

### OVERVIEW

We are the largest private hospital group in China as measured by the number of beds in operation and patient visits at our in-network hospitals and clinics in 2012, according to the Frost & Sullivan Report. Our in-network hospitals and clinics offer a full spectrum of healthcare services from primary preventive care to acute care and post-operative rehabilitation. All of our in-network hospitals and clinics are strategically located in Beijing, one of the largest healthcare markets in China, according to the Frost & Sullivan Report. We own Jian Gong Hospital and manage the following IOT hospitals and clinics: Yan Hua Hospital Group, Mentougou Hospital, Jing Mei Hospital Group and Mentougou Traditional Chinese Medicine Hospital. As of June 30, 2013, our hospital network consisted of 11 general hospitals, one traditional Chinese medicine hospital and 28 community clinics, with a total of 3,213 beds in operation.

We derive revenue from our in-network hospitals and clinics via three sources: (i) general hospital services provided at Jian Gong Hospital, (ii) hospital management services where we manage and collect management fees from our IOT hospitals and clinics, and (iii) supply chain business where we supply pharmaceuticals, medical devices and medical consumables to our in-network hospitals and clinics.

As an early entrant to China's public hospital reform, we have accumulated extensive and valuable experience in working with hospital owners, regulators and other key stakeholders in China's healthcare services industry. Ms. Xu Jie, our Founder and a Controlling Shareholder, participated in the reform of Jian Gong Hospital to acquire its majority equity interest in 2000, which was the first privatization of an SOE-owned hospital in Beijing. In 2010, we began to manage Mentougou Hospital, which was the first government-owned hospital in Beijing to outsource its management through a PPP.

Leveraging our successful track record in public hospital reform, we have used the IOT model to significantly expand our hospital network. During the Track Record Period, we added nine general hospitals, one traditional Chinese medicine hospital and 11 community clinics, with a total of 2,110 beds in operation, to our network through the IOT model. Under the IOT model, we agree to make a fixed investment to improve the medical facilities as well as clinical services of a hospital in exchange for the right to manage and operate that hospital and we receive performance-based management fees and the ability to supply pharmaceuticals, medical devices and medical consumables for a period ranging from 19 to 48 years. If the relevant IOT agreements are not renewed or extended after such period, the management rights will be transferred back to the hospital owner. As compared to acquiring public hospitals, the IOT model generally allows us to manage and operate hospitals with much less investment. Moreover, the IOT model does not change the public, not-for-profit nature of these public hospitals and is therefore preferred by such public hospital owners.

The rapid growth of our hospital network during the Track Record Period has led to the growth of our supply chain business. As a result of our management rights over in-network hospitals and clinics, we are able to control, consolidate and manage the procurement needs of these hospitals and clinics. In particular, our supply chain business consolidates the procurement needs of the in-network hospitals and clinics to obtain volume discounts from our suppliers. Therefore, we are able to generate supply chain business revenue by selling pharmaceuticals, medical devices and medical consumables to our in-network hospitals and clinics. We either purchase pharmaceuticals, medical devices and medical consumables from suppliers for resale to our in-network hospitals, or arrange for our in-network hospitals to purchase these items directly from suppliers. Our supply chain business primarily serves our in-network hospitals and generally does not supply other third-party hospitals.

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Our model of operating a network of geographically concentrated hospitals rather than a single hospital creates economies of scale and additional synergies, which has led to better healthcare service quality, resource sharing, operating efficiency and profitability. The performance of all of our IOT hospitals and clinics, as measured by total patient visits and ALOS, has generally improved since the first full year of our management. Under our management, Jian Gong Hospital and Yan Hua Hospital received JCI accreditation in 2010. As of June 30, 2013, Jian Gong Hospital and Yan Hua Hospital were two out of the only three hospitals in Beijing that had received such accreditation. This further enhances our reputation for clinical excellence and helps us to attract additional patients as well as experienced doctors and other medical professionals.

We grew significantly during the Track Record Period. Our in-network hospitals and clinics increased from two general hospitals and 17 community clinics, with a total of 1,103 beds in operation, as of January 1, 2010 to 11 general hospitals, one traditional Chinese medicine hospital and 28 community clinics, with a total of 3,213 beds in operation, as of June 30, 2013. Our revenue increased from RMB394.1 million in 2010 to RMB509.5 million in 2011 and to RMB758.0 million in 2012, representing a CAGR of 38.7%, and increased by 30.5% from RMB321.5 million in the six months ended June 30, 2012 to RMB419.7 million in the six months ended June 30, 2013. Our net profit also increased from RMB49.0 million in 2010 to RMB58.5 million in 2011 and to RMB110.7 million in 2012, representing a CAGR of 50.3%, and increased by 12.9% from RMB46.4 million in the six months ended June 30, 2012 to RMB52.4 million in the six months ended June 30, 2013.

### OUR COMPETITIVE STRENGTHS

#### Largest Private Hospital Group in China

We are the largest private hospital group in China as measured by the number of beds in operation and patient visits at our in-network hospitals and clinics in 2012, according to the Frost & Sullivan Report. We managed and operated, through direct ownership or the IOT model, a network of 11 general hospitals, one traditional Chinese medicine hospital and 28 community clinics with a total of 3,213 beds in operation as of June 30, 2013. Among these hospitals, Yan Hua Hospital and Jing Mei Hospital are Grade III hospitals, the highest grade for hospitals in China and the only Grade III hospitals in their respective administrative districts. Jian Gong Hospital, Mentougou Hospital and Mentougou Traditional Chinese Medicine Hospital are Grade II hospitals. Our in-network hospitals and clinics had a total of over three million patient visits in 2012.

Because our healthcare network consists primarily of general hospitals, we offer a full spectrum of healthcare services from primary preventive care to acute care and post-operative rehabilitation. Our large scale and comprehensive clinical service offerings have enabled us to attract and retain patients, generate synergies across our Group and enhance our operational efficiency. Our broad platform also enables us to promote Group-wide best practices and attract experienced doctors and medical staff, which in turn helps our in-network hospitals and clinics provide better healthcare services to patients.

We expanded our hospital network with less investment amounts through the IOT model than through acquisitions of public hospitals. During the Track Record Period, we added nine general hospitals, one traditional Chinese medicine hospital and 11 community clinics with a total of 2,110 beds in operation to our network through the IOT model. We believe that our experience and successful track record in operating hospitals under various ownership and management structures will support our future expansion and strengthen our leading position as the largest private hospital group in China.

### **First-Mover Advantage Positioning Us to Capture Growth Opportunities in China's Public Hospital Reform**

As an early entrant to China's public hospital reform, we have accumulated extensive experience in working with public hospital owners, regulators and other key stakeholders when participating in different reform methods, including privatization and PPP. Ms. Xu Jie, our Founder and a Controlling Shareholder, participated in the reformation of Jian Gong Hospital to acquire its majority stake in 2000, which was the first privatization of a SOE-owned hospital in Beijing. In 2010, we began to manage Mentougou Hospital, which was the first government-owned hospital in Beijing to outsource its management through a PPP.

We believe that we are better positioned to identify and capture public hospital reform opportunities than new market entrants. We believe that our successful track record and experience in hospital reform provide us with a first-mover advantage given the limited number of precedents in China's public hospital reform. For example, the government of Beijing published 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) in 2012, which encourages and provides guidance with regard to private investments wanting to participate in the public hospital reform in Beijing. This guidance expressed a preference for reputable private sector partners that have extensive hospital operational experience and a successful track record in participating in public hospital reform. Such preference provides experienced private hospital groups like us with a significant competitive advantage.

Public hospital reform and private sector investments in hospitals, a key part of the ongoing healthcare reform in China, have provided and will continue to provide us with significant growth opportunities. China's 12th Five-Year Plan aims to increase the proportion of beds in private hospitals from 13% of total beds in 2010 to 20% of total beds by 2015. The PRC government selected 17 cities, including Beijing, to pilot public hospital reform. In the long term, the Frost & Sullivan Report predicts that more private healthcare service groups like us are expected to manage public hospitals to improve operations and efficiency when PRC government seeks to privatize more public hospitals.

### **Innovative Business Model Capturing Multiple Parts of the Value Chain and Realizing Synergies**

We believe that our innovative business model enables us to capture multiple parts of the healthcare value chain while realizing synergies in terms of resource utilization, healthcare quality enhancement, cost reduction and profitability improvement. We create value primarily through the following measures:

- *Maximizing the value chain of healthcare services.* We identify key parts in the healthcare services value chain and transform them into individual commercial units. We have successfully implemented this strategy to establish our supply chain business and Phoenix VIP Services. In the case of supply chain business, we aggregate the procurement needs of our in-network hospitals for pharmaceuticals, medical devices and medical consumables and negotiate for volume discounts with suppliers. We then sell such products to the hospitals managed by us to generate revenue and profits.

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- *Standardizing practices and information technology system at the Group level.* We adopt Group-wide practices and standardize the use of advanced information technology in our hospital operations. For example, under our management, Jian Gong Hospital and Yan Hua Hospital received JCI accreditation in 2010 after we implemented our management system and standards. As of June 30, 2013, they were the two out of the only three hospitals in Beijing that had received such accreditation. In addition, our in-network hospitals use a comprehensive suite of software to improve operational efficiency, such as Hospital Information System (HIS), Picture Archiving and Communications System (PACS), Laboratory Information System (LIS) and Social Insurance System (SIS), to assist with the management of patient records, billing history, human resources and other functions.
- *Resource sharing.* We share human resources and medical knowledge across our hospital network. For example, specialists and seasoned doctors can be rotated within our in-network hospitals through a doctor sharing mechanism (多點執業) which could improve our operational efficiency, enhance our reputation and attract talents by offering them the opportunity to be exposed to a broader patient base in the largest private hospital group in China. We also organize training events to share the latest medical development and know-how among our in-network doctors.

The service quality and operational efficiency of our in-network hospitals have improved under our management. The performance of all of our IOT hospitals and clinics, as measured by total patient visits and ALOS, improved in the first full year of our management. For example, with respect to Mentougou Hospital, (a) total patient visits increased by more than 40% two years after we took over its management, (b) the ALOS decreased from 15.5 days when we took over its management in 2010 to 12.1 days in the six months ended June 30, 2013, and (c) the number of surgeries performed increased from 1,334 in 2010 to 2,642 in 2012, of which Grade IV operations, the operations performed with highest risk and technical difficulty, increased from 87 in 2010 to 172 in 2012.

### **Strategic Focus on Beijing, the Largest Healthcare Market in China**

We have strategically established our hospital network in Beijing, one of the largest and fastest-growing healthcare markets in China, according to the Frost & Sullivan Report. There were 84 Grade III hospitals, 147 Grade II hospitals, over 92,600 hospital beds and approximately 135 million patient visits in Beijing as of 2012, according to the Frost & Sullivan Report. Among all cities in China, Beijing is ranked first in terms of number of Grade III hospitals, number of hospital beds and number of patient visits. A substantial majority of these hospitals are public hospitals owned by local governments or large SOEs. According to the Frost & Sullivan Report, total healthcare services market in Beijing grew at a CAGR of 17.8% from RMB59.4 billion in 2008 to RMB114.4 billion in 2012 and is expected to further grow to RMB222.3 billion in 2017 at a CAGR of 14.2% between 2012 and 2017. In 2011, healthcare spending per capita in Beijing was RMB4,826, which was much higher than the national average, according to the Frost & Sullivan Report.

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Moreover, according to the Frost & Sullivan Report, hospitals in Beijing are generally perceived by patients as offering the highest-quality healthcare services in China, which helps attract a sizable number of non-resident patients to Beijing. 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. In addition, many practicing medical experts and medical schools are located in Beijing, providing a larger talent pool than other areas in China. Such experts and key opinion leaders play an important role in the development of medical technology, new insurance guidelines and overall healthcare policies.

Furthermore, as the nation's capital and one of the 17 cities to pilot the healthcare reform in China, Beijing's initiatives have high precedential value. We believe that our experience and success in participating in the Beijing's healthcare reform have better enabled us to capture additional opportunities in the healthcare services industry in Beijing, which aims to increase the proportion of private hospitals beds from 13% in 2010 to 20% of total hospital beds in 2015.

### **Experienced Management Team and Professional Experts**

Our core management team is comprised of a group of seasoned professionals with an in-depth understanding of the healthcare market in China. Their diverse industry experience, innovative vision and strong execution capabilities have enabled us to achieve robust growth and profitability. Many members of our hospital managers are also renowned doctors, which provides us with in-depth knowledge of the intricacies of hospital operations as well as experience in working with doctors and other medical professionals. We believe that our senior management team has been and will continue to be crucial to the success of our business and will continually adhere to our corporate value of caring, innovation, perseverance and sharing.

Our in-network hospitals have built a strong team of doctors and medical staff, including 81 chief doctors (主任醫師), 229 associate-chief doctors (副主任醫師), 488 attending doctors (主治醫師) and 403 resident doctors (住院醫生) as of June 30, 2013. Our medical staff team is able to provide quality healthcare services to patients, which helps to attract more patients and improve the performance of our in-network hospitals.

### **OUR STRATEGIES**

Our goal is to become the leading hospital group in Asia, offering patients high quality and cost-effective healthcare services and facilitating the development of China's healthcare service industry. To accomplish this goal, we plan to implement the following strategies:

#### **Strengthen Market Leadership by Continuing to Expand Our Network of Hospitals and Clinics**

Leveraging our successful experience and track record and favorable government policies, we intend to strengthen our market leadership by continuing to expand our hospital network. We plan to privatize or enter into IOT agreements with public hospitals in Beijing to capture the opportunities arising from public hospital reform. China's highly fragmented healthcare services market offers a significant opportunity to expand our presence in Beijing and into other selected new markets. To increase economies of scale and to leverage our existing capabilities, expertise and reputation, we strategically target Grade

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II and Grade III general hospitals in all districts in Beijing that are Medical Insurance Designated Medical Institutions and have more than 300 beds in operation. As of 2012, there were 84 Grade III and 147 Grade II hospitals in Beijing, according to the Frost & Sullivan Report. When negotiating the potential acquisition or PPP terms with hospital owners, we consider the following key factors: current financial and operating performance of the hospital, initial investment amount required to improve hospital infrastructure and quality of healthcare services, ongoing operating expenses and capital expenditures, and potential return primarily from management fees and supply chain business revenue perspectives. For more details, see “Financial Information — Capital Expenditures” and “Future Plans and Use of Proceeds”. When appropriate, we also plan to expand our business to other areas with relatively less developed healthcare services and strong growth potential, including Hebei, Shandong, Shanxi, Henan and Hubei; however, we did not have any specific target for acquisition or PPP opportunity as of the Latest Practicable Date.

### **Further Centralize Key Functionalities and Standardize the Operations of In-network Hospitals and Provide Such Services to Other Hospitals**

We plan to further improve our efficiency by centralizing functionalities at the Group level and standardize the operations of our in-network hospitals. These measures include:

- further aggregating the sourcing and procurement of pharmaceuticals, medical devices and medical consumables, which has played a significant role in improving the quality and efficiency of our healthcare services;
- further standardizing our information technology system at the Group level by adopting a unified information technology system to streamline our purchases of pharmaceuticals, medical devices and medical consumables through an Enterprise Resource Planning System (ERPS), which is currently under development and is expected to provide us with access to financial, human resources, inventory, and other critical information of our in-network hospitals on a real-time basis; and
- further centralizing certain specialized medical functions among our in-network hospitals and clinics, such as establishing a central diagnosis and testing center, and other ancillary services, such as laundry, hospital sanitation services and convenience stores, on the premises of our in-network hospitals and clinics.

We believe these measures will help us improve operating efficiency, lower costs and expenses, minimize operational risks, increase revenue sources and deepen relationships with our IOT partners. For more details, see “Financial Information — Capital Expenditures” and “Future Plans and Use of Proceeds”. Leveraging our extensive experience in managing and operating hospitals, we also plan to seek suitable opportunities to provide these services to other hospitals that want to outsource such operations. Providing other hospitals with ancillary operations will help us diversify our customers, business segments and revenue streams.



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### **Further Improve the Quality of Healthcare Services Provided by Our In-network Hospitals and Clinics**

We intend to continue focusing on improving the quality of our healthcare services and patient satisfaction. We plan to attract more experienced doctors and medical personnel and share Group-wide best practices and knowledge among our in-network hospitals. We plan to have each of our in-network hospitals focus on developing acute care and selected specialty departments, such as cardiology, oncology and neurology. We also plan to obtain additional JCI or other similar accreditation for our in-network hospitals to enhance our reputation. In addition, we have been making investments to upgrade the medical facilities and equipment of our in-network hospitals and clinics. We believe that improving healthcare services provided by our in-network hospitals is critical to staying competitive in their respective markets.

