time of the acquisition, China Medstar jointly managed 23 centers with its hospital partners across 14 cities in China.

To further enhance our reputation and to employ high quality doctors, we plan to establish and operate specialty cancer hospitals in China. We intend for our specialty cancer hospitals to be centers of excellence. Our first specialty cancer hospital, the Chang an CMS International Cancer Center, in Xi an, Shaanxi Province, is expected to commence operation in early 2010. We are also in the process of establishing the Beijing Proton Medical Center, another specialty cancer hospital, which is expected to commence operation in 2012. We expect that the Beijing Proton Medical Center will be the first proton beam therapy treatment center in China equipped with a proton beam therapy system licensed for clinical use.

Our business has grown significantly in recent years through development of new centers, increases in the number of patient cases in our network and acquisitions. We have increased the number of centers in our network from 41 at the end of 2007 to 72 at the end of 2008 and to 83 as of September 30, 2009. Our total net revenues were RMB67.4 million, RMB14.0 million and RMB171.8 million (US$25.2 million) for the period from January 1, 2007 to October 30, 2007, the period from September 10, 2007 to December 31, 2007 and for the year ended

December 31, 2008. Our total net revenues increased to RMB205.7 million (US$30.1 million) for the nine months ended September 30, 2009 from RMB102.0 million for the same period in 2008, due primarily to an increase in the number of centers in our network, including centers added to our network as a result of our acquisition of China Medstar, and an increase in the number of patient cases in existing centers. For periods prior to October 30, 2007, our predecessor is deemed the reporting entity for financial reporting purposes as a result of the OMS reorganization. We report the financial statements of our successor entity from September 10, 2007, the date of inception of our successor entity. For additional information relating to our history and reorganization and our financial presentation, see Our History and Corporate Structure and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Market Opportunities

As discussed in the Our Industry section of this prospectus, the radiotherapy and diagnostic imaging market in China has several favorable characteristics. The market is expected to experience significant growth due to an increasing incidence rate of cancer and increasing adoption and affordability of advanced radiotherapy and diagnostic imaging technologies. Moreover, most hospitals lack the financial resources to purchase, or the expertise to operate, advanced radiotherapy and diagnostic imaging equipment. These deficiencies, together with the generally low level of awareness amongst doctors in China about the efficacy of advanced radiotherapy, has resulted in a relatively low usage rate of radiotherapy for the treatment of cancer patients in China. We believe that our ability to provide the necessary equipment and expertise to hospitals in China to establish and jointly manage radiotherapy centers will allow us to benefit from these positive market dynamics.

Competitive Strengths

We believe that the following competitive strengths have, and will continue to, uniquely position us to capitalize on growth opportunities in the cancer treatment market in China:

Leading Market Position and Successful Track Record

According to a report by Frost & Sullivan that compared our pro forma revenues against the revenues of our competitors in 2008 and our number of centers and units of equipment against those of our competitors as of the end of 2008, we operate the largest network of radiotherapy and diagnostic imaging centers in China in terms of revenues and the number of centers in operation in 2008. As of September 30, 2009, our network comprised 83 centers based in 55 hospitals, spanning 36 cities across 21 provinces and administrative region in China. Our network includes 73 radiotherapy and diagnostic imaging centers and 10 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. According to a report by Frost & Sullivan, we were the first company to have established such an extensive network of centers across China. Our first center was established in 1997, and more than half of the centers in our network have been in operation for over five years. The doctors in our network have performed over 48,000 radiotherapy treatments and over 100,000 diagnostic imaging scans since the beginning of 2007. We believe that we have a strong reputation within the medical community in China, due to the large number of cancer patients treated in our network and the extensive clinical experience of the doctors in our network of centers. We believe that our market leading position, successful track record and the strong reputation of centers in our network provide us with a significant advantage relative to our competitors in establishing new centers.

Doctors with Extensive Cancer Treatment Experience Developed and Supported by Our Network

There are over 240 doctors, including radiation oncologists and neurosurgeons, who work in our network, some of whom are leading experts in their respective fields in China. We provide training, ongoing clinical education, including regularly scheduled network-wide clinical education conferences and seminars, where medical personnel from our network of centers and outside medical experts in China are invited to share their clinical experience. These efforts enable the doctors in our network to increase their clinical knowledge. We also organize and sponsor clinical research conducted by doctors in our network. The clinical expertise of the doctors in our network is supplemented by their ability to consult with each other and thereby enhancing the clinical care they provide to their patients.

Market-oriented Management of Centers

We bring a market-oriented management culture and practices to the operation of our centers, driven by patient needs and market conditions. As a result, we believe that the centers in our network are run more efficiently and provide better patient services as compared to other public hospitals. Such market-oriented management practices include staffing most centers in our network with dedicated marketing professionals who promote our services to potential referring doctors. In addition, the compensation for the staff in each center, including doctors, is partially based on such center s operating performance whereby the staff in each center typically receives bonuses based on the monthly revenue generated by such center, the number of patients treated or received diagnostic imaging services in a given month, the annual profit target of the center and other performance metrics as determined by us, such as staff s compliance with the operating procedures of the centers, the quality of treatments and services provided, the staff s research activities conducted at the centers and the timely maintenance of records. Our market-oriented management practices also, unlike most other public hospitals in China, focus on providing high quality patient services, which we believe is a key component in establishing a strong reputation as to our network of centers and a key factor in doctors decisions to refer patients to centers in our network.

Successful Track Record of New Center Development and Acquisitions

We have grown our business through development of new centers and through selective acquisitions of businesses and assets from third parties. Such development and acquisitions are subject to an extensive internal evaluation and approval process that involves a team of dedicated business development professionals, a team of project evaluation professionals and our senior management. In 2008, we added 32 new centers under lease and management services arrangements of which 25 were added through acquisitions. Our acquisitions in 2008 include China Medstar and its network of 23 centers located in 14 cities across China which we have we successfully integrated into our network. This acquisition significantly expanded our network of centers, broadened our service offerings by significantly increasing the number of centers in our network that provide treatments through the use of linear accelerators and diagnostic imaging services using MRI scanners, and strengthened our management team. During the nine months ended September 30, 2009, we added 19 new centers to our network under lease and management arrangements, five of which were converted in August 2009 from six centers that were previously managed under service-only agreements.

Strong and Experienced Management Team

We are led by a strong management team of experienced professionals with complementary skill sets. Several of our senior executives have experience as senior managers of companies publicly listed on the stock exchanges in China, on the AIM and on the NYSE. Two members of our senior management team founded one of the first companies in China engaged in developing and providing management services to radiotherapy and diagnostic imaging centers and both have more than 10 years of experience in establishing and managing such centers. Our senior management team is supported by a team of experienced professionals who have worked for many years in the radiotherapy market in China, including several former doctors who bring to our network clinical experience and strong relationships with directors and senior managers of hospitals around China.

Business Strategies

We intend to further strengthen our leading position in the radiotherapy and diagnostic imaging market in China by pursuing the following strategies:

Continue to Develop New Radiotherapy and Diagnostic Imaging Centers

We believe that there are significant opportunities to grow our business through the continued expansion of our network of radiotherapy and diagnostic imaging centers. We have a dedicated business development team that is primarily responsible for identifying, evaluating, and negotiating opportunities to develop new centers with new hospital partners. As of September 30, 2009, we have entered into agreements to establish additional 30 new centers in China, and we expect five of these centers to commence operation by the end of 2009. We plan to increase the number of centers in our nationwide network of centers in China to at least 200 over the next three years.

