The following discussion of our financial condition and results of operations should be read in conjunction with our audited combined financial statements, including the notes thereto, as set forth in the Accountants' Report included as Appendix I to this prospectus. Our combined financial statements have been prepared in accordance with IFRSs which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in "Risk Factors" and elsewhere in this prospectus.

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.

We grew significantly during the Track Record Period. 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 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.

BASIS OF PRESENTATION

In July 2013, our Group completed the Reorganization. For more details, see "History and Reorganization". Following the Reorganization, our Company became the holding company of the companies now comprising our Group. Our Group is regarded as a continuing entity comprising the Company and its subsidiaries following the Reorganization. Accordingly, our combined financial statements have been prepared presenting the financial information of Beijing Phoenix and its subsidiaries for the Track Record Period.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of our Group for the Track Record Period and the combined statements of financial positions as of December 31, 2010, 2011 and 2012 and June 30, 2012 and 2013 are prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation or acquisition of the relevant entity, where this is a shorter period.

Equity interest in subsidiaries held by parties other than the Controlling Shareholders, and changes therein, prior to the Reorganization are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on combination.

For our hospital management services, we do not consolidated the financial statements of any IOT hospital because the ultimate decision-making power under our IOT agreements rests with the respective owners of the IOT hospitals rather than us. In particular:

- we are not the investor or owner of any IOT hospital;

- we are not entitled to any rights similar to that of a shareholder of a company, such as disposal of assets, dividends or distributions, or any entitlements to or residue assets upon liquidation of the IOT hospitals; and

- pursuant to the respective IOT agreements and/or the articles of association of the IOT hospitals, each IOT hospital is required to set up an executive committee (理事會), which is the highest authority of the respective IOT hospitals for making all important decisions, including relevant activities that significantly affect the operation, financial performance and return of the IOT hospitals. Specifically:

  (a) Yan Hua Hospital Group — the executive committee comprises five members, the majority of which are appointed by Yan Hua Phoenix.

  (b) Jing Mei Hospital Group — the executive committee consists of six members, comprising equal number of representatives from us and Beijing Coal, the owner (舉辦人) of Jing Mei Hospital Group. 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. For all important business decisions, the approval of the chairman of the executive committee is required.

  (c) Mentougou Hospital — the executive committee (門頭溝區醫院集團理事會) consists of eight members, comprising equal number of representatives from us and Mentougou District government, the owner (舉辦人) of Mentougou Hospital. The chairman of the executive committee (理事長), who has the right to cast the tie-break vote, is appointed by Mentougou District government.

  (d) Mentougou Traditional Chinese Medicine Hospital — this IOT agreement adopted the same terms regarding the composition of the executive committee as the Mentougou Hospital IOT Agreement. Further, the Mentougou Hospital's executive committee also exercises decision-making powers over important business activities at Mentougou Traditional Chinese Medicine Hospital.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The healthcare service industry in the PRC has experienced strong growth in the last decade from 2002 to 2012 and, according to the Frost & Sullivan Report, the trend is expected to continue. Our financial condition and results of operations benefited from this industry trend during the Track Record Period, and are expected to be significantly affected in the future by the growth or contraction of the healthcare service industry in the PRC. In addition, our financial condition and results of operations in any given period are expected to be affected by the following factors:

- healthcare reform, price control and other healthcare policies in China;
- expansion of our hospital network;
- number of patient visits and average spending per patient visit;
- revenue mix;
- cost and expenses relating to employees; and
- seasonality.

Healthcare Reform, Price Control and Other Healthcare Policies in China

The success of our business largely depends on the progress of the healthcare reform in China. In particular, the rising demand for, and governmental policies relating to, (i) private capital investments in public hospitals and (ii) professional hospital management service providers like us have driven our growth. China's 12th Five-Year Plan targets increasing the number of beds in operation in private hospitals to about 20% of total beds in operation in China by 2015, which would be a significant increase from 13% in 2010. The acceleration of public hospital reform presents us with growth opportunities, while also subjecting us to significant uncertainties and challenges if public hospital reform policies change dramatically in the future.

Prices of a majority of the pharmaceuticals, medical devices and medical consumables, either sold by our supply chain business to our in-network hospitals and clinics, or sold by our in-network hospitals and clinics to patients, are subject to extensive government regulation. The retail prices of medical devices and medical consumables are subject to similar restrictions. For more details on how the "bidding prices" and the retail prices are determined, see "Business — Price Control and Pricing", "PRC Laws, Rules and Regulations — Laws and Regulations on Pharmaceutical Distribution — Regulations on Centralized Pharmaceutical Procurement by Medical Institutions" and "PRC Laws, Rules Regulations — Regulations on the Supervision Over the Procurement of Medical Consumables". Consequently, changes in "bidding price" can affect our results of operations in the following manners:

- *Supply chain business segment*. It affects the revenue of our supply chain business because our supply chain business sells pharmaceuticals, medical devices and medical consumables to our in-network hospitals and clinics at the "bidding prices". It also affects the gross margin of our supply chain business, because depending on whether the "bidding prices" increase or decrease, we will have more or less room to negotiate with suppliers for the same or better gross margins.

- *General hospital services segment.* It affects the revenue of our general hospital services segment by increasing or decreasing the revenue generated from sales of pharmaceuticals, medical devices and medical consumable to patients at Jian Gong Hospital. Higher or lower "bidding prices" lead to higher or lower retail prices, which in turn lead to higher or lower spending per patient visit on pharmaceuticals and medical devices and medical consumable. We do not expect the gross margin of our general hospital services segment to be affected significantly by changes in "bidding prices", because hospitals in China are allowed to charge up to 15% profit margin on sales of pharmaceuticals and medical devices and medical consumable to patients.

- *Hospital management services segment.* It affects our hospital management services segment to the extent such change adversely affects the revenue and net income before tax (收支結餘) of our IOT hospitals and clinics, which in turn affects our management fees.

During the Track Record Period, price controls on pharmaceuticals did not have a significant impact on our results of operations as demonstrated by the average spending on pharmaceuticals per patient visit of our in-network hospitals and clinics during this period. We expect the NDRC and the Beijing government will reduce the "bidding prices" in the future.

In addition, our in-network hospitals and clinics have generated, and we expect to continue to generate, significant revenue from patients covered by China's medical insurance programs. The pricing of healthcare services provided at our in-network hospitals and clinics to a majority of our patients is subject to pricing guidelines set by Beijing Municipal Commission of Development and Reform. For more details, see "Business — Price Control and Pricing". During the Track Record Period, Beijing Municipal Commission of Development and Reform only adjusted service fees for ostomy care (造口護理) on August 16, 2010. Consequently, price controls on healthcare services did not have a material impact on our results of operations during the Track Record Period. There is a trend for local governments to promulgate more detailed regulations on how China's public medical insurance programs should make payments to healthcare facilities.

The changes in the policies and regulations relating to prices of pharmaceuticals and medical devices and medical consumables, or the payment policies and abilities by medical insurance programs, may significantly affect our results of operations and our ability to manage our hospital network and expand our business. As of the Latest Practicable Date, we were not aware of any significant changes, or pending changes, in the policies and regulations relating to the healthcare reform in China.

Expansion of Our Hospital Network

The scale of our hospital network has a significant impact on our revenue across three business segments. Capitalizing on our successful track record in working with the owners of public hospitals, we have significantly expanded our hospital network during the Track Record Period by entering into IOT agreements. Our revenue and profit growth during this period was primarily driven by the growth of our hospital network, which, in particular, contributes to higher revenue and profit from the supply chain business and increased hospital management fees. Our in-network hospitals and clinics grew from two general hospitals, 17 community clinics and 1,103 beds in operation as of January 1, 2010 to 11 general hospitals, one traditional Chinese medicine hospital, 28 community clinics and 3,213 beds in operation as of June 30, 2013. As a result, segment revenue from our supply chain business grew from RMB151.1 million in 2010 to RMB431.0 million in 2012. In addition, the hospital management services fees also increased from RMB16.3 million in 2010 to RMB40.3 million in 2012. Segment revenue from our supply chain business and hospital management services were RMB248.3 million and RMB9.9 million, respectively, in the six months ended June 30, 2013.

Our future growth depends upon our ability to expand our hospital network, among other things. Our ability to expand our hospital network will depend on a number of factors, including: (i) changes to the PRC healthcare policies and regulations, (ii) the reputation of our existing healthcare facilities and doctors; (iii) our financial resources; and (iv) our ability to improve the financial and operational performance of hospitals under our management. Our expansion, whether through equity ownership or the IOT model, will require us to make upfront investments, which could impact our liquidity. Our ability to manage these additional healthcare facilities in a cost-efficient manner determines whether and how quickly we can recover our investment, which may materially affect our revenue and profitability.

In addition, new healthcare facilities added to our hospital network generally experience a ramp-up period during which their operating efficiency may be lower than that of our established healthcare facilities and hence it may take some time before the new facilities begin to generate management fees. In particular, our investments usually involve upgrading the hospital facilities and clinical services when we first take control of its management. Whether we can complete such upgrades as planned also affects how quickly the hospital can resume its normal operations and generate revenue for us as expected.

Although we have no specific target for acquisition or PPP opportunity as of the Latest Practicable Date, we engage in active discussions with potential targets or partners from time to time.

Number of Patient Visits and Average Spending per Patient Visit

Our revenue primarily depends on the number of patient visits and average spending per patient visit, which in turn depends on the ability of our in-network hospitals and clinics to provide quality healthcare services. The number of total patient visits at our in-network hospitals and clinics increased from 1.4 million in 2010 to 2.3 million in 2011 and to 3.0 million in 2012. The total patient visits received by our in-network hospitals and clinics were approximately 1.5 million in the six months ended June 30, 2013.

Our general hospital services segment revenue was RMB288.4 million, RMB324.0 million, RMB403.1 million and RMB214.7 million in 2010, 2011, 2012 and the six months ended June 30, 2013, respectively, while the number of patient visits at Jian Gong Hospital was approximately 392,900, 472,200, 609,300 and 313,700 in the corresponding periods.

We also depend upon the ability of our other in-network hospitals and clinics to attract more patients. Increases in patient visits at these hospitals will increase the revenue of these in-network hospitals and clinics and may lead to an increase in the management fees we are entitled to collect, if the IOT hospital's net income before tax (收支結餘) after deduction of management fees remain positive. Our management fees are subject to various performance criteria, including primarily the annual revenue and net income before tax (收支結餘) of the relevant hospital. Revenue generated by our supply chain business is largely driven by the procurement needs of our in-network hospitals and clinics, which in turn reflects the number of patient visits at these hospitals and clinics. The increase in demand for pharmaceuticals and medical devices and medical consumables at our in-network hospitals and clinics also enables us to negotiate with suppliers for better pricing. It is crucial that we continue to provide quality healthcare services to attract more patients.

The average spending per patient visit also affects our revenue. A patient's spending during his or her visit is determined by the prices of pharmaceuticals sold to such patient and healthcare service fees, both of which are subject to government regulation. The retail price of most pharmaceuticals sold by medical institutions to patients must adhere to a fixed 15% profit margin ceiling set by the PRC government, which means that the retail price cannot exceed 115% of the "bidding price". In addition, for our in-network hospitals and clinics which are Medical Insurance Designated Medical Institutions, they may only charge healthcare service fees in accordance with the pricing guidelines set by the relevant local healthcare administrative authorities, which stipulate a range of healthcare service fees that can be charged for patients covered by public medical insurance programs. For more details, see "Business — Price Control and Pricing". A majority of our in-network hospitals and clinics, including Jian Gong Hospital, are Medical Insurance Designated Medical Institutions.

Revenue Mix

Our gross margin is affected by the revenue mix of our three business segments, due to considerable differences among their respective gross margins. In 2012, revenue derived from our general hospital services segment, hospital management services segment and supply chain business segment represented 46.1%, 4.6% and 49.3% of our total segment revenue, respectively. In the six months ended June 30, 2013, revenue derived from these three segments accounted for 45.4%, 2.1% and 52.5% of our total segment revenue, respectively. Of the three segments, the hospital management services segment had a significantly higher gross margin than the other two segments.

The gross margin of our supply chain business segment increased from 11.8% in 2010 to 15.8% in 2011, 19.2% in 2012 and to 19.2% in the six months ended June 30, 2013, primarily due to (i) greater volume discounts from our suppliers as we consolidated the pharmaceuticals, medical devices and medical consumables needs of our in-network hospitals and clinics and (ii) the implementation of the Hong Hui supply agreement in 2012. For more details on the terms of our agreement with Hong Hui, see "Business — Our Suppliers — Supply agreement with Hong Hui" and "— Description of Components of Results of Operations — Gross Profit — Supply Chain Business". Such gross margin increase in our supply chain business had a positive effect on our overall gross margin.

