We believe that the sources of the information in this section are appropriate sources for such information, and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading, or that any fact has been omitted that would render such information false or misleading. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information that would qualify, contradict or have a material impact on such information since the date of the Frost & Sullivan Report. The information from official government and non-official sources has not been independently verified by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Managers, any of the Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. Accordingly, the official government and non-official sources contained herein may not be accurate and should not be unduly relied upon.

SOURCE OF INFORMATION

We engaged Frost & Sullivan, a market research consultant, to prepare the industry report for use in this prospectus. Frost & Sullivan, founded in 1961, provides market research on a variety of industries, including healthcare. The information from Frost & Sullivan disclosed in this prospectus is extracted from the Frost & Sullivan Report, a report commissioned by us, and is disclosed with the consent of Frost & Sullivan. In preparing the Frost & Sullivan Report, Frost & Sullivan collected and reviewed publicly available data such as government-derived information, annual reports, trade and medical journals, industry reports and other available information gathered by not-for-profit organizations. The data collected by Frost & Sullivan was last updated in October 2013 based upon data available up to then. Frost & Sullivan adopts a comprehensive data collection model, which includes primary research with the industry stakeholders, secondary research on the government statistics, and data validation process with industry key opinion leaders. Frost & Sullivan assumes that the interviewees are not intentionally providing wrong or misleading information and the government statistics do not contain errors. Frost & Sullivan also assumes no unexpected events such as wars or disasters occur during the relevant forecasting period.

Frost & Sullivan has developed its forecast on the following bases and assumptions:

- the social, economic and political environments of the PRC will remain stable during the forecast period, which will ensure a sustainable and steady development of the PRC healthcare industry;

- the PRC healthcare market will grow as expected due to the rising healthcare demand and supply;

- the PRC government will continue to support the healthcare reform, which encourages private capital investments in the healthcare service industry; and

- the Beijing healthcare market will grow during the forecast period and will remain the most sophisticated healthcare market in China.

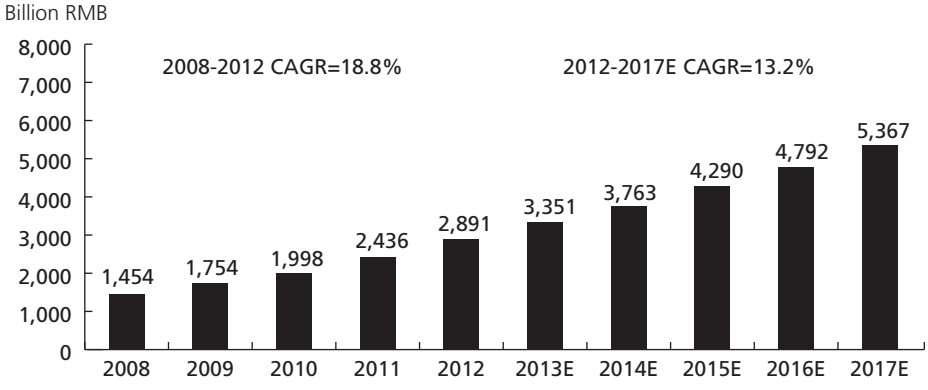
We and Frost & Sullivan believe that the basic assumptions used in preparing the Frost & Sullivan Report, including those used to make future projections, are factual, correct and not misleading. Frost & Sullivan has independently analyzed the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. We paid Frost & Sullivan a fee of RMB850,000 for preparation and update of its industry report, which is not contingent upon the completion of the Global Offering.

HEALTHCARE SERVICE MARKET OVERVIEW OF CHINA

Healthcare services are the business that provides diagnosis, treatment and prevention of human disease, illness, injury or dysfunction through medical consultation and procedures performed by professional practitioners in medicine, optometry, dentistry, nursing, pharmacy, and other fields. China is one of the largest healthcare service markets in the world. During the period from 2008 to 2011, China's healthcare expenditure grew at a CAGR of 29.6%, the fastest among the 12 countries with the largest GDP in the world in 2011, according to the Frost & Sullivan Report. Three market participants shape the supply of and demand for the healthcare services in China: patients, payers and healthcare services providers, with the latter two largely owned and managed by the PRC government and SOEs and are currently undergoing reform.

China's Healthcare Expenditure — the Fastest Growing Market

China's total healthcare expenditure grew at a CAGR of 18.8% to RMB2,891 billion, or approximately 5.6% of GDP, in 2012 from RMB1,454 billion, or approximately 4.6% of GDP, in 2008. The Frost & Sullivan Report projects that China's total healthcare expenditure will reach RMB5,367 billion in 2017, or approximately 6.0% of GDP, representing a CAGR of 13.2% from 2012. The following chart sets forth China's total historical and projected healthcare expenditure for the periods indicated:



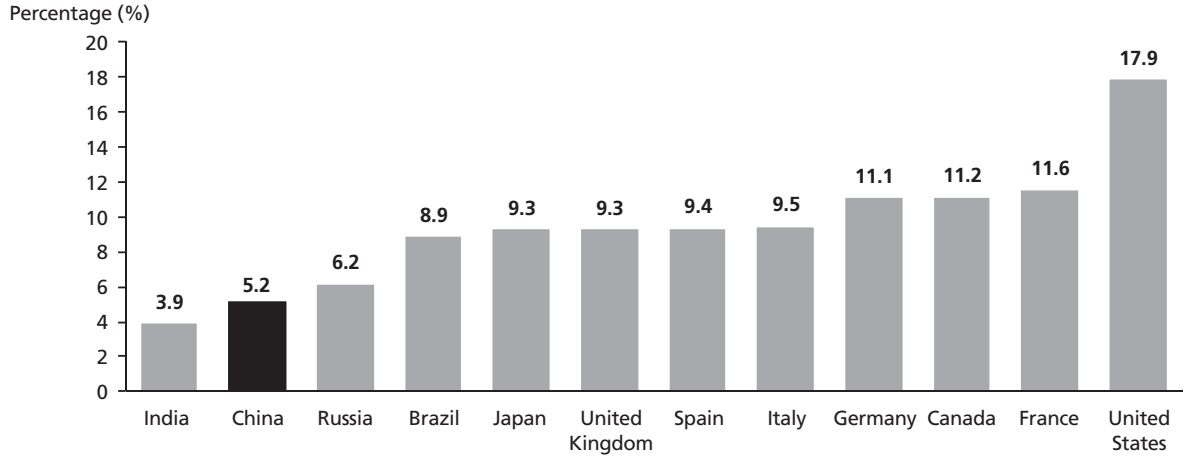
Source: Frost & Sullivan Report

The growth rate of China's healthcare expenditure from 2008 to 2011 was the highest among the 12 countries with the largest GDP in the world. China's per capita healthcare expenditure also had the highest growth rate among these 12 countries with a CAGR of 26.3% from 2008 to 2011. The following table sets forth the total and per capita healthcare expenditure of the 12 countries for the periods indicated:

Country	Rank of total healthcare expenditure in 2011	Total healthcare expenditure in 2011 (in billions of US$)	2008-2011 CAGR of total healthcare expenditure	Rank of per capita healthcare expenditure in 2011	2008 – 2011 CAGR of per capita healthcare expenditure
United States	1	2,699	7.4%	1	4.8%
Japan	2	548	10.9%	5	10.7%
Germany	3	400	0.0%	4	0.2%
China	**4**	**381**	**29.6%**	**11**	**26.3%**
France	5	322	-1.1%	3	-3.6%
United Kingdom	6	226	-2.3%	6	-3.5%
Brazil	7	222	16.6%	9	14.8%
Italy	8	209	0.0%	7	-1.5%
Canada	9	199	9.2%	2	6.7%
Spain	10	139	-2.8%	8	-7.2%
Russia	11	118	11.8%	10	12.3%
India	12	72	11.3%	12	6.2%

Source: WHO. The data for 2012 is not available as of the date of this prospectus.