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Increase Marketing Efforts to Drive Growth in Patient Cases at Our Existing Centers

We plan to continue our center-based marketing efforts to increase the number of patients diagnosed and treated in our network of centers. Most centers in our network are staffed with dedicated marketing personnel employed by us and responsible for promoting the radiotherapy and diagnostic imaging services offered at the centers to both referring doctors and patients. These marketing personnel help to educate referring doctors and patients on the types of cancer that are suitable for radiotherapy and the benefits of radiotherapy. At the corporate level, we support the center-based marketing efforts by arranging for radiotherapy experts to participate in academic conferences and seminars hosted by different centers in our network for referring doctors as well as helping the individual centers prepare relevant marketing materials. We plan to increase center-based marketing efforts to enhance the awareness and understanding of cancer diagnosis and treatment and thus increase the patient cases at our centers.

Establish Specialty Cancer Hospitals

We are in the process of establishing specialty cancer hospitals in China that will be majority owned by us. We intend for our specialty cancer hospitals to be our centers of excellence that will focus on providing radiotherapy services as well as diagnostic imaging services, chemotherapy and surgery in order to provide a comprehensive treatment program for cancer patients. We believe that establishing specialty cancer hospitals will allow us to further strengthen our reputation amongst patients and within the medical community in China and develop our corporate brand. We have established a dedicated hospital investment team focused on identifying and evaluating potential opportunities to develop additional specialty cancer hospitals. Our first two specialty cancer hospitals, the Chang an CMS International Cancer Center and the Beijing Proton Medical Center, are expected to be operational in early 2010 and in 2012, respectively. We also plan to establish additional specialty cancer hospitals in key cities across China.

Introduce Advanced Cancer Treatment Options and Diagnostic Technology in Our Network

We intend to introduce the most technologically advanced medical equipment in China to enhance the quality of treatment available to patients. For example, our Beijing Proton Medical Center is expected to be the first proton beam therapy system in China licensed for clinical use. We believe that introducing such technology will allow us to offer cancer patients some of the most advanced medical care available in China, attract additional patients and strengthen our leadership position and reputation in the radiotherapy market in China.

Complement Our Development of New Centers with Selected Acquisitions

We intend to selectively pursue strategic acquisitions that will complement our efforts to develop new centers. Given the fragmentation of the industry in which we operate, there are a large number of stand-alone centers and companies that manage small networks of centers that we believe may be attractive acquisition targets. We intend to acquire the businesses or assets of existing centers that are based in leading hospitals located in densely populated cities in China. We believe that our past acquisition experience will aid us in identifying potential opportunities in the future and successfully integrate newly acquired businesses or assets into our existing network.

Our Network of Centers and Specialty Cancer Hospitals

As of September 30, 2009, we operated an extensive network of 83 centers based in 55 hospitals, spanning 36 cities across 21 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 MOH. Our network includes 73 radiotherapy and diagnostic imaging centers and 10 centers that provide other treatment and diagnostic services, such as electroencephalography for the diagnosis of epilepsy, thermotherapy to increase the efficacy of and for pain relief after radiotherapy and chemotherapy, high intensity focused ultrasound therapy for the treatment of cancer, stereotactic radiofrequency ablation for the treatment of Parkinson s Disease and refraction and tonometry for the diagnosis of ophthalmic conditions. Each center is typically equipped with a primary unit of medical equipment, such as a linear accelerator, head gamma knife system, body gamma knife system, PET-CT scanner or MRI scanner. Each center is located on the premises of our hospital partners with the facilities of the centers provided by the hospitals. Each center is usually comprised of a

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treatment area, a patient preparation and observation room, working areas for the center s doctors and other personnel and a waiting and reception area.

In addition to our network of centers, we plan to establish and operate specialty cancer hospitals that will be majority owned by us. We are currently in the process of establishing two such hospitals, the Chang an CMS International Cancer Center in Xi an, Shaanxi Province and the Beijing Proton Medical Center in Beijing.

The following chart illustrates our network of centers as of September 30, 2009:

Note: Bracketed numbers indicate the number of centers in cities with more than one center.

Our Arrangements with Hospital Partners

Lease and Management Services Arrangements. As of September 30, 2009, we had 81 centers that were established under lease and management services arrangements. We typically establish such centers with civilian hospitals by entering into a lease agreement and a management agreement. Centers at military hospitals, which are regulated by the military but most of which are otherwise the same as other government-owned hospitals open to the public, are typically established under a cooperation agreement. The reason for the two different contractual structures is to comply with the different regulations governing civilian and military hospitals in China. See Regulations of Our Industry Regulation of Medical Institutions Restrictions on Cooperation Agreements.

Under these lease and management services arrangements, we are responsible for purchasing the medical equipment used in the centers. We lease this medical equipment to the hospitals for a fixed period of time and establish and manage the centers in conjunction with our hospital partners. These arrangements are typically long-term in nature, ranging from six to 20 years. We receive from the hospital a contracted percentage of each center s revenue net of specified operating expenses. Such contracted percentage typically ranges from 50% to 90% and are typically adjusted based on a declining scale over the term of the arrangement but in some instances, are fixed for the duration of the arrangement. The specified operating expenses of centers typically include variable expenses such as the salaries and benefits of the medical and other personnel at the center, the cost of medical consumables, marketing expenses, training expenses, utility expenses and routine equipment repair and maintenance expenses.

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Typically, these lease and management services arrangements may be terminated upon the mutual agreement of the parties if the centers experience an operating loss for a specified period of time or fail to achieve certain operating targets. In addition, the arrangements typically can be terminated upon the default or failure by either party to perform its respective obligations under the arrangement. In the event of termination, most arrangements call for the parties to reach a mutual agreement as to the resolution of the remaining obligations of the parties or the division of assets that have been acquired for the centers. Under certain of these arrangements, our hospital partners are required to compensate us based on the average contracted percentage for an agreed upon period of time if we are not responsible for the early termination. Since the beginning of 2007, we have terminated the agreements of five centers in our network with our hospital partners primarily due to the unsatisfactory performances of the centers located in these hospitals. Excluding acquired centers, as of September 30, 2009, we entered into agreements with hospital partners to establish 49 new centers since the beginning of 2007 all of which remain in force. 19 of such centers are already in operation.

Service-Only Arrangements. From time to time, we provide management services to radiotherapy and diagnostic imaging centers under service-only agreements. As of September 30, 2009, we had such agreements for two centers. Unlike the centers established under lease and management services arrangements, we do not purchase and lease to the hospitals the medical equipment used at the centers established under service-only agreements. Rather, we only manage such centers in exchange for a management fee typically consisting of a contracted percentage of the revenue net of specified operating expenses of the center. In addition, as compared to our lease and management services arrangements, the terms of the service-only agreements are typically shorter. We enter into such service-only agreements on a strategic basis to expand the coverage of our network. We will continue from time to time enter into additional strategic service-only agreements with other hospitals in the future. As part of our arrangement to establish our first speciality cancer hospital, Chang an CMS International Cancer Center, we entered into service-only agreements in 2008 to provide management services to a general hospital in Xi an, Chang an Hospital, and six radiotherapy and diagnostic imaging centers located in such hospitals. We receive a management fee from the Chang an Hospital that is equal to a percentage of its total revenues. For additional information, see Specialty Cancer Hospitals. In August 2009, we purchased from Chang an Hospital the six units of radiotherapy and diagnostic imaging equipment that were located at the six centers that we managed under service-only agreements with Chang an Hospital. The total agreed upon consideration for such equipment was approximately RMB72.7 million (US$10.6 million), of which RMB50.0 million (US$7.3 million) was paid as of September 30, 2009. We paid an additional RMB20.0 million (US$2.9 million) of the consideration in October 2009 and we expect to pay the remaining RMB2.7 million (US$0.5 million) before the end of 2009. We subsequently entered into a long-term lease and management services arrangement with Chang an Hospital pursuant to which we leased these six units of equipment to Chang an Hospital. Two of the six units of equipment were combined into one center and we provide lease and management services to the five centers in which these six units of equipment are located.