### **Expand Premium Healthcare Services for High-end Patients**

We intend to leverage our reputation as a quality healthcare service provider and our JCI accreditation to continue developing premium healthcare services. We provide premium healthcare services through our “Phoenix EasyLife Club” (鳳凰益生會) to patients who are willing to pay a higher price for premium healthcare services. Unlike public not-for-profit hospitals, which are restricted from providing VIP services by the PRC government, our Jian Gong Hospital, as a private for-profit hospital, may freely provide premium high margin healthcare services to patients.

We also anticipate strong growth in China’s medical tourism market, driven by price competitiveness, increasing acceptance of China as a medical tourism destination, and some overseas patients’ desire to explore traditional Chinese medical treatment. We currently provide medical tourism services for overseas patients who are covered by international insurance companies. Strategically located in Beijing, the national medical center of China, we believe we are well-positioned to take advantage of anticipated growth in China’s medical tourism market.

## **OUR BUSINESS MODEL**

Our innovative business model allows us to capture multiple parts of the value chain and to unify the management and service standards throughout our network of hospitals and clinics in order to increase efficiency, and diversify our revenue sources. We generate revenue from (i) general hospital services provided at Jian Gong Hospital, (ii) hospital management services where we manage and collect management fees from our IOT hospitals and clinics, and (iii) supply chain business where we supply pharmaceuticals, medical devices and medical consumables to our in-network hospitals and clinics. We believe that we are able to replicate this innovative business model as we expand our hospital network.

### **General Hospital Business**

We generate revenue from provision of general healthcare services and our Phoenix VIP Services at Jian Gong Hospital. We own 80% equity interest in Jian Gong Hospital, which is the only hospital we operate through direct equity interest ownership. Jian Gong Hospital was also the first public hospital in Beijing owned by an SOE to undergo privatization. Jian Gong Hospital is a for-profit Grade II general hospital and, according to the Frost & Sullivan Report, is the largest for-profit hospital in Beijing in terms of revenue in 2012. It offers

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medical diagnosis and treatment and preventive care, provides medical research and instruction and, as of June 30, 2013, had 34 clinical departments and centers, including endocrinology, cardiovascular, orthopedic, neurology, urology surgery, thoracic surgery, gynecology and obstetrics, pediatrics, gastroenterology, ICU and rehabilitation medicine. For more details, see “— Our Hospital Network — Jian Gong Hospital”.

Managing Jian Gong Hospital allows us to accumulate valuable experience in hospital management and apply such experience to IOT hospitals and clinics. This enables us to improve the performance of IOT hospitals and clinics in a relatively short period of time. In 2010, 2011, 2012 and the six months ended June 30, 2013, we generated revenue of RMB288.4 million, RMB324.0 million, RMB403.1 million and RMB214.7 million from our general hospital business, respectively, representing 73.2%, 63.6%, 53.2% and 51.2% of our total revenue in the corresponding period. Segment results of our general hospital services were RMB38.6 million, RMB41.2 million, RMB40.8 million and RMB16.3 million in 2010, 2011, 2012 and the six months ended June 30, 2013, respectively, representing 56.8%, 42.2%, 23.9% and 19.6% of the total segment results in the corresponding period, respectively. For the definition of our segment results, see “Financial Information — Description of Components of Results of Operations — Segment Results”.

### Hospital Management Business

We manage and operate, and receive management fees from our IOT hospitals and clinics. Our IOT hospitals and clinics include Yan Hua Hospital Group, Mentougou Hospital, Jing Mei Hospital Group and Mentougou Traditional Chinese Medicine Hospital. As of June 30, 2013, our IOT hospitals and clinics consisted of 10 general hospitals, one traditional Chinese medicine hospital and 28 community clinics. Under the IOT model, we agree to make a fixed investment to improve the medical facilities and clinical services of a hospital in exchange for the right to manage and operate the hospital and receive performance-based management fees for a period ranging from 19 to 48 years. Some hospitals are required to repay our investment in annual installments over the tenure of IOT agreement. We typically have the right to appoint key senior managers, such as the chief operating officer and the chief financial officer, and the right to recommend or appoint hospital administrators at the IOT hospitals. For more details regarding the major terms of each IOT agreement, see “— Our Hospital Network”.

Pursuant to our IOT agreements, we are entitled to receive management fees, typically calculated based on a percentage of the annual hospital revenue and/or net income before tax (收支結餘) with certain adjustments and limitations primarily relating to the IOT hospitals' net income before tax (收支結餘). In 2010, 2011, 2012 and the six months ended June 30, 2013, we generated aggregate management fees of RMB16.3 million, RMB19.4 million, RMB40.3 million and RMB9.9 million, respectively, representing 4.1%, 3.8%, 5.3% and 2.4% of our revenue in the corresponding period. Segment results of our hospital management services were RMB13.9 million, RMB19.3 million, RMB26.6 million and RMB2.5 million in 2010, 2011, 2012 and the six months ended June 30, 2013, respectively, representing 20.4%, 19.7%, 15.6% and 3.0% of the total segment results in the corresponding periods. For more details, see “Financial Information — Results of Operations — Six Months Ended June 30, 2013 and June 30, 2012”.



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Public hospital reform in China provides us with opportunities to grow our hospital network. As an early entrant to China's public hospital reform, we are visited and consulted by public hospital owners and regulators from time to time and may identify growth opportunities through these exchanges. These meetings and visits also serve as a platform for us to promote our hospital management skills, the IOT model and our successful public hospital reform track record. Once we identify a suitable target, we would discuss the specific terms of our involvement with its owner. These negotiations are usually conducted on a private, arm's-length basis, subject to the approval of local regulators.

As advised by our PRC legal adviser, all of our IOT agreements are valid, legally binding and enforceable, and does not violate any PRC laws, rules or regulations.

### **Supply Chain Business**

Our supply chain business centralizes the procurement functions of all our in-network hospitals and clinics, and coordinates and manages the procurement and logistics of pharmaceuticals, medical devices, medical consumables and equipment on a Group basis. Therefore, we are able to generate supply chain business revenue by selling pharmaceuticals, medical devices and medical consumables to our in-network hospitals and clinics.

We derive a significant portion of our revenue and profit from procuring pharmaceuticals, medical devices and medical consumables from suppliers at the negotiated prices and selling them to our in-network hospitals and clinics at the "bidding price" or other price ceilings set by the local government authority. Under the terms of our IOT agreements, we have the right to manage the relevant hospitals. As a result, we are able to control, consolidate and manage the procurement of these hospitals and clinics, including causing these hospitals and clinics to procure pharmaceuticals, medical devices and medical consumables from our supply chain business. Our procurement services also include arranging for our in-network hospitals and clinics to purchase directly from suppliers arranged by us. For more details, see "— Supply Chain Business — Group Procurement" and "— Price Control and Pricing". As a result, the growth of our supply chain business is largely tied to the combined demand of our in-network hospitals and clinics, which are primarily driven by the expansion of our hospital network and the increase in patient visits at our in-network hospitals and clinics. In addition, we negotiate volume discounts and payment terms with our suppliers based on the combined procurement volume of all in-network hospitals and clinics, which also enable us to obtain higher discounts and better payment terms from our suppliers than our individual in-network hospital would have been able to. Doctors at our in-network hospitals and clinics usually prescribe pharmaceuticals from inventory maintained at the respective hospital.

#### ***Procurement process***

We adopt a standardized procurement procedure for all of our in-network hospitals and at the Group level. Each of our in-network hospitals consolidates and regularly reports its pharmaceuticals, medical devices and medical consumables and equipment needs to our centralized procurement management team. The hospital makes its own independent judgment as to what types of pharmaceuticals, medical devices and medical consumables, or equipment to purchase.

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After reviewing the requests, the hospital procurement manager submits the request to our procurement management team. The procurement management team of our supply chain business consolidates the relevant information from every hospital and develops a master procurement list for all of our in-network hospitals. Consolidating the procurement requests of each of our in-network hospitals and clinics makes the procurement process more efficient, cost-effective and simple. The standardized procurement procedures are also easier to follow compared to the *ad hoc* procurement practices employed by each of our in-network hospitals before we started managing them.

As of June 30, 2013, our centralized procurement management at the Group level has a department of 26 dedicated procurement staff and professionals who manage each stage of the procurement process, including contracting, purchasing, and inventory management.

### ***Group procurement***

We negotiate for the procurement of our in-network hospitals and clinics with suppliers based on the combined procurement volume at the Group level. By consolidating the procurement needs of our in-network hospitals and clinics, we are able to leverage our collective purchasing power in contract negotiations with pharmaceutical distributors as well as medical device manufacturers and distributors. For specific purchases, we either purchase pharmaceuticals, medical devices and medical consumables and resell the same to our in-network hospitals, or have our in-network hospitals purchase directly from suppliers arranged by us. For more details, see “— Price Control and Pricing”. If we are not licensed to sell, certain goods (such as toxic pharmaceuticals, anesthetics, psychotropics and radiopharmaceuticals), we generally arrange for our in-network hospitals and clinics to purchase such goods directly from suppliers. Our ability to negotiate volume discounts is especially effective when we negotiate for the purchase of high-value items, such as medical equipment. We normally arrange for our in-network hospitals to purchase medical equipment directly from suppliers after we have negotiated price discounts for them.

We generate a significant portion of revenue from selling pharmaceuticals, medical devices and medical consumables to our in-network hospitals and clinics. In 2010, 2011, 2012 and the six months ended June 30, 2013, we generated revenue of RMB89.3 million, RMB166.1 million, RMB314.6 million and RMB195.1 million from our supply chain business, respectively, representing 22.7%, 32.6%, 41.5% and 46.5% of our total revenue in the corresponding period. Segment results of our supply chain business were RMB15.5 million, RMB37.1 million, RMB103.0 million and RMB64.2 million in 2010, 2011, 2012 and the six months ended June 30, 2013, respectively, representing 22.8%, 38.1%, 60.5% and 77.3% of the total segment results in the corresponding period.

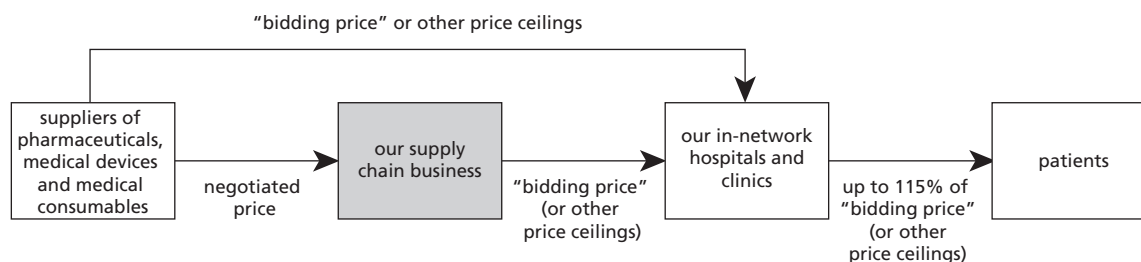
### **PRICE CONTROL AND PRICING**

The prices of most pharmaceuticals, medical devices and medical consumables in China sold to medical institutions and to patients are subject to government price and profit margin controls. When sold to medical institutions in China, the wholesale prices of those pharmaceuticals, medical devices and medical consumables on the price control list may not exceed the “bidding prices” or other price ceilings set by the relevant government authority. The retail prices of most pharmaceuticals sold by medical institutions to patients must adhere to a fixed 15% profit margin ceiling set by the PRC government. As a result, the retail price may not exceed 115% of the “bidding price” for most pharmaceuticals. The retail prices of

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medical devices and medical consumables are subject to similar restrictions. For more details, see “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”. Consequently, consistent with the industry practice, our in-network hospitals and clinics generally purchase pharmaceuticals, medical devices and medical consumables at the “bidding price” to maximize their gross profit from sale to patients.

Accordingly, our supply chain business purchases pharmaceuticals, medical devices and medical consumables at the prices we have negotiated with our suppliers and then resell them to our in-network hospitals and clinics at the “bidding price” set by the government authorities. The following diagram illustrates our supply chain’s position in the value chain and the price control (if any) at each part of the value chain:



As we further integrate the operations of our in-network hospitals and clinics, we plan to gradually increase the types of pharmaceuticals, medical devices and medical consumables that we sell to our in-network hospitals and clinics through our supply chain business. For more details on the expected impact of further integration on our financial performance, see “Financial Information — Revenue Mix” and “Financial Information — Description of Components of Results of Operations — Gross Profit — Supply Chain Business”.

In terms of healthcare service pricing, if a medical institution is a Medical Insurance Designated Medical Institution (醫保定點醫療機構), it may only charge fees for provision of healthcare services in accordance with the pricing guidelines set by the relevant local healthcare administrative authorities. Such pricing guidelines stipulate the range of healthcare services fees that can be charged for patients covered by public medical insurance programs. The local healthcare administrative authority, Beijing Municipal Commission of Development and Reform, last adjusted service fees for ostomy care (造口護理) on August 16, 2010, which was the only healthcare service pricing adjustment during the Track Record Period. For patients not covered by public medical insurance programs, a medical institution is not subject to such pricing guidance. Medical institutions without such designation are also not subject to such pricing restrictions and are entitled to set healthcare services fees based on their cost structures, market demand and other factors.

In the future, changes in regulations may affect our healthcare service fees and “bidding price”. For more details, see “Risk Factors — Risk Factors Related to Our Business and Industry — We derive a significant portion of revenue from our supply chain business, and its profitability may decline if the PRC government imposes additional price controls on pharmaceuticals, medical devices and medical consumables”.

## **EXPANSION AND MANAGEMENT OF HOSPITAL NETWORK**

### **Sourcing and assessment of potential hospital targets**

We systematically review and screen potential hospital targets. We are either approached by hospital owners as a result of our reputation and track record, or we identify and initiate contact with hospital owners of potential hospital targets. To increase economies of scale and to leverage our existing capabilities, expertise and reputation, we strategically target Grade II and Grade III hospitals that are Medical Insurance Designated Medical Institutions in all districts in Beijing, and have more than 300 beds in operation. In China, Grade III hospitals are the largest regional hospitals, typically having more than 500 beds, and Grade II hospitals typically have 101 to 500 beds, providing multiple communities with integrated healthcare services. For more details on grades of hospitals, see “Industry Overview — Healthcare Service Market Participants in China — Provider Aspect — Grades of Hospitals”. We prefer hospitals with a leading market share in its respective areas with large number of patient visits. When negotiating the potential acquisition or PPP terms with hospital owners or promoters, we consider the following key factors: current financial and operating performance of the hospital, initial investment amount required to improve hospital infrastructure and quality of healthcare services, ongoing operating expenses and capital expenditures, and potential return primarily from management fee and supply chain business revenue perspectives. In particular, the initial investment amount under IOT agreements are calculated with references to investment payback period and/or a certain target internal rate of return, taking into account certain factors, including the current revenue, location of the hospital and future growth potential.

As of June 30, 2013, pursuant to the relevant IOT agreements, we made investments that will not be returned to us for acquisition of the management right of Yan Hua Hospital and Jing Mei Hospital of RMB72 million and RMB150 million, respectively. During the Track Record Period, we had made repayable investments in the total amount of RMB177 million to our IOT Hospitals and clinics under IOT agreements. During the Track Record Period, we have generated from such investment in the aggregate of: (i) revenue from hospital management service of RMB85.9 million; (ii) gross profit from our supply of pharmaceuticals and medical devices and medical consumables to IOT hospitals and clinics under our supply chain business of RMB131.4 million; and (iii) repayment of our repayable investment amounts to the IOT Hospitals from the relevant IOT hospitals and clinics, pursuant to the terms of the relevant IOT agreements, of RMB9.6 million.

### **Investment in and integration of the hospitals**

Once we begin managing a hospital, we invest in and strive to improve its infrastructure, management and governance. We focus on formulating its development strategies by taking into account recommendations from the hospital owner. Depending on the hospital's needs and available financial resources, we either upgrade existing facilities or construct new facilities. We also upgrade medical equipment of the hospitals. It is crucial for us to integrate a new hospital's management and operations into our hospital network to realize synergies. We achieve such integration by reviewing each hospital's annual budget and forecast, introducing our Group-wide management techniques to such hospital, establishing an executive committee that makes key operating decisions for hospitals, and appointing hospital administrators and senior management members to control the day-to-day hospital operations. By establishing and implementing a performance-based review procedure and compensation scheme for hospital staff, we actively monitor the

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implementation and effectiveness of our management and strategies. To better integrate a new hospital into our hospital network, we will usually install our uniform IT and hospital management systems in each in-network hospital. For more details on how we manage our in-network hospitals, see “— Unified Management of In-network Hospitals and Clinics”.