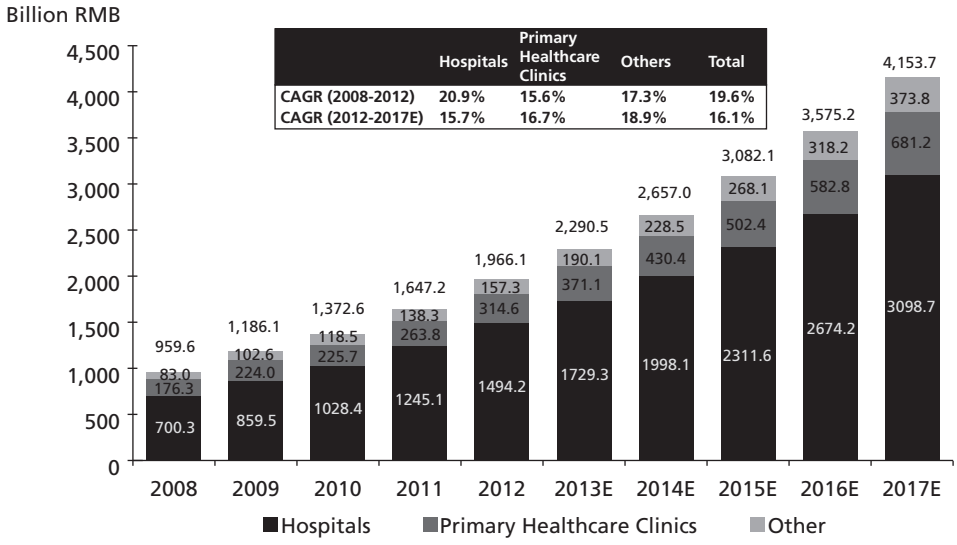
Despite China's relatively fast growth among the 12 countries with the largest GDP in the world, China is second to last among these countries in terms of per capita healthcare expenditure. In 2012, total healthcare service expenditure in China and the United States was US$464 billion and US$2,809 billion, respectively, representing 5.6% and 16.9% of their respective GDP in that year. Per capita healthcare service expenditure in China and the United States was US$345 and US$8,653, respectively, in 2012. China's relatively low healthcare and healthcare service expenditure, as a percentage of GDP and on a per capita basis, evidences potential for growth in China's healthcare services market. The following chart sets forth total healthcare expenditure as a percentage of GDP in 2011 for the 12 countries with the largest GDP in the world:



Source: Frost & Sullivan Report. The data for 2012 is not available as of the date of this prospectus.

Drivers of the Healthcare Service Market in China

Along with China's rapid economic growth in the past decade, China's GDP and disposable income of its population have grown significantly and consumers in China increasingly demand for quality healthcare services. China's healthcare services spending increased from RMB959.6 billion in 2008 to RMB1,966.1 billion in 2012 at a CAGR of 19.6% and is expected to reach RMB4,153.7 billion in 2017, representing a CAGR of 16.1% from 2012, while total healthcare services expenditure as a percentage of GDP was 3.8% in 2012 and is projected to be 4.6% in 2017. The following chart sets forth the total healthcare services spending in China for the periods indicated:



Source: Frost & Sullivan Report

The strong growth of the healthcare services industry in China was, and is expected to be, primarily driven by the factors described below.

Aging population

According to the National Bureau of Statistics of China, the percentage of the population aged 65 or above in China has increased from approximately 7.0% in 2000 to 9.4% in 2012. With 127 million people aged 65 or above in 2012, China has the largest over-65 population in the world and is the only country that has more than 100 million population aged over 65. The United Nations projects that by 2050, nearly 33% of China's population is expected to be over 65 years old, corresponding to a total of 400 million people, a number that is greater than the entire population of the United States in 2009. The growth of China's elderly population is attributable to China's low birth rate, rising life expectancy and decreasing mortality rate. An aging population is expected to lead to an increase in the demand for healthcare services due to more frequent hospital visits, higher demand for diagnosis and treatment, and longer required treatment times, especially for chronic diseases.

Acceleration of chronic disease prevalence

The types of diseases that are the most prevalent and deadly in China have changed drastically in recent years. Changing diets, reduced physical activity, pollution and a high rate of smoking have caused China to transition from a country suffering primarily from infectious diseases to chronic diseases. For example, the number of people with diabetes increased by 96% from 47 million in 2001 to 92 million in 2010. As of 2012, at least one out of five Chinese adults has at least one chronic illness, such as hypertension, diabetes and hyperlipidemia. According to the NHFPC, cancer has been the leading cause of death for urban residents in China since 2000 and for rural residents in China since 2003. The total incidence rate quadrupled from 0.06% in 1998 to 0.28% in 2012. This increase in the prevalence of chronic diseases will further drive the growth of both healthcare services and healthcare services spending.

Increasing urbanization

Industrialization and economic growth in China have resulted in rapid urbanization in China. According to the National Bureau of Statistics of China, the total urban population in China increased from 624.0 million in 2008 to 711.8 million in 2012, representing an increase of 14.1% over this period. During the same period, the urban population as a percentage of the total population increased from 47.0% to 52.6% from 2008 to 2012 and is projected to increase to 62.4% in 2017, representing a total of 866.5 million, according to the Frost & Sullivan Report. Urban per capita annual disposal income increased from RMB15,781 in 2008 to RMB24,565 in 2012 and is expected to reach RMB46,815 in 2017, while rural per capita annual disposal income increased from RMB4,761 in 2008 to RMB7,917 in 2012 and is expected to reach RMB15,824 in 2017, according to the Frost & Sullivan Report.

With higher disposable income and better insurance coverage, healthcare spending by urban residents accounted for 76.3% of total healthcare spending in China in 2012, according to the NHFPC. As a result, continuing urbanization will further increase demand for healthcare spending.

Increasing government spending

Increasing government spending on healthcare to enhance affordability and accessibility has been, and will continue to be, a key driver in China's healthcare services market.

Establishment of a universal medical insurance system

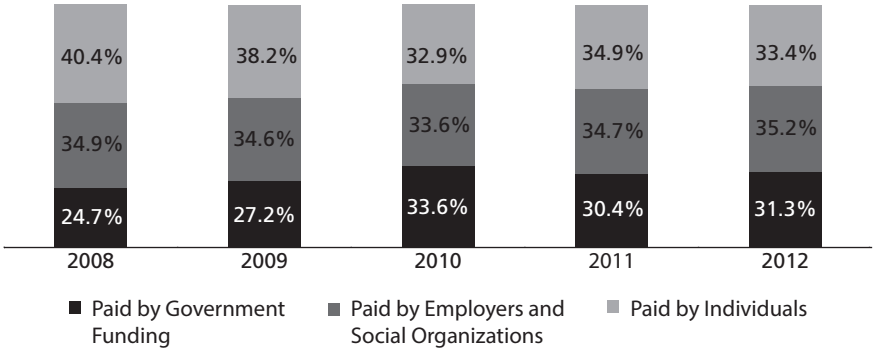
To enhance affordability of healthcare, the PRC government has been striving to establish a universal medical insurance system since 2009. According to the Frost & Sullivan Report, by the end of 2012, 99% of the total registered population in China were covered by one of three governmental insurance programs, compared to 85.3% at the end of 2008. In China, government insurance programs mainly consist of the Urban Employee Basic Medical Insurance Program ("UEBMIP") (城鎮職工基本醫療保險), Urban Resident Basic Medical Insurance Program ("URBMIP") (城鎮居民基本醫療保險), and New Rural Cooperative Medical Program ("NRCMP") (新型農村合作醫療保險).