Cost and Expenses Relating to Employees

Our ability to control the cost and expenses relating to employees affects our profitability. The increase in cost and expenses relating to employees primarily affects our results of operations in two aspects: (i) the profitability of our general hospital services segment, where an increase in costs and expenses may negatively affect our profitability if we are unable to generate commensurate revenue, and (ii) our hospital management segment where an increase in costs and expenses may negatively affect the profitability of IOT hospitals, and in turn negatively affect management fee we are entitled to receive. We have experienced pressure to increase salaries and benefits to recruit and retain quality medical professionals for our general hospital services segment and for the Group as a whole, and expect such pressure to continue to exist in the near future. Our total staff costs (which include Directors' emoluments, salaries and other allowance and retirement benefit contribution), although as a percentage of revenue decreased from 13.8% in 2010 to 11.5% in 2012, increased at a CAGR of 26.8% from RMB54.2 million in 2010 to RMB87.1 million in 2012. The staff costs also increased from RMB37.7 million in the six months ended June 30, 2012 to RMB47.4 million in the six months ended June 30, 2013, representing a year on year growth of 25.7%. These increases in staff costs were primarily attributable to our general hospital services segment, resulting from the increase in the number of employees at Jian Gong Hospital. For example, Jian Gong Hospital's employees increased from 703 as of December 31, 2010 to 718 as of December 31, 2011, 757 as of December 31, 2012 and to 764 as of June 30, 2013.

The hospitals and clinics under our management through IOT agreements directly hire doctors and medical staff, except for the hospital administrators and a limited number of other hospital management personnel appointed or recommended by us. Our management fees under IOT agreements are usually based on the relevant IOT hospitals' performance targets including such hospitals' profits, which in turn are affected by our ability to control the staff costs of such hospitals. For example, to improve the healthcare service quality and in line with our growth plan, Yan Hua Hospital Group recruited more than 80 medical professionals towards the end of 2012, which caused a significant increase in the staff costs of Yan Hua Hospital Group in 2013 and in turn significantly reduced Yan Hua Hospital Group's net income before tax (收支結餘) in the six months ended June 30, 2013. Since the management fees we are entitled to is capped at the Yan Hua Hospital Group's net income before tax (收支結餘) and repayment of investment, the decrease in Yan Hua Hospital Group's net income before tax (收支結餘) and repayment of investment caused significant decrease in the management fees we were entitled to from Yan Hua Hospital Group in the six months ended June 30, 2013.

We currently do not expect significant increases in the staff cost of Jian Gong Hospital and IOT hospitals and clinics in the second half of 2013.

Seasonality

We experience seasonal fluctuations in our revenue and profitability. We typically experience relatively fewer patient visits in the first quarter of a year due to the effect of the Chinese New Year holiday, during which most Chinese usually avoid visiting hospitals. Our in-network hospitals and clinics generally receive more patients 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 determined based on, among others, a higher management fee rate after such hospitals' performance exceeds certain thresholds for that year. Consequently, we may be entitled to less management fees under the Yan Hua IOT Agreement and the Jing Mei IOT Agreement in the first half of a year than in the second half of such year as a result of staggered management fee formulas. For more details on the terms of our IOT agreements, see "Business — Our Hospital Network". As a result of the foregoing, our interim financial results, including our revenue and profits, may be skewed.

CRITICAL ACCOUNTING POLICIES

Our financial statements have been prepared in accordance with IFRSs. Our significant accounting policies are set forth in Notes 4 and 5 to the Accountants' Report, attached as Appendix I to this prospectus. IFRSs require that we adopt accounting policies and make estimates that our Directors believe are most appropriate under the circumstances for the purposes of giving a true and fair view of our results and financial position. Critical accounting policies are those that require management to exercise judgment and make estimates which yield materially different results if management were to apply different assumptions or make different estimates. We believe that the most complex and sensitive judgments, because of their significance to our financial information, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas may differ from our estimates. We have identified below the accounting policies that we believe are the most critical to our financial information and that involve the most significant estimates and judgments.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Service income, which includes management service income and general hospital service income, is recognized when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to us and such benefit could be reliably measured. We are entitled to management fees for the management services provided to IOT Hospitals. Pursuant to our IOT agreements, the management fees are measured with reference to certain performance indicators of the IOT hospitals, which require estimation made by management. For our interim financials, our management estimates the full year results of operations of an IOT hospital and determines the potential annual management fees we will be entitled to. To the extent the IOT hospital is estimated to experience a loss for the year, no interim management fee revenue will be recognized and we will make provisions of such amount in accordance with the terms of the respective IOT agreements. To the extent that an IOT hospital is not estimated to make a loss, our management will estimate and recognize the interim management fees based on the actual interim results of operations of such IOT hospital in accordance with the relevant IOT agreement. During the Track Record Period, the actual performance results of each of our IOT hospitals and clinics did not vary significantly from our estimation and we therefore did not make any provisions. We record management service income at year-end determined based on the actual performance of each IOT hospital, which is adjusted for certain items specified under the IOT agreements.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied: (i) we have transferred to the buyer the significant risks and rewards of ownership of the goods, (ii) we retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, (iii) the amount of revenue can be measured reliably, and (iv) it is probable that the economic benefits associated with the transaction will flow to us; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to us and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Intangible assets

Our intangible assets represent the management rights acquired under the IOT agreements and are subject to amortization charges to the cost of sales and services in the combined statements of profit or loss and other comprehensive income over the tenure of the respective IOT agreements. Intangible assets consist of:

(i) the investment amounts that will not be returned to us, including our initial investment under the Yan Hua IOT Agreement in 2008 and investments under the Jing Mei IOT Agreement, and

(ii) the difference between (a) the investment amounts made to IOT hospitals and clinics, which include capital investments under the Mentougou IOT Agreement and the Mentougou TCM Hospital IOT Agreement and certain investments under the Yan Hua IOT Agreement that will be repaid to us pursuant to the terms of the relevant IOT agreements and (b) fair value of the repayable investment amounts determined upon initial recognition. For more details, see "— Receivables from IOT hospitals".

Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. As disclosed under "— Receivables from IOT hospitals", the term of the Yan Hua IOT Agreement is subject to approval by our independent shareholders every three years. The signing of the supplemental agreement to the Yan Hua IOT Agreement as of October 31, 2013, which stipulates such approval requirement, would affect the estimated recoverable amount and useful life of the management rights of Yan Hua Hospital Group under the IOT agreement, which is classified as intangible assets. If the estimated recoverable amount is lower than the carrying amount of the relevant intangible asset, a material impairment may arise which would be recognized in profit or loss for the period in which such event takes place.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

The following table sets forth the carrying amount of management rights classified as intangible assets as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(in thousands of RMB)			
Yan Hua Hospital Group	67,579	110,998	124,281	122,822
Mentougou Hospital	40,583	44,458	42,775	41,620
Jing Mei Hospital Group	—	—	142,110	138,165
Mentougou Traditional Chinese Medicine Hospital	—	—	14,007	13,621
Total	**108,162**	**155,456**	**323,173**	**316,228**

Receivables from IOT hospitals

Pursuant to certain IOT agreements, we made repayable investments to IOT hospitals and clinics in return for the management rights of IOT hospitals and clinics over a tenure ranging from 19 to 48 years and these repayable investment amounts will be repaid to us in equal annual installments during the tenure of these IOT agreements. The fair value of the repayable investment amounts made to the IOT hospitals and clinics under the respective IOT agreements were determined at an effective interest rate of 11.0% per annum upon initial recognition over the tenure of the respective IOT Agreements. The fair values of the repayable investment amounts are then recorded as "Receivables from IOT hospitals" in our financial statements at initial recognition and measured at amortized cost using the effective interest method in subsequent periods.

During the Track Record Period, we used 11.0% as the effective interest rate, which was determined at initial recognition and is estimated by taking into account, amongst various factors, market rates or other interest rates applicable to borrowings of comparable entities (including the interest rates for obligations under finance lease of Jian Gong Hospital).

To the extent that our investment amounts made to our IOT hospitals under IOT agreements will be repaid to us during the tenure of our management, such investment amounts are recorded as receivables from IOT hospitals, including non-current portion, representing the amount that will be returned after one year from the end of the reporting period, and the current portion, representing the amount due within one year from the end of the reporting period. Such investment amounts primarily consist of our investments under the Mentougou IOT Agreement and the Mentougou TCM Hospital IOT Agreement and certain investments under the Yan Hua IOT Agreement.

The term of the Yan Hua IOT Agreement, which is subject to approval by our independent shareholders every three years, has no effect on the investment repayment schedule of Yan Hua Hospital Group with respect to any capital investment made or to be made by us in an amount not less than RMB150.0 million. As a result, the carrying amount of receivables from Yan Hua Hospital Group will continue to be measured at amortized cost and subject to impairment assessment.

The following table sets forth receivables from IOT hospitals as of the dates indicated:

	As of December 31,			As of June 30, 2013
	2010	2011	2012	
	(in thousands of RMB)			
Yan Hua Hospital Group	—	11,916	16,133	17,008
Mentougou Hospital	25,147	29,039	27,842	29,450
Mentougou Traditional Chinese Medicine Hospital	—	—	11,123	10,291
Total	**25,147**	**40,955**	**55,098**	**56,749**
Less: current portion included in prepayments and other receivables	2,826	4,812	6,620	6,353
Non-current portion	22,321	36,143	48,478	50,396

Interest income from receivables from IOT hospitals

Interest income is accrued using the effective interest method by reference to the receivables from IOT hospitals and at the effective interest rate determined at initial recognition of the receivables from IOT hospitals.

Impairment of tangible and intangible assets

At the end of the reporting period, we review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. During the Track Record Period, we did not incur any impairment loss relating to our tangible and intangible assets.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Property, plant and equipment

Property, plant and equipment, other than construction in progress as described below, are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognized impairment loss. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Asset held under finance lease are depreciated over their expected useful lives on the same basis as assets we own. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss in the year in which the item is derecognized.

Estimated useful lives and impairment of property, plant and equipment

Our Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the management's experience of the actual useful lives of property, plant and equipment of similar nature and functions taking into account of a variety of factors, including relevant PRC tax regulations. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write off or write down obsolete assets that have been abandoned or impaired. When the actual useful lives or recoverable amounts of property, plant and equipment differ from the original estimates, adjustment will be made and recognized in the period in which such event takes place. As of December 31, 2010, 2011 and 2012 and June 30, 2013, the carrying amounts of property, plant and equipment were RMB91.5 million, RMB94.3 million, RMB121.5 million and RMB119.8 million, respectively. During the Track Record Period, there was no change in the estimated useful life of property, plant and equipment. As of the Latest Practicable Date, we were not aware of any events or circumstances that will cause us to change the estimated useful life.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of our Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the combined statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expense are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with our Group's accounting policy on borrowing costs.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Lease prepayment for land use right

Prepayment for obtaining land use right is accounted for as lease prepayment for land use right and is released to profit or loss on a straight-line basis over the lease terms as stated in the relevant land use right certificate granted for usage by our Group in China and the remaining terms of the operating license of the PRC entity, whichever is the shorter. Lease prepayment for land use right which is to be released to profit or loss in the next 12 months is classified as current assets.

Impairment of receivables from IOT hospitals, trade receivables and other receivables

In determining whether there is objective evidence of impairment loss, we take into consideration financial strength of the IOT hospitals, the credit history of the customers and the current market condition. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate. Management reassesses the adequacy of impairment on a regular basis. Where the actual cash flows are less than expected, a material impairment loss may arise. As of December 31, 2010, 2011 and 2012 and June 30, 2013, the carrying amounts of trade receivables of our Group were RMB20.1 million, RMB23.8 million, RMB83.0 million and RMB110.5 million, respectively, the carrying amounts of prepayment and other receivables were RMB5.9 million, RMB13.7 million, RMB16.7 million and RMB16.5 million, respectively and the carrying amounts of receivables from IOT hospitals were RMB22.3 million, RMB36.1 million, RMB48.5 million and RMB50.4 million, respectively. During the Track Record Period, we did not incur any impairment loss relating to receivables from IOT hospitals, trade receivables and other receivables.