### **Continuous improvement of hospitals**

To further realize synergies among our in-network hospitals, we focus on operational improvement in three main aspects: centralization of functions, quality of healthcare services and staffing. Centralization of functions at hospitals is an important part of our vision to improve the quality of healthcare services, including procurement and supply chain management, logistics and inventory management, and Group-wide IT solutions. We usually strive to implement the JCI standards for each of our in-network hospitals to improve the overall quality and safety of healthcare services. We constantly review and adjust the mix and focus of clinical departments to leverage each hospital’s unique strengths to enhance its reputation and profile. We focus on attracting and retaining quality hospital administrators and doctors by, among others, providing ongoing training to our medical staff and aligning their interest with hospitals’ via performance based compensation scheme.

### **UNIFIED MANAGEMENT OF IN-NETWORK HOSPITALS AND CLINICS**

During and after the integration of a hospital into our hospital network, we always focus on developing each hospital based on its location and specialties to achieve its potential. For example, we have established an internal governance committee to better coordinate and oversee the management teams that we appointed to our IOT hospitals and clinics in the Mentougou district. In addition, this committee oversees and coordinates the management and operations of these hospitals and clinics, as well as focuses on differentiating these hospitals and clinics to reduce unnecessary overlap and competition.

We control Jian Gong Hospital through our majority ownership and control the day-to-day operations of our IOT hospitals and clinics through our management rights in IOT hospitals and clinics pursuant to the relevant IOT agreements. Specifically, we manage and operate our in-network hospitals and clinics through the hospital administrators and senior management appointed or recommended by us. At the Group level, our Group senior management reviews and approves annual budgets, quarterly and monthly expense reports and internal audit reports and periodically meets with hospital administrators. We have also set up an internal audit department at the Group level to supervise the fulfillment of relevant development goals and evaluate the operational performance of each hospital.

In addition, we employ our standardized internal performance reviews throughout these hospitals to effectively evaluate the individual performance of senior officers, doctors, medical technicians, nurses and administrative staff. We evaluate their performance based on a range of criteria, such as financial performance, efficiency and safety record.

We allocate resources and make investments in our in-network hospitals and clinics to support their business growth and operations based on our Group-wide strategy and the annual budgets of each hospital.

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The operations of our in-network hospitals and clinics are delegated to the hospital administrator and other senior management at each hospital. The hospital administrator and other senior management appointed or recommended by us are responsible for the hospital's operation and have significant decision-making authority in hospital operations, including the authority to hire, promote and discipline doctors and other hospital personnel, to determine the compensation and incentive payments for all hospital staff and to plan and implement the budget and oversee the implementation of policies established both by the PRC government and by our Group. We maintain regular discussions with the hospital administrators to obtain updates on the financial performance and the operations of these hospitals including reviewing the monthly management accounts of these hospitals as well as assessing whether the policies and budgets established at the Group level are implemented as scheduled.

We carefully select, recommend and appoint hospital administrators for each of our in-network hospitals. They are usually experienced doctors who have strong academic and professional backgrounds and substantial management experience at hospitals or healthcare companies. In addition to hospital administrators, we usually appoint other key senior managers as well. For example, we appointed the chief operating officer, vice hospital administrator, and the chief financial officer to Jing Mei Hospital Group, which is our largest in-network hospital in terms of beds in operation and the number of employees as of June 30, 2013. The chief operating officer follows the hospital administrator's direction and focuses on hospital's daily operation and business performance, while the vice hospital administrator and the chief financial officer focus on the quality of healthcare services and the financial management, respectively. In order to improve our hospital administrators' and other key senior managers' management skill and unify the core value and culture of our Group, we provide mandatory trainings on the best practices of our in-network hospitals.

Our model of operating a network of hospitals rather than a single hospital creates various synergies including resource utilization, quality enhancement, cost reduction and profitability improvement. The following table sets forth certain operating data of our in-network hospitals and clinics during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
Number of owned and IOT hospitals <sup>1</sup> . . . . .	3	11	12	12	12
Number of IOT clinics <sup>1</sup> . . . . .	17	28	28	28	28
Number of beds in operation <sup>1</sup> .	1,345	2,797	3,194	3,177	3,213
Patient visits (thousands) . . . . .	1,366	2,256	3,050	1,397	1,509
Inpatient visits (thousands) . .	25	42	51	25	27
Outpatient visits (thousands) . . . . .	1,341	2,214	2,999	1,372	1,482

<sup>1</sup> The numbers presented are as of the end of the relevant period.



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### Segment Revenue by Hospital

The following table sets forth the segment revenue derived from our in-network hospitals during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	(unaudited)				
	(in millions of RMB)				
<b>Jian Gong Hospital</b>					
General hospital services <sup>1</sup> . . .	288.4	324.0	403.1	188.6	214.7
Supply chain business <sup>2</sup> . . . . .	61.8	98.3	116.4	54.9	53.2
<b>Yan Hua Hospital Group</b>					
Hospital management services . . . . .	16.3	18.0	22.6	6.4	1.9
Supply chain business . . . . .	88.9	158.2	170.6	70.6	81.6
<b>Mentougou Hospital</b>					
Hospital management services <sup>3</sup> . . . . .	N/A	1.4	5.4	1.0	2.4
Supply chain business . . . . .	N/A	7.8	31.8	13.7	29.7
<b>Jing Mei Hospital Group</b>					
Hospital management services <sup>4</sup> . . . . .	N/A	N/A	12.2	5.3	5.6
Supply chain business . . . . .	N/A	0.1	110.0	36.0	77.0
<b>Mentougou Traditional Chinese Medicine Hospital</b>					
Hospital management services <sup>5</sup> . . . . .	N/A	N/A	N/A	N/A	—
Supply chain business . . . . .	N/A	N/A	2.2	N/A	6.6

<sup>1</sup> General hospital services segment revenue also includes revenue generated by our Phoenix VIP services, carried out through Beijing EasyLife, of RMB9.0 million, RMB5.2 million, RMB3.5 million, RMB1.9 million and RMB1.2 million in 2010, 2011, 2012 and the six months ended June 30, 2012 and June 30, 2013, respectively.

<sup>2</sup> Segment revenue from sales to Jian Gong Hospital is recorded as inter-segment revenue and eliminated from our total revenue.

<sup>3</sup> We began managing Mentougou Hospital in August 2010 and started to collect management fees in 2011.

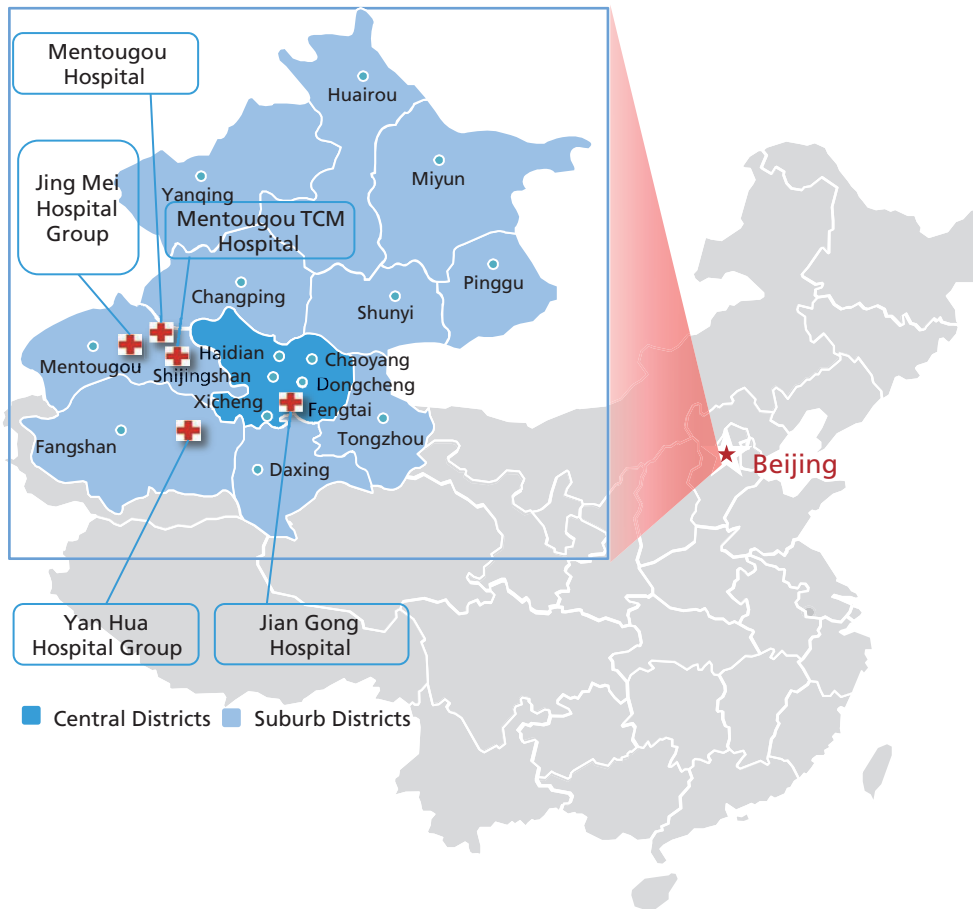
<sup>4</sup> We began managing Jing Mei Hospital Group in May 2011 and started to collect management fees in 2012.

<sup>5</sup> We began managing Mentougou Traditional Chinese Medicine Hospital in June 2012 and became entitled to collect management fee in 2013, but did not recognize any during the Track Record Period.

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## OUR HOSPITAL NETWORK

We currently manage and operate a network of two Grade III hospitals, three Grade II hospitals, seven Grade I hospitals and 28 community clinics, with a total of 3,213 beds in operation in Beijing as of June 30, 2013. All of our in-network hospitals and clinics are located in west and southwest Beijing. Set out below is an illustration of the location of our in-network hospitals and clinics:



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The following table sets forth certain key information of our in-network hospitals for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
<b>Jian Gong Hospital</b>					
Outpatient (thousands) . . . . .	384.6	462.6	597.9	265.7	308.2
Inpatient (thousands) . . . . .	8.4	9.6	11.5	5.6	5.5
Average spending per					
outpatient visit (RMB) . . . . .	432	415	417	403	431
Healthcare services . . . . .	143	154	177	166	176
Pharmaceuticals . . . . .	289	261	239	237	255
Average spending per					
inpatient visit (RMB) . . . . .	12,961	12,382	13,127	13,645	14,788
Healthcare services . . . . .	8,447	8,049	8,277	8,564	9,365
Pharmaceuticals . . . . .	4,514	4,333	4,849	5,080	5,423
<b>Yan Hua Hospital Group</b>					
Outpatient (thousands) . . . . .	614.8	701.5	778.1	350.9	388.0
Inpatient (thousands) . . . . .	12.4	12.5	13.5	6.4	6.8
Average spending per					
outpatient visit (RMB) . . . . .	386	398	423	404	456
Healthcare services . . . . .	108	101	104	95	105
Pharmaceuticals . . . . .	278	297	319	309	350
Average spending per					
inpatient visit (RMB) . . . . .	12,448	12,925	14,230	14,249	14,996
Healthcare services . . . . .	7,000	7,316	7,729	7,955	7,811
Pharmaceuticals . . . . .	5,448	5,609	6,501	6,294	7,184
<b>Mentougou Hospital</b>					
Outpatient (thousands) . . . . .	341.6	374.8	482.1	218.0	249.3
Inpatient (thousands) . . . . .	4.6	5.5	8.8	4.0	4.6
Average spending per					
outpatient visit (RMB) . . . . .	245	276	312	284	342
Healthcare services . . . . .	88	101	116	105	112
Pharmaceuticals . . . . .	158	175	196	179	230
Average spending per					
inpatient visit (RMB) . . . . .	13,079	12,109	13,110	12,189	14,160
Healthcare services . . . . .	7,945	7,613	8,043	7,912	8,776
Pharmaceuticals . . . . .	5,134	4,496	5,067	4,278	5,384
<b>Jing Mei Hospital Group</b>					
Outpatient (thousands) . . . . .	518.7	675.0	791.3	366.4	371.6
Inpatient (thousands) . . . . .	12.2	14.8	16.3	7.8	9.1
Average spending per					
outpatient visit (RMB) . . . . .	312	313	332	340	420
Healthcare services . . . . .	85	86	101	99	116
Pharmaceuticals . . . . .	227	227	231	240	305

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	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
Average spending per inpatient visit (RMB) . . . . .	18,998	17,396	17,823	18,205	17,856
Healthcare services . . . . .	10,646	10,361	11,278	11,440	11,232
Pharmaceuticals . . . . .	8,352	7,035	6,546	6,765	6,625
<b>Mentougou Traditional Chinese Medicine Hospital</b>					
Outpatient (thousands) . . . . .	271.5	320.0	349.0	170.9	165.0
Inpatient (thousands) . . . . .	1.8	1.7	1.2	0.9	0.5
Average spending per outpatient visit (RMB) . . . . .	260	258	259	251	295
Healthcare services . . . . .	53	49	43	45	48
Pharmaceuticals . . . . .	207	209	216	206	247
Average spending per inpatient visit (RMB) . . . . .	9,934	9,715	8,843	8,307	8,818
Healthcare services . . . . .	4,445	4,810	4,333	4,094	4,572
Pharmaceuticals . . . . .	5,489	4,905	4,511	4,213	4,246

For detailed information of each of our in-network hospitals, see the disclosure relating to each hospital in this section.

The hospitals under our management include the following:

### **Jian Gong Hospital**

We own 80% equity interest in Jian Gong Hospital, which is the only hospital we operate through direct equity interest ownership. Jian Gong Hospital was the first public hospital in Beijing owned by an SOE to undergo privatization. For more details, see “History and Reorganization — Acquisition of Jian Gong Hospital” and “History and Reorganization — The Reorganization — Transfer and Repurchase of 10% of the Equity Interest of Jian Gong Hospital by Beijing Phoenix”.

Jian Gong Hospital is a for-profit Grade II general hospital and, according to the Frost & Sullivan Report, is the largest for-profit hospital in Beijing in terms of revenue in 2012. It offers medical diagnosis and treatment and preventive care, provides medical research and instruction and, as of June 30, 2013 had 34 clinical departments and centers, including endocrinology, cardiovascular, orthopedic, neurology, urology surgery, thoracic surgery, gynecology and obstetrics, pediatrics, gastroenterology, ICU and rehabilitation medicine.

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Jian Gong Hospital underwent a rigorous accreditation process and was certified as a JCI hospital in 2010, becoming the eighth JCI accredited general hospital in China, and the third privately-operated hospital in Beijing to receive such accreditation. It also obtained the ISO9001 international quality standard certification in 2003. Jian Gong Hospital is one of the 19 Class A Medical Insurance Designated Medical Institutions in Beijing. This qualification allows patients to obtain medical treatment under public medical insurance programs without pre-approval from medical insurers. As of June 30, 2013, Jian Gong Hospital had 764 employees, including 219 doctors and 386 other medical professionals, and 400 beds in operation. The 219 doctors of Jian Gong Hospital consisted of 19 chief doctors, 54 associate-chief doctors, 82 attending doctors and 64 were resident doctors. Other medical professionals include nurses and medical technicians.

To diversify our healthcare service offerings and explore alternative revenue sources, Jian Gong Hospital also offers our Phoenix VIP services through “Phoenix EasyLife Club” (鳳凰益生會) to patients who are willing to pay a higher price for premium healthcare services. We also receive and treat patients from overseas, who seek medical treatment in China for a variety of reasons, such as more expensive medical care in their home countries and a desire to explore traditional Chinese medicine. We usually receive and treat such overseas patients under arrangements with international insurance companies, such as AXA Assistance and ERV China. Prices for such services are generally set by us, taking into account global market demand for services, as the healthcare service fees paid by the international insurance companies are not subject to price controls in China. We plan to grow our premium healthcare services by expanding the pool of eligible overseas patients and the list of medical insurance providers that we accept, and we are currently discussing partnership opportunities with additional international medical insurance companies.

To provide 24-hour, high quality care for our patients, we allow independent caregiver service providers to offer their caring and accompany services to patients at Jian Gong Hospital, such as assistance in food feeding and laundry for patient personal clothes. We select and review caregiver service providers primarily based on their reputation, service quality and business arrangement. From 2009 to 2011, Jian Gong Hospital had allowed a caregiver service provider, Beijing Jinmengtai Service Co., Ltd. (北京金萌泰勞務服務有限公司 or “Jinmengtai”) to provide caregiver services at Jian Gong Hospital. Upon the expiry of our agreement with Jinmengtai, Jian Gong Hospital entered into a one-year agreement with another caregiver service provider, Beijing Yixin Sincere Service Co., Ltd. (北京易欣誠摯勞務服務有限公司 or “Yixin”), in May 2012 and extended that agreement for another year until April 30, 2014. Pursuant to the contract with Yixin, Yixin provides 24-hour caregiver services for a fee paid by our patients, while Jian Gong Hospital provides office facilities and has the right to supervise the quality of Yixin’s service and conduct random quality inspections. We are entitled to a quarterly fee of RMB60,000 from Yixin for permitting it to provide services on the premises of Jian Gong Hospital. Both Jinmengtai and Yixin are Independent Third Parties.