The following table sets forth the population covered by the three medical insurance programs in China for the periods indicated:

	Year ended December 31,				
	2008	2009	2010	2011	2012
	(in millions of people, except for percentage data)				
URBMIP	118.3	182.1	195.0	221.0	271.0
UEBMIP	200.0	219.4	237.0	252.0	265.0
NRCMP	815.0	833.0	836.0	831.0	805.0
Total population covered by the three programs	**1,133.2**	**1,234.5**	**1,268.0**	**1,304.0**	**1,341.0**
Overall population in China	1,328.0	1,334.5	1,340.9	1,347.4	1,354.0
Coverage Rate	85.3%	92.5%	94.6%	96.8%	99.0%

Source: Frost & Sullivan Report

Government healthcare spending as a percentage of total healthcare spending increased from 24.7% in 2008 to 31.3% in 2012, while out-of-pocket healthcare spending by the individual as a percentage of total healthcare spending decreased from 40.4% to 33.4% during the same period. The following graph sets forth a breakdown of China's total healthcare expenditure by payers for the periods indicated:



Source: Frost & Sullivan Report

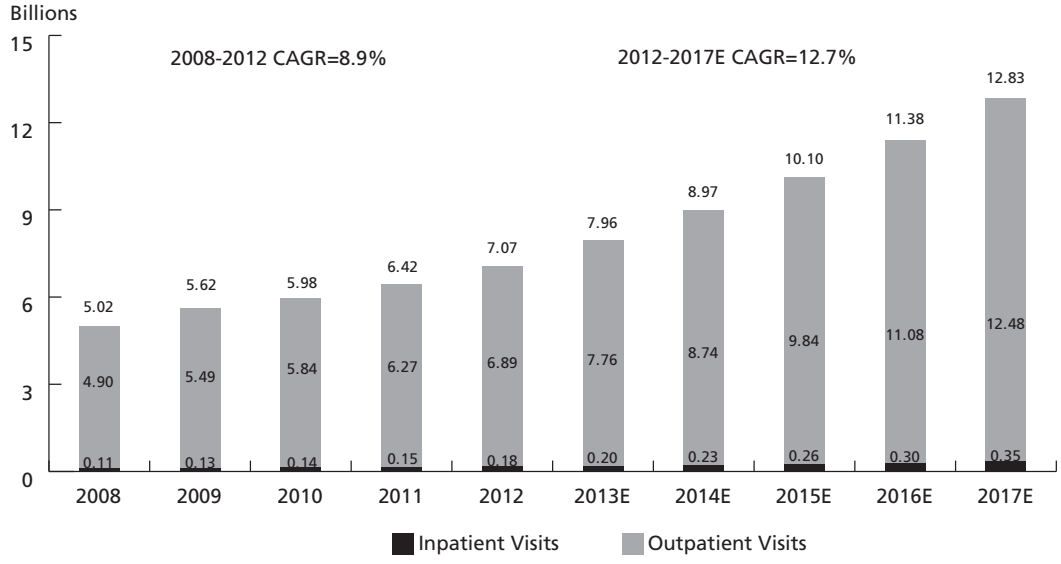
Development of healthcare facilities

The PRC government intends to build and develop more healthcare facilities, especially at the primary healthcare service level, and upgrade a significant number of existing medical facilities to improve the accessibility of the healthcare services. According to the Opinions on Deepening the Healthcare System Reform (中共中央國務院關於深化醫藥衛生體制改革的意見) issued in April 2009 by the CPC Central Committee and State Council, the government plans to further develop healthcare infrastructure in China, especially in the rural areas. From 2009 to 2012, the PRC government has spent more than RMB69 billion to establish or upgrade over 2,200 county-level hospitals, over 6,200 township healthcare centers, over 2,300 urban community clinics and more than 25,000 rural community clinics. In addition, the PRC government plans to improve the quality of healthcare services by developing new medical technologies to help provide better treatment through, among other things, earlier detection and better prevention of disease.

HEALTHCARE SERVICE MARKET PARTICIPANTS IN CHINA — PATIENT ASPECT

The incidence rate of various kinds of diseases in China is growing, mainly as a result of its aging population, prevalence of chronic diseases and lifestyle changes. Such increased incidence rate, coupled with rising health awareness, has led to increased demand for higher quality healthcare services.

According to the Frost & Sullivan Report, total patient visits in China increased from 5.02 billion in 2008 to 7.07 billion in 2012, representing a CAGR of 8.9%, and is expected to reach 12.83 billion in 2017, representing a CAGR of 12.7% from 2012. The following chart sets forth total patient visits in China for the periods indicated:



Source: Frost & Sullivan Report

Out of the total 7.07 billion patient visits in 2012, hospitals saw 127.3 million inpatient visits, followed by primary healthcare clinics with 42.1 million inpatient visits. For outpatients, primary healthcare clinics served 4.1 billion outpatient visits, followed by hospitals with 2.5 billion outpatient visits in 2012. The remaining patient visits were recorded at other healthcare facilities.

The spending per patient visit has also increased during the same period. The following tables set forth China's average spending per outpatient visit and per inpatient visit for the periods indicated:

Average spending per outpatient visit

	2008	2009	2010	2011	2012
			(RMB)		
Hospitals	138.3	152.0	166.8	179.8	192.5
Urban primary healthcare clinics	87.2	84.0	82.8	81.5	84.6
Rural primary healthcare clinics	42.5	46.2	47.5	47.5	49.2
Average	**106.1**	**114.7**	**124.1**	**134.0**	**143.1**

Source: Frost & Sullivan Report

Average spending per inpatient visit

	2008	2009	2010	2011	2012
			(RMB)		
Hospitals	5,234.1	5,684.0	6,193.9	6,632.2	6,980.4
Urban primary healthcare clinics	2,514.2	2,317.4	2,357.6	2,315.1	2,417.9
Rural primary healthcare clinics	790.8	897.2	1,004.6	1,051.3	1,140.7
Average	**3,841.5**	**4,231.7**	**4,778.4**	**5,279.8**	**5,896.4**

Source: Frost & Sullivan Report

Although the growth of healthcare service spending in rural areas has been faster than that of urban areas in the last few years, most of the healthcare service expenditure has been, and will continue to be, concentrated in urban areas. Healthcare service spending by urban residents accounted for over two-thirds of the total healthcare service spending in China in 2012, according to the NHFPC.

Asia is a popular medical tourism destination mainly due to price competitiveness and, in the case of China, some overseas patients' desire to explore traditional Chinese medical treatment. According to the Frost & Sullivan Report, the Asian medical tourism market is expected to grow from US$6.62 billion in 2012 to US$10.6 billion in 2015. The top three medical tourism markets in Asia in 2012 were Thailand, Singapore and India, each with a medical tourism market size of US$3.70 billion, US$1.10 billion and US$1.06 billion, respectively. Frost & Sullivan predicts that the medical tourism market in these three countries will grow to US$5.62 billion, US$1.72 billion and US$1.83 billion, respectively, in 2015.