Provision for medical dispute claims

Our Group may be subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical dispute claims brought by the former patients. Provision for medical dispute claims is made based on the status of potential and active claims outstanding at the end of each reporting period, and take into consideration the assessment and analysis of outside counsel and the total claim exposure. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of our Group.

Based on the assessment, our management, believes that no material claim exposure or outstanding litigation on the medical dispute claim existed at the end of each reporting period and accordingly no provision was made. The situation is closely monitored by the management and provision will be made as appropriate. Where the actual claims are greater than expected, a material dispute claims expense may arise, which would be recognized in profit and loss for the period in which such a claim takes place.

ACCOUNTING TREATMENT FOR CAPITAL INVESTMENTS MADE IN IOT HOSPITALS AND CLINICS

During the Track Record Period, the capital investments we made in our IOT hospitals and clinics are categorized into (a) investment amounts that will not be returned to us and (b) investment amount that will be repaid to us pursuant to the terms of the relevant IOT agreements. The following table sets forth a breakdown of the investment amounts we made in our IOT hospitals by these two categories in the periods indicated:

	Year ended December 31,					Six months ended June 30,
	2008	2009	2010	2011	2012	2013
	(in millions of RMB)					
Yan Hua Hospital	72[(a)]	—	—	57[(b)]	20[(b)]	—
Mentougou Hospital. .	—	—	65[(b)]	10[(b)]	—	—
Mentougou TCM	—	—	—	—	25[(b)]	—
Jing Mei Hospital	—	—	—	150[(a)]	—	—

(a) Investment amounts that will not be returned to us.

(b) Investment amounts that will be repaid to us pursuant to the terms of the relevant IOT agreements.

We account for our capital investments made pursuant to the relevant IOT agreements as follows:

Investment amounts that will not be returned to us

Investment amounts that will not be returned to us from IOT hospitals and clinics are accounted for as intangible assets, which represent the management rights acquired pursuant to the IOT agreements and are subject to amortization charges to the cost of sales and services in the combined statements of profit or loss and other comprehensive income over the tenure of the respective IOT agreements.

These investments include our initial investment under the Yan Hua IOT Agreement in 2008 and investments under the Jing Mei IOT Agreement.

Investment amounts that will be repaid to us pursuant to the terms of the relevant IOT Agreements

Our capital investments under the Mentougou IOT Agreement and the Mentougou TCM Hospital IOT Agreement and certain investments under the Yan Hua IOT Agreement are treated as repayable investment amounts because they will be repaid to us pursuant to the terms of the respective IOT agreements. We accounted for these investments as follows:

First, determining the fair value of the repayable investment amounts made to the IOT hospitals and clinics under the respective IOT agreements at an effective interest rate of 11.0% per annum upon initial recognition over the tenure of the respective IOT Agreements. The fair values of the repayable investment amounts are then recorded as "Receivables from IOT hospitals" in our financial statements at initial recognition and measured at amortized cost using the effective interest method in subsequent periods. For more details, see "— Critical Accounting Policies — Receivables from IOT hospitals". The effective interest rate was determined at initial recognition and estimated by taking into account, amongst various factors, market rates or other interest rates applicable to borrowings of comparable entities (including the interest rates for obligations under finance lease of Jian Gong Hospital).

Second, after the receivables from IOT hospitals are determined, the difference between (a) the investment amounts made to the IOT hospitals and clinics and (b) fair value of the investment amounts determined upon initial recognition is accounted for as intangible assets, which represent the management rights acquired pursuant to the IOT agreements that are subject to amortization charges to the cost of sales and services in the combined statements of profit or loss and other comprehensive income over the tenure of the respective IOT agreements.

Third, in subsequent periods:

(a) interest income on receivables from IOT hospitals, which is accrued using the effective interest method by reference to the receivables from IOT hospitals and at the effective interest rate applicable, is recognized as "Other income — interest income on receivables from IOT hospitals" in our combined statements of profit or loss and other comprehensive income; and

(b) when we receive repayment of repayable investment amounts pursuant to the terms of the relevant IOT agreements, such repayment of investment amounts will be recognized in our financial statement as a reduction in the receivables from IOT hospitals when the repayment is made by the relevant IOT hospitals.

DESCRIPTION OF COMPONENTS OF RESULTS OF OPERATIONS

Revenue

We derive revenue from three segments: (i) general hospital services, (ii) hospital management services, and (iii) supply chain business. Our revenue represents total segment revenue after elimination of inter-segment revenue. In 2010, 2011, 2012 and the six months ended June 30, 2012 and June 30, 2013, our revenue was RMB394.1 million, RMB509.5 million, RMB758.0 million, RMB321.5 million and RMB419.7 million, respectively. The following table sets forth the breakdown of our revenue by segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(unaudited)			
	(in thousands of RMB)									
General hospital services	288,412	73.2%	323,987	63.6%	403,109	53.2%	188,566	58.6%	214,692	51.2%
Hospital management services	16,348	4.1	19,412	3.8	40,277	5.3	12,647	3.9	9,861	2.3
Supply chain business	151,121	38.3	264,414	51.9	431,020	56.9	175,182	54.5	248,304	59.2
Total segment revenue	**455,881**	**115.7**	**607,813**	**119.3**	**874,406**	**115.4**	**376,395**	**117.1**	**472,857**	**112.7**
Less: inter-segment revenue	61,796	15.7	98,335	19.3	116,374	15.4	54,850	17.1	53,165	12.7
Total	**394,085**	**100%**	**509,478**	**100%**	**758,032**	**100%**	**321,545**	**100%**	**419,692**	**100%**

General hospital services

Our general hospital services segment generated a majority of our revenue during the Track Record Period. Revenue from this segment is derived from Jian Gong Hospital and from premium healthcare services offered under Phoenix VIP services at Jian Gong Hospital. General hospital services revenue consists of primarily fees generated from the provision of outpatient and inpatient services, including fees for healthcare services, pharmaceuticals and medical devices and medical consumables.

Our general hospital services segment revenue was RMB288.4 million, RMB324.0 million and RMB403.1 million in 2010, 2011 and 2012, respectively, and RMB188.6 million and RMB214.7 million in the six months ended June 30, 2012 and June 30, 2013, respectively, reflecting the increasing number of patient visits and average spending per patient visit. The total patient visits received by Jian Gong Hospital increased from approximately 392,900 in 2010 to 472,200 in 2011 and to 609,300 in 2012, of which outpatient visits increased from approximately 384,600 in 2010 to 462,600 in 2011 and to 597,900 in 2012 and inpatient visits increased from approximately 8,400 in 2010 to 9,600 in 2011 and to 11,500 in 2012. The total patient visits received by Jian Gong Hospital were approximately 313,700 in the six months ended June 30, 2013, of which approximately 308,200 were outpatient visits and approximately 5,500 were inpatient visits, compared to approximately 271,300 in the six months ended June 30, 2012, of which approximately 265,700 were outpatient visits and approximately 5,600 were inpatient visits. The increase in the number of patient visits was partially offset by a decrease in the average spending per outpatient visit at Jian Gong Hospital from approximately RMB432 in 2010 to RMB415 in 2011 and RMB417 in 2012. The average spending per outpatient visit was approximately RMB403 and RMB431 in the six months ended June 30, 2012 and June 30, 2013. The average spending per inpatient visit remained relatively stable at RMB12,961 in 2010, RMB12,382 in 2011 and RMB13,127 in 2012. The average spending per inpatient visit was approximately RMB13,645 and RMB14,788 in the six months ended June 30, 2012 and June 30, 2013.

Hospital management services

We manage and operate a total of ten general hospitals, one traditional Chinese medicine hospital and 28 community clinics under the IOT model. We provide management services to the hospitals, including formulation and implementation of growth strategies, appointment of hospital administrators and other key personnel, setting annual hospital budget and determination of important operational issues. In return, we receive from each hospital or the hospital owners management fees, primarily calculated with reference to percentage of the revenue and/or net income before tax (收支結餘) generated by our IOT hospitals and clinics. Accordingly, the management fees we receive depend on the performance of our in-network hospitals and clinics. For certain hospitals, our management fees are dependent on profitability and performance reviews. For more details on our management fee formulas, see "Business — Our Hospital Network".

Our hospital management service segment revenue was RMB16.3 million, RMB19.4 million and RMB40.3 million in 2010, 2011 and 2012, respectively. The increase was largely driven by the number of healthcare facilities under our management through IOT agreements, which increased from one hospital and 17 community clinics as of January 1, 2010 to 11 hospitals and 28 community clinics as of December 31, 2012. Our hospital management service segment revenue was RMB9.9 million in the six months ended June 30, 2013 compared to RMB12.6 million in the six months ended June 30, 2012. This decrease was primarily due to decreased management fee from Yan Hua Hospital Group. For more details, see "— Results of Operations — Six Months Ended June 30, 2013 and June 30, 2012 — Revenue". The following table sets forth the management fees generated from our IOT hospitals and clinics for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in thousands of RMB)				
Management fee generated from Yan Hua Hospital Group	16,348	17,995	22,626	6,357	1,865
Management fee generated from Mentougou Hospital[1]	N/A	1,417	5,438	972	2,417
Management fee generated from Jing Mei Hospital[2]	N/A	N/A	12,213	5,318	5,579
Management fee generated from Mentougou Traditional Chinese Medicine Hospital[3]	N/A	N/A	N/A	N/A	—

[1] We began managing Mentougou Hospital in August 2010 and started to collect management fees in 2011.

[2] We began managing Jing Mei Hospital Group in May 2011 and started to collect management fees in 2012.

[3] 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.

Our Directors confirm that all recognitions and receipts of management fees during the Track Record Period were in compliance with relevant IOT agreements.

Supply chain business

Our supply chain business segment revenue is derived from sales of pharmaceuticals, medical devices and medical consumables to our IOT hospitals and clinics. Segment revenue from sales to Jian Gong Hospital is recorded as inter-segment revenue and eliminated from our total revenue. For more details, see Note 7 to the Accountants' Report, attached as Appendix I to this prospectus.

The prices of a majority of pharmaceuticals, medical devices and medical consumables that we source and resell to our in-network hospitals and clinics, primarily those included in the PRC national and provincial medical insurance catalog, are subject to price control mainly in the form of "bidding price", being price ceilings on pharmaceuticals or medical devices and medical consumables sold to the hospitals. For products that are not subject to price control, the prices at which such products are sold to hospitals may be freely set by the market. For more details, see "PRC Laws, Rules and Regulations — Laws and Regulations on Centralized Pharmaceuticals Distribution — Regulations on Centralized Pharmaceutical Procurement by Medical Institutions", "PRC Laws, Rules Regulations — Regulations on the Supervision Over the Procurement of Medical Consumables" and "Business — Our Business Model — Supply Chain Business".

Our supply chain business segment revenue was RMB151.1 million, RMB264.4 million and RMB431.0 million in 2010, 2011 and 2012, respectively. Our supply chain business segment revenue was RMB175.2 million and RMB248.3 million in the six months ended June 30, 2012 and June 30, 2013, respectively. Inter-segment elimination was RMB61.8 million, RMB98.3 million, RMB116.4 million, RMB54.9 million and RMB53.2 million in 2010, 2011, 2012 and the six months ended June 30, 2012 and June 30, 2013, respectively. The growth of our supply chain business is largely tied to the combined demand of our in-network hospitals and clinics, which is primarily driven by the expansion of our hospital network and the increase in patient visits at our in-network hospitals and clinics. The number of total patient visits at our in-network hospitals and clinics increased from 1.4 million in 2010 to 2.3 million in 2011 and 3.0 million in 2012. The total patient visits received by our in-network hospitals and clinics were approximately 1.5 million in the six months ended June 30, 2013.