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The following table sets forth certain key information relating to Jian Gong Hospital for the period indicated below:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
Outpatient visits (thousands) . .	384.6	462.6	597.9	265.7	308.2
Average spending per					
outpatient visit (RMB) . . . . .	432	415	417	403	431
Healthcare services . . . . .	143	154	177	166	176
Pharmaceuticals . . . . .	289	261	239	237	255
Inpatient visits (thousands) . . .	8.4	9.6	11.5	5.6	5.5
Average spending per					
inpatient visit (RMB) . . . . .	12,961	12,382	13,127	13,645	14,788
Healthcare services . . . . .	8,447	8,049	8,277	8,564	9,365
Pharmaceuticals . . . . .	4,514	4,333	4,849	5,080	5,423
ALOS (days) . . . . .	12.5	11.4	10.5	10.9	10.0
Number of beds in operation					
as of the end of the					
relevant period . . . . .	382	382	399	382	400
Occupancy rate . . . . .	76.6%	78.9%	85.8%	89.9%	76.5%
Number of inpatient surgeries					
(thousands) . . . . .	2.6	3.1	2.9	1.8	1.2
Total employees . . . . .	703	718	757	734	764
Of which, doctors . . . . .	194	194	210	206	219
Of which, other medical					
professionals . . . . .	339	351	387	334	386
<b>Our revenue derived from Jian</b>					
<b>Gong Hospital (millions of</b>					
<b>RMB)</b>				(unaudited)	
General hospital services <sup>1</sup> . . .	288.4	324.0	403.1	188.6	214.7
Supply chain business <sup>2</sup> . . . . .	61.8	98.3	116.4	54.9	53.2

<sup>1</sup> General hospital services segment revenue also includes revenue generated by our Phoenix VIP services, carried out through Beijing EasyLife, of RMB9.0 million, RMB5.2 million, RMB3.5 million, RMB1.9 million and RMB1.2 million in 2010, 2011, 2012 and the six months ended June 30, 2012 and June 30, 2013, respectively.

<sup>2</sup> Segment revenue from sales to Jian Gong Hospital is recorded as inter-segment revenue and eliminated from our total revenue.

### Yan Hua Hospital Group

Yan Hua Hospital Group includes Yan Hua Hospital, a not-for-profit and the only Grade III general hospital in the Fangshan District of Beijing, Xingcheng Hospital, a branch of Yan Hua Hospital, and 17 community clinics, primarily serving residents in the Fangshan District. Yan Hua Hospital has remained a not-for-profit medical institution after its privatization, as it is accredited as a regional medical center by the Fangshan District government and is entrusted with significant public health and contingency planning responsibilities. As of June 30, 2013, Yan Hua Hospital had 42 clinical departments and centers, including cardiovascular, orthopedics, endocrinology, neurosurgery, oncology, ICU and cardiac care unit. Yan Hua Hospital is equipped with advanced medical equipment, such as dual-source CT, color



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ultrasound diagnostic system, and arthroscopy and accessories. Yan Hua Hospital was accredited as a JCI hospital in 2010. Yan Hua Hospital is a Medical Insurance Designated Medical Institution in Beijing. As of June 30, 2013, Yan Hua Hospital Group had 1,150 employees, including 265 doctors and 545 other medical professionals, and 554 beds in operation. The 265 doctors of Yan Hua Hospital Group consisted of 18 chief doctors, 55 associate-chief doctors, 112 attending doctors and 80 resident doctors.

### *Yan Hua IOT Agreement*

We began to manage Yan Hua Hospital Group under the IOT model in February 2008. The Yan Hua IOT Agreement was entered into among Yan Hua Phoenix, Yan Hua Hospital Group and us in February 2008 and amended in April 2008, December 2010, June 2011, June 2013, July 2013, September 2013 and October 2013. Set forth below is a summary of major terms of the Yan Hua IOT Agreement. For more details, see “Connected Transactions — Non-Exempt Continuing Connected Transactions with Yan Hua Hospital Group — (A) Yan Hua IOT Agreement”.

As advised by our PRC legal adviser, the entering of the Yan Hua IOT Agreement does not require approval from any PRC regulatory authority according to PRC laws, rules and regulations. As such, we did not specifically consult with any PRC regulatory authority on the legality of the Yan Hua IOT Agreement. However, Yan Hua Hospital Group, as a not-for-profit hospital registered as a private non-enterprise organization, is supervised by the Beijing Social Organizations Management Bureau (北京市社會團體管理辦公室), which is the PRC government authority responsible for enforcing the relevant PRC laws, rules and regulations. The Beijing Social Organizations Management Bureau (北京市社會團體管理辦公室) is required to conduct annual inspection and other regulatory matters on Yan Hua Hospital Group, including approving the amendments to the Articles of Association of Yan Hua Hospital Group, which were made as a result of the Yan Hua IOT Agreement. The amendments were duly approved by the same PRC government authority. In addition, Yan Hua Hospital Group has historically been able to obtain, and currently maintains, the requisite licenses from relevant PRC regulatory authorities to conduct its operations. Our PRC legal adviser also confirms that the Yan Hua IOT Agreement (a) is valid, legally binding and enforceable, (b) does not violate any PRC laws, rules or regulations and (c) does not affect the renewal of relevant licenses that Yan Hua Hospital Group requires to continue its operation in the present form and scale.

### *Investment amount*

Pursuant to the Yan Hua IOT Agreement, we agreed to make an initial capital investment of RMB72.0 million and provide certain services to Yan Hua Hospital Group in consideration for the right to operate Yan Hua Hospital Group and to receive management fees until July 17, 2055. Furthermore, in consideration for enhancing the management fee payment structure, we committed to make additional repayable investments of not less than RMB150.0 million to support the long-term development of Yan Hua Hospital Group. We had completed the investment of RMB72.0 million that will not be returned to us and made an additional repayable investment in the amount of RMB77.0 million to Yan Hua Hospital Group. We have made another repayable investment in the amount of RMB10.0 million to Yan Hua Hospital Group in July 2013, with the remaining RMB63.0 million expected to be invested using the net proceeds of the Global Offering.

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### *Scope of services and major rights and obligations*

Pursuant to the Yan Hua IOT Agreement, we provide certain services to Yan Hua Hospital Group, including management and consulting services, brand building, financial support, human resources and academic research support, and improvement of medical facilities and information technology systems. Yan Hua Hospital and Yan Hua Phoenix have agreed not to negotiate with any third party regarding hospital management services without our prior consent.

### *Management fee structure, repayment of investment and financial performance*

We are entitled to receive management fees for our services. Our annual management fees include a base management fee and an incentive fee. The calculation is based on the following formula: the base management fee equals to a fixed percentage of the first RMB150 million of the annual revenue of Yan Hua Hospital Group which will be paid in one lump sum at the end of each year; the incentive fee equals to a higher fixed percentage of the annual revenue in excess of RMB150 million, which is estimated and prepaid on a quarterly basis. Our additional committed investment paid to Yan Hua Hospital Group will be repaid to us in equal annual installments over the tenure of our management. The term of the Yan Hua IOT Agreement, which is subject to approval by our independent shareholders every three years, would not affect the investment repayment schedule. In any given year, the management fees we are entitled to should not exceed the Yan Hua Hospital Group's net income before tax (收支結餘) after annual repayment of investment.

At the end of each year, after the total base management fee and the incentive fee have been determined based on Yan Hua Hospital Group's results of operations, the quarterly incentive fees that have already been paid in that year are credited towards such amount, and any remaining balance is settled between the Yan Hua Hospital Group and us. If the total amount of the base management and annual incentive fee is lower than the aggregate amount of the quarterly incentive fees that have already been paid in that year, we are obligated to return the excess amount to Yan Hua Hospital Group. Pursuant to the Yan Hua IOT Agreement, Beijing Phoenix has agreed to compensate Yan Hua Hospital Group for losses incurred by Yan Hua Hospital Group in any calendar year such that Yan Hua Hospital would break even in that calendar year by setting off the compensation against the management fees in that calendar year. If the management fees in that year are insufficient, the compensation will be set off against the management fees in subsequent years until the loss is fully compensated. To date, Beijing Phoenix has not paid any such compensation to Yan Hua Hospital Group. Yan Hua Hospital Group has entered into an undertaking to Beijing Phoenix, dated the date of this prospectus, that it will not enforce the right to loss top-up payment from Beijing Phoenix as long as the Yan Hua IOT Agreement remains in force.

In each of 2010, 2011 and 2012, the management fees we were entitled to receive from Yan Hua Hospital Group did not exceed the Yan Hua Hospital Group's annual net income before tax (收支結餘) after annual repayment of investment. In the six months ended June 30, 2013, the management fees we were entitled to receive from Yan Hua Hospital Group was RMB1.9 million because such fees were capped at Yan Hua Hospital Group's net income before tax (收支結餘) in this period.

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### *Yan Hua Hospital Group's executive committee*

Yan Hua Hospital's executive committee (燕化醫院集團理事會) consists of five members, four of whom are appointed by Yan Hua Phoenix and one of whom is elected by an employee committee (職工代表大會). The executive committee exercises key decision-making powers over important business decisions at Yan Hua Hospital Group, such as the approval of annual hospital budgets and major investments, the establishment of new departments and the hiring of key personnel. Each member of the executive committee has one vote. Matters before the executive committee are decided by a simple majority of the executive committee. For more details, see "Relationship with Our Controlling Shareholders — Non-voting and Non-competition Undertakings".

### *Renewal and termination*

The Yan Hua Hospital IOT Agreement expires on July 17, 2055. The term of the Yan Hua IOT Agreement is subject to approval by our independent shareholders every three years. Yan Hua Hospital Group and Yan Hua Phoenix may terminate the Yan Hua IOT Agreement unilaterally and claim compensation from us if we:

- violate any relevant laws, rules or regulations during the provision of management services, causing serious harm or impact over the operation or business of Yan Hua Hospital Group as a result of any penalty or investigation by the governmental department in charge of industry and commerce, health and hygiene, healthcare services and pharmacy or environmental protection;
- manage Yan Hua Hospital Group in conspiracy with any third party, causing serious harm to the Yan Hua Hospital Group; or
- cause serious harm to Yan Hua Hospital Group by any other acts.

We may unilaterally terminate the Yan Hua IOT agreement and seek damages from Yan Hua Hospital Group and Yan Hua Phoenix if any of the following occurs:

- the business conducted by Yan Hua Hospital Group lacks requisite licenses or permits and cannot be carried out despite remedial measures;
- Yan Hua Hospital Group and Yan Hua Phoenix withhold information concerning Yan Hua Hospital Group's assets, debt, business activities or other information that would affect the operation of Yan Hua Hospital Group or information concerning the occurrence of any event that may seriously undermine our management of Yan Hua Hospital Group;
- Yan Hua Hospital Group and Yan Hua Phoenix exercise management authority in a manner contrary to our instructions, or intentionally undermine our management activities to a significant extent; or
- Yan Hua Hospital Group does not pay us the management fees on time.

## BUSINESS

The Yan Hua IOT Agreement may also be terminated upon mutual consent or due to the change in government policies. If the Yan Hua IOT Agreement is terminated due to the change in government policies, Yan Hua Phoenix is required to return the amount invested by us based on certain pre-determined formulas set forth in the Yan Hua IOT Agreement. We do not anticipate termination of the Yan Hua IOT Agreement in the near future. For more details on risks associated with the termination of our IOT agreements, see “Risk Factors — Risk Factors Related to Our Business and Industry — If our IOT partners decide to terminate or not to renew our IOT agreements, our business may suffer”.

The following table sets forth certain information relating to Yan Hua Hospital Group for the period indicated below:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
Outpatient visits (thousands) . . .	614.8	701.5	778.1	350.9	388.0
Average spending per outpatient visit (RMB) . . . . .	386	398	423	404	456
Healthcare services . . . . .	108	101	104	95	105
Pharmaceuticals . . . . .	278	297	319	309	350
Inpatient visits (thousands) . . .	12.4	12.5	13.5	6.4	6.8
Average spending per inpatient visit (RMB) . . . . .	12,448	12,925	14,230	14,249	14,996
Healthcare services . . . . .	7,000	7,316	7,729	7,955	7,811
Pharmaceuticals . . . . .	5,448	5,609	6,501	6,294	7,184
ALOS (days) . . . . .	16.8	16.0	15.4	15.9	15.6
Number of beds in operation as of the end of the relevant period . . . . .	663	663	663	663	554 <sup>1</sup>
Occupancy rate . . . . .	85.3%	83.4%	87.3%	84.8%	107.8%
Number of inpatient surgeries (thousands) . . . . .	3.6	4.9	2.9	2.0	1.2
Total employees . . . . .	1,021	1,026	1,137	1,103	1,150
Of which, doctors . . . . .	268	261	270	267	265
Of which, other medical professionals . . . . .	455	459	531	523	545
<b>Our revenue derived from Yan Hua Hospital Group (millions of RMB)</b>				(unaudited)	
Hospital management services . . . . .	16.3	18.0	22.6	6.4	1.9
Supply chain business . . . . .	88.9	158.2	170.6	70.6	81.6

<sup>1</sup> Number of beds in operation decreased from 663 as of December 31, 2012 to 554 as of June 30, 2013 due to our decision to further improve the quality of healthcare services and inpatients’ experience at Yan Hua Hospital Group by reducing the number of beds in operation. We expect the number of beds in operation at Yan Hua Hospital Group to remain at a similar level in the near future.

## **Mentougou Hospital**

Mentougou Hospital is a not-for-profit hospital located in the Mentougou District of Beijing and is owned by the Mentougou District government. It is a Grade II general hospital providing comprehensive healthcare services to approximately 300,000 local residents in the Mentougou District and the surrounding areas. Mentougou Hospital was also the first government-owned hospital in Beijing to outsource its management through a PPP. As of June 30, 2013, Mentougou hospital had 28 clinical departments and centers, including cardiovascular, neurology, stomatology, and dermatology. Mentougou Hospital is a Medical Insurance Designated Medical Institution in Beijing. As of June 30, 2013, Mentougou Hospital had 840 employees, including 223 doctors and 383 other medical professionals, and 421 beds in operation. The 223 doctors of Mentougou Hospital consisted of 20 chief doctors, 45 associate-chief doctors, 88 attending doctors and 70 resident doctors.

### ***Mentougou IOT Agreement***

We began to manage Mentougou Hospital under the IOT model in August 2010. The Mentougou IOT Agreement was entered between the Mentougou District government and us in July 2010 and was amended in 2011.

### ***Investment amount***

Pursuant to the Mentougou IOT Agreement, we have made a repayable investment in the amount of RMB75.0 million in Mentougou Hospital for hospital operations and developments, in exchange for the right to operate Mentougou Hospital and receive annual management fees until December 31, 2030. As of June 30, 2013, all investments required under the Mentougou IOT Agreement have been fully made.

### ***Scope of services and major rights and obligations***

Pursuant to the Mentougou Hospital IOT Agreement, we provide certain services to Mentougou Hospital, including management services, clinical department and brand building, and improvement of healthcare service quality and hospital environment. We are entitled to receive management fees in exchange for our services. Mentougou District government has the right to supervise our management of Mentougou Hospital. The Mentougou District government will continue to provide financial aid to Mentougou Hospital because Mentougou Hospital is an important local public healthcare service provider. The Mentougou District government has also agreed not to negotiate with any other third party regarding hospital management services and not to dispose of its equity ownership of Mentougou Hospital without our prior written consent.

### ***Management fee structure, repayment of investment and financial performance***

Our management fee is determined based on the annual net income (收支結餘) of Mentougou Hospital, subject to annual performance rating assessment, and is partially paid by the Mentougou District government. Our investment pursuant to the Mentougou IOT Agreement will be returned to us in equal annual installments over the tenure of our management.

## BUSINESS

Our annual management fees under the Mentougou IOT Agreement consist of a base management fee and an incentive fee. The base line for management fee calculation ("Baseline") is set for 2011 and increases by a fixed annual increments up to 2015. The calculation of Mentougou Hospital's management fees for the first five years is based on the following formula: If the net income (收支結餘) prior to deducting the incentive fee is less than the Baseline for that year, the base management fee of that year equals to a fixed percentage of the net income (收支結餘) multiplied by a "performance rating result", which must exceed certain minimum performance rating requirement; and if the net income (收支結餘) prior to deducting the incentive fee is equal to or greater than the Baseline for that year, the base management fee of that year equals to a fixed percentage of the Baseline for that year multiplied by the performance rating result. The incentive fee equals to a fixed percentage of the net income (收支結餘) less the Baseline for that year multiplied by the performance rating result. As a government-owned public hospital, Mentougou Hospital is exempt from any income tax.