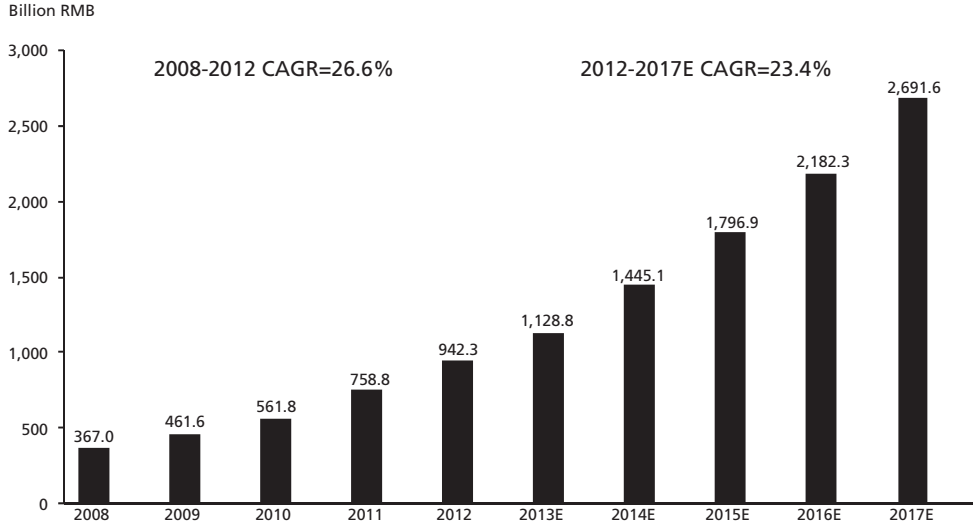
HEALTHCARE SERVICE MARKET PARTICIPANTS IN CHINA — PAYER ASPECT

Overview of the Medical Insurance System in China

A key component of China's healthcare reform is the establishment of universal healthcare coverage of essential healthcare service for all of its citizens. At present, China's public medical insurance system has three basic components: (1) UEBMIP, a mandatory program covering urban workers and retirees; (2) URBMIP, a voluntary program for urban residents; and (3) NRCMP, a voluntary program for the rural population. According to the Frost & Sullivan Report, by the end of 2012, the two urban insurance programs covered over 95% of the total registered urban population, and the rural insurance program covered approximately 98% of the total registered rural population. The government aims to achieve 100% coverage by 2020. The proportion of out-of-pocket spending from patients is expected to continue to decrease in the next few years due to increasing coverage and rising reimbursement rates from the three insurance programs. However, these three insurance programs only provide coverage for basic healthcare services, commercial insurance is gaining traction amongst population who wants to supplement their basic health coverage.

Funding sources of medical insurance programs

Primarily due to the government's initiatives to increase its spending to improve the affordability of healthcare services in China, the total funding of the three insurance programs have increased significantly from RMB367.0 billion in 2008 to RMB942.3 billion in 2012 and is expected to increase to RMB2,691.6 billion in 2017, according to the Frost & Sullivan Report. The following chart sets forth the total funding of these three medical insurance programs for the periods indicated:



Source: Frost & Sullivan Report

Unlike the UEBMIP to which urban workers and their employers are required to make contributions, the URBMIP and the NRCMP rely on government subsidies and personal contributions. The following table sets forth certain information regarding each insurance program:

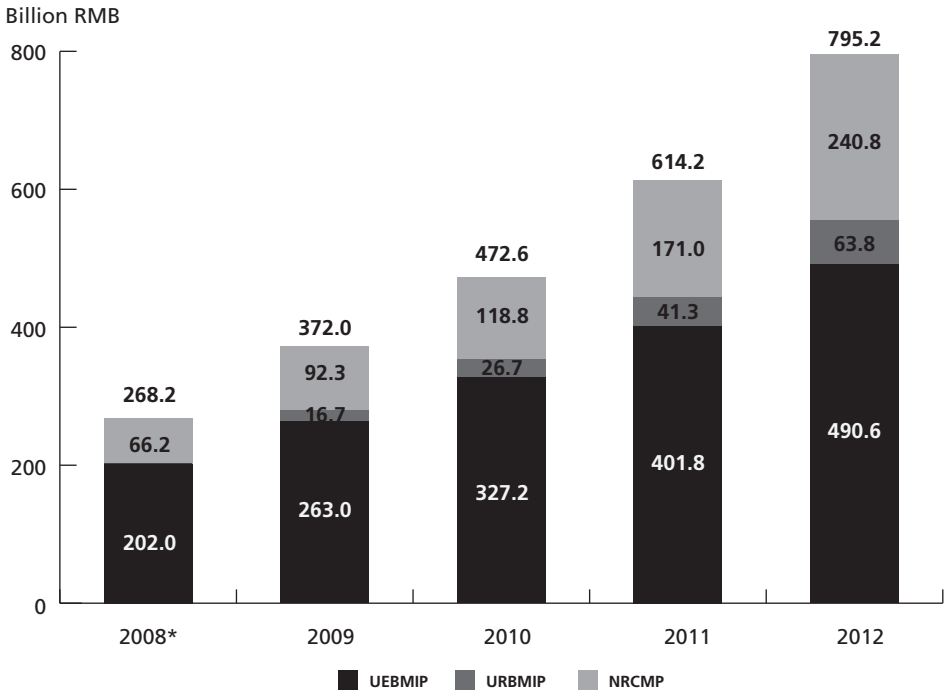
Program	Funding source	Per Capita funding in 2012 (RMB)	Financing
UEBMIP	Employers and employees	2,619	An employee and his or her employer shall pay 2% and 6%, respectively, of such employee's monthly salary into the insurance fund every month.
URBMIP	Urban residents and governments	320	Varies among cities; the urban resident pays approximately 20% to 40% of the funding while the government pays the balance.
NRCMP	Rural residents and governments	308	Varies among rural areas; the rural resident often pays approximately 20% to 40% of the funding while the government pays the balance.

Source: Frost & Sullivan Report

As local governments play a significant role in contributing to the medical insurance programs, different funding abilities of local governments have led to geographical disparities among medical insurance programs in China. As a result, medical insurance programs in wealthier areas, such as Beijing and Shanghai, offer significantly higher medical insurance coverage and reimbursements than other regions. Some wealthier regions have also established additional medical insurance systems to supplement the three basic medical insurance programs to afford their residents with better healthcare services.

Payments made by medical insurance programs

Medical institutions in China receive payment for their services from the patients themselves and from various medical insurance programs. The payments made by the three insurance programs have steadily increased since their inception. The total payment by these three government medical insurance programs increased significantly from RMB268.2 billion in 2008 to RMB795.2 billion in 2012 and is expected to continue to increase to RMB2,492.2 billion in 2017, according to the Frost & Sullivan Report. The diagram below sets forth the total payment by these three medical insurance programs for the years presented.