Cost of Sales and Services

Our cost of sales and services consist of cost of pharmaceuticals and medical devices and medical consumables, staff cost, depreciation and amortization costs, utilities and other expenses. In 2010, 2011, 2012 and the six months ended June 30, 2012 and June 30, 2013, our cost of sales and services was RMB301.2 million, RMB386.7 million, RMB573.2 million, RMB246.5 million and RMB332.3 million, respectively. The following table sets forth the breakdown of our cost of sales and services by segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(unaudited)			
	(in thousands of RMB, except percentage data)									
General hospital services	228,177	75.8%	259,157	67.0%	328,831	57.4%	152,003	61.7%	177,748	53.5%
Hospital management services	1,516	0.5	3,168	0.8	12,376	2.2	6,058	2.5	6,944	2.1
Supply chain business	133,267	44.2	222,739	57.6	348,395	60.7	143,263	58.1	200,741	60.4
Total segment cost of sales and services	**362,960**	**120.5**	**485,064**	**125.4**	**689,602**	**120.3**	**301,324**	**122.3**	**385,433**	**116.0**
Less: internal cost of sales and services	61,796	20.5	98,335	25.4	116,374	20.3	54,850	22.3	53,165	16.0
Total	**301,164**	**100.0%**	**386,729**	**100.0%**	**573,228**	**100.0%**	**246,474**	**100.0%**	**332,268**	**100.0%**

General hospital services

The cost of sales and services of our general hospital services represents primarily costs of provision of healthcare services at the Jian Gong Hospital, including costs of pharmaceuticals and medical devices and medical consumables, staff costs, and depreciation and amortization incurred at Jian Gong Hospital. The cost of sales and services incurred by our general hospital services segment increased from RMB228.2 million in 2010 to RMB259.2 million in 2011 and RMB328.8 million in 2012, and from RMB152.0 million in the six months ended June 30, 2012 to RMB177.7 million in the six months ended June 30, 2013, primarily due to the expansion of Jian Gong Hospital's business scale. The following table sets forth the components of our cost of sales and services of our general hospital services segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue
							(unaudited)			
	(in thousands of RMB, except percentage data)									
Jian Gong Hospital										
Pharmaceutical costs	129,620	44.9%	140,974	43.5%	169,265	42.0%	78,105	41.4%	92,590	43.1%
Medical devices and medical consumables costs	34,190	11.9	43,930	13.6	64,311	16.0	29,999	15.9	36,002	16.8
Staff costs	39,386	13.7	47,553	14.7	59,662	14.8	27,462	14.6	31,644	14.7
Depreciation	14,033	4.9	12,756	3.9	18,107	4.5	8,447	4.5	9,287	4.3
Amortization of land use right	—	—	2,309	0.7	3,463	0.9	1,731	0.9	1,731	0.8
Other	10,825	3.8	11,332	3.5	13,610	3.4	6,052	3.2	6,261	2.9
Subtotal	**228,054**	**79.1**	**258,854**	**79.9**	**328,418**	**81.5**	**151,796**	**80.5**	**177,515**	**82.7**
Beijing Easylife	123	0.0	303	0.1	413	0.1	207	0.1	233	0.1
Total	**228,177**	**79.1%**	**259,157**	**80.0%**	**328,831**	**81.6%**	**152,003**	**80.6%**	**177,748**	**82.8%**

We expect that the cost of sales and services of our general hospital services segment revenue will continue to increase in line with the business growth of Jian Gong Hospital.

Hospital management services

Cost of sales and services of our hospital management services represents the amortization of intangible assets, which represents all or part of the investments we made pursuant to our IOT agreements. For more details, see "— Critical Accounting Policies — Intangible Assets". Our hospital management services incurred cost of sales and services of RMB1.5 million, RMB3.2 million, RMB12.4 million, RMB6.1 million and RMB6.9 million in 2010, 2011, 2012 and the six months ended June 30 , 2012 and June 30, 2013, respectively. The following table sets forth a breakdown of our cost of sales and services of our hospital management services segment by IOT hospital for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue
							(unaudited)			
	(in thousands of RMB, except percentage data)									
Amortization of investment in Yan Hua Hospital Group	1,516	9.3%	1,665	8.6%	2,465	6.1%	1,940	15.3%	1,459	14.8%
Amortization of investment in Jing Mei Hospital Group	—	—	—	—	7,890	19.6	3,945	31.2	3,945	40.0
Amortization of investment in Mentougou Hospital	—	—	1,503	7.7	1,683	4.2	109	0.9	1,155	11.7
Amortization of investment in Mentougou Traditional Chinese Medicine Hospital .	—	—	—	—	338	0.8	64	0.5	386	3.9
Total	**1,516**	**9.3%**	**3,168**	**16.3%**	**12,376**	**30.7%**	**6,058**	**47.9%**	**6,945**	**70.4%**

We expect that the cost of sales and services of our hospital management services segment revenue will continue to increase as we increase investment in our IOT hospitals, in particular, Yan Hua Hospital Group.

Supply chain business

Cost of sales and services of our supply chain business represents the procurement costs of pharmaceuticals, medical devices and medical consumables for resale to our in-network hospitals and clinics. Our supply chain business incurred cost of sales and services of RMB133.3 million, RMB222.7 million, RMB348.4 million, RMB 143.3 million and RMB200.7 million in 2010, 2011, 2012 and the six months ended June 30, 2012 and June 30, 2013, respectively. The following table sets forth the components of our cost of sales and services of our supply chain business segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue
							(unaudited)			
	(in thousands of RMB, except percentage data)									
Pharmaceutical costs	112,353	74.3%	181,862	68.8%	229,038	53.1%	95,847	54.7%	121,257	48.8%
Medical devices and medical consumables costs	20,914	13.8%	40,877	15.5	119,357	27.7	47,416	27.1	79,484	32.0
Total	**133,267**	**88.2%**	**222,739**	**84.2%**	**348,395**	**80.8%**	**143,263**	**81.8%**	**200,741**	**80.8%**

We expect that the cost of sales and services of our supply chain business segment revenue will continue to increase as we intend further consolidate the procurement needs of our in-network hospitals and clinics.

Gross Profit

As a result of the foregoing, our gross profit increased from RMB92.9 million in 2010 to RMB122.8 million in 2011 and to RMB184.8 million in 2012, and from RMB75.1 million in the six months ended June 30, 2012 to RMB87.4 million in the six months ended June 30, 2013. Our gross margin also increased from 23.6% in 2010 to 24.1% in 2011 and to 24.4% in 2012, reflecting higher revenue contributions of hospital management services, which has higher gross margins, as well as the improved gross margin of our supply chain business. Our gross margin decreased from 23.3% in the six months ended June 30, 2012 to 20.8% in the six months ended June 30, 2013, primarily reflecting the decrease in hospital management services gross margin. The following table sets forth the breakdown of our gross profit by segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue
							(unaudited)			
	(in thousands of RMB, except percentage data)									
General hospital services	60,235	20.9%	64,830	20.0%	74,278	18.4%	36,563	19.4%	36,944	17.2%
Hospital management services	14,832	90.7	16,244	83.7	27,901	69.3	6,589	52.1	2,917	29.6
Supply chain business	17,854	11.8	41,675	15.8	82,625	19.2	31,919	18.2	47,563	19.2
Total	**92,921**	**23.6%**	**122,749**	**24.1%**	**184,804**	**24.4%**	**75,071**	**23.3%**	**87,424**	**20.8%**

General hospital services

The gross margin of general hospital services segment decreased from 20.9% in 2010 to 20.0% in 2011 and to 18.4% in 2012, primarily due to increased costs of medical devices and medical consumables, staff costs and depreciation. The gross margin of general hospital services segment decreased from 19.4% in the six months ended June 30, 2012 to 17.2% in the six months ended June 30, 2013, mainly because sales of pharmaceuticals, which generally have lower gross margins compared to that for healthcare services, increased as a percentage of our general hospital services revenue.

Hospital management services

Our gross margin for hospital management services segment depends on (a) the amount of management fees we generate and (b) whether additional investments are required for IOT hospitals that would lead to a corresponding increase in the annual amortization amount. The gross margin of hospital management services segment decreased from 90.7% in 2010 to 83.7% in 2011 and to 69.3% in 2012, primarily because we began to amortize our investments, on a straight-line basis, in Mentougou Hospital in 2011 and in Jing Mei Hospital Group in 2012. The gross margin of our hospital management services segment decreased from 52.1% in the six months ended June 30, 2012 to 29.6% in the six months ended June 30, 2013, primarily due to the decreased management fee from Yan Hua Hospital Group.

Supply chain business

The gross margin of our supply chain business segment increased from 11.8% in 2010 to 15.8% in 2011, 19.2% in 2012 and 19.2% in the six months ended June 30, 2013, primarily due to (a) greater volume discounts we were able to secure from our suppliers as we consolidated the pharmaceuticals, medical devices and medical consumables needs of our in-network hospitals and clinics and (b) the implementation of the Hong Hui supply agreement in 2012. 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 enables us to obtain higher discounts and better payment terms from our suppliers than our individual in-network hospital would have been able to.

To further consolidate our procurement needs and to achieve better efficiency and greater economies of scale, we entered into a one-year supply agreement with Hong Hui on January 10, 2012 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. 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. Pursuant to 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 will either supply pharmaceuticals to these three hospitals directly or through our supply chain business, or arrange other suppliers to supply such pharmaceuticals directly to the three 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. The following table sets forth the segment revenue, segment gross profit and segment gross margin of our supply chain business after we engaged Hong Hui for the periods indicated:

	Year ended December 31,	Six months ended June 30,		
	2012	2012	2013	*(Notes)*
	(in millions of RMB, except percentage data)			
Supply chain business segment revenue	431.0	175.2	248.3	*A*
Supply chain business gross profit	82.6	31.9	47.6	*B*
Supply chain business segment gross margin (%)	19.2%	18.2%	19.2%	*C=B/A*

In consideration for granting Hong Hui the priority to supply pharmaceuticals to these three hospitals, Hong Hui agrees to provide us with the Minimum Economic Benefit. The Minimum Economic Benefit is reconciled monthly. If the gross profit we generate from the resale of pharmaceuticals to the three 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". For more details on our agreement with Hong Hui, see "Business — Our Suppliers — Supply agreement with Hong Hui".

Based on the information extracted from the Hospital Information Systems (HIS) of Jian Gong Hospital, Yan Hua Hospital Group and Jing Mei Hospital Group, the three hospitals purchased a total of approximately RMB625.3 million, RMB 254.5 million and RMB363.5 million of pharmaceuticals (excluding the purchases of the Excluded Pharmaceuticals) in 2012 and the six months ended June 30, 2012 and June 30, 2013, respectively, pursuant to the Hong Hui supply agreement, of which approximately RMB339.7 million, RMB137.1 million and RMB228.6 million of pharmaceuticals were purchased from Hong Hui or suppliers arranged by Hong Hui during the corresponding period. These three hospitals purchased the remaining pharmaceuticals from us directly. The following table sets forth the total pharmaceutical purchases by the three hospitals pursuant to the supply agreement with Hong Hui for the periods indicated:

	Year ended December 31,	Six months ended June 30,		
	2012	2012	2013	*(Notes)*
	(in millions of RMB)			
Pharmaceuticals purchased by the three hospitals pursuant to the supply agreement with Hong Hui	625.3	254.5	363.5	*D*
including : pharmaceuticals supplied by Hong Hui or suppliers arranged by Hong Hui.	339.7	137.1	228.6	*E*

We were entitled to RMB84.9 million of Minimum Economic Benefit from our agreement with Hong Hui in 2012, of which RMB28.4 million was recorded as fee income in other income because the corresponding sales of pharmaceuticals to these three hospitals were conducted between these three hospitals and suppliers (including Hong Hui) directly. The Minimum Economic Benefit in the six months ended June 30, 2012 and June 30, 2013 was RMB34.0 million and RMB50.5 million, respectively, of which RMB12.5 million and RMB23.0 million was recorded as fee income from suppliers in other income, respectively. The following table sets forth the Minimum Economic Benefit for the periods indicated:

	Year ended December 31,	Six months ended June 30,		
	2012	2012	2013	*(Notes)*
	(in millions of RMB)			
Minimum Economic Benefit	84.9	34.0	50.5	*F*
including: fee income from suppliers	28.4	12.5	23.0	*G*

If we had (a) reflected in the revenue of our supply chain business the purchases of pharmaceuticals by Jian Gong Hospital, Yan Hua Hospital Group and Jing Mei Hospital Group from Hong Hui and other suppliers arranged by Hong Hui; and (b) recorded in the gross profit of supply chain business the total fee income payment from Hong Hui and other suppliers arranged by Hong Hui, our gross margin for the supply chain business segment in 2012 and the six months ended June 30, 2012 and June 30, 2013 would have been approximately 14.4%, 14.2% and 14.8%, respectively. The following table illustrates how these percentages are arrived for the periods indicated:

	Year ended December 31, 2012	Six months ended June 30, 2012	Six months ended June 30, 2013	*(Notes)*
	(in millions of RMB, except percentage data)			
Supply chain business segment revenue *plus* pharmaceuticals purchased by the three hospitals supplied by Hong Hui or suppliers arranged by Hong Hui	770.7	312.3	476.9	*H=A+E*
Supply chain business segment gross profit *plus* fee income payment	111.0	44.4	70.6	*I=B+G*
	14.4%	14.2%	14.8%	*J=I/H*

Going forward, as we further consolidate all the procurement needs of our in-network hospitals and clinics and reduce the pharmaceuticals, medical devices and medical consumables sold directly by Hong Hui or suppliers to our in-network hospitals, we expect that the gross margin of the supply chain business (i) will still be affected by the Hong Hui supply agreement given the impact of (a) and (b) described above and (ii) will primarily be affected by gross margins of different kinds of pharmaceuticals, medical devices and medical consumables we procure.