The performance rating result is a weighted average assessment by the Mentougou District government, the board of supervisors of the hospital and an independent appraisal agency, with their rating weighing 30%, 30% and 40%, respectively. The performance assessment focuses on the quality of healthcare services provided at Mentougou Hospital, including patient satisfaction level, improvement of hospital facilities and operation efficiency, sharing of public health responsibilities, and implementation of JCI standards. We will not be entitled to any management fee if our performance rating falls below the minimum performance rating requirement or if the number of patient visits or the net income (收支結餘) of the hospital fails to demonstrate growth for the year. We have exceeded the minimum performance requirement since we started to manage Mentougou Hospital in August 2010. In the six months ended June 30, 2013, we recorded management fees from Mentougou Hospital based on the minimum required performance rating result.

The Mentougou IOT Agreement also provides that, in the event that a loss of state-owned assets exceeding RMB100,000 was due to our failure to manage the hospital properly, we are required to compensate such loss and pay a penalty fine ranging from RMB100,000 to RMB1 million.

### *Mentougou Hospital's executive committee*

Pursuant to the Mentougou IOT Agreement, the Mentougou District government approved the establishment of an executive committee (門頭溝區醫院集團理事會), which consists of eight members comprising equal number of representatives from us and the Mentougou District government. The chairman of the executive committee (理事長), who has the right to cast the tie-break vote, is appointed by the Mentougou District government, and the acting executive (執行理事) is appointed by us. This executive committee is in charge of important business activities of Mentougou Hospital, such as the approval of annual hospital budgets and major investments, as well as the appointment, review and removal of the hospital administrator and other senior hospital managers. Each member of the executive committee has one vote. In general, matters before the executive committee are decided by a simple majority of the executive committee; however, important business matters, such as the approval of development plan, annual hospital budgets, major investments, establishment of new departments, and the appointment of hospital administrator, require two thirds of the executive committee as well as approval from relevant government authorities.



## BUSINESS

### *Renewal and termination*

The Mentougou Hospital IOT Agreement expires on December 31, 2030, and may be renewed upon mutual consent. The Mentougou District government may unilaterally terminate the Mentougou IOT Agreement and seek damages from us if we fail to do any of the following:

- manage the hospital properly, causing major medical safety incidents with significant negative publicity;
- follow the government's instructions in major public health incidents, causing significant negative publicity;
- manage the hospital properly, causing disturbances among the hospital employees and obstructing normal hospital operations; or
- reach the minimum performance review requirements in three consecutive years.

We may unilaterally terminate the Mentougou IOT Agreement and seek damage from the Mentougou District government if the Mentougou District government fails to fulfill its obligations under this agreement or certain unforeseeable events prevent the Mentougou Hospital's executive committee from operating normally.

The Mentougou IOT Agreement may also be terminated upon mutual consent or due to the change in government policies. If the Mentougou IOT Agreement is terminated due to the change in government policies, Mentougou District government is required to return the amount that we had invested *less* the amount that Mentougou District government had already repaid prior to the termination of the Mentougou IOT Agreement. We do not anticipate termination of the Mentougou IOT Agreement in the near future.

## BUSINESS

The following table sets forth certain key information relating to Mentougou Hospital for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
Outpatient visits (thousands) . .	341.6	374.8	482.1	218.0	249.3
Average spending per					
outpatient visit (RMB) . . . . .	245	276	312	284	342
Healthcare services . . . . .	88	101	116	105	112
Pharmaceuticals . . . . .	158	175	196	179	230
Inpatient visits (thousands) . . .	4.6	5.5	8.8	4.0	4.6
Average spending per					
inpatient visit (RMB) . . . . .	13,079	12,109	13,110	12,189	14,160
Healthcare services . . . . .	7,945	7,613	8,043	7,912	8,776
Pharmaceuticals . . . . .	5,134	4,496	5,067	4,278	5,384
ALOS (days) . . . . .	15.5	13.4	12.1	11.6	12.1
Number of beds in operation as of the end of the relevant period . . . . .	300	252 <sup>1</sup>	414	414	421
Occupancy rate . . . . .	70.8%	87.8%	77.9%	78.2%	72.9%
Number of inpatient surgeries (thousands) . . . . .	1.3	1.9	2.6	1.3	1.2
Total employees . . . . .	703	804	860	860	840
Of which, doctors . . . . .	176	198	210	213	223
Of which, other medical professionals . . . . .	332	385	418	424	383
<b>Our revenue derived from Mentougou Hospital (millions of RMB)</b>				(unaudited)	
Hospital management services <sup>2</sup> . . . . .	N/A	1.4	5.4	1.0	2.4
Supply chain business . . . . .	N/A	7.8	31.8	13.7	29.7

<sup>1</sup> The number of beds in operation decreased in 2011 due to renovation and construction and increased in 2012 after the completion of renovation and construction.

<sup>2</sup> We began managing Mentougou Hospital in August 2010 and started to collect management fees in 2011.

### Jing Mei Hospital Group

Jing Mei Hospital Group, owned by Beijing Coal, consist of Jing Mei Hospital which is a not-for-profit, Grade III general hospital located in the Mentougou District of Beijing, the only Grade III hospital in the Mentougou District. Jing Mei Hospital Group is also affiliated with seven Grade I hospitals and 11 community clinics. As of June 30, 2013, Jing Mei Hospital had 32 clinical departments including traumatic orthopedics, ICU, cardiovascular, neurology, hemodialysis and is well-known for its occupational therapy practice. Jing Mei Hospital is a Medical Insurance Designated Medical Institution in Beijing. As of June 30, 2013, Jing Mei Hospital Group had 1,587 employees, including 408 doctors, 777 other medical professionals, and 1,738 beds in operation. The 408 doctors of Jing Mei Hospital Group consisted of 18 chief doctors, 61 associate-chief doctors, 161 attending doctors and 168 resident doctors.

## BUSINESS

### *Jing Mei IOT Agreement*

We began to manage Jing Mei Hospital Group in May 2011. The Jing Mei IOT agreement was entered into among us, Jing Mei Hospital Group and Beijing Coal in May 2011, and amended in September 2012.

### *Investment amount*

Pursuant to the Jing Mei IOT Agreement, we have invested a total of RMB150.0 million in Jing Mei Hospital Group for the renovation of hospital infrastructure, the acquisition and upgrade of advanced medical and clinical equipment and the establishment of an information technology infrastructure, in exchange for the right to operate Jing Mei Hospital Group and receive annual management fees until December 31, 2030. As of June 30, 2013, all investments required under the Jing Mei IOT Agreement have been fully made.

### *Scope of services and major rights and obligations*

Pursuant to the Jing Mei Hospital IOT Agreement, we provide certain services to Jing Mei Hospital, including management services, financial support, human resources support and improvement of medical facilities and information technology systems. We are entitled to receive management fees in exchange for our services. Beijing Coal has the right to supervise the daily operation and our management of the Jing Mei Hospital Group. Beijing Coal also has the right to veto any proposal to dispose of state-owned assets that Jing Mei Hospital Group holds, such as equity interest, land and other properties. Beijing Coal has agreed not to grant management rights over the Jing Mei Hospital Group to any third party before the expiration of the Jing Mei Hospital IOT Agreement without our consent.

### *Management fee structure and financial performance*

Our annual management fees under the Jing Mei IOT Agreement consist of a base management fee and an incentive fee. Jing Mei Hospital's revenue in 2010 is set as the baseline ("Baseline") for management fee calculation. The calculation is based on the following formula: the base management fee equals to a fixed percentage of the Baseline less a pre-determined fixed amount. The incentive fee consists of two parts: part one equals to a fixed percentage of the annual revenue in excess of the Baseline ("Floating Fee"), and part two equals to a fixed percentage of the net income before tax (收支結餘) after deducting the base management fee and the Floating Fee. In any given period, the management fees we are entitled to should not exceed the Jing Mei Hospital Group's net income before tax (收支結餘) minus a pre-determined fixed amount. The management fees we were entitled to receive from Jing Mei Hospital Group was subject to such fee cap in 2012.

Pursuant to the Jing Mei IOT Agreement, Beijing Phoenix has agreed to compensate Jing Mei Hospital Group for any loss incurred by Jing Mei Hospital Group in any calendar year prior to deducting management fees such that Jing Mei Hospital Group would break even in that calendar year.

## BUSINESS

### *Jing Mei Hospital Group's executive committee*

Jing Mei Hospital Group's executive committee (京煤醫院集團理事會) consists of six members, comprising equal number of representatives from us and Beijing Coal. The chairman of the executive committee (理事長) is appointed by Beijing Coal, and the vice chairman (副理事長) and the acting executive (執行理事) are appointed by us. Each member of the executive committee has one vote. In general, matters before the executive committee are decided by a simple majority of the executive committee; however, important business matters, such as the approval of development plan, annual hospital budgets, major investments, major management system formulation, and the appointment of hospital administrator, require support from two-thirds of the executive committee as well as the approval of the chairman of the executive committee. The executive committee is in charge of the hospital's operations and the appointment, review and removal of the hospital administrator and other senior hospital managers, such as the chief executive officer and the chief financial officer who are nominated by us. The acting executive is the legal representative of Jing Mei Hospital Group and is in charge of daily hospital operations when the executive committee is not in session. The current hospital administrator of Jing Mei Hospital was recommended by us.

### *Renewal and termination*

The Jing Mei Hospital IOT Agreement expires on December 31, 2030 and may be renewed upon mutual consent. Jing Mei Hospital Group may unilaterally terminate the Jing Mei IOT Agreement and seek damage from us if we fail to do any of the following:

- fulfill our obligation to make additional investments per any future agreement between Beijing Coal and us;
- mitigate serious harm to, or prevent disruptions to normal operations at the Jing Mei Hospital Group caused by us; or
- reach the following development goals for the Jing Mei Hospital Group within five years as stipulated in the agreement: (a) to establish Jing Mei Hospital as the largest medical center in west Beijing with leading facilities and deep clinical expertise by May 2016, and to achieve a minimum 15% annual revenue growth or a minimum annual revenue of RMB650 million, as well as continuing growth in terms of net income before tax and internal healthy cash generating capacities; (b) to raise service quality level to JCI standards with the ability to deliver premium healthcare services; (c) to improve clinical expertise to the highest level in the Mentougou District equal to a Grade IIIA hospital; (d) to transform affiliated hospitals to community service centers; (e) to provide quality professional training and education to Jing Mei Hospital Group's employees and compensation in line with the development of the hospital; and (f) to improve the medical service level to better prevent occupational diseases for Jing Mei Hospital Group and to improve Jing Mei Hospital's facilities and quality of care.

As of the Latest Practicable Date, we were on track to meet these development goals. These goals do not conflict with our other IOT agreements because we did not undertake such obligations for other IOT hospitals.

## BUSINESS

We may unilaterally terminate the Jing Mei IOT Agreement and seek damage from Beijing Coal if it fails to ensure our management right as granted under the Jing Mei IOT Agreement.

The Jing Mei IOT Agreement may also be terminated upon mutual consent or due to the change in government policies. If the Jing Mei IOT Agreement is terminated due to the change in government policies, Jing Mei Hospital Group is required to return the amount that we had invested less the amount that Jing Mei Hospital Group had already repaid prior to the termination of the Jing Mei IOT Agreement. We do not anticipate termination of the Jing Mei IOT Agreement in the near future.

The following table sets forth certain information relating to Jing Mei Hospital Group for the period indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
Outpatient visits (thousands) . . .	518.7	675.0	791.3	366.4	371.6
Average spending per					
outpatient visit (RMB) . . . . .	312	313	332	340	420
Healthcare services . . . . .	85	86	101	99	116
Pharmaceuticals . . . . .	227	227	231	240	305
Inpatient visits (thousands) . . .	12.2	14.8	16.3	7.8	9.1
Average spending per					
inpatient visit (RMB) . . . . .	18,998	17,396	17,823	18,205	17,856
Healthcare services . . . . .	10,646	10,361	11,278	11,440	11,232
Pharmaceuticals . . . . .	8,352	7,035	6,546	6,765	6,625
ALOS (days) . . . . .	52.1	45.3	41.5	47.5	36.1
Number of beds in operation as of the end of the relevant period . . . . .	1,446	1,500	1,618	1,618	1,738
Occupancy rate <sup>1</sup> . . . . .	125.6%	116.9%	105.4%	105.4%	99.6%
Number of inpatient surgeries (thousands) . . . . .	2.2	3.1	4.0	2.1	2.2
Total employees . . . . .	1,585	1,610	1,672	1,661	1,587
Of which, doctors . . . . .	397	400	429	429	408
Of which, other medical professionals . . . . .	801	812	839	836	777
<b>Our revenue derived from Jing Mei Hospital Group (millions of RMB)</b>				(unaudited)	
Hospital management services <sup>2</sup> . . . . .	N/A	N/A	12.2	5.3	5.6
Supply chain business . . . . .	N/A	0.1	110.0	36.0	77.0

<sup>1</sup> Occupancy rate exceeded 100% due to the addition of temporary beds to satisfy demand.

<sup>2</sup> We began managing Jing Mei Hospital Group in May 2011 and started to collect management fees in 2012.

### **Mentougou Traditional Chinese Medicine Hospital**

Mentougou Traditional Chinese Medicine Hospital is a not-for-profit, Grade II hospital located in the Mentougou District of Beijing and is owned by the Mentougou District government. It focuses on medical treatment using traditional Chinese medicine and had 15 clinical departments and centers as of June 30, 2013, including physical therapy, dermatology and orthopedics. Mentougou Traditional Chinese Medicine Hospital is a Medical Insurance Designated Medical Institution in Beijing. As of June 30, 2013, Mentougou Traditional Chinese Medicine Hospital had 300 employees, including 86 doctors and 146 other medical professionals, and 100 beds in operation. The 86 doctors of Mentougou Traditional Chinese Medicine Hospital consisted of six chief doctors, 14 associate-chief doctors, 45 attending doctors and 21 resident doctors.

#### ***Mentougou Traditional Chinese Medicine Hospital IOT Agreement***

As a result of our successful management of Mentougou Hospital, Mentougou District government signed another IOT agreement with us in June 2012 for Mentougou Traditional Chinese Medicine Hospital. We made a repayable investment in the amount of RMB25.0 million in Mentougou Traditional Chinese Medicine Hospital in exchange for the right to operate this hospital and receive annual management fees until December 31, 2030. Our investment will be returned to us in equal annual installments over the tenure of our management.

In terms of the formula for our management fees, repayment of our initial investment and the termination provisions, the Mentougou TCM Hospital IOT Agreement adopted similar terms as the Mentougou Hospital IOT Agreement. In particular, the Mentougou TCM Hospital IOT Agreement may also be terminated upon mutual consent or due to the change in government policies. If the Mentougou TCM IOT Agreement is terminated due to the change in government policies, Mentougou District government is required to return the amount that we had invested *less* the amount that Mentougou District government had already repaid prior to the termination of the Mentougou TCM Hospital IOT Agreement. We do not anticipate termination of the Mentougou TCM Hospital IOT Agreement in the near future.

Our annual management fees under the Mentougou TCM Hospital IOT Agreement consist of a base management fee and an incentive fee. The baseline for management fee calculation ("Baseline") is set for 2013, and increases annually by an agreed amount up to 2017. The calculation for the management fees for the first five years is based on the following formula: If the net income (收支結餘) is less than the Baseline for that year, the base management fee is equal to the net income (收支結餘) multiplied by the performance rating result, which must exceed a minimum performance rating requirement; if the net income (收支結餘) is equal to or greater than the Baseline for that year, the base management fee is equal to the Baseline of the year multiplied by the performance rating result. The incentive fee equals to certain percentage of the net income (收支結餘) in excess of the Baseline for that year. As a government-owned public hospital, Mentougou Traditional Chinese Medicine Hospital is exempt from any income tax.



## BUSINESS

The performance rating result is a weighted average assessment by the Mentougou District government, the board of supervisors of the hospital and an independent appraisal agency, with their rating weighing 30%, 30% and 40%, respectively. They apply the criteria in the performance assessment similar to those for Mentougou Hospital and focus on the quality of healthcare services provided at Mentougou Traditional Chinese Medicine Hospital, including patient satisfaction level, improvement of hospital facilities and operation efficiency, sharing of public health responsibilities, and implementation of JCI standards. We will not be entitled to any management fee if our performance rating falls below a certain threshold or if the number of patient visits or the net income (收支結餘) of the hospital fails to demonstrate growth for the year. We have not failed these performance ratings since we started to manage Mentougou Traditional Chinese Medicine Hospital. In 2012, we agreed with Mentougou District government not to receive any management fees for 2012 primarily due to our limited history of operating Mentougou Traditional Chinese Medicine Hospital, and did not recognize any management fees for the six months ended June 30, 2013 due to minimal net income (收支結餘) in the period. We expect to begin recognizing management fees from Mentougou Traditional Chinese Medicine Hospital in the second half of 2013.