* URBMIP was established in 2007 as the pilot programs, and the statistics data has been available since 2009

Source: Frost & Sullivan Report

Pricing trends and government regulation

The pricing of healthcare services and pharmaceutical, medical devices and consumable sales in China is subject to strict government regulation. According to the Frost & Sullivan Report, the NDRC adjusts the prices of pharmaceuticals included in the RDL every three to four years and certain types of pharmaceuticals periodically. The drug tendering system is also affected by periodic adjustments by the NDRC every three to four years. Local governments also follow the NDRC's lead, but the frequency and scale of the adjustments vary by region. Both the NDRC and the Beijing government made a significant downward adjustment to the "bidding price" of a large number of pharmaceuticals in 2009. Subsequently, they conducted ad hoc public auctions relating to certain pharmaceuticals from time to time and adjusted the "bidding price" of such pharmaceuticals from 2009 to 2011. Medical consumable prices are controlled at the local level by regional governments and are not subject to national control. In Beijing, medical consumable prices are determined through a bidding process mandated by the Beijing NDRC. Healthcare services prices are subject to national and local guidelines. For more details on the regulation of the prices of healthcare services, see "Business — Price Control and Pricing" and "PRC Laws, Rules and Regulations — Legal Supervision over the Healthcare Sector in China — Categories of Medical Institutions in China". For more details on the regulation of the sale and prices of pharmaceuticals, medical devices and medical consumables in China, see "Business — Price Control and Pricing", "PRC Laws, Rules and Regulations — Laws and Regulations on Pharmaceutical Distribution — Regulations on Centralized Pharmaceutical Procurement by Medical Institutions" and "PRC Laws, Rules and Regulations — Regulations on the Supervision over the Procurement of Medical Consumables". In general, price trends for healthcare service fees are difficult to assess due to various factors involved and constantly evolving medical technologies, products and treatments. Moreover, the PRC government has attempted to improve affordability for patients by controlling prices for healthcare services.

Induced by the price controls on pharmaceuticals and the procurement practices of hospitals in China, a centralized procurement process derived from hospital management business, such as our supply chain business, has emerged to combine the procurement needs of multiple hospitals to obtain volume discounts. This is different from traditional pharmaceutical distribution business because it generally does not supply other third-party hospitals, but instead serves the procurement need of hospitals under common ownership or control.

Key Trends of the Medical Insurance System in China

Integration of urban and rural government medical insurance programs

As part of the government healthcare reform plan, the integration of urban and rural resident medical insurance programs has been implemented in some wealthier regions of China, such as Zhenjiang and Wuxi in Jiangsu Province. The further integration of URBMIP and NRCMP in more regions due to rapid urbanization could lead to improved affordability of healthcare services.

Development of commercial medical insurance

Currently, commercial medical insurance in China provides supplemental coverage for patients to "top up" their health coverage as the public medical insurance programs only provide coverage for basic healthcare services. Commercial medical insurance has grown steadily since its establishment in 1982 and its growth has been encouraged by the government to provide additional insurance coverage beyond basic insurance. According to the Frost & Sullivan Report, the commercial insurance expenditure has grown from RMB18 billion in 2008 to RMB30 billion in 2012, while the size of the commercial insurance premiums has grown from RMB59 billion in 2008 to RMB86 billion in 2012.

The development of China's overall insurance industry, government support and continuing healthcare reform have promoted the development of commercial medical insurance, which enhances affordability for high-end healthcare services. However, the commercial medical insurance market has not been able to meet the increasing demand due to various reasons, such as undifferentiated products, high-cost distribution model, lack of incentive for government and SOE-owned healthcare providers to cooperate, shortage of medical insurance expertise, deficiency in strict supervision, regulation and relevant legal infrastructure. In the meantime, existing gaps in the public insurance coverage will open up opportunities for commercial insurance providers as the government is increasingly looking beyond public insurance for incremental coverage of medical insurance for China's population. The commercial insurance industry is expected to reach RMB96 billion in terms of expenditure and RMB231 billion in terms of premiums by 2017 due to population growth, increasing income per capita and public medical insurance's limited coverage.

Changes in reimbursement policies

The introduction and expansion of the three government medical insurance programs require significant fiscal support by local governments as the funding of URBMIP and NRCMP rely heavily on subsidies from local governments. For example, in Beijing, medical insurance fund expenses have risen significantly due to growing medical insurance enrollment and better, more advanced but more costly treatments. As a result, some regions in China are changing medical insurance reimbursement methods to achieve better efficiency and

minimize the risk of insurance fund deficits. Beijing is now the first city to introduce a Diagnosis Related Groups ("DRG") method of payment for certain hospitals in 2011. The DRG method is based on a variety of factors, such as patient age, disease diagnosis, complications, treatment, disease severity and outcome. The DRG method considers hundreds of disease groups and reasonable costs of each disease group and determines the optimal amount to be paid by the medical insurance fund for each disease group. Due to its complexity, full adoption of the DRG method will require a considerable period of time.

HEALTHCARE SERVICE MARKET PARTICIPANTS IN CHINA — PROVIDER ASPECT

Overview of Healthcare Service Provider System in China

At present, China's healthcare providers consist of hospitals, primary healthcare clinics, and other medical institutions, among which hospitals play the most important role. The following table sets forth a breakdown of revenue, inpatient visits and outpatient visits by type of medical institution in 2012:

	Revenue	Inpatient visits	Outpatient visits
Hospitals	76.0%	71.5%	36.9%
Primary healthcare clinics	16.0%	23.6%	59.7%
Others	8.0%	4.9%	3.5%
Total	**100%**	**100%**	**100%**

Source: Frost & Sullivan Report

Grades of hospitals

There were about 23,170 hospitals in China in 2012, mostly in large cities. The majority of the hospitals are classified as Grade I, Grade II, or Grade III hospital in accordance with a hierarchy established by the NHFPC in the late 1980s. Grade III hospitals are the largest and best regional hospitals. For more details, see "Glossary — Grade III Hospital". This classification is based on a number of factors, such as the type and quality of healthcare services, the number of beds, and teaching and research capabilities. This hierarchy was designed to rationalize the allocation of medical resources and treatment methods. The current government medical insurance programs' co-pay policies also adhere to this hierarchy, with higher grade hospitals allowed to charge higher fees. The following chart sets forth the comparison of major operating metrics for each hospital grade in 2012:

	Total number	Total beds in operation	Total patient visits received
Grade I hospital	5,962	0.3 million	0.18 billion
Grade II hospital	6,566	1.8 million	1.11 billion
Grade III hospital	1,624	1.5 million	1.14 billion
Unclassified hospitals	9,018	0.6 million	0.24 billion
Total	**23,170**	**4.2 million**	**2.67 billion**

Source: Frost & Sullivan Report

Public versus Private hospitals in China

Public hospitals dominate China's healthcare service industry, with approximately 86% of total hospital beds in operation and more than 90% of total hospitals revenue in China. Approximately 73% of public hospitals are owned by the central and local governments, 25% are owned by SOEs and 2% are owned by the military. Compared with the public hospitals, the average scale of private hospitals is small and many are speciality hospitals. The following chart sets forth a comparison of key metrics of public and private hospitals in China in 2012:

	Public hospital	Private hospital
Number of hospitals[1]	13,384	9,786
Total beds in operation[1]	3.6 million	0.6 million
Inpatient visits	113.3 million	14.0 million
Outpatient visits	2.29 billion	0.25 billion
Total revenue	RMB1,391.3 billion	RMB102.9 billion