Other income

Our other income principally consists of (i) fee income from Hong Hui and suppliers arranged by Hong Hui; (ii) interest derived from receivables from IOT hospitals; (iii) interest and investment income derived from bank deposits and short-term financial products; and (iv) government grants. Our fee income from Hong Hui and from suppliers arranged by Hong Hui of RMB28.4 million, RMB12.5 million and RMB23.0 million in 2012 and the six months ended June 30, 2012 and June 30, 2013, respectively, was generated from our procurement arrangements with Hong Hui. For more details, see "— Gross Profit — Supply Chain Business". In 2010, 2011, 2012 and the six months ended June 30, 2012 and June 30, 2013, our interest and investment income was RMB1.7 million, RMB7.4 million, RMB7.9 million, RMB3.8 million and RMB4.0 million, respectively. We also received RMB0.4 million, RMB0.2 million and RMB0.2 million from various governments or government agencies in 2010, 2011 and 2012, respectively, primarily in recognition of our successful control of medical costs.

The following table sets forth a breakdown of our other income by component for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in thousands of RMB)				
Fee income from suppliers	—	—	28,389	12,483	23,028
Interest on bank deposits	363	689	594	440	237
Interest on short-term investments	576	4,395	2,959	1,196	653
Interest on receivables from IOT hospitals	730	2,270	4,361	2,162	3,117
Government grant	374	155	150	—	—
Others	692	777	1,131	530	510
Total	**2,735**	**8,286**	**37,584**	**16,811**	**27,545**

Other gains and losses

Our other gains and losses represent net gains or losses on disposal of property, plant and equipment and, for the six months ended June 30, 2013, loss on foreign exchange. We incurred net losses of RMB0.3 million and RMB0.01 million in 2010 and 2011, respectively, and net gains of RMB0.2 million and RMB0.2 million in 2012 and the six months ended June 30, 2012, respectively, from disposal of property, plant and equipment. Our other losses of RMB0.5 million in the six months ended June 30, 2013 were primarily due to unrealized loss on foreign exchange, which primarily reflected the depreciation, caused by negative exchange rate movement, of the cash received from our pre-IPO investors in connection with our Reorganization denominated in U.S. dollar.

Selling and distribution expenses

Our selling and distribution expenses mainly comprise staff costs of our supply chain business segment and logistic expenses. In 2010, 2011, 2012 and the six months ended June 30, 2012 and June 30, 2013, our selling and distribution expenses were RMB0.8 million, RMB3.4 million, RMB6.4 million, RMB2.2 million and RMB4.7 million, respectively. We expect that our selling and distribution expenses will continue to increase in line with our business expansion.

Administrative expenses

Our administrative expenses mainly comprise (i) employee benefits and expenses, most of which are attributable to our general hospital services segment, (ii) depreciation and amortization, (iii) office expenses and utilities and (iv) professional fees. In 2010, 2011, 2012 and the six months ended June 30, 2012 and June 30, 2013, our administrative expenses were RMB25.7 million, RMB29.3 million, RMB43.5 million, RMB17.0 million and RMB25.1 million, respectively. We expect that our administrative expenses will continue to increase in line with our business expansion.

Segment results

Segment results represent the profit before income tax generated by each segment and unallocated finance cost related to borrowings, except for the general hospital services segment. We use this measure to assess segment performance. For more details, see Note 7 to the Accountants' Report in Appendix I to this prospectus. The following table sets forth the segment results for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in thousands of RMB)				
General hospital services	38,628	41,164	40,759	23,025	16,334
Hospital management services	13,869	19,264	26,588	7,805	2,503
Supply chain business	15,532	37,148	102,999	41,880	64,165

Finance costs

Our finance costs mainly comprise interest expenses on borrowings and finance leases, and guarantee fees for borrowings. In 2010, 2011, 2012 and the six months ended June 30, 2012 and June 30, 2013, our interest on borrowings and guarantee fees for borrowings were RMB3.0 million, RMB18.9 million, RMB23.9 million, RMB 11.1 million and RMB11.1 million, respectively. In 2012, we also started to use finance leases to acquire certain medical equipment used for our general hospital services and incurred RMB0.5 million in finance leases interest. The cost attributable to such finance leases was RMB0.4 million in the six months ended June 30, 2013.

Income tax expense

Our income tax expenses comprise PRC EIT and deferred tax. The PRC subsidiaries of our Group are subject to an EIT tax rate of 25%. Our effective tax rates for 2010, 2011, 2012 and the six months ended June 30, 2012 and June 30, 2013 was 24.6%, 25.7%, 24.8%, 24.7% and 25.3%, respectively.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in thousands of RMB)				
EIT	16,003	20,274	37,415	15,966	19,386
Deferred tax	20	(57)	(871)	(751)	(1,641)
Total	**16,023**	**20,217**	**36,544**	**15,215**	**17,745**

During the Track Record Period, we have paid all relevant taxes and had no disputes or any unresolved tax issues with relevant tax authorities.

RESULTS OF OPERATIONS

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
							(unaudited)			
	(in thousands of RMB, except percentage data)									
Revenue	394,085	100.0%	509,478	100.0%	758,032	100.0%	321,545	100%	419,692	100%
Cost of sales and services	(301,164)	(76.4%)	(386,729)	(75.9%)	(573,228)	(75.6%)	(246,474)	76.7%	(332,268)	79.2%
Gross profit	92,921	23.6%	122,749	24.1%	184,804	24.4%	75,071	23.3%	87,424	20.8%
Other income	2,735	0.7%	8,286	1.6%	37,584	5.0%	16,811	5.2%	27,545	6.6%
Other gains and losses	(307)	(0.1%)	(13)	0.0%	236	0.0%	236	0.1%	(452)	(0.1%)
Selling and distribution expenses	(834)	(0.2%)	(3,426)	(0.6%)	(6,412)	(0.9%)	(2,157)	(0.7%)	(4,747)	(1.1%)
Administrative expenses	(25,663)	(6.5%)	(29,326)	(5.8%)	(43,500)	(5.7%)	(17,004)	(5.3%)	(25,107)	(6.0%)
Finance costs	(2,997)	(0.8%)	(18,858)	(3.7%)	(24,379)	(3.2%)	(11,131)	(3.5%)	(11,531)	(2.7%)
Other expenses	(823)	(0.2%)	(694)	(0.1%)	(1,055)	(0.2%)	(247)	(0.1%)	(2,971)	0.7%
Profit before tax	**65,032**	**16.5%**	**78,718**	**15.5%**	**147,278**	**19.4%**	**61,579**	**19.1%**	**70,161**	**16.7%**
Income tax expense	(16,023)	(4.1%)	(20,217)	(4.0%)	(36,544)	(4.8%)	(15,215)	(4.7%)	(17,745)	(4.2%)
Profit and total comprehensive income for the year	**49,099**	**12.4%**	**58,501**	**11.5%**	**110,734**	**14.6%**	**46,364**	**14.4%**	**52,416**	**12.5%**
Attributable to:										
Owners of the Company	42,812	10.8%	48,130	9.5%	101,088	13.3%	38,827	12.1%	50,354	12.0%
Non-controlling interests	6,197	1.6%	10,371	2.0%	9,646	1.3%	7,537	2.3%	2,062	0.5%

Six Months Ended June 30, 2013 and June 30, 2012

Revenue

Our revenue 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, due to increase in revenue generated from our supply chain business and, to a lesser extent, our general hospital services business. Our revenue from hospital management services business, however, decreased in the six months ended June 30, 2013 compared to the same period in 2012 for the reasons stated below.

Our general hospital services business segment revenue increased by 13.8% from RMB188.6 million in the six months ended June 30, 2012 to RMB214.7 million in the six months ended June 30, 2013. The increase was primarily due to a 15.6% increase in total patient visits compared to the six months ended June 30, 2012, and an increase in the average spending per outpatient visit from RMB403 in the six months ended June 30, 2012 to RMB431 in the six months ended June 30, 2013. Outpatient visits at Jian Gong Hospital increased from approximately 265,700 in the six months ended June 30, 2012 to 308,200 in the six months ended June 30, 2013, and inpatient visits decreased from approximately 5,600 in the six months ended June 30, 2012 to 5,500 in the six months ended June 30, 2013. The decrease in inpatient visits was mainly due to renovations of wards at Jian Gong Hospital.

Our hospital management services business segment revenue decreased by 21.4% from RMB12.6 million in the six months ended June 30, 2012 to RMB9.9 million in the six months ended June 30, 2013, primarily due to a RMB4.5 million decrease of management fee from Yan Hua Hospital Group, which was partially offset by a RMB1.4 million increase in management fees from Mentougou Hospital. The management fee we are entitled to from the Yan Hua Hospital Group decreased from RMB6.4 million in the six months ended June 30, 2012 to RMB1.9 million in the six months ended June 30, 2013 due to a decrease in the net income before tax ("收支結餘") and before payment of management fees of the Yan Hua Hospital Group during the corresponding period. The decrease primarily resulted from an increase in the staff cost of Yan Hua Hospital Group outpacing the revenue growth of Yan Hua Hospital Group. The increase in staff cost was primarily due to (i) a material increase in the base salary and bonus payments and (ii) an increase in the number of employees, which is in line with the management's strategy of further improving the service quality. As the management fees we are entitled to should not exceed the Yan Yua Hospital Group's net income before tax ("收支結餘") and repayment of investment, the management fees we are entitled to from the Yan Hua Hospital Group decreased accordingly. For more details on how to determine management fees from the Yan Hua Hospital Group, see "Business — Our Hospital Network — Yan Hua Hospital Group — Yan Hua IOT Agreement". The increase in the management fee from Mentougou Hospital was primarily due to an increase in Mentougou Hospitals net income ("收支結餘"). This was primarily due to an increase in patient visits and average spending per patient visit.

Our supply chain business segment revenue increased by 41.7% from RMB175.2 million in the six months ended June 30, 2012 to RMB248.3 million in the six months ended June 30, 2013. The increase was primarily driven by an increase in the volumes of pharmaceuticals, medical devices and medical consumables we sold to in-network hospitals and clinics as we further consolidate the procurement needs of these hospitals. It was also driven by the expansion of sales to Mentougou Hospital, which we did not supply in early 2012.

Cost of sales and services

Our cost of sales and services increased by 34.8% from RMB246.5 million in the six months ended June 30, 2012 to RMB332.3 million in the six months ended June 30, 2013, primarily due to the following reasons:

Cost of sales and services for our general hospital services business increased by 16.9% from RMB152.0 million in the six months ended June 30, 2012 to RMB177.7 million in the six months ended June 30, 2013, mainly due to (i) increased costs for pharmaceuticals, medical devices and medical consumables in line with the expanded operations at Jian Gong Hospital and (ii) increase employee expenses and benefits.

Cost of sales and services for our hospital management services increased by 13.1% from RMB6.1 million in the six months ended June 30, 2012 to RMB6.9 million in the six months ended June 30, 2013, primarily because we made additional investments in Yan Hua Hospital Group in November 2012 and in Mentougou Traditional Chinese Medicine Hospital in June 2012, which led to additional amortization charges. For more details, see "Critical Accounting Policies — Intangible Assets".

Cost of sales and services for our supply chain business increased by 40.1% from RMB143.3 million in the six months ended June 30, 2012 to RMB200.7 million in the six months ended June 30, 2013, mainly due to an increase in sales volume in line with the growth of our supply chain business.

Gross profit

As a result of the foregoing, our gross profit increased by 16.4% from RMB75.1 million in the six months ended June 30, 2012 to RMB87.4 million in the six months ended June 30, 2013. Our gross margin decreased from 23.3% in the six months ended June 30, 2012 to 20.8% in the six months ended June 30, 2013, reflecting primarily the decrease in hospital management services gross margin.