Specialty Cancer Hospitals

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

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certain taxes not applicable to non-profit hospitals. We plan to fund the development of our specialty cancer hospitals with proceeds raised from this offering and with bank loans.

Chang an CMS International Cancer Center. We have entered into a framework agreement and a supplemental agreement with Chang an Hospital, a private hospital serving the northeastern region of China, and Xi an Century Friendship Medical Technology R&D Co., Ltd., or Xi an Century Friendship, a subsidiary of Chang an Hospital, to establish a specialty cancer hospital, the Chang an CMS International Cancer Center, in Xi an, Shaanxi Province. Chang an Hospital is controlled by Chang an Information Industry (Group) Co., Ltd., or Chang an Information Industry, a China-based conglomerate engaged in information technology, real estate and the medical industries. The Chang an CMS International Cancer Center is expected to have a gross floor area of approximately 12,000 square meters with over 300 licensed patient beds. The Chang an CMS International Cancer Center is expected to provide treatments for a wide range of tumor types using a variety of radiotherapy equipment as well as chemotherapy and surgery. Due to the treatment methods used, many patients visiting the Chang an CMS International Cancer Center are expected to require hospitalization. Initially, the hospital will have a MM50 intensity-modulated radiation therapy system, a Novalis intensity-modulated radiation therapy system and PET-CT, MRI and CT scanners. We expect the hospital to initially employ about 500 employees, including over 300 doctors and other medical professionals. We expect the Chang an CMS International Cancer Center to be operational in early 2010.

Under the framework agreement, Xi an Century Friendship will establish a wholly owned subsidiary to be tentatively named Chang an Huaxiang Medical Services Co., Ltd. or Chang an CMS Medical Services Co., Ltd. and will transfer all land and properties in connection with establishing the specialty cancer hospital to such subsidiary. Thereafter, such subsidiary will change its name to the Chang an CMS International Cancer Center. The framework agreement contemplates that we will acquire equity interest in Chang an CMS International Cancer Center for a consideration of RMB34.8 million (US$5.1 million). However, prior to the purchase of such equity interest, the Chang an CMS International Cancer Center must first be established and a subsequent share transfer agreement will need to be entered into. Chang an CMS International Cancer Center will then increase its registered capital and we and Xi an Century Friendship will contribute other properties, such as equipment, land or cash, to subscribe for such increased capital. As a result, we will own approximately 52.0% and Xi an Century Friendship will own approximately 48.0% of the equity interest in Chang an CMS International Cancer Center. We are required under the framework agreement to pay a deposit of RMB15.0 million (US$2.2 million) to Xi an Century Friendship. Such deposit can be later converted as contribution to subscribe for the additional increase in registered capital in Chang an CMS International Cancer Center. A supplemental agreement to the framework agreement was subsequently entered into where Xi an Century Friendship transferred its rights and obligations under the framework agreement and any other agreements contemplated under the framework agreement to its subsidiary that will be tentatively named Xi an Wanjie Huaxiang Medical Investment Co., Ltd.

As of September 30, 2009, we paid RMB18.0 million (US$2.6 million) towards the establishment of the Chang an CMS International Cancer Center. We and the other parties to the agreements are currently in the process of applying for the relevant permits and licenses in order to establish the Chang an CMS International Cancer Center as an independent for-profit hospital in the PRC. Total development costs for the completion of the Chang an CMS International Cancer Center are expected to be approximately RMB250.0 million (US$36.6 million). We plan to fund the development of the Chang an CMS International Cancer Center with proceeds raised from this offering and with bank loans. We expect to obtain bank loans of approximately RMB90.0 million (US$13.2 million) in 2010 to fund the hospital s development.

Beijing Proton Medical Center. We have also entered into a framework agreement with Chang an Information Industry to establish the Beijing Proton Medical Center. The Beijing Proton Medical Center will allow us to bring the latest in radiotherapy treatment technology to China and increase the radiotherapy treatment options available to cancer patients. The Beijing Proton Medical Center is expected to be operational in 2012 and is expected to be the first proton beam therapy system in China licensed for clinical use. The Beijing Proton Medical Center is expected to have a gross floor area of approximately 12,700 square meters and have 50 licensed patient beds. The Beijing Proton Medical Center will primarily offer treatments using a proton beam therapy system, which treatments are designed to be non-invasive and usually do not require hospitalization. As a result, the Beijing Proton Medical Center will not require the use of as many patient beds as the Chang an CMS International Cancer Center.

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In addition, the proton beam therapy system occupies a much larger installation area than the radiotherapy and diagnostic imaging equipment that is to be used in the Chang an CMS International Cancer Center, which reduced physical areas for licensed beds that can be made available in the Beijing Proton Medical Center.

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

The framework agreement provides that it will only become effective upon our payment of RMB10.0 million (US$1.5 million) in deposit to Chang an Information Industry. As of the date of this prospectus, we have not made such deposits. However, we have, as of September 30, 2009, provided Beijing Century Friendship with interest-free loans of RMB14.6 million (US$2.1 million) for working capital purposes towards establishing the Beijing Proton Medical Center. All outstanding amounts of such loans are expected to be repaid before the end 2009. We are currently waiting for the relevant permits and approvals to be obtained by the other shareholders to the Beijing Proton Medical Center. We plan to enter into additional definitive agreements as to the establishment of the Beijing Proton Medical Center after the relevant permits and approvals are obtained. Total development costs for the completion of Beijing Proton Medical Center are expected to be approximately RMB500.0 million (US$73.2 million) to RMB600.0 million (US$87.9 million). We plan to fund the development of the Beijing Proton Medical Center with proceeds raised from this offering and with bank loans. We expect to obtain bank loans of approximately RMB100.0 million (US$14.6 million) in 2010 to fund the hospital s development.

Other Business Arrangements

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

Service Offerings in Our Network

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

Linear Accelerators External Beam Radiotherapy

As of September 30, 2009, we owned 15 linear accelerators and one MM50 intensity-modulated radiation therapy system. Linear accelerators use microwave technology to deliver a high-energy x-ray beam directed at the tumor. Linear accelerators can be used to treat tumors in the brain or elsewhere in the body. A typical course of treatment given to a patient ranges from 20 to 40 daily sessions and with each session lasting for 10 to 20 minutes. Since linear accelerators move during treatment, they are not as precise as gamma knife systems. However, linear accelerators are capable of treating larger tumors. Linear accelerators can also be integrated with specialized computer software and advanced imaging and detection equipment to provide more effective and advanced treatments. Such advanced treatments include three-dimensional conformal radiation therapy, which uses imaging equipment to create detailed, three-dimensional representations of the tumor and surrounding organs. The radiation beam can then be shaped to match the patient s tumor, thereby reducing the radiation damage to healthy tissues. In general, such advanced modalities increase the medical service fees that can be charged as compared to the maximum medical service fees that can be charged for treatments.