1. As of December 31, 2012.

Source: Frost & Sullivan Report

Private hospitals represent a fast growing segment in the PRC healthcare service industry, especially since the PRC government launched the new healthcare reforms in 2009. With government support, the number of private hospitals have grown from 5,403 in 2008 to 9,786 in 2012, according to the Frost & Sullivan Report. Private hospital revenue also rose from RMB45.6 billion in 2008 to RMB102.9 billion in 2012, representing a CAGR of 22.6%, and is expected to reach RMB251.8 billion in 2017, representing a CAGR of 19.6%. In particular, revenue generated by private general hospitals increased from RMB24.9 billion in 2008 to RMB73.3 billion in 2012, representing a CAGR of 31.0%, and is expected to reach RMB160.4 billion in 2017, representing a CAGR of 17.0%. Frost & Sullivan Report also suggested rapid growth in patient visits to private hospitals. Private hospitals saw inpatient visits of 4.7 million and 14.0 million in 2008 and 2012, respectively, and are expected to see 44.3 million inpatient visits in 2017. The outpatient visits received by private hospitals were 132 million and 250 million in 2008 and 2012, respectively, and are also expected to increase to 670 million in 2017. Private hospital beds have increased from 273,000 in 2008 to 582,000 in 2012 and is expected to reach at least 1.1 million by 2015. The percentage of beds in operation in private hospitals is expected to reach at least 20% of total beds in operation in China by 2015, according to China's 12th "Five-Year-Plan".

The table below sets forth certain information of the top five private hospital groups in terms of beds in operation and number of patient visits, respectively, in China as of December 31, 2012:

Hospital group	Number of beds in operation as of December 31, 2012
Phoenix Healthcare Group (鳳凰醫療集團)	3,194
Dongguan Kanghua (東莞康華醫院)	~2,500
Dongguan Donghua (東莞東華醫院)	~1,800
Jinling Pharmaceutical (金陵藥業)	~1,700
Nanjing Tongren (南京同仁)	~600

Source: Frost & Sullivan Report

Hospital group	Number of patient visits in 2012 (millions)
Phoenix Healthcare Group (鳳凰醫療集團)	3.05
Dongguan Kanghua (東莞康華醫院)	2.22
Jinling Pharmaceutical (金陵藥業)	1.62
Dongguan Donghua (東莞東華醫院)	1.54
Nanjing Tongren (南京同仁)	1.30

Source: Frost & Sullivan Report

Future trends for private hospitals in China will include the establishment of new hospitals and the privatization of existing public hospitals through equity acquisition or PPP. According to the Frost & Sullivan Report, private hospitals are expected to continue increasing their market share in the healthcare services market and are likely to focus on high-end healthcare services. This is being driven by the increasing demand for healthcare services in China, the need to build hospitals in urban areas and suburbs, government policies encouraging the growth of private hospitals, and the privatization trend of public hospitals. However, such trends may encounter difficulties, including urban planning that restricts the establishment of new hospitals and high standards for qualifying as Medical Insurance Designated Healthcare Institution.

HEALTHCARE REFORM IN CHINA

The Healthcare Reform launched in 2009 by the PRC government aims to improve the overall affordability and accessibility of healthcare services. There are four key targets of the healthcare reform plan. The following table sets forth the key targets and milestones and the corresponding time periods for China's healthcare reform:

Key Targets	2009-2011	2012-2014	2015-2020
Establish a universal healthcare scheme to meet the essential medical needs of 95% of the population	• Expanding the coverage of UEBMIP URBMIP NRCMP	• Aiming to integrate urban and rural resident insurance programmes	• Continuously increasing the amount of funding and expanding healthcare coverage
Create and implement national essential drug list (EDL) system	• Implementing EDL system at primary healthcare service level • Achieving zero margin on EDL drugs • Procurement through public bidding	• Increasing pharmaceuticals covered under EDL from 307 to 520 • Increasing EDL adoption by various healthcare institutions	• Continuously optimizing EDL
Improve professional medical expertise, especially at the primary healthcare service level	• Establishing urban community healthcare centers and rural medical institutions, including county hospitals and township clinics	• Focusing on strengthening professional expertise of the professionals at various primary healthcare service level	• Further upgrading medical facilities • Focusing on prevention and early detection of diseases
Public hospital reform	• Separating sponsorship and operations of public hospitals • Reducing revenue dependency on pharmaceutical sales	• Encouraging private capital to invest in healthcare services industry	• Large scale privatization or public-private partnership

Source: Frost & Sullivan Report

Beijing has also launched pilot programs, including establishing an executive committee for each hospital, changing reimbursement method from fee-for-service to DRG and testing the abolishment of a fixed 15% profit margin ceiling for the sale of pharmaceuticals at two selected medical institutions.

Public Hospital Reform

In 2010, the PRC government selected 17 cities, including Beijing, as pilot cities for public hospital reform. These cities have undertaken different measures and promulgated various trial policies. For example, Beijing government issued the "Certain Policies on Further Encouraging and Guiding Private Capital to Invest in Medical Institutions" (關於進一步鼓勵和引導社會資本舉辦醫療機構若干政策) ("Beijing 18-Item Policies") in 2012, which encourages and provides guidance to private capital to participate in the public hospital reform in Beijing through either cooperation, acquisitions or other means. Beijing government has also expressed a preference for private sector partners with good reputation, extensive hospital operational experience and a successful track record in public hospital reform. Beijing's position as the political center of China and as one of the pilot cities in public hospital reform suggests that its measures will likely have significant influence on public hospital reform in other parts of China.

In the long term, the Frost & Sullivan Report predicts that more professional hospital operators will manage public hospitals as the PRC government seeks to reform public hospitals by equity transfer, PPP or other means. Given that the PRC government has expressed the need to preserve the public welfare and the value of state-owned assets, the PPP appears attractive. PPP does not change the ownership of the hospital assets or the not-for-profit nature of the public hospitals, while delivering much improved operational efficiency.

Private Capital Investing in Hospitals

Since 2009, the PRC government has been issuing guidance and promulgating policies that encourage private capital to invest in the healthcare service industry in China.

Most recently, the State Council issued "Certain Opinions on Promoting the Development of Healthcare Services" (關於促進健康服務業發展的若干意見 or "Certain Opinions") on October 14, 2013, to further promote hospital reform as part of overall healthcare reform, mainly including the optimization of healthcare service resources and the acceleration of public hospital reform. It encourages local government to take a more flexible approach in meeting their public health service provider function, including establishing new hospitals, privatizing public hospitals and outsourcing the management of public hospitals to private hospital management companies ("公辦民營"). For for-profit hospital, it further relaxes restrictions on requirement of the number, scale, and location of hospitals and of limits on the number of large medical equipment.