Our general hospital services gross profit increased from RMB36.6 million in the six months ended June 30, 2012 to RMB36.9 million in the six months ended June 30, 2013. The gross margin of general hospital services decreased from 19.4% in the six months ended June 30, 2012 to 17.2% in the six months ended June 30, 2013, mainly because sales of pharmaceuticals, which generally have lower gross margins compared to that for healthcare services, has increased as a percentage of our general hospital services revenue.

Our hospital management services gross profit decreased from RMB6.6 million in the six months ended June 30, 2012 to RMB2.9 million in the six months ended June 30, 2013. The gross margin of hospital management services decreased from 52.1% in the six months ended June 30, 2012 to 29.6% in the six months ended June 30, 2013, primarily due to the decreased management fees from the Yan Hua Hospital Group and relatively stable amortization charges of our management rights which were recorded as intangible assets that are subject to amortization. For more details, see "Description of Components of Results of Operations — Gross Profit — Hospital Management Services".

Our supply chain business gross profit increased from RMB31.9 million in the six months ended June 30, 2012 to RMB47.6 million in the six months ended June 30, 2013. For more details, see "— Description of Components of Results of Operations — Gross Profit — Supply Chain Business". The segment gross margin of supply chain business increased from 18.2% in the six months ended June 30, 2012 to 19.2% in the six months ended June 30, 2013, mainly due to economies of scale and greater negotiation power and our integration of pharmaceuticals, medical devices and medical consumables and the Hong Hui supply agreement.

Other income

Our other income increased significantly from RMB16.8 million in the six months ended June 30, 2012 to RMB27.5 million in the six months ended June 30, 2013, primarily due to the increase in fee income from RMB12.5 million to RMB23.0 million in the six months ended June 30, 2013 from Hong Hui and other suppliers arranged by Hong Hui pursuant to the Hong Hui supply agreement, which was due to the increase in purchase amounts of Jian Gong Hospital, the Yan Hua Hospital Group and the Jing Mei Hospital Group. For more details, see "— Description of Components of Results of Operations — Gross Profit — Supply Chain Business". Our interest and investment income rose by 5.3% from RMB3.8 million in the six months ended June 30, 2012 to RMB4.0 million in the six months ended June 30, 2013, primarily due to increased interest derived from receivables from IOT hospitals, partially set off by a decrease in the interest from our short-term investments.

Other gains and losses

We generated other gain of RMB0.2 million in the six months ended June 30, 2012 from disposal of property, plant and equipment while we incurred other losses of RMB0.5 million in the six months ended June 30, 2013, primarily due to unrealized loss on foreign exchange, which primarily reflected the depreciation, caused by negative exchange rate movement, of the cash received from our pre-IPO investors in connection with our Reorganization, which was denominated in U.S. dollar.

Selling and distribution expenses

Our selling and distribution expenses increased significantly from RMB2.2 million in the six months ended June 30, 2012 to RMB4.7 million in the six months ended June 30, 2013, primarily due to increased staff costs of our supply chain business segment as we increased compensation and hired more staff, as well as increased logistic costs resulting from the higher purchase volumes of our supply chain business.

Administrative expenses

Our administrative expenses increased by 47.7% from RMB17.0 million in the six months ended June 30, 2012 to RMB25.1 million in the six months ended June 30, 2013, primarily due to rental and establishment expenses of our Hong Kong office and increased employee benefits and expenses, most of which are attributable to the general hospital services segment.

Finance costs

Our finance costs increased by 3.6% from RMB11.1 million in the six months ended June 30, 2012 to RMB11.5 million in the six months ended June 30, 2013, primarily due to our finance lease cost and interest expenses.

Other expenses

Our other expenses increased from RMB0.2 million in the six months ended June 30, 2012 to RMB3.0 million in the six months ended June 30, 2013, primarily reflecting professional fees in relation to a potential equity fundraising and the Global Offering.

Income tax expense

Our income tax expense increased by 16.4% from RMB15.2 million for the six months ended June 30, 2012 to RMB17.7 million in the six months ended June 30, 2013, primarily because our profit before tax increased in the six months ended June 30, 2013. Our effective income tax rate was 24.7% and 25.3%, respectively, for the six months ended June 30, 2012 and June 30, 2013.

Profit and total comprehensive income

As a result of the foregoing, our profit and total comprehensive income 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.

Years Ended December 31, 2012 and December 31, 2011

Revenue

Our revenue increased by 48.8% from RMB509.5 million in 2011 to RMB758.0 million in 2012, due to increases in revenue generated from each of our three segments, in particular, from our supply chain business and, to a lesser extent, our general hospital services business and hospital management services business.

Our general hospital services business segment revenue increased by 24.4% from RMB324.0 million in 2011 to RMB403.1 million in 2012. The increase was primarily due to a 29.0% increase in total patient visits compared to 2011, and an increase in the average spending per outpatient visit from RMB415 in 2011 to RMB417 in 2012. The increase in patient visits was mainly due to expanded operations at Jian Gong Hospital. We completed substantially all of the upgrades and renovations of Jian Gong Hospital towards the end of 2011 and all departments became fully operational in 2012. Outpatient visits at Jian Gong Hospital increased from approximately 462,600 in 2011 to 597,900 in 2012, and inpatient visits increased from approximately 9,600 in 2011 to 11,500 in 2012.

Our hospital management services business segment revenue increased by 107.7% from RMB19.4 million in 2011 to RMB40.3 million in 2012, primarily due to management fee of RMB12.2 million we generated from Jing Mei Hospital Group in 2012, being the first year in which management fees were generated from Jing Mei Hospital Group. We also generated increased management fees from Yan Hua Hospital Group and Mentougou Hospital primarily because these two IOT hospitals generated more revenue and net income before tax and before payment of management fees in 2012.

Our supply chain business segment revenue increased by 63.0% from RMB264.4 million in 2011 to RMB431.0 million in 2012. The increase was primarily driven by the expansion of sales to more in-network hospitals and clinics and an increase in the volumes of the pharmaceuticals, medical devices and medical consumables we sold to each in-network hospital as these hospitals expanded their operations.

Cost of sales and services

Our cost of sales and services increased by 48.2% from RMB386.7 million in 2011 to RMB573.2 million in 2012, primarily due to the following reasons:

Cost of sales and services for our general hospital services business increased from RMB259.2 million in 2011 to RMB328.8 million in 2012, mainly due to increased costs for pharmaceuticals, medical devices and medical consumables in line with the expanded operations at Jian Gong Hospital.

Cost of sales and services for our hospital management services increased from RMB3.2 million in 2011 to RMB12.4 million in 2012, primarily because we started amortizing our investment in Jing Mei Hospital Group in 2012. For more details, see "— Critical Accounting Policies — Intangible Assets".

Cost of sales and services for our supply chain business increased from RMB222.7 million in 2011 to RMB348.4 million in 2012, mainly due to an increase in sales volume as we further consolidated procurement needs of our in-network hospitals and clinics as well as the expansion of their operations.

Gross profit

As a result of the foregoing, our gross profit increased by 50.6% from RMB122.7 million in 2011 to RMB184.8 million in 2012. Our gross margin rose from 24.1% in 2011 to 24.4% in 2012, reflecting primarily the increase in our revenue from supply chain business and hospital management services business and improved gross margin of our supply chain business.

Our general hospital services gross profit increased from RMB64.8 million in 2011 to RMB74.3 million in 2012. The gross margin of general hospital services decreased slightly from 20.0% in 2011 to 18.4% in 2012, mainly due to increased costs of medical devices and medical consumables relating to Jian Gong Hospital.

Our hospital management services gross profit increased from RMB16.2 million in 2011 to RMB27.9 million in 2012. The gross margin of hospital management services decreased from 83.7% in 2011 to 69.3% in 2012, primarily due to the fact that we began amortizing our investment in Jing Mei Hospital Group in 2012. For more details, see "— Description of Components of Results of Operations — Gross Profit — Hospital Management Services".

Our supply chain business gross profit increased from RMB41.7 million in 2011 to RMB82.6 million in 2012. For more details, see "— Description of Components of Results of Operations — Gross Profit — Supply Chain Business". The segment gross margin of supply chain business increased from 15.8% in 2011 to 19.2% in 2012, mainly due to further consolidation of our purchases of pharmaceuticals, medical devices and medical consumables and the implementation of the Hong Hui supply agreement.

Other income

Our other income increased significantly from RMB8.3 million in 2011 to RMB37.6 million in 2012, primarily due to fee income of RMB28.4 million from Hong Hui and other suppliers arranged by Hong Hui pursuant to the Hong Hui supply agreement in 2012. For more details, see "— Description of Components of Results of Operations — Gross Profit — Supply Chain Business". Our interest and investment income rose by 6.8% from RMB7.4 million in 2011 to RMB7.9 million in 2012 due to increased interest derived from receivables from IOT hospitals, partially set off by a decrease in the interest from our short-term investments.

Other gains and losses

We had other net losses of RMB0.01 million in 2011 compared to other net gains of RMB0.2 million in 2012, due to net gains and losses from disposal of property, plant and equipment.

Selling and distribution expenses

Our selling and distribution expenses increased by 88.2% from RMB3.4 million in 2011 to RMB6.4 million in 2012, primarily due to increased staff costs of our supply chain business segment as we hired more staff and increased compensation to senior management as well as, to a lesser extent, increased logistic costs.

Administrative expenses

Our administrative expenses increased by 48.5% from RMB29.3 million in 2011 to RMB43.5 million in 2012, primarily due to the increased employee benefits and expenses, most of which are attributable to the general hospital services segment, and to a lesser extent, utilities and professional fees.

Finance costs

Our finance costs increased by 29.1% from RMB18.9 million in 2011 to RMB24.4 million in 2012, primarily due to an increase in expense on borrowings to finance (i) the acquisition of management rights of Jing Mei Hospital Group and (ii) our investments in Jing Mei Hospital Group, Yan Hua Hospital Group and Mentougou Hospital under the relevant IOT agreements.

Income tax expense

Our income tax expense increased by 80.7% from RMB20.2 million 2011 to RMB36.5 million in 2012, primarily because our profit before tax increased in 2012. Our effective income tax rate was 25.7% and 24.8%, respectively, in 2011 and 2012.

Profit and total comprehensive income

As a result of the foregoing, our profit and total comprehensive income increased by 89.2% from RMB58.5 million in 2011 to RMB110.7 million in 2012.

Years Ended December 31, 2011 and December 31, 2010

Revenue

Our revenue increased by 29.3% from RMB394.1 million in 2010 to RMB509.5 million in 2011, due to increases in revenue generated from each of our three segments, in particular, from our supply chain business and, to a lesser extent, our general hospital services business and hospital management services business.

Our general hospital services business segment revenue increased by 12.3% from RMB288.4 million in 2010 to RMB324.0 million in 2011. The increase in revenue was primarily due to a 20.3% increase in outpatient visits compared to 2010, partially offset by the decrease in the average spending per outpatient visit from RMB432 in 2010 to RMB415 in 2011. The increase in outpatient visits from approximately 384,600 in 2010 to 462,600 in 2011 was mainly due to expanded operations at Jian Gong Hospital. Inpatient visits also increased from approximately 8,400 in 2010 to 9,600 in 2011.

Our hospital management services business segment revenue increased by 19.0% from RMB16.3 million in 2010 to RMB19.4 million in 2011, primarily due to (i) an increase of RMB1.6 million in management fee from Yan Hua Hospital Group and (ii) management fee of RMB1.4 million from Mentougou Hospital, reflecting our first full year management of such hospital.

Our supply chain business segment revenue increased by 75.0% from RMB151.1 million in 2010 to RMB264.4 million in 2011. The increase was primarily driven by an increase in sales of the pharmaceuticals, medical devices and medical consumables sold to Yan Hua Hospital Group and Jian Gong Hospital as they expanded their operations, and to a lesser degree, further consolidation of procurement needs of our other IOT hospitals.

Cost of sales and services

Our cost of sales and services increased by 28.4% from RMB301.2 million in 2010 to RMB386.7 million in 2011, primarily due to an increase in costs for pharmaceuticals, medical devices and medical consumables, as we continued to expand our operations and network of hospitals and clinics.

Cost of sales and services for our general hospital services business increased from RMB228.1 million in 2010 to RMB259.2 million in 2011, mainly due to increased costs for pharmaceuticals, medical devices and medical consumables, and increased staff cost as we increased compensation of our medical professionals and staff at Jian Gong Hospital, all of which are a result of the expanded operations at Jian Gong Hospital.