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Gamma Knife Radiosurgery

A gamma knife is used in radiosurgery for the treatment of tumors and other abnormal growths. A gamma knife uses multiple radiation sources, which differentiates it from traditional radiotherapy where only a single radiation source is used. These radioactive sources, which are typically cobalt-60, a radioactive isotope, emit gamma rays that are passed through a collimator unit to produce a highly-focused beam of radiation. The individual beams then converge to deliver an extremely concentrated dose of radiation to locations within the patient that are identified using imaging guidance systems, such as PET-CT or MRI scanners. The intense radiation produced by a gamma knife at a precise target point destroys tumor cells, while minimizing damage to the surrounding healthy tissues. The treatment procedure is minimally or non-invasive and may be used as a primary or supplementary treatment option for cancer patients. The treatment requires no general anesthesia and provides an alternative treatment option to patients who may not be good candidates for surgery. In addition, the gamma knife procedure usually involves shorter patient hospitalization, is more cost effective than surgery and avoids many of the potential risks and complications that are associated with other treatment options. Our network of centers currently operates two types of gamma knife systems, head gamma knife systems and body gamma knife systems. As of September 30, 2009, we owned 26 gamma knife systems, including 16 head gamma knife systems and 10 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.

Proton Beam Therapy

Proton beam therapy is a form of external beam radiotherapy that uses beams of protons rather than the x-ray beams used by linear accelerators. The advantages of proton beam therapy compared to other types of external beam radiotherapy is that a proton beam s signature energy distribution curve, known as the Bragg peak, allows for greater accuracy in targeting tumor cells so that healthy tissue is exposed to a smaller dosage. Proton beam therapy can focus cell damage caused by the proton beam at the precise depth of the tissue where the tumor is situated, while tissues located before the Bragg peak receive a reduced dose and tissues situated after the peak receive none. These advantages make proton beam therapy a preferred option for treating certain types of cancers where conventional radiotherapy would damage surrounding tissues to an unacceptable level, such as tumors near optical nerves, the spinal cord or central nervous system and in the head and neck area, as well as prostate cancer and cancer in pediatric cases. Proton beam therapy is not a widely utilized treatment modality, with only approximately 30 proton beam therapy treatment centers in operation or under construction worldwide. We plan to enter into the proton therapy market with the construction of our Beijing Proton Medical Center. See Our Network of Centers and Specialty Cancer Hospitals Specialty Cancer Hospitals.

Diagnostic Imaging

Our network of centers employs a wide range of diagnostic imaging equipment. Such equipment includes some of the most advanced diagnostic imaging technology available in China, including PET-CT scanners. A PET-CT scanner is a device that combines a positron emission tomography, or PET, scanner and a computed tomography, or CT, scanner in one unit. PET-CT scanners allow the functional imaging obtained by PET scanning, which depicts the spatial distribution of metabolic or biochemical activities in the body, to be more precisely aligned or correlated with the anatomic imaging obtained by a CT scanner. Other diagnostic imaging services offered in our centers include MRI, CT and ECT. 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 September 30, 2009, we owned seven PET-CT scanners and 16 MRI scanners.

Other Treatment and Diagnostic Modalities

Our network also includes centers that provide other treatments and diagnostic services through the use of other types of medical equipment. Such equipment currently includes 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 2008 and for the nine months ended September 30, 2009, revenues derived from centers that provide such other services were approximately 2.9% and 2.5%, respectively, of our total net revenues.

Medical Equipment Procurement

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

In accordance with the relevant PRC laws and regulations, the procurement, installation and operation of Class A or Class B large medical equipment by hospitals in China are subject to procurement quotas or procurement planning and a large medical equipment procurement license must be obtained prior to the purchase of such medical equipment. For medical equipment classified as Class A large medical equipment, which includes gamma knife systems, proton beam therapy systems and PET-CT scanners, quotas are set by the MOH and the NDRC and large medical equipment procurement licenses are issued by the MOH. 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 MOH 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 Regulation of Our Industry Regulation of Medical Institutions Large Medical Equipment Procurement License.

Once non-profit hospitals have obtained large medical equipment procurement licenses, the purchase of medical equipment for such hospitals is conducted through a collective tender process. The tender process is centralized in accordance with relevant PRC laws and regulations and is supervised by the MOH 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.

Operation of Radiotherapy and Diagnostic Imaging Centers in Our Network

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

Management Structure

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

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

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

For our specialty cancer hospitals Chang an CMS International Cancer Center and Beijing Proton Medical Center, we will have full operating control over all clinical and non-clinical aspects of such hospitals operation, including direct supervision over medical decisions made by doctors.

Staffing

In addition to the operations director or project manager appointed by us to each center, we also typically staff each center with dedicated marketing and accounting personnel. Our hospital partners appoint medical directors to the centers and, except in very limited cases, they also assign all of the doctors and other medical personnel to the centers.

However, we also help our hospital partners to recruit many of the doctors or medical personnel providing services at the center. We provide feedback to our hospital partners as to the suitability and performance of the doctors and other medical personnel at each center, and work with our hospital partners to ensure that each center is staffed with the most qualified and suitable personnel. In addition, we help our hospital partners to determine the compensation of doctors and other medical personnel providing services in our network of centers. We also, on a very limited basis, enter into employment agreements with doctors to work at centers in our network after consulting with our hospital partners where such centers are based.

We are currently in the process of establishing specialty cancer hospitals. We will be responsible for employing and managing all personnel of these specialty cancer hospitals, including doctors and other medical personnel.

Medical Affairs

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

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

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

Marketing

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

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

Accounting and Payment Collection

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

Medical Equipment Maintenance and Repair

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

Pricing of Medical Service

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

Business Development

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

- population density, demographics and the level of economic development of the regions or cities in which such new centers would be located; and

- the reputation of the potential hospital partner and its doctors, nurses and other personnel and the number of licensed patient beds and patient volume.

After each potential opportunity is identified and evaluated by the business development team or the hospital investment team, as applicable, the opportunity is presented to our investment evaluation committee for review. Our investment evaluation committee is comprised of several of our senior executives and members of our board of directors, and includes Mr. Steve Sun, the chairman of the committee, Mr. Jing Zhang, Dr. Zheng Cheng, Mr. Yaw Kong Yap and Ms. Elaine Zong. New projects need to be approved by a super-majority approval of our investment evaluation committee and by our chief executive officer.