Similar to the Mentougou IOT Agreement, the Mentougou TCM Hospital IOT Agreement also provides that, in the event that a loss of state-owned assets exceeding RMB100,000 was due to our failure to manage the hospital properly, we are required to compensate such loss and pay a penalty fine ranging from RMB100,000 to RMB1 million.

The executive committee (門頭溝區醫院集團理事會) approved by the Mentougou District government pursuant to the Mentougou IOT Agreement also exercises decision-making powers over important business activities at Mentougou Traditional Chinese Medicine Hospital.

## BUSINESS

The following table sets forth certain information relating to Mentougou Traditional Chinese Medicine Hospital for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
Outpatient visits (thousands) . .	271.5	320.0	349.0	170.9	165.0
Average spending per					
outpatient visit (RMB) . . . . .	260	258	259	251	295
Healthcare services . . . . .	53	49	43	45	48
Pharmaceuticals . . . . .	207	209	216	206	247
Inpatient visits (thousands) . . .	1.8	1.7	1.2	0.9	0.5
Average spending per					
inpatient visit (RMB) . . . . .	9,934	9,715	8,843	8,307	8,818
Healthcare services . . . . .	4,445	4,810	4,333	4,094	4,572
Pharmaceuticals . . . . .	5,489	4,905	4,511	4,213	4,246
ALOS (days) . . . . .	17.1	18.3	15.8	14.8	15.8
Number of beds in operation					
as of the end of the					
relevant period . . . . .	100	100	100	100	100
Occupancy rate . . . . .	85.8%	77.5%	50.0%	72.2%	47.5%
Number of inpatient					
surgeries . . . . .	435	300	131	122	72
Total employees . . . . .	280	288	309	291	300
Of which, doctors . . . . .	91	89	89	85	86
Of which, other medical					
professionals . . . . .	137	144	154	150	146
<b>Our revenue derived from</b>					
<b>Mentougou Traditional</b>					
<b>Chinese Medicine Hospital</b>					
<b>(millions of RMB)</b>				(unaudited)	
Hospital management					
services <sup>1</sup> . . . . .	N/A	N/A	N/A	N/A	—
Supply chain business . . . . .	N/A	N/A	2.2	N/A	6.6

<sup>1</sup> We began managing Mentougou Traditional Chinese Medicine Hospital in June 2012 and became entitled to collect management fee in 2013, but did not recognize any during the Track Record Period.

### Seasonality

Our in-network hospitals and clinics generally experience fewer patient visits in the first quarter of each year due to the effect of the Chinese New Year holiday, during which most Chinese usually avoid visiting hospitals, and more patient visits in the fourth quarter because people are more susceptible to disease in cold weather. In addition, the management fees we are entitled to under the Yan Hua IOT Agreement and the Jing Mei IOT Agreement are based on, among others, a higher management fee rate once such hospitals' performance exceeds certain thresholds. As a result of the foregoing, our revenue and profitability may fluctuate. For more details, see "Financial Information — Factors Affecting Our Financial Condition and Results of Operations — Seasonality" and "Risk Factors — Risk Factors Related to Our Business and Industry — Our business is subject to seasonality".

## BUSINESS

### OUR SUPPLIERS

We primarily procure pharmaceuticals, medical devices and medical consumables that will be used by our in-network hospitals and clinics. Our pharmaceuticals, medical devices and medical consumables are sourced from China, and our medical equipment is primarily sourced from Germany, the United States, Japan, the Netherlands and other foreign countries through their distributors in China.

We select pharmaceuticals, medical devices and medical consumables suppliers based on pricing, reputation, service quality and medical product offering. We maintain a list of suppliers. At the beginning of each year, we review and assess their performance in the past year, check the qualifications of our suppliers to ensure the legality and quality of our supplies, and update the supplier list accordingly. Suppliers who do not meet our standards will be removed from the list, and will not be accepted as our suppliers for at least one year. Our in-network hospitals report their annual procurement needs to our centralized procurement management team, which then aggregates all procurement needs and searches for quality suppliers. To realize the synergies from our centralized procurement management and negotiate for greater volume discounts, we prefer to award purchase orders to a limited number of suppliers.

As of June 30, 2013, we had a portfolio of more than 300 pharmaceutical distributors and equipment suppliers that we worked with, providing our in-network hospitals and clinics with a diverse selection of medical products. In 2012, our five largest suppliers were Hong Hui Pharmaceutical Co., Ltd. (紅惠醫藥有限公司 or “Hong Hui”), Cachet Pharmaceutical Co., Ltd. (嘉事堂藥業股份有限公司 or “Cachet”), Sinopharm Holding Beijing Huahong Pharmaceutical Co., Ltd. (國藥控股北京華鴻有限公司 or “Sinopharm”), Beijing Southeast Yueda Medical Equipment Co., Ltd. (北京東南悅達醫療器械有限公司 or “Yueda”) and Humanwell Pharmaceutical (Hubei) Co., Ltd. (人福醫藥湖北有限公司 or “Humanwell”). In the six months ended June 30, 2013, our five largest suppliers were Hong Hui, Sinopharm Holding Beijing Kangchen Biological Pharmaceutical Co., Ltd. (國藥控股北京康辰生物醫藥有限公司 or “Kangchen”), Cachet, Yueda, and Sinopharm. Hong Hui was our largest supplier in 2012 and the six months ended June 30, 2013.

Hong Hui, founded in 1994 and headquartered in Beijing, is a BFDA-authorized pharmaceutical and medical device distributor. Cachet, founded in 1998 and headquartered in Beijing, is a BFDA-authorized pharmaceutical and medical device distributor and a public company listed on the Shenzhen Stock Exchange. Sinopharm, founded in 1993 and headquartered in Beijing, is a BFDA-authorized pharmaceutical and device distributor and a foreign-invested joint venture with Sinopharm Group Co., Ltd. Yueda is the branch office of South East Chemicals & Instruments Ltd. (東南化學儀器有限公司), founded in 1977 and headquartered in Hong Kong, and is a BFDA-authorized medical device distributor. Humanwell, founded in 1998 and headquartered in Wuhan, is the parent company of Wuhan Humanwell Yimin Pharmaceutical Co., Ltd. (武漢人福益民醫藥有限公司), a pharmaceutical distributor authorized by Hubei Food and Drug Administration. Kangchen, founded in 2005 and headquartered in Beijing, is a subsidiary of Sinopharm Group Co., Ltd. and a BFDA-authorized pharmaceutical and medical device distributor.

We believe we generally have a good working relationship with all of our suppliers. Our suppliers typically grant us a credit period ranging from one to four months. In general, we have worked with our major suppliers for a period of one to five years. We have worked with

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Hong Hui since 2012, Cachet since 2009, Sinopharm since 2008, Yueda since 2010, Kangchen since 2013, and Humanwell since 2010. Hong Hui, Cachet, Sinopharm, Yueda, Kangchen and Humanwell extend us a credit term of three months, two months, two months, four months, one to two months and three months, respectively.

In 2010, 2011 and 2012 and the six months ended June 30, 2013, our five largest suppliers together accounted for approximately 43.5%, 38.6%, 56.3% and 58.1% of our total purchases, respectively. Our purchases from the single largest supplier accounted for approximately 11.9%, 11.4%, 45.5% and 43.6% of our total purchases in 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively.

To our best knowledge, none of our Directors, their respective associates or any Shareholders owning more than 5.0% of our issued Shares had any interest in any of our five largest suppliers during the Track Record Period.

### **Supply agreement with Hong Hui**

On January 10, 2012, to further consolidate our procurement needs and achieve better efficiency and greater economies of scale, we entered into a one-year supply agreement with Hong Hui for the supply of pharmaceuticals to Jian Gong Hospital, Yan Hua Hospital Group and Jing Mei Hospital Group. The agreement was renewed for one year on December 27, 2012 and October 22, 2013, respectively, and the terms remained substantially the same. The newly signed supply agreement with Hong Hui on October 22, 2013 will expire on December 31, 2014 and may be renewed upon mutual consent prior to November 30, 2014. We negotiated the agreement with Hong Hui on an arm's length basis.

#### ***Service scope***

Under this agreement, we provide Hong Hui with the consolidated pharmaceutical orders of Jian Gong Hospital, Yan Hua Hospital Group and Jing Mei Hospital Group, except for the Excluded Pharmaceuticals. Upon receiving our consolidated pharmaceutical orders, Hong Hui may either (i) supply pharmaceuticals to these three hospitals directly or through our supply chain business, or (ii) arrange other suppliers to supply such pharmaceuticals to these hospitals. The Excluded Pharmaceuticals represent less than 5% of the total purchases by these three hospitals in 2012 and in the six months ended June 30, 2013.

#### ***Minimum economic benefit***

In consideration of granting Hong Hui the priority to supply pharmaceuticals for these three hospitals, Hong Hui agrees to provide us with minimum economic benefits calculated based on a percentage of the total annual pharmaceutical purchases, excluding the purchases of the Excluded Pharmaceuticals, made by Jian Gong Hospital, Yan Hua Hospital Group and Jing Mei Hospital Group (the "Minimum Economic Benefit"). The Minimum Economic Benefit is reconciled monthly. If the gross profit we generate from the resale of pharmaceuticals to these hospitals is less than the Minimum Economic Benefit, Hong Hui will arrange to pay us the difference between the gross profit generated and the Minimum Economic Benefit. These payments for such difference are reflected as "other income — fee income" in our financial statements. As a general policy, we collect all or part of the outstanding fee income balance payable on a monthly basis in order to ensure that, at each month end, the outstanding fee income balance payable remains below the sum of (i) the deposit paid by Hong Hui and (ii) the outstanding trade payables from us to Hong Hui

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representing the unpaid amount of pharmaceuticals purchases. We had been able to collect fee income in accordance with this collection policy during the Track Record Period. For more details, see “Financial Information — Description of Components of Results of Operations — Other Income”.

Based on our experience, pharmaceutical suppliers normally do not provide minimum economic benefit to the supply chain business of hospital operators, unless the overall procurement amount is large enough to create such leverage during negotiations. Consistent with such industry experience, we did not obtain any minimum economic benefit arrangements from our suppliers until 2012, when our combined procurement amount became sufficiently large to enable us to negotiate with Hong Hui for minimum economic benefit arrangements. As of the Latest Practicable Date, no other supplier has provided similar minimum economic benefit arrangements to us. We are not aware of Hong Hui having entered into similar minimum economic benefits arrangements with any other hospital operators. However, one of our other suppliers, Cachet, announced in May 2013 that it had entered into an arrangement with Shougang Company Limited, a public company listed on the Shenzhen Stock Exchange (首鋼總公司, “Shougang”), pursuant to which Cachet would be the sole principal supplier of pharmaceuticals, medical devices and medical consumables for all medical institutions owned by Shougang and guarantee that Shougang would attain certain profit targets.

### ***Credit term***

Hong Hui extends us a credit term of 90 days.

### ***Minimum purchase amounts and prepayments***

There is no requirement under our agreement with Hong Hui for a minimum purchase amount by the three hospitals or prepayments. Hong Hui, however, is required to pay a deposit of RMB24.5 million, RMB8.0 million and RMB8.0 million, respectively, to secure its obligations under the 2012, 2013 and 2014 supply agreements with us. We negotiated and requested for the amount of deposit in 2012 primarily based on the estimated fee income which we would be entitled to for a three-month period. During the course of the negotiations for the 2013 supply agreement with Hong Hui, Hong Hui requested for, and we agreed to, a smaller deposit based on the fact that Hong Hui performed in accordance with the supply agreement in 2012 and we were able to collect fee income in accordance with our collection policy as disclosed in “— Minimum Economic Benefit”. The deposit for the 2014 supply agreement with Hong Hui remains the same as that for the 2013 supply agreement.

### ***Product liability***

Hong Hui is obligated to conduct its business in compliance with relevant laws, rules and regulations and provide pharmaceuticals that satisfy applicable standards. Our agreement with Hong Hui does not contain a product return provision. However, Hong Hui has agreed to indemnify us for any damage caused by the pharmaceuticals procured through it.

### ***Termination and renewal***

We are entitled to terminate this agreement under certain circumstances, including Hong Hui’s failure to pay the deposit, medical disputes or damage to our reputation caused by defective or substandard pharmaceuticals supplied by Hong Hui, and Hong Hui’s inability

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to fulfill its obligations due to government regulatory proceeding. If we terminate the agreement without cause, however, we are required to compensate Hong Hui in an amount equal to a certain percentage of the accumulated Minimum Economic Benefit Hong Hui has provided to us in that year. The newly signed supply agreement with Hong Hui on October 22, 2013 expires on December 31, 2014 and may be renewed upon mutual consent prior to November 30, 2014.

As advised by our PRC legal adviser, our agreement with Hong Hui is legally valid and enforceable under applicable PRC laws, rules and regulations. We believe it is not difficult to find alternative pharmaceutical suppliers given the large number of suppliers we work with and the degree of competition among pharmaceutical distributors in China. The pharmaceuticals distribution market in China is fragmented and not dominated by a few players.

In 2012, the six months ended June 30, 2012 and June 30, 2013, we were entitled to a Minimum Economic Benefit of RMB84.9 million, RMB34.0 million and RMB50.5 million, respectively, under our agreement with Hong Hui. For more details, see “Financial Information — Description of Components of Results of Operations — Gross Profit”.

For more details on the risks associated this arrangement, see “Risk Factors — Risk Factors Related to Our Business and Industry — The profitability of our supply chain business may be materially reduced if the supply agreement between Hong Hui and us is terminated or not renewed or if Hong Hui fails to honor its obligations”.

### INVENTORY

Our inventory comprises primarily pharmaceuticals, medical devices and medical consumables, including inventories at Jian Gong Hospital as well as Beijing Wannong and Beijing Jiayi, the two subsidiaries involved in the supply chain business. Each IOT hospital maintains its own inventory. As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had inventories of RMB22.3 million, RMB23.2 million, RMB35.1 million and RMB30.2 million, respectively. We maintain strict control over our supply chain business inventory and generally keep approximately 20 days of inventory to meet the procurement needs of our in-network hospitals and clinics. We keep our inventory at the warehouse of a logistics company engaged by us. For more details, see “— Warehouse and Logistics”. We are deploying an Enterprise Resource Planning System (ERPS) and developing its function to manage key aspects of our supply chain business management system so that detailed records of inventory, procurement, and sales on a real-time basis. ERPS will enable us to closely monitor our inventory level to keep it at a reasonable level and make adjustments whenever necessary. We also carry out periodic physical inventory assessments to verify the accuracy of our electronic ERPS database.

### OUR CUSTOMERS

Our customers primarily fall into two categories: (i) patients whom we directly provide healthcare service at our Jian Gong Hospital, and (ii) hospitals that we manage through our IOT agreements.

#### Patients at Jian Gong Hospital

Our customers are individual patients at Jian Gong Hospital. No individual patient at Jian Gong Hospital accounted for more than 5.0% of our total revenue in 2010, 2011, 2012 and the six months ended June 30, 2013. The vast majority of patients rely on public medical insurance programs to pay for their treatments.



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### IOT Hospitals

Our customers also include hospitals that we manage through our IOT agreements: Yan Hua Hospital Group, Mentougou Hospital, Jing Mei Hospital Group and Mentougou Traditional Chinese Medicine Hospital. Pursuant to our IOT agreements, we obtain the management rights to these hospital for a certain period, make investments and provide services in exchange for management fees, and also derive revenue from the sale of pharmaceuticals, medical devices and medical consumables to these hospitals. For more details on the terms of our IOT agreements, see “— Our Hospital Network” and “— Our Business Model — Hospital Management Business”. We have worked with these hospitals for a period ranging from two to five years.

In 2010, 2011, 2012 and the six months ended June 30, 2013, revenue generated from our largest customer accounted for approximately 26.7%, 34.6%, 25.5% and 19.9% of our revenue, respectively. In the same periods, total revenue from our largest customer in 2010, our largest three customers in 2011, and our largest four customers in 2012 and the six months ended June 30, 2013 was RMB105.3 million, RMB185.5 million, RMB354.9 million and RMB204.7 million, respectively, accounting for approximately 26.7%, 36.4%, 46.8% and 48.8%, respectively, of our revenue. In 2012 and the six months ended June 30, 2013, our top four customers were our IOT hospitals and clinics: Yan Hua Hospital Group, Jing Mei Hospital Group, Mentougou Hospital and Mentougou Traditional Chinese Medicine Hospital. The rest of our customers are individual customers. For more details on the concentration of credit risk posed by trade receivables due from our largest and four largest customers, see “Risk Factors — Risk Factors Related to Our Business and Industry — We are exposed to concentration of credit risk from our top customers”, “Financial Information — Discussion of Certain Items from the Statement of Financial Position — Receivables from IOT hospitals” and “Financial Information — Quantitative and Qualitative Analysis about Financial Risk — Credit Risk”.