Cost of sales and services for our hospital management services increased from RMB1.5 million in 2010 to RMB3.2 million in 2011, representing the amortization of the investments we made in our IOT hospitals. The increase was primarily because we started amortizing our investment in Mentougou Hospital and our additional investment in Yan Hua Hospital Group in 2011. For more details, see "— Critical Accounting Policies — Intangible Assets".

Cost of sales and services for our supply chain business increased from RMB133.3 million in 2010 to RMB222.7 million in 2011, mainly due to an increase in sale volume, as we further consolidate procurement needs of our in-network hospitals and clinics and our in-network hospitals and clinics expanded their operations.

Gross profit

As a result of the foregoing, our gross profit increased by 32.1% from RMB92.9 million in 2010 to RMB122.7 million in 2011. Our gross margin rose from 23.6% in 2010 to 24.1% in 2011, primarily reflecting the higher gross margin of the supply chain business resulting from greater volume discounts.

Our general hospital services gross profit increased from RMB60.2 million in 2010 to RMB64.8 million in 2011. The gross margin of general hospital services decreased slightly from 20.9% in 2010 to 20.0% in 2011, primarily due to increased staff costs and purchases of pharmaceuticals, medical devices and medical consumables of Jian Gong Hospital.

Our hospital management services gross profit increased from RMB14.8 million in 2010 to RMB16.2 million in 2011. The gross margin of hospital management services decreased from 90.7% in 2010 to 83.7% in 2011, primarily because we began amortizing our investment in Mentougou Hospital and our additional investment in Yan Hua Hospital Group in 2011.

Our supply chain business gross profit increased from RMB17.9 million in 2010 to RMB41.7 million in 2011. The segment gross margin of supply chain business increased from 11.8% in 2010 to 15.8% in 2011, primarily due to greater volume discounts we were able to secure from our suppliers.

Other income

Our other income increased by 207.4% from RMB2.7 million in 2010 to RMB8.3 million in 2011. The increase was mainly attributable to higher investment income from short-term financial products and, to a lesser extent, increased interest derived from receivables from IOT hospitals.

Other gains and losses

We incurred other net losses of RMB0.3 million and RMB0.01 million in 2010 and 2011, respectively, mainly relating to disposal of property, plant and equipment.

Selling and distribution expenses

Our selling and distribution expenses increased significantly from RMB0.8 million in 2010 to RMB3.4 million in 2011, primarily due to increased staff costs of our supply chain business segment and increased compensation to senior management.

Administrative expenses

Our administrative expenses increased by 14.0% from RMB25.7 million in 2010 to RMB29.3 million in 2011, mainly due to increased employee benefits and expenses, most of which are attributable to the general hospital services segment as we increased the compensation for our medical professionals and staff at Jian Gong hospital.

Finance costs

Our finance costs increased significantly from RMB3.0 million in 2010 to RMB18.9 million in 2011 due to an increase in interest expense on borrowings to finance the investments in Jing Mei Hospital Group, Yan Hua Hospital Group and Mentougou Hospital under the relevant IOT agreements.

Income tax expense

Our income tax expense increased by 26.3% from RMB16.0 million in 2010 to RMB20.2 million 2011, primarily because our profit before tax increased in 2012. Our effective tax rate was 24.6% and 25.7%, respectively, in 2010 and 2011.

Profit and total comprehensive income

As a result of the foregoing, our profit and total comprehensive income increased by 19.4% from RMB49.0 million in 2010 to RMB58.5 million in 2011.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of capital are to satisfy our working capital and capital expenditure, including upgrade of our existing hospital infrastructure and facilities and investments in IOT hospitals pursuant to the terms of relevant IOT agreements. We have historically financed our working capital and capital expenditure through a combination of (i) cash generated from operating activities, (ii) borrowings from trust companies and (iii) equity financings. In general, we finance our working capital and procurement of medical equipment by cash generated from operating activities, and finance the expansion of our hospital network, including investments in IOT hospitals and capital expenditure on the infrastructure of in-network hospitals, by borrowing from trust companies as well as equity financing.

- *Cash generated from operating activities.* We generated cash of RMB70.1 million, RMB62.4 million, RMB166.4 million and RMB72.1 million in 2010, 2011, 2012 and in the six months ended June 30, 2013. Our cash generated from operating activities during the Track Record Period was primarily affected by our changes in working capital and income taxes paid. For more details, see "— Cash Flows — Operating Activities".

- *Borrowings from trust companies.* We had RMB200.0 million outstanding loans from Jilin Province Trust Co., Ltd. (吉林省信託有限責任公司, or "Jilin Trust") as of December 31, 2010 and 2011, respectively, which were repaid in October 2012. We then received a RMB300 million credit facility from CITIC Trust Co., Ltd. (中信信託有限責任公司, or "CITIC Trust"). As of December 31, 2012 and June 30, 2013, we had drawn down RMB200.0 million of this facility, which is secured by 53.51% of our equity interest in Jian Gong Hospital. The remaining RMB100 million undrawn credit facility, if fully drawn down, would have to be secured by additional 26.49% equity interest in Jian Gong Hospital held by us. The effective interest rate on our existing borrowings was 9.85%. For more details, see "— Indebtedness". As advised by our PRC legal adviser, a hospital's medical buildings are not permitted to be used as collateral for borrowings. Under current PRC laws, rules and regulations, this restriction only applies to a hospital's medical facilities, such as medical buildings, not to the pledge of equity interest in hospitals. As such, our PRC legal adviser confirms that the pledge of our 53.51% equity interest in Jian Gong Hospital, after registration with Beijing SAIC, does not violate any PRC laws, rules or regulations.

- *Equity financing.* In May 2010, we received a capital injection of RMB123.9 million from Beijing Phoenix's shareholders, including three existing shareholders and two new shareholders. For more details, see "History and Reorganization — Our History — History of Beijing Phoenix".

We expect these sources to continue to be our principal sources of capital. We also actively manage our capital structure and financing resources and intend to expand our debt financing resources, including obtaining short-term and long-term borrowings from sources other than trust companies, as needed and as appropriate. On July 3, 2013, we borrowed from Speed Key Limited, our Controlling Shareholder, in the amount of US$40.5 million (approximately RMB250 million) at an interest rate of 12.0% per annum, which will be repaid using a portion of the net proceeds from the Global Offering. For more details, see "— Recent Developments". Although we had no external financing plan as of the Latest Practicable Date, the borrowings we may incur will increase our indebtedness and interest expense. Our cost to obtain credit is also subject to the lending environment in China. The PBOC raised its benchmark one-year lending rate by an aggregate of 75 basis points to 6.56% in 2011 and lowered it by 56 basis points to 6.00% in 2012. We may not be able to obtain credit at a commercially reasonable cost in the event that we need to incur borrowings in the future. In the future, if we need to make significant investments in our in-network hospitals or clinics, or if we need significant capital to expand our hospital network either by acquisition or under the IOT model, we may decide to incur additional short-term or long-term borrowings or conduct equity fund raising, depending on our financial condition at the time, taking into account net proceeds from the Global Offering. For more details on the intended use of net proceeds from the Global Offering, see "Future Plans and Use of Proceeds".

CASH FLOWS

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

	For the year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in thousands of RMB)				
Net cash generated from operating activities	70,057	62,352	166,419	76,522	72,065
Net cash used in investing activities	(328,099)	(36,120)	(102,200)	(94,476)	(58,076)
Net cash generated from (used in) financing activities	298,011	230,081	(282,083)	(251,719)	1,598
Net increase (decrease) in cash and cash equivalents	39,969	256,313	(217,864)	(269,673)	15,587
Cash and cash equivalents at beginning of the year/period	34,706	74,675	330,988	330,988	113,124
Effect of foreign exchange rate changes	—	—	—	—	(465)
Net cash and cash equivalents at end of the year/period	74,675	330,988	113,124	61,315	128,246

Operating activities

In the six months ended June 30, 2013, we had operating cash inflows of RMB72.1 million, which was primarily attributable to a profit before tax of RMB70.2 million, adjusted for finance costs of RMB11.5 million in relation to our interest expense on borrowings, and other non-cash expenses including depreciation of property, plant and equipment of RMB10.5 million, amortization of intangible assets of RMB6.9 million in relation to our investments for management rights of IOT hospitals, amortization of lease prepayments of RMB1.7 million for land use right of Jian Gong Hospital, partially offset by income tax paid of RMB23.9 million, interest and investment income of RMB3.8 million and an adjustment for the increase in working capital, which was primarily due to an increase in trade receivables of RMB27.5 million resulting from our expanded operations, partially offset by a decrease in amount due from related party.

In 2012, we had operating cash inflows of RMB166.4 million, which was primarily attributable to a profit before tax of RMB147.3 million, adjusted for finance costs of RMB24.4 million in relation to our interest expense on borrowings, and other non-cash expenses including depreciation of property, plant and equipment of RMB20.3 million, amortization of intangible assets of RMB12.4 million in relation to our investments for management rights of IOT hospitals, amortization of lease prepayments of RMB3.5 million for land use right of Jian Gong Hospital, partially offset by income tax paid of RMB27.6 million, interest and investment income of RMB7.3 million and an adjustment for the increase in working capital. The increase in working capital was mainly attributable to an increase in trade receivables of RMB59.2 million and an increase in inventories of RMB11.9 million, partially offset by an increase in trade payables of RMB32.1 million, a decrease in amounts due from related parties of RMB18.2 million and an increase in other payables of RMB15.6 million. The increase in trade receivables and payables is primarily due to our expanded operations across our Group.

In 2011, we had operating cash inflows of RMB62.4 million, which was primarily attributable to a profit before tax of RMB78.7 million, adjusted for finance costs of RMB18.9 million in relation to our interest expense on borrowings, and other non-cash expenses including depreciation of property, plant and equipment of RMB14.7 million, partially offset by income tax paid of RMB20.9 million, interest and investment income of RMB6.7 million and an adjustment for the increase in working capital. The increase in working capital was mainly attributable to an increase in amounts due from related parties of RMB34.8 million, partially offset by an increase in trade payables of RMB12.5 million.

In 2010, we had operating cash inflows of RMB70.1 million, which was primarily attributable to a profit before tax of RMB65.0 million, finance costs of RMB3.0 million in relation to our interest expense on borrowings, adjusted for other non-cash expenses including depreciation of property, plant and equipment of RMB16.1 million, and amortization of intangible assets of RMB1.5 million in relation to our investments for management rights of IOT hospitals, partially offset by income tax paid of RMB11.0 million, interest and investment income of RMB1.3 million and an adjustment for the increase in working capital. The increase in working capital was mainly attributable to an increase in amounts due from related parties of RMB26.3 million, an increase in inventories of RMB11.4 million and an increase in trade receivables of RMB6.8 million, partially offset by an increase in trade payables of RMB43.0 million.

Investing activities

In the six months ended June 30, 2013, we used RMB58.1 million in investing activities, which was primarily attributable to (i) loans to Beijing Wantong of RMB92.0 million in relation to our Reorganization and (ii) the purchase of property, plant and equipment of RMB6.7 million, which was partially offset by the net proceeds from short-term investment of RMB39.1 million. Beijing Wantong repaid the loan in full to us in September 2013. For more details, see "History and Reorganization — Our History — History of Beijing Phoenix".

In 2012, we used RMB102.2 million in investing activities, which was primarily attributable to investments of RMB45.0 million in Yan Hua Hospital Group and Mentougou Traditional Chinese Medicine Hospital pursuant to the relevant IOT agreements, net purchase for short-term investment of RMB34.5 million and purchase of property, plant and equipment of RMB28.1 million, partially offset by the repayment of investments from hospital under our IOT agreement totaling RMB5.1 million.

In 2011, we used RMB36.1 million in investing activities, which was primarily attributable to payment for management right under IOT agreement of RMB165.8 million, IOT hospitals investments of RMB67.0 million and purchase of property, plant and equipment of RMB34.3 million, partially offset by the net purchase from short-term investment of RMB228.0 million.

In 2010, we used RMB328.1 million in investing activities, which was primarily attributable to the net purchase for short-term investment of RMB239.0 million, IOT hospitals investments of RMB65.0 million, and purchases of property, plant and equipment of RMB17.2 million and payment for management rights under IOT agreements of RMB7.0 million.

For more details, see "— Discussion of Certain Items from the Statement of Financial Position — Short-term Investment".