In China's 12th Five-Year Plan published in 2012 by the State Council, the PRC government reiterated its decision to facilitate private capital's access to the healthcare service industry and targets increasing the number of beds in operation in private hospitals to about 20% of total beds in operation in China by 2015. At the same time, the Beijing government plans to increase the percentage of beds in private hospitals from 13% in 2010 to 20% by 2015. The following are some measures taken by local governments to promote investment by private capital in the healthcare service industry:

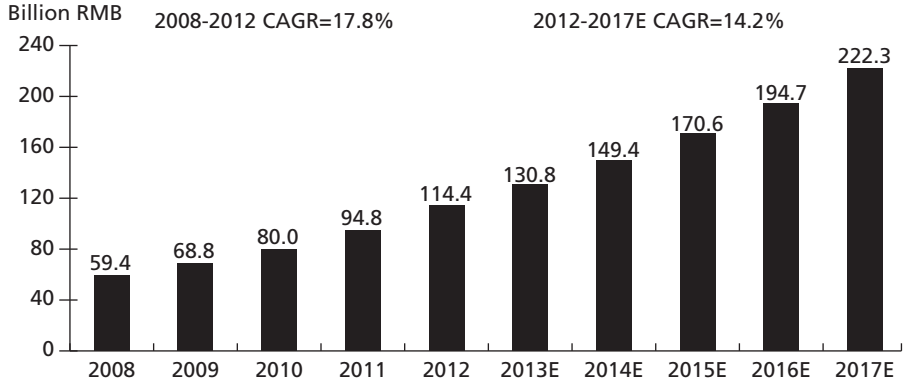
- The Beijing government launched the Beijing 18-Item Policies in 2012 to encourage private investments in healthcare.
- The Jiangsu provincial government plans to only establish new private large Grade III hospitals.
- The Shanghai government is promoting high-end private hospitals.
- The Shenzhen government plans to only establish two new Grade III private hospitals, rather than to establish new public Grade III hospitals.

HEALTHCARE SERVICE MARKET IN BEIJING

Beijing's Healthcare Service Market

Beijing, as the capital city and one of the wealthiest regions in China, has witnessed rapid growth in its healthcare market. According to the Frost & Sullivan Report, the total revenue of healthcare services market in Beijing grew from RMB59.4 billion in 2008 to RMB114.4 billion in 2012, representing a CAGR of 17.8%, and is expected to further grow to RMB222.3 billion in 2017 at a CAGR of 14.2%. Beijing's healthcare cost per capita in Beijing was RMB4,826 in 2011, far exceeding that of most other developed cities in China due to its advanced medical technology, greater medical insurance coverage and higher reimbursement rates.

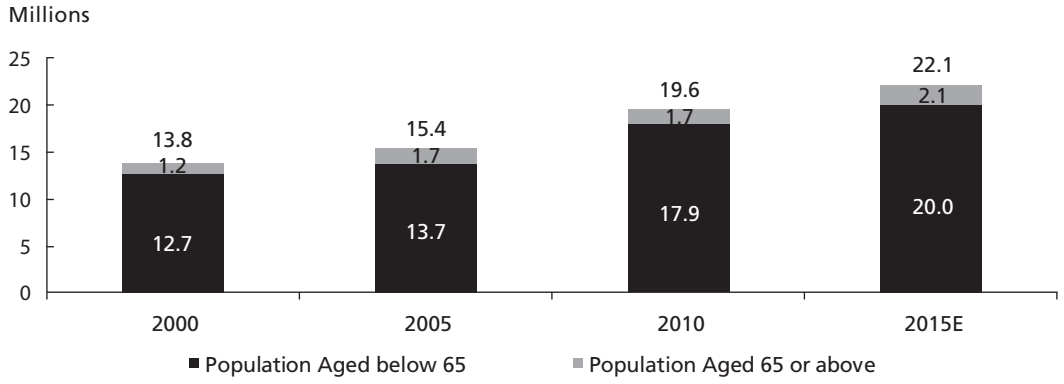
The following chart sets forth Beijing's healthcare services market for the periods indicated:



Source: Frost & Sullivan Report

Healthcare Service Market Participants in Beijing — Patient Aspect

Beijing faces a growing population of elderly people aged 65 or above, which has increased by 47.4% from 1.2 million people in 2000 to 1.7 million people in 2010 and is expected to increase by 80.2% to 2.1 million in 2015 according to the Frost & Sullivan Report. The following chart sets forth the trend of Beijing's population growth for the periods indicated:



Source: Frost & Sullivan Report

Beijing's aging population contributes to the growing incidence rate of chronic and acute diseases. According to Beijing health authorities, the major causes of chronic and acute disease deaths among Beijing residents in 2011 were due to cancer, cardiovascular disease and cerebrovascular disease, which accounted for 27%, 25% and 22% of all deaths, respectively. In addition, the prevalence rates of hypertension, diabetes and dyslipidemia among Beijing residents in 2011 were 34%, 8.9% and 51%, respectively, which increased by 11.6%, 3.5% and 45.6%, respectively from 2008. The rapid increase of these chronic and acute diseases are related to factors such as obesity, smoking, and environmental degradation.

Beijing also attracts a significant number of non-residents seeking medical treatments, which helps to boost the growth of healthcare services in Beijing. According to a survey conducted by Frost & Sullivan in 2012, from 2010 to 2012, non-resident inpatients and non-resident outpatients respectively accounted for approximately 50% and 33% of total inpatients and outpatients treated by Grade III hospitals in Beijing.

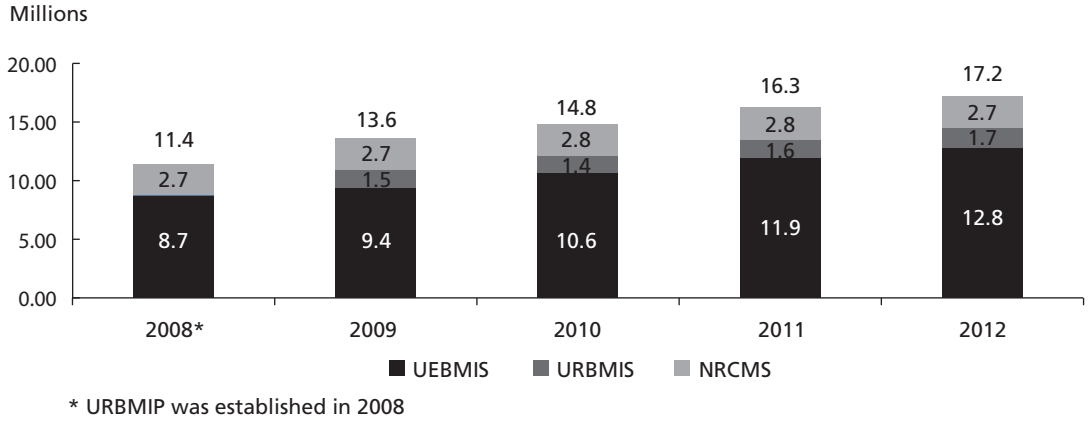
As a result, medical institutions in Beijing, especially public hospitals, have experienced an increasing number of patient visits. The following table sets forth the outpatient visits and inpatient visits at public and private hospitals in Beijing for the periods indicated:

		Year ended December 31,					2008-2012 CAGR
	Hospital	2008	2009	2010	2011	2012	
				(millions)			
Outpatient visits	Public	74.7	77.6	86.0	95.2	121.2	12.9%
	Private	4.8	6.1	7.4	9.1	11.6	24.4%
Inpatient visits.	Public	1.4	1.5	1.6	1.7	2.3	14.4%
	Private	0.1	0.1	0.1	0.2	0.2	28.7%