To our best knowledge, other than Yan Hua Hospital Group, none of our Directors, their respective associates or any Shareholders owning more than 5.0% of our issued Shares, to the knowledge of our Directors, had any interest in any of our five largest customers during the Track Record Period. Yan Hua Hospital Group is a connected person under the Listing Rules. For more details on our relationship with Yan Hua Hospital Group, see “Connected Transactions — Non-exempt Continuing Connected Transactions with Yan Hua Hospital Group”.

### INFORMATION TECHNOLOGY SYSTEM

Our information technology system encompasses the following: Enterprise Resource Planning System (ERPS), Hospital Information System (HIS), Picture Archiving and Communications System (PACS), Laboratory Information System (LIS), Social Insurance System (SIS) and Electronic Medical Record System (EMRS).

Hospital Information System (HIS) helps us with daily operations at our in-network hospitals, including the management of patient records and billing history, pharmacy warehouse and the staffing of doctors and nurses. PACS is an integrated application system for digital medical equipment, such as CT and MRI scans, while the EMRS electronically catalogs patients’ medical records. LIS performs various functions, including sample collection and data processing. SIS digitally connects our in-network hospitals’ bill records with the local medical insurance center and calculates the amount of medical insurance



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reimbursement payments. As for the ERPS, it is currently under development and is expected to provide us with access to data held by our in-network hospitals on a real-time basis, including financial and budgeting data, information on human resources, assets, equipment and capital expenditures, as well as supply chain and inventory data.

### INSURANCE

As of the Latest Practicable Date, most of our in-network hospitals maintain its own insurance, including medical liability insurance and public safety insurance, for its hospital operations in line with industry practice. Each hospital makes its own independent judgment as to the type and coverage of insurance. Each insurance policy generally has a one-year term and is renewed on an annual basis.

We plan to centralize the insurance purchases of our in-network hospitals at the Group level and have been negotiating with several insurance companies on their behalf for competitive insurance policy terms.

During the Track Record Period, we did not make any claims under our medical liability insurance policies that had a material adverse effect on our business, financial condition or results of operations. For more details, see “— Legal Proceedings and Compliance”.

We contribute to social security insurance and housing funds for our employees. Our in-network hospitals and clinics also contribute to social security insurance and housing funds for their employees in accordance with applicable PRC laws, rules and regulations.

We do not maintain product liability insurance for our supply chain and procurement management business, which we believe is consistent with industry practice in China. For more details, see “— Our Suppliers” and “— Product Quality Control and Return”. Our Directors have confirmed that the insurance coverage for our general hospital and hospital management operation was adequate as of the Latest Practicable Date.

### HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We are subject to various PRC laws, rules and regulations with respect to health, safety and environmental matters, including hospital sanitation, reduction of occupational hazards in hospitals, prevention of medical accidents, disease control, disposal of medical waste, and discharge of waste water, pollutants and radioactive substances. For more details, see “PRC Laws, Rules and Regulations”.

We are committed to complying with PRC regulatory requirements, preventing and reducing various hazards and risks associated with our operation, and ensuring the health and safety of our patients and employees of our in-network hospitals and surrounding communities.

#### Healthcare Services Quality Control

The NHFPC and Beijing Municipal Health Bureau have promulgated numerous rules and regulations to regulate medical professionals and standards for healthcare services. The rules and regulations apply to multiple aspects of healthcare services and provide detailed procedures for medical professionals to follow, including requirements for a hospital to

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implement 14 core procedures to ensure healthcare services quality. These include proper procedures for initial diagnosis, ward inspection, consultation, discussions of death cases, medical record keeping, pre-operation discussions, care of critically ill patients and shift relief system. Our in-network hospitals and clinics are subject to unscheduled inspections by relevant government authorities, including the Beijing Municipal Health Bureau, which reviews healthcare services provided by our in-network hospitals and clinics to determine areas that can be further improved, including the implementation of the relevant rules and procedures. During the Track Record Period, our in-network hospitals had not been notified of any material non-compliance of the 14 core procedures. None of our in-network hospitals and clinics has been found of any other material violations during the inspections conducted by Beijing Municipal Health Bureau, the clearance of which is a prerequisite for our in-network hospitals to renew their licenses. We did not receive any written notice of material findings or recommendations from the latest inspections by relevant government authorities. The following table sets forth the date of the latest inspection by relevant government authorities on our in-network hospitals as of the Latest Practicable Date:

<u>Our in-network hospitals</u>	<u>Date of the latest inspection</u>
Jian Gong Hospital . . . . .	September 13, 2013
Yan Hua Hospital Group . . . . .	September 18, 2013
Mentougou Hospital . . . . .	August 2, 2013
Jing Mei Hospital Group . . . . .	September 11, 2013
Mentougou TCM Hospital . . . . .	October 16, 2013

In addition, we have implemented the JCI standards at our in-network hospitals and clinics. These standards are recognized worldwide for their ability to continuously improve the safety and quality of healthcare services. Jian Gong Hospital and Yan Hua Hospital, two of our in-network hospitals accredited by the JCI, are also subject to re-evaluation and assessment by the JCI every three years.

To ensure that our in-network hospitals and clinics operate effectively and provide consistent and high quality services and their compliance of applicable rules and regulations, we have established a comprehensive quality control system in our in-network hospitals and clinics to prevent potential risks associated with medical prescription. This system primarily includes the following measures:

- *Training programs.* We provide regular and continuing trainings to our medical professionals so that they are familiar with medical procedures and technology.
- *Assessment system.* We evaluate our healthcare services regularly, including monthly assessment of our implementation of certain core procedures, identify areas to be improved and propose improvement measures.
- *Automatic medication checking system.* We have implemented an automatic medication checking system. Doctors at our in-network hospitals are required to input and record their diagnosis and prescriptions electronically in this system. It can automatically detect and alert doctors of any potential complications from prescriptions, such as incompatibility or overdose.
- *Inspection department.* Each of our in-network hospitals has its own inspection department, focusing on handling patient complaints and medical disputes. It investigates patient complaints and reports any material medical disputes to our senior management for further actions.

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- *Patient service and feedback hotline.* Patients may express their opinions of our healthcare services through our patient service and feedback hotline. Proper records are kept for each complaint and follow-up actions are taken when necessary.

### **Safety Management for Patients and Employees**

To mitigate health, safety and environmental risks and reduce potential medical disputes, we established an operation safety committee responsible for coordinating with other relevant departments to supervise and examine safety issues, such as medical treatment safety, environment safety and occupational safety within our Group and in-network hospitals. Our operation safety committee is chaired by our Chief Executive Officer and our Board of Directors appoints the other members of this committee.

We also adopted various measures to maintain a healthy and safe environment for patients and employees, including those required under the JCI standards. For example, each in-network hospital has an infectious disease management office that monitors infectious disease and provides monthly inspection results to the hospital and quarterly reports to the administrator as well as an infectious disease control team. The infectious disease control team at each of our in-network hospitals is chaired by the administrator of each hospital and is composed of experts at relevant clinical departments. This team oversees infectious disease prevention and control at each hospital, analyzes the source of infectious disease, coordinates controlling measures among departments, and monitors special cases. We also regularly sanitizes all of our in-network hospitals and clinics.

### **Environment Protection**

To ensure that our business is in line with the requirements and standards of environmental protection, we have implemented internal policies and procedures in this regard and require all our in-network hospitals to engage qualified service providers to dispose of medical waste and radioactive substances. For example, for medical waste (other than disposable infusion container and hazardous waste), each of our in-network hospitals has engaged No.2 Branch Office of Beijing Environment Sanitation Engineering Group Co., Ltd. (北京環境衛生工程集團有限公司二清分公司, or "Beijing ESE"), a qualified recycling company designated by Beijing Municipal Environmental Protection Bureau, to dispose of medical waste. Each hospital collects, sorts, seals and places medical waste at a designated area for pick-up by Beijing ESE, which sterilizes and disposes of the medical waste in accordance with relevant regulations. Each of our in-network hospitals, except Mentougou Traditional Chinese Medicine Hospital which does not produce any hazardous waste, has also engaged Beijing Jinyu Red Forest Environment Protection Technical Co., Ltd. (北京金隅紅樹林環保技術有限責任公司) to handle disposal of other hazardous waste, including expired pharmaceutical products and other toxic chemicals. In addition, Jian Gong Hospital has engaged Beijing Jingwei Zhongtai New High-Tech Co., Ltd. (北京京衛中苔高新技術有限公司) to handle the disposable of infusion containers. Our in-network hospitals and clinics do not produce radioactive medical waste.

Our cost for compliance with applicable health, safety and environmental rules and regulations in 2010, 2011, 2012 and the six months ended June 30, 2013 was RMB0.5 million, RMB0.6 million, RMB0.7million and RMB0.3 million, respectively. During the Track Record Period, we did not encounter any non-compliance or complaints in relation to the environmental protection. Going forward, we expect that the annual cost of compliance with health, safety and environmental rules and regulations will continue to increase in line with increase during the Track Record Period.

### INDUSTRY STANDARDS

China maintains strict standards for medical institutions and professionals. Medical institutions in China are graded into Grades I, II and III based on the assessment of competent authorities. For more details, see “PRC Laws, Rules and Regulations — Regulations on the Administration and Classification of Medical Institutions — The Classification of Medical Institutions”. Medical professionals are also subject to extensive regulations on their qualification and results and face potential liabilities and disciplinary action for malpractice. For more details, see “PRC Laws, Rules and Regulations — Laws and Regulations on Medical Personnel of Medical Institutions” and “PRC Laws, Rules and Regulations — Laws and Regulations on Medical Malpractice”.

In addition, we have been implementing JCI standards in our in-network hospitals and clinics. Jian Gong Hospital and Yan Hua Hospital were accredited by JCI in 2010 and renewed in August 2013. The JCI provides accreditation and certification for healthcare organizations and has a presence in more than 90 countries. The JCI standards were developed by healthcare experts from around the world and have been tested worldwide, making JCI a recognized world leader in healthcare quality and patient safety. JCI accreditation generally takes 18 to 24 months. A hospital is accredited once it demonstrates that it has met the standards of care issued by the JCI. These standards focus on a broad set of issues, including access to care, patient and family rights and communications, patient care, anesthesia and surgical care, medication management and use, patient safety, prevention and control of infections, staff qualification and education and other factors.

### PRODUCT QUALITY CONTROL AND RETURN

We select our suppliers prudently to ensure quality control. Our selection criteria is based on a variety of factors, including quality, service, overall track record, product selection and price. We generally work with reputable suppliers that are able to meet the requirements of our purchases.

For all of the products ordered either through our supply chain and procurement management business or directly by hospitals, inspections are conducted by the hospital upon delivery to ensure strict quality control, including for expiration dates, packaging, product description and other quality indicators. Each of our in-network hospitals has its own quality control team. We employ a standard product return policy. We allow our in-network hospitals and clinics to return any defective or expired products to us. In turn, we return such products to the manufacturer or the distributor, according to market practice and past dealings with our suppliers. During the Track Record Period, neither we nor any of our in-network hospitals and clinics have encountered any quality issues or received any defective products that would have a material adverse effect on our business, financial condition or results of operations. For more details, see “Risk Factors — Risk Factors Related to Our Business and Industry — The existence of counterfeit pharmaceutical products in China may damage our reputation and subject us to legal liability”.

### WAREHOUSE AND LOGISTICS

When we submit a purchase order to the supplier, it will deliver the specified pharmaceuticals, medical devices or medical consumables either to the designated hospitals in accordance with our instructions or to our warehouse. Upon delivery, each hospital will inspect and check the delivery and demand re-delivery if the product does not meet the relevant delivery standards.

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In accordance with applicable PRC law, the delivery of medical products to hospitals must be conducted directly by the manufacturer or through a qualified pharmaceutical logistics distribution enterprise. In June 2013, we entered into a three-year agreement with a logistics company, Beijing Jiahe Jiashi Pharmaceutical Logistics Co., Ltd. (北京嘉和嘉事醫藥物流有限公司, “Jiahe Jiashi”), an Independent Third Party. Under this agreement, we are required to pay a minimum annual delivery fee of RMB2.8 million, and Jiahe Jiashi provides us with storage and services suitable for different medical products. Jiahe Jiashi has provided designated delivery personnel to handle our products and is liable for any loss caused by its negligence or failure to comply with inspection standards during delivery. For losses caused by *force majeure*, we will receive compensation indirectly from Jiahe Jiashi’s insurance company. The agreement will be automatically terminated if our pharmaceutical distribution certificate expires during the three-year period or if the government policy renders the agreement unenforceable. The agreement may be renewed upon mutual consent.

We lease one warehouse with a gross floor area of approximately 200 square meters from an Independent Third Party for storing medical devices and medical consumables for our supply chain business.

### OUR PROPERTIES

As of the Latest Practicable Date, our Jian Gong Hospital owned land use rights to one parcel of land in Beijing with an aggregate site area of approximately 18,999 square meters and building ownership rights to certain buildings erected on such parcel of land with an aggregate gross floor area of 21,434 square meters. We obtained long-term land use right certificate for Jian Gong Hospital, which expires on August 24, 2060. We do not own any other properties in China other than the land use rights and building ownership rights owned by Jian Gong Hospital.

We have not obtained ownership certificates for certain buildings at Jian Gong Hospital due to the lack of certain construction-related permits and certificates. These buildings are currently in use and have a total gross floor area of 8,716 square meters, or 28.9% of the total gross floor area of Jian Gong Hospital. Such areas include primarily the outpatient registration area, a library, a morgue, a medical imaging and diagnostic room, and rooms for other ancillary functions. Of these areas, the outpatient registration area is the largest with a gross floor area of approximately 1,611 square meters, or 5.3% of the total gross floor area of Jian Gong Hospital.

Recognizing the potential legal risks associated with the title defects and pursuant to the business expansion plan of Jian Gong Hospital, we have had discussions with the Beijing Xicheng Municipal Commission of Urban Planning (北京市規劃委員會西城分局 or “BXMCUP”) and submitted a reconstruction plan covering these buildings to BXMCUP for review in 2012. In September 2012, BXMCUP granted us a Construction Land Use Planning Permit (建設用地規劃許可證), a key step in obtaining the construction-related permits for our reconstruction plan covering these areas, which would rectify such title defects. We are in the process of on-going discussions with BXMCUP to finalize our reconstruction plan and will apply for the construction permit (建設工程規劃許可證) and the permit for the commencement of construction works (施工許可證) in 2014. Once these construction-related permits are obtained, construction is expected to commence and be completed in 2015. The reconstruction plan is expected to be fully financed by proceeds from the Global Offering. We plan to spend approximately RMB110 million in capital expenditure for the reconstruction plan. For more details, see “Future Plans and Use of Proceeds”.

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Such rectification actions can only be completed after Listing, and we will disclose the progress of the reconstruction plan in our interim and annual reports to shareholders after Listing, including a detailed explanation for any delay in these rectification actions. As advised by our PRC legal adviser, if our rights to these properties are challenged before we obtain the permit to commence the reconstruction or before we rectify the defects through alternative means, BXMCUP and the local government agency responsible for construction and development could (i) subject us to a fine up to 10% of the construction cost, and/or (ii) force us to demolish the buildings within a reasonable period specified by the relevant government agency responsible for construction and development. We expect the maximum potential liability to be approximately RMB3.0 million and estimate that demolition and relocation may take approximately three months. We do not expect our business and financial position to be materially affected by demolition and relocation and estimate that there will be no material loss of revenue because the properties with title defects, individually or collectively, are not crucial to our operations.

Our Controlling Shareholders, namely Mr. Xu Xiaojie, Ms. Xu Jie and Speed Key Limited, entered into a deed of indemnity as at the date of this prospectus in favor of our Group, pursuant to which our Controlling Shareholders undertake to indemnify our Company against any loss resulting from any fine, demolition, relocation and/or other costs associated with the property title defects. For more details, see “Appendix V. Statutory and General Information — F. Other Information — 2. Deed of Indemnity”.

Our Directors have confirmed that, although some of the areas encompass typical functions of a hospital, the properties with title defects, individually or collectively, are not crucial to our operations because (i) if our rights to these properties are challenged or if we are ordered to demolish the relevant buildings, the function of these buildings can be easily relocated to other premises without significantly impacting our operations, and (ii) we have a reconstruction plan in place. Since Jian Gong Hospital has passed the JCI accreditation process, which encompasses the inspection of the safety condition of a hospital’s facilities, we believe that Jian Gong Hospital’s facilities satisfy the international requirements for healthcare facilities’ safety. BXMCUP, the competent authority as confirmed by our PRC legal adviser, has confirmed that it has not imposed any administrative penalties against us in relation to our rights to these properties during the Track Record Period.