Employees

Our employees consist of all personnel that work in our headquarters and our regional offices and certain personnel that work in our network of centers. Our employees in our network are generally the operations directors or project managers and the marketing, accounting or administrative personnel of the centers. We had 57, 58, 130 and 150 employees as of December 31, 2006, 2007 and 2008 and September 30, 2009, respectively. The following table set forth certain information about our employees by function as of the period indicated:

	As of September 30, 2009	% of Total Employees
Administration	28	18.7%
Financial control	37	24.7
Operation	62	41.3
Marketing	11	7.3
Business development	7	4.7
Medical development	5	3.3
Total	150	100.0%

We have entered into employment agreements with each of our employees. We may terminate the employment of any of our employees in the event that such employee s actions have resulted in material and demonstrable harm to our interests or if the employee has not performed as expected. An employee may typically terminate his or her employment at any time for any material breach of the employment agreement by us. The employee may also terminate the employment agreement at any time without cause upon 30 days prior notice. Each of our employees who have access to sensitive and confidential information has also entered into a non-disclosure and confidentiality agreement with us. For information as to employment agreements with our executive officers, see Management Employment Agreements. We are required under PRC law to make contributions to our employee benefit plans based on specified percentages of the salaries, bonuses, housing allowances and certain other allowances of our employees, up to a maximum amount specified by the respective local government authorities. The total amount of the contributions that we made to employee benefit plans in 2007, 2008 and for the nine months ended September 30, 2009 was RMB0.2 million, RMB0.9 million (US$0.1 million) and RMB1.7 million (US$0.3 million), respectively.

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

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

Competition

The radiotherapy and diagnostic imaging market in China is fragmented and the competition is intense. The centers in our network compete primarily on a regional or local basis with government-owned and private hospitals that offer radiotherapy and diagnostic imaging services either directly or in conjunction with third parties, such as China Renji Medical Group Ltd. and Jiancheng Investment Co. In addition, since hospitals typically establish radiotherapy and diagnostic imaging centers located on their premises through long term lease and management services arrangements with us or our competitors, in a given locality over a given period there may only be a limited number of top-tier hospitals who have not yet entered into long-term arrangements with us or other companies like

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us with whom we are still able to enter into new arrangements. In addition, quotas as to the number and type of certain medical equipment that can be purchased by us or our hospital partners, such as head gamma knife systems of PET-CT scanners, further limit the number of top-tier hospitals that we or our competitors can enter into arrangements with in a given period. We primarily compete with our competitors on the range of the option of services provided by us and our competitors, the reputation of centers in our network among doctors and patients in China and level of patient service and satisfaction.

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

Environmental Matters

The MOH 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 MOH and the environmental protection authorities have also promulgated a series of specific regulations on the disposal of dangerous medical waste and the requirements of vehicles used to transport medical wastes. In addition, certain of the medical equipment used in our network of centers, such as gamma knife systems, use radioactive sources. In accordance with the *Regulation on Radioisotope and Radiation Equipment Safety and Protection* promulgated by the PRC State Council in 2005, these radioactive sources should be returned to the manufacturer of such radioactive materials or sent to dedicated radioactive waste disposal units appointed by the MEP. Radioactive materials are generally obtained from, and returned to, the medical equipment manufacturers or other third parties, which then have the ultimate responsibility for their proper disposal. However, as all centers in our network are located on the premises of our hospital partners, we do not directly oversee the disposal of certain medical waste generated in the centers. The failure of any of our hospital partners to dispose of such waste in accordance with PRC laws and regulations may have an adverse effect on the operation of centers in our network. See Risk Factors Risks Related to Our Company Most of our radiotherapy and diagnostic imaging equipment contains radioactive materials or emits radiation during operation. For our specialty cancer hospitals, we will be responsible for the disposal of the medical waste generated.

Insurance

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

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

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Facilities

Our principal headquarters are located at 18/F, Tower A, Global Trade Center, 36 North Third Ring Road East, Dongcheng District, Beijing, 100013. We occupy and use this office space with a gross floor area of approximately 1,931 square meters, pursuant to lease agreements entered into in March 2009 each with a term of three years. The following table sets forth our other leased properties as of the date of this prospectus:

Location	Size (in square meters)	Expiration Date
Shanghai	16	November 2010
Shanghai	34	May 2010
Shanghai	195	January 2011
Shenzhen	522	November 2012

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

Intellectual Property

We have applied to the PRC Trademark Office of the State Administration for Industry and Commerce for the registration of our trademark Medstar to protect our corporate name. We also own the rights to 146 domain names that we use in connection with the operation of our business. Many of the domain names that we own include domain names in Chinese that contain relevant key words associated with various types of cancer, radiotherapy, gamma knife systems, linear accelerators or other medical equipment used or treatments and services provided in our network. We believe that such domain names provide us with the opportunity to enhance our marketing efforts for the treatments and services provided in our network and enhance patients knowledge as to cancers, the benefits of radiotherapy and the various treatment options that are available. Other than the use of our trademark and domain names, our business generally is not directly dependent upon any patents, licensed technology or other intellectual property. However, we cannot be certain that the equipment manufacturers from which we purchase equipment have all requisite third-party consents and licenses for the intellectual property used in the equipment they manufacture. As a result, those equipment manufacturers may be exposed to risks associated with intellectual property infringement and misappropriation claims by third parties which, in turn, may subject us to claims that the equipment we have purchased infringes the intellectual property rights of third parties. See Risk Factors Risk Related to Our Company We may fail to protect our intellectual property rights or we may be exposed to misappropriation and infringement claims by third parties, either of which may have a material adverse effect as to our business. As we begin to operate specialty cancer hospitals under our own brand name in the future and as our brand name gains more recognition among the general public, we will work to increase, maintain and enforce our rights in our trademark portfolio, the protection of which is important to our reputation and branding strategy and the continued growth of our business.

Legal and Administrative Proceedings

On December 4, 2009, we received a notice that a legal proceeding was initiated against us that alleges a gamma knife system currently in use in certain centers in our network was previously found to infringe upon the patent of a third party. This claim relates to a patent used in the head gamma knife system manufactured by one of our equipment manufacturers, Our Medical New Technology. A previous legal proceeding involving such patent was initiated in June 2000 against Our Medical New Technology, its related parties and our subsidiary, AMS. The relevant PRC court determined in 2004 that all head gamma knife systems manufactured by Our Medical New Technology after the patent owner began to contest the use of such patent on December 23, 1999 were manufactured without the requisite consent to use the patent in question. The relevant PRC court also ordered the use of such

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equipment to cease. We are currently assessing the validity and the potential impact of the claim filed against us. Based on our current assessment, we have identified one head gamma knife system in one of the centers in our network that may be subject to such claim. Revenue derived from such center represented approximately 1.5% and 1.0% of our total net revenues in 2008 and for the nine months ended September 30, 2009, respectively. Our Medical New Technology, the manufacturer of the head gamma knife system that may be subject to this claim, has agreed to indemnify us for any damages or losses that we may incur from any intellectual property infringement by such system. We are also continuing to assess whether there is any other medical equipment in our network that might be subject to this claim. We do not currently believe that this claim would result in a material adverse effect on our business, financial condition or results of operations.

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

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REGULATION OF OUR INDUSTRY

General Regulatory Environment

China s healthcare industry is regulated by various government agencies, including the Ministry of Health, or MOH. The MOH has branch offices across China that oversee the healthcare industry at the provincial and county levels, which branch offices, together with the MOH, 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, Aohua Medical, Xing Heng Feng Medical and Aohua Leasing must each obtain a medical equipment operating enterprise permit from the relevant provincial drug supervision and administration agency pursuant to the *Medical Equipment Supervision and Administration Regulation* effective as of April 1, 2000. Each such permit is valid for a term of five years and, prior to expiration, must be reviewed by and an extension of its term must be obtained from the relevant authorities. All of our aforementioned subsidiaries have received a medical equipment operating enterprise permit.