Source: Frost & Sullivan Report

Healthcare Service Market Participants in Beijing — Payer Aspect

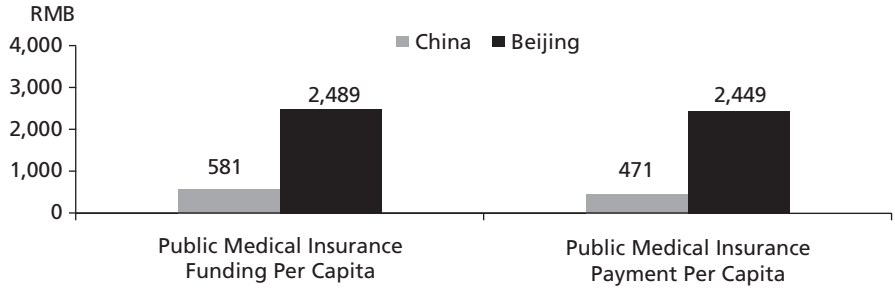
Beijing has developed an advanced medical insurance system. In 2012, each of Beijing's UEBMIP, URBMIP and NRCMP covers approximately 12.8 million, 1.7 million, and 2.7 million Beijing residents, respectively. In addition, there are several other medical insurance programs available in Beijing, such as medical subsidy program for civil servants, insurance programs for certain demographic groups such as college students and low income residents, and commercial medical insurance. The following chart sets forth the total population covered by the three major government medical insurance programs for the periods indicated:



* URBMIP was established in 2008

Source: Frost & Sullivan Report

The public medical insurance funding per capita in Beijing is higher than the national average, putting Beijing in a position to offer better public medical insurance benefits. The following chart sets forth Beijing's public funding per capita and the national average in 2011:



Source: Frost & Sullivan Report. The data for 2012 is not available at the time of this prospectus.

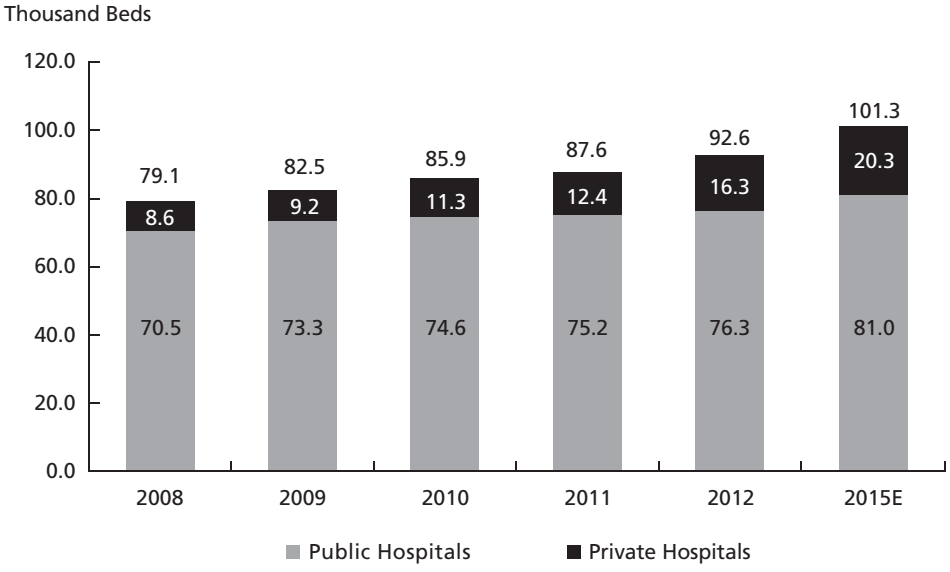
Healthcare Service Market Participants in Beijing — Provider Aspect

According to the Frost & Sullivan Report, Beijing is one of the largest healthcare market in China. Supported by a large number of middle-class residents, incoming patients from other regions, and a well-established medical insurance scheme, Beijing has the best and largest hospital infrastructure in China. There were a total of 84 Grade III hospitals and 147 Grade II hospitals in Beijing as of September 2013, more than any other city in China. The following table sets forth the number of Grade III and Grade II hospitals in Beijing by district as of September 2013:

District	Number of Grade III and Grade II hospitals	District	Number of Grade III and Grade II hospitals	District	Number of Grade III and Grade II hospitals
Haidian (海淀)	36	Xicheng (西城)	34	Chaoyang (朝陽) . . .	28
Dongcheng (東城) . .	24	Fengtai (豐台)	19	Changping (昌平) . .	15
Daxing (大興).	11	Shijingshan (石景山).	11	Tongzhou (通州) . . .	10
Shunyi (順義).	8	Fangshan (房山) . . .	8	Miyun (密雲)	6
Mentougou (門頭溝).	6	Pinggu (平谷).	5	Huairou (懷柔)	5
Yanqing (延慶)	5				

Source: Frost & Sullivan Report

In addition, the number of hospital beds in operation are expected to grow rapidly in Beijing. The following chart sets forth a breakdown of the increase in hospital beds in Beijing for the periods indicated:



Source: Frost & Sullivan Report

Moreover, according to the Frost & Sullivan Report, many top medical experts, key opinion leaders and medical universities are located in Beijing, providing a larger talent pool than other regions in China. Such experts and opinion leaders play a key role in the development of advanced medical technology, new insurance guidelines and overall healthcare policies. As the capital city of China, some of Beijing's regulatory efforts, such as measures in pharmaceutical tendering or reimbursement provisions under the three governmental insurance programs, could influence regulatory changes in other provinces and regions.

COMPETITION

The hospital and healthcare service industry in China is highly fragmented with numerous market participants. According to the Frost & Sullivan Report, there were approximately 23,170 hospitals in China in 2012, most of them are in large cities and are public hospitals. In 2012, the top three hospital groups in terms of revenue accounted for 10.6% and 1.4% of all revenue generated by the hospitals in the United States and in China, respectively, according to the Frost & Sullivan Report. Hospitals compete primarily with other hospitals in their areas of operation. Other key competitive factors include healthcare service quality, reputation, convenience and price. Public hospitals in China play a dominant role in healthcare services, but private hospitals represent a fast growing segment in China's healthcare service industry.

The Group is the largest private hospital group in China as measured by the number of beds in operation and patient visits at its in-network hospitals and clinics in 2012. The following table sets forth the number of beds, number of patient visits, and its in-network hospitals and clinics' market share in the districts of Beijing where we operate hospitals in 2012.

	Beijing		Our in-network hospitals and clinics located in the respective regions			
	Patient visits (millions)	Beds	Patient visits (millions)	% of patient visits	Beds	% of beds
Beijing	135.26	92,610	3.05	2.3%	3,194	3.4%
Xicheng District of Beijing	28.05	15,075	0.61	2.2%	399	2.6%
Fangshan District of Beijing	5.25	4,808	0.79	15.0%	663	13.8%
Mentougou District of Beijing	1.97	2,466	1.65	83.8%	2,132	86.5%

Source: Frost & Sullivan Report

The following table sets forth the number of beds in operation and patients visits at each of the top five private hospitals in Beijing in 2012.

	Patient Visits (millions)	Beds
Our in-network hospitals and clinics[1]	1.40	1,062
Amcare Women's and Children's Specialized Health (美中宜和婦兒醫院)	0.85	320
Global Care Women's and Children's Hospital (五洲婦兒醫院)	0.25	150
Beijing Sanbo Brain Hospital (三博腦科醫院)	0.17	350
Beijing United Family Hospital and Clinics (北京和睦家醫院)	0.15	120

[1] Reflect the data of Jian Gong Hospital and Yan Hua Hospital Group only. Our other in-network hospitals and clinics are public hospitals.

Source: Frost & Sullivan Report

For more details on hospitals competing with our in-network hospitals in their respective regions, see "Business — Competition".

At present, competition for management rights over public hospitals among general hospital operators is not intense primarily because this industry is still in its early stages of development in China, according to the Frost & Sullivan Report.