As advised by our PRC legal adviser, there is no material legal impediment in obtaining the necessary construction-related permits for our reconstruction plan and in obtaining the building ownership certificates once we complete the reconstruction of Jian Gong Hospital so long as our reconstruction is carried out and inspected in accordance with the relevant requirements. As advised by our PRC legal adviser, a hospital’s medical buildings, with or without ownership certificates, are not permitted to be used as collateral for borrowings due to the requirements under applicable PRC laws, rules and regulations. For more details on the prohibition against using a hospital’s real property as collateral, see “Financial Information — Liquidity and Capital Resources”. Those buildings for which we have not obtained ownership certificates cannot be bought or sold due to the title defects. If we are requested by BXMCUP or the local construction government agency to demolish the buildings before we obtain the construction-related permits for our reconstruction plan, we estimate that the total cost of relocation, including the search for alternative premises, renovation and a 12-month rental, is approximately RMB22.0 million. We do not expect a material difference between the valuation of these properties and the valuation that we would have attributed to these properties if they did not have such title defects. For more details regarding the changes in equity interest of Jian Gong Hospital, see “History and



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Reorganization — Our History”. For more details, see “Risk Factors — Risk Factors Related to Our Business and Industry — We have not obtained title and have not registered lease agreements with respect to some of the properties we use to operate our business”.

To prevent the recurrence of similar incidents relating to our properties, we have engaged our PRC legal adviser to advise us on compliance with the relevant PRC laws, rules and regulations in relation to the usage, rental and construction of our properties.

Furthermore, we leased and occupied a total of eight properties in the Beijing with a total gross floor area of approximately 1,245 square meters for office and business use as of the Latest Practicable Date. All eight property lease agreements have not been registered with the relevant PRC government authorities. As advised by our PRC legal adviser, failure to register an executed lease agreement will not invalidate the agreement; however, we may be subject to a fine of no less than RMB1,000 and not exceeding RMB10,000 for each unregistered lease agreement if the relevant PRC government authorities require us to rectify such non-compliance and we fail to do so within the specified time. In the event that we have to look for alternative premises, the property agent fee is expected to amount to approximately RMB0.1 million.

We have not made any provisions relating to the potential liabilities relating to our title defects and failure to register certain lease agreements during the Track Record Period because we believe the risk is remote and the amount is not significant.

## COMPETITION

The hospital and healthcare service industry in China is highly fragmented with numerous market participants. For example, we were the largest private hospital group in China in terms of the number of beds in operation, according to the Frost & Sullivan Report, with 3,194 beds in 2012. However, this represents less than 0.1% of the 4.2 million total beds in operation in China in 2012, according to the Frost & Sullivan Report. Hospitals compete primarily with other hospitals in their areas of operation. Other key competitive factors among hospitals include healthcare service quality, reputation, convenience and price. For example, Yan Hua Hospital competes with Fangshan Hospital (房山區醫院), a public Grade II hospital located in the same area. In addition, Jian Gong Hospital competes with neighboring Xuanwu Hospital of Capital Medical University (首都醫科大學宣武醫院) and Beijing Friendship Hospital (北京友誼醫院), both of which are Grade III hospitals. As we are expanding our healthcare services, we will face additional competition from both local public and private hospitals in areas we expand into. For more details on the competitive landscape and our market share in Beijing, see “Industry Overview — Competition”.

According to the Frost & Sullivan Report, competition for management rights over public hospitals among general hospital operators is currently not intense primarily because this industry is still in its early stages of development in China. As of the Latest Practice Date, we do not believe that we face any material competition from any other general hospital operator in Beijing that has a business model similar to ours. However, we expect that competitors in the healthcare service industry will emerge given the healthcare reform in China and the central governments’ and local government’s supportive policies towards public hospital reform and private capital investment in the healthcare services industry. 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 investments, PPP or other means. For more details on industry trends and analysis, see “Industry Overview”.



## BUSINESS

We believe that we will compete with new entrants on the basis of hospital management expertise, reputation, and hospital service quality. They may compete with us for existing and potential hospital owners interested in public hospital reform opportunities.

As a result of our management rights over in-network hospitals and clinics, we are able to control, consolidate and manage the procurement needs of these hospitals and clinics. Consequently, we do not believe we compete with other pharmaceutical distributors because our supply chain business primarily serves our in-network hospitals and generally does not supply pharmaceuticals, medical devices or medical consumables to other third-party hospitals.

### EMPLOYEES

We categorize the employees involved in our hospital management business into two classes: our employees and hospital employees. As of June 30, 2013, we had a total of 78 employees at the Group level, including hospital managers appointed to hospitals by us and administrative and procurement personnel. In addition, as of June 30, 2013, our in-network hospitals and clinics had more than 4,600 hospital employees, including doctors, nurses, pharmacists, medical technicians and other administrative personnel. For a breakdown of the employees at each of our in-network hospitals and clinics, see “— Our Hospital Network”. In particular, Jian Gong Hospital had 764 employees, including 219 doctors and 386 other medical professionals as of June 30, 2013. The following table shows a breakdown of our Group-level employees by function as of June 30, 2013:

Functions	Number of Employees	% of Employees
<b>Group-level Employees</b> . . . . .	<b>78</b>	<b>100.0</b>
Management and administrative . . . . .	37	47.4
Hospital managers . . . . .	15	19.2
Procurement . . . . .	26	33.3

Our employees typically enter into standard employment contracts with us. Each of the hospital managers appointed by us is also required to enter into a two-year non-competition agreement with us. Remuneration packages for our employees may comprise one or more of the following elements: base salary, performance-related bonus and discretionary bonus. We set performance targets for our employees based on their position and department and periodically review their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals. For our Group-level employees, we offer various social insurance benefit plans, including housing fund, pension, medical, maternity and unemployment benefits. Our employees are also represented by a labor union, and labor dispute are handled in accordance with all applicable laws, rules and regulations.

Employees of our in-network hospitals and clinics enter into employment contracts with the relevant hospital. Each hospital independently manages its recruitment efforts, provides wages and employee benefits within its annual budget, hires part-time employees as needed, and conducts its own employee performance reviews, which is modeled after the general framework developed and approved by us.

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### Qualification of Medical Professionals

The qualification and expertise of doctors at our in-network hospitals and clinics is vital to the quality of healthcare services provided at our in-network hospital and clinics provide and our competitiveness. We place great emphasis on recruiting, training and retaining our employees. We maintain high standards in selecting quality medical professionals and provide competitive compensation packages. We also provide periodic training on topics such as information technology and accident management to our employees. The following table sets forth the turnover rate of doctors and other medical professionals of our in-network hospitals for the periods indicated:

Hospitals	Year ended December 31,		
	2010	2011	2012
Jian Gong Hospital . . . . .	14.7%	14.6%	11.2%
Yan Hua Hospital Group . . . . .	3.9%	6.1%	7.4%
Mentougou Hospital . . . . .	2.7%	5.3%	3.1%
Jing Mei Hospital Group . . . . .	2.8%	3.2%	3.0%
Mentougou Traditional Chinese Medicine Hospital . . . . .	4.4%	4.4%	1.3%

Turnover rate is defined as (a) the total number of doctors and other medical professionals who resigned during a financial year at each hospital and does not include those who retire during such financial year, divided by (b) the total number of doctors and medical professionals at such hospital as of January 1 for such financial year.

In China, licensed doctors are subject to various trainings and periodic assessment of their professional skills, achievements and professional ethics by institutions or organizations entrusted by the public health department. There are four professional ranks for doctors in China: resident doctor, attending doctor, associate-chief doctor and chief doctor. For more details of the number of our doctors at each in-network hospitals, see “— Our Hospital Network”.

We designate the clerical department (醫務部) at each in-network hospital to handle the qualification registration for our medical professionals and maintain license records. The clerical department conducts periodic examinations to ensure each medical professional’s practice is within the scope of his or her license. It also reminds doctors to apply for next professional rank when they become eligible. During the Track Record Period and up to the Latest Practicable Date, we were not aware of and did not encounter any complaints or penalties in relation to medical professionals practicing beyond the scope of their respective licenses.

### INTELLECTUAL PROPERTY

We believe that our intellectual property is of material importance to our business. As of the Latest Practicable Date, we held three registered trademarks and three registered domain names. We are also in the process of applying for the registration of 15 additional trademarks in China.

As of the Latest Practicable Date, we are not engaged in or threatened with any claim for infringement of any intellectual property rights, whether as a claimant or as a defendant. For more details on our intellectual property rights, see “Appendix V. Statutory and General Information — B. Further Information About Our Business — 2. Intellectual property rights” in Appendix V to this prospectus.

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### LICENSES, PERMITS AND CERTIFICATES

As advised by our PRC legal adviser, we have obtained the necessary licenses, approvals, certificates and permits for our current business operations. The following table sets forth the major licenses, certificates and permits for our Group and all of our in-network hospitals as of the Latest Practicable Date.

License	Effective Date	Expiration Date
<b>Jian Gong Hospital</b>		
Medical Institution Practicing License (醫療機構執業許可證)	January 1, 2013	December 31, 2015
Beijing Medical Insurance Designated Medical Institution Certificate (北京市基本醫療保險定點醫療機構資格證書)	April 1, 2013	March 31, 2016
<b>Yan Hua Hospital Group</b>		
Medical Institution Practicing License	February 21, 2012	December 31, 2014
Beijing Medical Insurance Designated Medical Institution Certificate	April 1, 2013	March 31, 2016
<b>Mentougou Hospital</b>		
Medical Institution Practicing License	February 16, 2011	December 31, 2013
Beijing Medical Insurance Designated Medical Institution Certificate	April 1, 2013	March 31, 2016
<b>Jing Mei Hospital Group</b>		
Medical Institution Practicing License	January 1, 2013	December 31, 2015
Beijing Medical Insurance Designated Medical Institution Certificate	April 1, 2013	March 31, 2016
<b>Mentougou Traditional Chinese Medicine Hospital</b>		
Medical Institution Practicing License	July 16, 2012	December 31, 2013

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License	Effective Date	Expiration Date
Beijing Medical Insurance Designated Medical Institution Certificate	April 1, 2013	March 31, 2016
<b>Beijing Wanrong</b>		
Pharmaceutical Distribution Certificate (藥品經營許可證)	November 11, 2011	September 28, 2014
Pharmaceutical Distribution Quality Management Certificate (藥品經營質量管理規範認證證書)	January 7, 2009	January 6, 2014
Medical Device Marketing Enterprise License (醫療器械經營企業許可證)	July 30, 2010	July 29, 2015
<b>Beijing Jiayi</b>		
Medical Device Marketing Enterprise License	December 27, 2010	December 26, 2015

Medical Institution Practicing License and Pharmaceutical Distribution Quality Management Certificate may be renewed within three months prior to its expiration date upon re-examination by the relevant authority. We are in the process of preparing relevant renewal application materials for the Medical Institution Practicing Licenses of Mentougou Hospital and Mentougou Traditional Chinese Medicine Hospital. We plan to submit them to the relevant authority one month prior to the expiration date, which is consistent with our historical practice. As advised by our PRC legal adviser, the renewal application for the Medical Institution Practicing Licenses may be submitted to relevant regulatory authorities within three months prior to the expiration date of the license and consequently our practice does not violate the relevant regulations. As further advised by our PRC legal adviser, the relevant regulatory authorities may, depending on the actual situation, grant us a grace period, the length of which is between one to six months. Hospitals with hospital beds (which includes all of our in-network hospitals) that fail to pass the periodic examination and renew the license may continue to operate during the grace period. There were no incidents of non-compliances that led to a suspension or revocation of the licenses for any of our hospitals during the Track Record Period. Pharmaceutical Distribution Certificate and Medical Device Marketing Enterprise License may be renewed within six months prior to its expiration date upon re-examination by the relevant authority. As advised by our PRC legal adviser, although re-examination is required for the renewal of Beijing Medical Insurance Designated Medical Institution Certificate, relevant regulations do not specify when it may be renewed prior to its expiration date.

In addition to the above licenses and certificates, our in-network hospitals have also obtained other licenses and permits such as License for the Deployment of Large Medical Equipment (大型醫用設備配置許可證), License for radiotherapy (放射診療許可證), and Seal Card for the Purchase and Use of Narcotic Pharmaceuticals and Class I Psychotropic Substances (麻

## BUSINESS

醉藥品、第一類精神藥品購用印鑒卡)。For more details on licenses, permits and certificates, see “PRC Laws, Rules and Regulations — Legal Supervision over the Healthcare Sector in China”. As advised by our PRC legal adviser, there is no material legal impediment in renewing our licenses, permits and certificates as long as we comply with relevant requirements.

### LEGAL PROCEEDINGS AND COMPLIANCE

Our in-network hospitals and clinics are subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical disputes brought by our patients. Most of our in-network hospitals maintain medical liability insurance, but such insurance only covers a portion of these claims. For more details, see “— Insurance”. During the Track Record Period, the number of medical disputes settled by our in-network hospitals, and clinics was approximately 160, or less than 0.01% of the aggregate patient visits, and the aggregate settlement amount as a percentage of the aggregate revenue was less than 0.2%, approximately less than half of which was covered by the insurance carried by our in-network hospitals and clinics. In particular, during the Track Record Period, the number of medical disputes settled by Jian Gong Hospital was approximately 30, or less than 0.01% of the Jian Gong Hospital’s aggregate patient visits, and the aggregate settlement amount as a percentage of the aggregate revenue generated by Jian Gong Hospital was 0.2%, approximately less than half of which was covered by the insurance carried by Jian Gong Hospital.

During the Track Record Period, there were three major medical disputes, each involving a settlement amount greater than RMB500,000. The following table sets forth the details of these major medical disputes.

<u>Hospital</u>	<u>Date of Incident</u>	<u>Nature of Alleged Incident</u>
Jing Mei Hospital	January 2007	Medical screws allegedly pierced the spinal canal of a patient during lumbar spine surgery.
Mentougou Hospital	March 2011	Maternal mortality allegedly caused by amniotic fluid embolism, a rare and often fatal emergency during child birth.
Mentougou Traditional Chinese Medicine Hospital	September 2007	Patient underwent an allegedly unsuccessful cervical spine surgery.

We may continue to face legal proceedings and claims in our hospital business operations. For more details, see “Risk Factors — Risk Factors Related to Our Business and Industry — We and our in-network hospitals and clinics have been and could become the subject of litigation, claims and governmental investigations, including medical dispute brought by patients, which may harm our reputation and our business”.

We have established protocols to handle and record potential medical disputes. Each of our in-network hospitals has its own inspection department focusing on handling patient complaints and medical disputes. The inspection department investigates patient complaints, maintains a written record of discussions with patients, and resolves minor medical disputes on its own. The inspection departments also reports material medical disputes to relevant senior hospital managers for discussion. Unresolved medical disputes may be referred to a designated government-run medical dispute mediation committee or to the courts for further action.

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As of Latest Practicable Date, other than those disclosed in this prospectus, we were not a party to any ongoing material litigation, arbitration or administrative proceedings, and we are not aware of any claims or proceedings contemplated by government authorities or third parties which would materially and adversely affect our business. Our Directors are not involved in any actual or threatened material claims or litigation.

We are subject to a wide variety of laws, rules and regulations in the ordinary course of our business operations and other activities. For more details, see “PRC Laws, Rules and Regulations”. As advised by our PRC legal adviser, except as disclosed in “— Our Properties”, we are in compliance with all relevant laws, rules and regulations in all material aspects and have obtained the necessary licenses, approvals and permits for our current business operations.

We have in place a series of Group-wide management policies to improve our corporate governance structure and monitor the implementation of internal control policies, including an investment management system, information disclosure system, anti-fraud and reporting system, human resources management system, risk management and assessment policies, internal audit rules, and employee handbooks.

In particular we have set up an internal control system to address anti-bribery and corruption incidents:

- We have anti-corruption policies and procedures in place both at the Group and hospital levels. The design and implementation of anti-corruption policies and procedures are overseen by the head of our operations management department at the Group level and by the hospital administrator of each hospital at the hospital level. Related policies are set forth in the employee handbook and code of conduct. We have a zero tolerance policy towards acceptance of any bribes by doctors, staff and hospital administrators. We have also established a whistle blower program, a dedicated email address to receive named or anonymous reports of corruption charges, and stringent investigation protocols. Any employee found in breach of our anti-corruption policy will be terminated.
- We also have an independent committee at the hospital level, comprising of doctors from various clinical departments, tasked with conducting a monthly review and assessment of the quality and reasonableness of pharmaceutical prescriptions on a random sampling basis. Any irregularities, which could indicate instances of prescription abuse or corruption, are immediately reported to the clerical department (醫務部) and the pharmacy department (藥劑科) for further review.
- Our employees and hospital employees undergo anti-corruption training on an annual basis. They also receive periodic updates on recent anti-corruption issues as such issues arise. Most recently, our senior management received extensive anti-corruption training in August 2013.

During the Track Record Period, we are not aware of any non-compliance with the anti-corruption policies of our Group or in-network hospitals.