Radiation Safety Permits

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

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

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Leasing Company Permit

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

Regulation of Medical Institutions

Distinction between For-Profit and Non-Profit Medical Institutions

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

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

Medical Institution Practicing License

Pursuant to the *Regulation on Medical Institution* issued on February 26, 1994 by the PRC State Council, any organization or individual that intends to establish a medical institution must obtain a medical institution practicing license from the relevant healthcare administrative authorities. In determining whether to approve any application, the relevant healthcare administrative authorities are to consider whether the proposed medical institution comports with the population, medical resources, medical needs and geographic distribution of existing medical institutions in the regions for which such authorities are responsible as well as whether the proposed medical institution meets the basic medical standards set by the MOH. The independent specialty cancer hospitals that we intend to establish would each 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 MOH, is regulated by the *Rules on Procurement and Use of Large Medical Equipment* issued on December 31, 2004 by the MOH, 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 MOH 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 MOH and the NDRC and large medical equipment procurement licenses are issued by the MOH. 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 MOH 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 *2008-2010 National PET-CT Procurement Plan* issued on May 13, 2008 by the MOH and the NDRC, the total number of PET-CT large medical equipment procurement licenses issued in China cannot exceed 38 from the date of the plan through the end of 2010. In accordance with the *National Gamma Ray Stereotactic Head Radiosurgery System Procurement Plan* issued on March 20, 2007 by the MOH 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 MOH for approval. There is currently no guidance as to the total number of large medical equipment procurement licenses that may be issued for other types of medical equipment that the centers in our network operate.

With respect to any Class A or Class B large medical equipment purchased before the *Rules on Procurement and Use of Large Medical Equipment* came into effect on March 1, 2005, the medical institution that houses such equipment must apply to the MOH 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 in lieu thereof. Moreover, any medical institution holding an interim permit must pay taxes on income derived from the use of the equipment covered by the interim permit and, upon the expiration of the useful life of such medical equipment, the medical institution must dispose of such equipment and is not permitted to replace it with a newer model. Some of our medical equipment have not yet received a large medical equipment procurement license or an interim permit. For more information, see 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 MOH and are required to obtain a radiotherapy permit from the relevant healthcare administrative authorities. These rules require such medical institutions to possess qualifications sufficient for radiotherapy work, which include having adequate facilities for housing radiotherapy equipment as well as having qualified, properly trained personnel. Medical institutions that operate medical equipment containing radioactive materials are also required to obtain a radiation safety permit. See Permits Required by Our Company Radiation Safety Permits.

Radiation Worker Permit

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

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Regulation of Military Hospitals

The procurement, installation and operation of large medical equipment by medical institutions of the PLA is regulated by the healthcare administrative authority of the general logistics department of the PLA with reference to the *Rules on Procurement and Use of Large Medical Equipment*. The general logistic department of the PLA issues a large equipment application permit to those military hospitals approved for procurement. The procurement planning records and annual reviews are provided to the MOH 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 MOH, 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 MOH, the State Administration of Traditional Chinese Medicine, the Ministry of Finance and the NDRC, a non-profit medical institution that lacks sufficient funds to purchase medical equipment outright may enter into a leasing agreement pursuant to which the medical institution leases medical equipment at market rates. In response to this regulatory change, we have replaced the majority of our cooperation agreements with non-profit civilian hospitals with leasing and management agreements. See Risk Factors Risks Related to Our Company We may not be successful in negotiating the conversion of a few of our cooperation agreements with our partner hospitals into lease and management arrangements due to regulatory changes.

Regulation of Proton Treatment Centers

Pursuant to the *Administrative Measures on Clinical Application of Medical Technology*, effective as of May 1, 2009, medical institutions must apply to the MOH for approval before utilizing certain medical technologies. On November 13, 2009, the MOH 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 MOH prior to the promulgation of these new rules. These rules will apply to any proton or heavy ion radiotherapy treatment centers that we or our hospital partners may build and operate in the future.

Registration of Doctors

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

Pricing of Medical Services

Pursuant to the *Opinion Concerning the Reform of Medical Service Pricing Management* issued by the NDRC and the MOH on July 20, 2000, medical services fees generated through the use of both Class A and Class B large medical equipment at non-profit medical institutions and military hospitals are subject to the pricing guidelines of the relevant provincial or regional price control authorities and healthcare administrative authorities. The pricing guidance sets forth the range of medical services fees that can be charged by non-profit medical institutions and military hospitals. For-profit medical institutions are not subject to such pricing restrictions and are entitled to set medical services fees based on their cost structures, market demand and other factors. According to the *Implementation Plan for the Recent Priorities of the Health Care System Reform (2009-2011)*, which was issued by the State Council on March 18, 2009, the Chinese government is aiming to reduce the examination fees for large medical equipment. In addition, according to the *Opinion on the Reform of Pharmaceuticals and Healthcare Service Pricing Structures* issued on November 9, 2009 by the NDRC, the MOH and the MHRSS, the Chinese government is also aiming to reduce the treatment fees for large medical equipment. See 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 2008	Approximately 200.0 million (33.0% of China s urban population)	Approximately 118.3 million (19.5% of China s urban population)	Approximately 815 million (91.5% of China s rural population)
Total reimbursement amount in 2008	RMB208.4 billion	N/A	RMB66.2 billion
Funding	Employers and employees: employer contributes approximately 6% of each employee s total salary; and employee contributes approximately 2% of such employee s total salary.	Households and the government: monthly premium are paid by each household; and government subsidizes no less than RMB80 per person annually and RMB40 per person annually for the mid/western regions of China, with greater subsidies provided to low-income families and disabled persons.	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 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: All of the employee s contribution and 30% of the employer s	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

	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.		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.
Examples of Local Reimbursement Policy	<u>Shanghai:</u> reimbursement cap from the social medical expense pool for an individual participant in a calendar year is approximately four times the average annual salary in Shanghai from the previous year. <u>Inner Mongolia:</u> reimbursement cap from the social medical expense pool for an individual participant in a calendar year is RMB25,000.	<u>Jiangsu Province:</u> approximately 50% to 60% of medical expense can be reimbursed by the program. <u>Sichuan Province:</u> approximately 60% (and not less than 50%) of medical expense can be reimbursed by the program. <u>Guangdong Province:</u> approximately 40% to 60% of medical expense can be reimbursed by the program; maximum reimbursement amount is approximately two times the average annual salary in Guangdong province from the previous year.	<u>Guangdong Province:</u> maximum reimbursement amount is approximately RMB50,000 per person per year. <u>Hubei Province:</u> maximum reimbursement amount for hospitalization is approximately RMB30,000 per person per year. <u>Anhui Province:</u> maximum reimbursement amount for hospitalization is approximately RMB30,000 per person per year.

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

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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*. As a result, SAFE Circular No. 142 may significantly limit our ability to transfer the net proceeds from this offering to our PRC subsidiaries, which may adversely affect the continued growth of our business.

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

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

Dividend Distributions

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

Regulations Relating to Employee Share Options

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

Pursuant to Circular No. 106, employee stock award plans of SPVs and employee share option plans of SPVs must be filed with the SAFE while applying for the registration for the establishment of the SPVs. After employees exercise their options, they must apply for an amendment to the registration for the SPV with the SAFE. We intend to comply with these regulations and to ask our PRC optionees to comply with these regulations. 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 Aohua Medical and Shanghai Medstar were already foreign-invested enterprises before September 8, 2006, the effective date of the M&A Rule. Jingtian & Gongcheng Attorneys At Law has further advised us that their opinions summarized above are subject to the timing and content of any new laws, rules and regulations or clear implementations and interpretations from the CSRC in any form relating to the M&A Rule.

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Regulation of Loans between a Foreign Company and its Chinese Subsidiary

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

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

Taxation

For a discussion of applicable PRC tax regulations, see Management s Discussion and Analysis of Financial Condition and Results of Operations Taxation.

Regulation on Employment

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

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MANAGEMENT

Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers.

Name	Age	Position/Title
Jianyu Yang	38	Director, chief executive officer and president
Zheng Cheng	45	Co-chairman of the board of directors and chief operating officer
Steve Sun	48	Co-chairman of the board of directors and chief financial officer
Jing Zhang	45	Director and executive president
Yaw Kong Yap	45	Director and financial controller
Shirley Chen	44	Director
Feng Xiao	37	Director
Elaine Zong	38	Director
Wai Hong Ku	58	Director
Denny Lee*	41	Independent director
Boxun Zhang	33	Corporate vice president

* Mr. Denny Lee has accepted our appointment to be an independent director of our company, effective upon the commencement of trading of our ADSs on the NYSE.

Dr. Jianyu Yang has served as a director of our company and our chief executive officer and president since 2007. Prior to joining our company, Dr. Yang served as chief executive officer of Eguard Resource Development Co., Ltd., a PRC company listed on the Shenzhen Stock Exchange in China principally engaged in the provision of comprehensive solutions in recycling, re-use of solid wastes and wastewater since 2003, vice president of Beijing Sound Environmental Group Co. Ltd. from 2002 to 2003, assistant to the general manager of Xiangcai Securities Co., Ltd. from 2000 to 2002, and senior economist at China Agricultural Bank from 1999 to 2000. Dr. Yang received a doctorate degree in economics from Liaoning University in 1999 in China.

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

Mr. Steve Sun has served as co-chairman of our board of directors since 2008 and our chief financial officer since 2009. Mr. Sun was a director and the president of Aohua Medical from 2006 to 2008. Prior to joining our company, Mr. Sun served as the chief operating officer of Sunshine100 Real Estate Group, a Beijing-based real estate company, from 2004 to 2005 and executive vice president of AE Capital Markets Inc., a New York-based investment bank, from 1997 to 2000. Mr. Sun received a master s degree in business management from the University of Chicago in 1996, a master s degree in operational research from Xidian University in 1985 and a bachelor s degree in mathematics from

Heilongjiang University in 1983.

Mr. Jing Zhang has served as a director of our company and our executive president since 2008. Mr. Zhang was a co-founder of China Medstar. Prior to founding China Medstar in 1996, Mr. Zhang was in charge of research and development at the Institute of Chemistry of Beijing Timber General Co., Ltd. from 1987 to 1996. Mr. Zhang received a bachelor s degree in polymer chemistry from the Beijing Institute of Chemical Technology in 1987.

Mr. Yaw Kong Yap has served as a director of our company and our financial controller since 2008. Mr. Yap joined China Medstar in 2005 and served as its chief financial officer prior to our acquisition of China Medstar. Prior to joining China Medstar, Mr. Yap served as the chief executive officer of Advanced Produce Centre Development Pte, Ltd., a Singapore real estate company, from 2003 to 2005, the chief financial officer of Global Fruits Pte Limited from 1999 to 2003, the regional financial controller of America Air Filtration Asia from 1996 to 1998 and the financial controller of Chevalier International (USA) Ltd. from 1991 to 1996. Mr. Yap received a bachelor s

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degree from Indiana University of Pennsylvania in the United States in 1990. Mr. Yap was a Certified Public Accountant in the United States.

Ms. Shirley Chen has served as a director of our company since 2007. Ms. Chen is also currently a managing director of China International Capital Corporation Limited, or CICC, and head of private equity and chief executive officer of CICC Investment Group Company Limited, an affiliate of CICC. Ms. Chen joined CICC in 2003 and was a managing director of its Investment Banking Department. Prior to joining CICC, she was a director of Credit Suisse First Boston and worked in its Investment Banking Division in New York and Hong Kong from 1995 to 2002. Ms. Chen received an M.B.A. degree from Yale University s School of Management, a master of law degree in International Economic Law from Wuhan University and a bachelor of law degree in International Law from Wuhan University in China.

Mr. Feng Xiao has served as a director of our company since 2008. Mr. Xiao is also currently a managing director of the Carlyle Group, focusing on growth capital investments in China. Mr. Xiao had served as a vice president at CICC from 2000 to 2005, where he had been involved in the restructuring and listing of a number of leading Chinese companies, and worked at as a lawyer and a registered trademark agent at China Patent Agent (HK) Limited from 1995 to 1998. Mr. Xiao received an M.B.A. degree from the China Europe International Business School in 1999 and a bachelor s degree in both computer science and English from Tsinghua University in 1995. Mr. Xiao also holds a lawyer s qualification certificate in China.

Ms. Elaine Zong has served as a director of our company since 2008. Ms. Zong is also currently a managing director of C.V. Starr Investment Advisors (Asia) Limited, focusing on private equity investments in China. Ms. Zong served as senior vice president at Deutsche Bank from 2005 to 2006, as vice president at Merrill Lynch from 2001 to 2003, and as an associate in the investment banking division of J.P. Morgan from 1998 to 2001. Ms. Zong received an M.B.A. degree from the University of Chicago in the United States in 1998 and a bachelor s degree in economics from Fudan University of China in 1992. Ms. Zong is a Chartered Financial Analyst.

Mr. Wai Hong Ku has served as a director of our company since 2005. Mr. Ku is also currently a member of the board of directors and the general manager of Yanli Paper (China) Limited. Mr. Ku was the general manager of Fengjia Industries Co., Ltd. from 1992 to 1995 and was a project planning manager and the general manager of Zhong Fa Development Company of Addi Lee & Partners Limited from 1979 to 1992, responsible for the development of hotels and other properties.

Mr. Denny Lee will become an independent non-executive director of our company upon the commencement of trading of our ADSs on the NYSE. Mr. Lee is currently a non-executive director of Netease.com, Inc., a company listed on the Nasdaq Global Select Market, and an independent director and chairman of the audit committee of three NYSE listed companies, New Oriental Education & Technology Group Inc., Acorn International, Inc. and Gushan Environmental Energy Limited. Previously, Mr. Lee was the chief financial officer of Netease.com until June 2007 and the financial controller of Netease.com from November 2001 to April 2002. Prior to joining Netease.com in 2001, Mr. Lee worked in the Hong Kong office of KPMG for more than ten years. Mr. Lee graduated from the Hong Kong Polytechnic University majoring in accounting and is a member of The Hong Kong Institute of Certified Public Accountants and The Chartered Association of Certified Accountants.

Mr. Boxun Zhang has served as corporate vice president of our company since August 2009. Prior to joining our company, from 2006 to August 2009, Mr. Zhang served as the director of financial and business analysis, financial controller and investment controller of Suntech Power Holdings Co., Ltd, a Cayman Islands company listed on the NYSE principally engaged in the design, manufacture and sale of solar energy products. Mr. Zhang previously worked for the investment bank department of Credit Suisse from 2004 to 2005 and was a senior auditor for PricewaterhouseCooper from 1998 to 2002. Mr. Zhang received his MBA degree from Cass Business School in the United Kingdom in 2004 and a bachelor s degree in accounting and auditing from Wuhan University in China in 1998.

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

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Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. A shareholder has the right to seek damages if a duty owed by our directors is breached.

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

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

Board of Directors

Upon the completion of this offering, we expect that our board of directors will have 10 directors, consisting of one independent director. Our board of directors will establish an audit committee and a compensation committee upon the completion of this offering. We currently do not plan to establish a nominating committee. We have adopted a charter for each of the audit and compensation committees, which will become effective immediately upon the completion of this offering. Each committee s members and functions are described below.

Audit Committee

Our audit committee will initially consist of Mr. Denny Lee, Mr. Feng Xiao and Mr. Wai Hong Ku. Mr. Denny Lee will be the chairman of our audit committee and meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Our board of directors has determined that Mr. Denny Lee satisfies the requirements for an independent director within the meaning of Section 303A of the NYSE Listed Company Manual and will meet the criteria for independence set forth in Rule 10A-3 of the Exchange Act. Our board of directors has also determined that the simultaneous service by Mr. Denny Lee on the audit committee of three other public companies would not impair his ability to effectively serve on our audit committee. Our audit committee will consist of two independent directors within 90 days of our initial public offering and solely of independent directors within one year of our initial public offering. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting our independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by our independent registered public accounting firm;
- reviewing with our independent registered public accounting firm any audit problems or difficulties and management s response;
- reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;

discussing the annual audited financial statements with management and our independent registered public accounting firm;

reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of significant control deficiencies;

annually reviewing and reassessing the adequacy of our audit committee charter;

such other matters that are specifically delegated to our audit committee by our board of directors from time to time;

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meeting separately and periodically with management and our internal auditor and independent registered public accounting firm; and

reporting regularly to the full board of directors.

Compensation Committee

Our compensation committee will initially consist of Ms. Shirley Chen and Mr. Feng Xiao. Ms. Shirley Chen will be the chairperson of our compensation committee. Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

approving and overseeing the compensation package for our executive officers;

reviewing and making recommendations to the board with respect to the compensation of our directors;

reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating the performance of our chief executive officer in light of those goals and objectives, and setting the compensation level of our chief executive officer based on such evaluation; and

reviewing periodically and making recommendations to the board regarding any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

Interested Transactions

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

Remuneration and Borrowing

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

Qualification

There is no shareholding qualification for directors.

Terms of Directors and Executive Officers

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

Employment Agreements

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

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

Compensation of Directors and Executive Officers

In 2008, the aggregate cash compensation to all of our directors and our executive officers was RMB1.2 million (US$0.2 million). For share-based compensation, see Share Incentive Plans. The total amount accrued in 2008 for pension, retirement or other similar benefits to our directors and our executive officers was approximately RMB240,000 (US$35,000).

Share Incentive Plans

OMS Share Option Plan

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

On August 18, 2008, the board of directors of OMS contemplated that the OMS grantees had achieved certain performance conditions outlined in the OMS option plan. However, as the capital structure of our company had changed at that time such that we had replaced OMS as the ultimate holding company of our subsidiaries, the board of directors of OMS resolved that the OMS option plan would be settled in vested options to purchase 21,184,600 ordinary shares to purchase shares of our company, with each option having an exercise price of US$0.79 exercisable before December 31, 2008. On the same day, two of the OMS grantees, Mr. Jianyu Yang and Mr. Steve Sun, exercised their respective options to purchase an aggregate of 6,355,400 ordinary shares of our company, with total proceeds from such exercise received by us amounting to approximately RMB34.4 million (US$5.0 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 (US$0.6 million) in 2008, which was recorded in general and administrative expenses.

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2008 Share Incentive Plan

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

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

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

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

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

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

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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, we granted options to purchase an aggregate of 4,765,800 ordinary shares, of which options to purchase an aggregate of 1,716,500 ordinary shares were granted to our executive officers and directors, including 288,700 ordinary shares to Mr. Jianyu Yang, 288,700 ordinary shares to Mr. Zheng Cheng, 264,400 ordinary shares to Mr. Steve Sun, 250,000 ordinary shares to Mr. Jing Zhang, 230,000 ordinary shares to Mr. Yaw Kong Yap, 264,400 ordinary shares to Mr. Boxun Zhang and 130,300 ordinary shares to Mr. Denny Lee, and the remainder to other employees. Such options have an exercise price equal to the initial public offering price per ordinary share in this offering, are subject to a four-year vesting schedule with 25% vesting on each of the first, second, third and fourth anniversary of the grant date, and will terminate no later than eight years from their grant date.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information with respect to the beneficial ownership of our ordinary shares, as of the date of this prospectus, assuming the conversion of all outstanding Series A and Series B contingently redeemable convertible preferred shares into ordinary shares, by:

each of our directors and executive officers;

each person known to us to own beneficially more than 5.0% of our ordinary shares; and

each other selling shareholders.

Beneficial ownership is determined in accordance with rules and regulations of the SEC. In computing the number of shares beneficially owned by a person or the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days of this offering, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person. The calculation of the number of shares also assumes the conversion of all of our Series A and Series B contingently redeemable convertible preferred shares into our ordinary shares upon the completion of this offering. Percentage of beneficial ownership of each listed person prior to this offering is based on 111,455,500 ordinary shares outstanding as of the date of this prospectus, including 41,027,400 ordinary shares convertible from our outstanding Series A and Series B contingently redeemable convertible preferred shares. Percentage of beneficial ownership of each listed person after the offering is based on 147,455,500 ordinary shares outstanding immediately after the closing of this offering.

The table below assumes the exercise in full of the underwriters option to purchase up to an additional 1,800,000 ADSs to be sold by the selling shareholders.

	Ordinary Shares Beneficially Owned Prior to This Offering		Ordinary Shares Being Sold in This Offering		Ordinary Shares Beneficially Owned After This Offering	
	Number	%	Number	%	Number	%
Directors and Executive Officers:						
Jianyu Yang(1)	4,065,800	3.6			4,065,800	2.8
Zheng Cheng(2)	7,319,900	6.6			7,319,900	5.0
Steve Sun(3)	4,065,800	3.6			4,065,800	2.8
Jing Zhang(4)	2,979,900	2.7			2,979,900	2.0
Yaw Kong Yap(5)	*	*			*	*
Shirley Chen(6)	7,533,800	6.8			7,533,800	5.1
Feng Xiao(7)	26,172,700	23.5			26,172,700	17.7
Elaine Zong(8)	10,418,000	9.3			10,418,000	7.7
Wai Hong Ku(9)	2,889,500	2.6			2,889,500	2.0
Boxun Zhang(10)	*	*			*	*
	66,240,400	59.4			66,240,400	44.9

All directors and executive officers as a group						
Principal and Selling Shareholders:						
Carlyle Entities[(11)]	26,172,700	23.5			26,172,700	17.7
Notable Enterprise Limited[(12)]	23,321,300	20.9	3,000,000	2.7	20,321,300	13.8
Starr Investments Cayman II, Inc.[(13)]	10,418,000	9.3			10,418,000	7.7
Grand Best Group Limited[(14)]	9,215,800	8.3	1,200,000	1.1	8,015,800	5.4
CZY Investments Limited[(15)]	7,319,900	6.6				