Financing activities

Net cash used in financing activities in the six months ended June 30, 2013 was RMB1.6 million, which was primarily due to purchase of Beijing Phoenix's equity interest by Star Target of RMB134.7 million, partially offset by capital injection of RMB150 million by Green Talent as a part of our Reorganization.

Net cash used in financing activities in 2012 was RMB282.1 million, which was primarily due to payment of RMB90.8 million for purchase of a non-controlling interest of 27.02% in Jian Gong Hospital, the repurchase of Beijing Phoenix's ordinary shares of RMB200.0 million, the repayment of the borrowing of RMB200.5 million and interest paid of RMB23.9 million, partially offset by the new borrowings of RMB233.6 million.

Net cash provided by financing activities in 2011 was RMB230.1 million, which was primarily due to the capital injection by our Shareholders in the amount of RMB252.5 million of which RMB200.0 million was raised in connection with a potential IOT agreement. This was partially offset by interest payment of RMB18.9 million and repayment to a related party of RMB3.6 million.

The capital injection by the shareholders of Beijing Phoenix and the subsequent repurchase of ordinary shares stated above are in connection with a potential IOT agreement. In December 2011, to obtain funding for a potential IOT hospital agreement in Beijing, Beijing Phoenix issued 25.0 million new shares to four Independent Third Parties for a total consideration of RMB200.0 million. In March 2012, Beijing Phoenix decided not to pursue this particular IOT hospital arrangement, and repurchased all of the 25.0 million shares held by these four Independent Third Parties at the original issuance price. For more details, see "History and Reorganization".

Net cash provided by financing activities in 2010 was RMB298.0 million, which was primarily due to the borrowings from Jilin Province Trust Co., Ltd. (吉林省信託有限責任公司, or "Jilin Trust") of RMB200.0 million and the capital injection by the shareholders of Beijing Phoenix of RMB123.9 million, prepayment for capital injection by Beijing Zhongjin and Beijing Jinyuan Juntai Investment Co., Ltd. (北京金源君泰投資有限公司) of RMB7.5 million, partially offset by prepayment of RMB31.0 million for future purchase of non-controlling interest in Jian Gong Hospital of RMB31.0 million and interest paid of RMB2.4 million.

The borrowings with Jilin Trust were guaranteed by CITIC Trust. In 2012, the borrowings with Jilin Trust was repaid and replaced with a two-year loan with CITIC Trust. For more details, see "— Indebtedness".

DISCUSSION OF CERTAIN ITEMS FROM THE STATEMENT OF FINANCIAL POSITION

Lease prepayment for land use right

In May 2011, Beijing Construction Engineering Group contributed the land use right of the premise where Jian Gong Hospital operates to our Group as a non-cash capital injection. The value of the land use right was appraised and determined by an independent property valuer. We record such land use right as lease prepayment, which is amortized over the remaining lease term. The following table sets forth certain information of the lease prepayments in relation to the land use right as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(in thousands of RMB)			
Current portion included in prepayments and other receivables	—	3,463	3,463	3,463
Non-current portion	—	164,781	161,318	159,587
Total	**—**	**168,244**	**164,781**	**163,050**

Receivables from IOT hospitals

Our receivables from IOT hospitals were RMB25.1 million, RMB41.0 million, RMB55.1 million and RMB56.7 million as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively. These balances represent the present value of future cash flows of repayable investments in connection with IOT agreements. These balances are measured at fair value upon initial recognition and subsequently carried at amortised cost using the effective interest method with effective interest rate at 11% for each reporting period. The following table sets forth certain information of our receivables from IOT hospitals as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(in thousands of RMB)			
Non-current portion	22,321	36,143	48,478	50,396
Current portion	2,826	4,812	6,620	6,353
Receivables from IOT hospitals	**25,147**	**40,955**	**55,098**	**56,749**

Intangible assets

Our intangible assets in relation to our investments for management rights of IOT hospitals are amortized on a straight-line basis over the relevant IOT contract period. We record the amortization of our intangible assets in cost of sales and services in the combined statement of profit or loss and other comprehensive income. The following table sets forth certain information of our intangible assets as of the dates indicated:

	As of December 31,			As of June 30, 2013
	2010	2011	2012	
	(in thousands of RMB)			
Cost				
At beginning of the indicated period	72,000	112,583	163,045	343,138
Addition	40,583	50,462	180,093	—
At the end of the indicated period	112,583	163,045	343,138	343,138
Less: Accumulated amortization	4,421	7,589	19,965	26,910
Net book value	**108,162**	**155,456**	**323,173**	**316,228**

Inventories

We record our inventories at cost or net realizable value, whichever is lower. The following table sets forth certain information of our inventories by categories as of the dates indicated:

	As of December 31,			As of June 30, 2013
	2010	2011	2012	
	(in thousands of RMB)			
Pharmaceuticals	19,606	19,884	30,936	24,577
Medical devices and medical consumables	2,661	3,316	4,137	5,672
Total	**22,267**	**23,200**	**35,073**	**30,249**

The following table sets forth our inventory turnover days during the Track Record Period.

	Year ended December 31,			Six months ended June 30, 2013
	2010	2011	2012	
Inventory turnover days[1]	20	21	19	18

1 The inventory turnover days is equal to average inventory (inventory at the beginning of the year/period plus inventory at the end of the year/period divided by two) divided by cost of goods sold for the year/period and multiplied by 365 for each of the three years ended December 31, 2010, 2011 and 2012, and by 182.5 for the six months ended June 30, 2013.

Trade-nature receivables

The trade-nature receivables (including trade receivables and trade-nature receivables from a related party) primarily represent the trade-nature receivables from our in-network hospitals and clinics for services rendered or goods delivered. We generally allow an average credit period of 60 days for the general hospital services to the patients payable by public medical insurance programs, 60 days to 120 days for the sale of pharmaceuticals, medical devices and medical consumables to the IOT hospitals and clinics, and 90 days to 180 days for the hospital management services to the IOT hospitals and clinics, after issuing the invoice. In respect of revenue from general hospital services, patients treated by us at Jian Gong Hospital that are covered by the three national health insurance programs are only responsible for the co-payment amount when they are treated and the administration government agencies make the balance of the payment to us directly. We settle the balances with the administration agencies monthly. The following table sets forth the aging analysis of our trade-nature receivables, net of allowance for doubtful debts, as of the dates indicated:

	As of December 31,			As of June 30, 2013
	2010	2011	2012	
	(in thousands of RMB)			
Unbilled or within 60 days	20,100	20,219	64,907	92,654
61-180 days	—	3,626	18,103	17,864
Total trade receivables	20,100	23,845	83,010	110,518
Amounts due from a related party in trade nature	40,253	75,066	56,831	36,005
Total	**60,353**	**98,911**	**139,841**	**146,523**

The following table sets forth our trade-nature receivables turnover days for the periods indicated:

	Year ended December 31,			Six months ended June 30, 2013
	2010	2011	2012	
Trade-nature receivables turnover days[1]	41	57	57	62

1 The trade receivables turnover days are equal to average trade receivables (trade receivables at the beginning of the year/period plus trade receivables at the end of the year/period divided by two) divided by total turnover for the year/period and multiplied by 365 for each of the three years ended December 31, 2010, 2011 and 2012, and by 182.5 for the six months ended June 30, 2013.

Trade-nature receivables from our largest trade customer, Yan Hua Hospital Group, accounted for 66.7%, 75.9%, 40.6% and 24.6% of our total trade-nature receivables in 2010, 2011, 2012 and the six months ended June 30, 2013, respectively. These receivables are primarily associated with management fees and sales of pharmaceuticals, medical devices and medical consumables to IOT hospitals and clinics. Trade-nature receivables from our largest customer in 2010, our largest three customers in 2011, our largest four customers in 2012 and the six months ended June 30, 2013, which include all of our IOT hospitals during the corresponding period, accounted for 66.7%, 79.6%, 80.7% and 70.0% of our total trade-nature receivables in 2010, 2011, 2012 and the six months ended June 30, 2013, respectively. Our other customers were individual patients. The trade-nature receivables disclosed above were neither past due nor impaired, and based on past experience we did not record impairment allowance for such receivables during those periods.

Short-term investments

During the Track Record Period, as part of our treasury management operations, we from time to time purchased short-term wealth management products ("理財產品") through reputable banks as an alternative to bank deposits. As of December 31, 2010, 2011 and 2012 and June 30, 2013, our Group's short-term investments mainly represent investments in financial products offered by banks for treasury management purposes. The short-term investments as of December 31, 2010, 2011 and 2012 and June 30, 2013 matured in February 2011, March 2012, January 2013 and July 2013, respectively.

Our maximum outstanding daily balances of these short-term investments were RMB246.6 million, RMB246.6 million, RMB126.5 million and RMB85.5 million in 2010, 2011, 2012 and the six months ended June 30, 2013. These investments had expected annual return ranging from 1.65% to 4.20% per annum. During the Track Record Period, we only invested in financial products issued or sold by publicly listed banks and we did not encounter any default. Substantially all of the financial products we purchased were quoted by these publicly listed banks as low risk. We have investment policies in place to control our exposure and potential risk in connection with our short-term investments. In particular, our investment policies permit us to only invest in financial products issued or sold by publicly listed banks. We also have certain internal procedural requirements for making these short-term investments. For example, our financial personnel conducts regular risk and benefit analyses on these financial products and prior approval from our Chief Financial Officer must be obtained prior to making each investment. During the Track Record Period, we strictly adhered to these procedures.

Prepayments and other receivables

Our prepayments and other receivables consist of current portion of long-term receivables from IOT hospitals, current portion of lease prepayment for land use right and prepaid value-added tax. The following table sets forth a breakdown of our prepayments and other receivables as of the dates indicated:

	As of December 31,			As of June 30, 2013
	2010	2011	2012	
	(in thousands of RMB)			
Current portion of receivables from IOT hospitals	2,826	4,812	6,620	6,353
Current portion of lease prepayments for land use right	—	3,463	3,463	3,463
Prepaid value-added tax	2,487	3,495	4,955	5,636
Others	613	1,929	1,685	1,079
Total	**5,926**	**13,699**	**16,723**	**16,531**

Our current portion of receivables from IOT hospitals increased in 2010, 2011 and 2012, primarily due to increased investments in our IOT hospitals. The current portion of receivables from IOT hospitals as of June 30, 2013 decreased because we did not make investments in IOT hospitals and clinics in the six months ended June 30, 2013.

Trade payables

Our trade payables primarily relate to the purchase of pharmaceuticals, medical devices and medical consumables from our suppliers, which are non-interest bearing and generally have a credit term of one to four months. The following table sets forth the aging analysis of our trade payables as of the dates indicated:

	As of December 31,			As of June 30, 2013
	2010	2011	2012	
	(in thousands of RMB)			
0 to 60 days	68,666	67,508	105,069	100,048
61 to 180 days	7,405	16,371	16,844	19,596
181 days to one year	933	2,832	278	2,500
One to two years	634	3,420	60	—
Total	**77,638**	**90,131**	**122,251**	**122,144**

The following table sets forth our trade payables turnover days during the Track Record Period.

	Year ended December 31,			Six months ended June 30, 2013
	2010	2011	2012	
Trade payables turnover days[1]	68	79	68	67

1 The trade payables turnover days are equal to average trade payables (trade payables at the beginning of the year/period plus trade payables at the end of the year/period divided by two) divided by cost of goods sold for the year/period and multiplied by 365 for each of the three years ended December 31, 2010, 2011, 2012, and by 182.5 for the six months ended June 30, 2013 .

Other payables

Our other payables and accruals primarily consist of payables related to the acquisition of property, plant and equipment, deposits from suppliers and other parties, advances from patients treated at Jian Gong Hospital for hospitalization or surgeries, as well as accrued staff expenses and other PRC tax payable. The following table sets forth certain information of our other payables and accruals as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(in thousands of RMB)			
Staff cost payables	10,326	13,146	18,837	15,053
Deposits from suppliers	—	—	12,350	14,650
Deposits for capital injection from new investor in Beijing Phoenix	7,500	—	—	—
Payable for acquisition of the non-controlling interest in Jian Gong Hospital	—	—	7,115	7,115
Other PRC tax payable	2,822	2,419	3,412	3,611
Payable for purchase of property, plant and equipment	6,885	1,696	2,279	2,332
Deposits from patients	4,078	3,624	4,571	6,547
Interest payable	588	588	611	—
Retirement benefit obligations	1,539	2,136	1,895	1,878
Payable for acquisition of equity interest in Beijing Phoenix	—	—	—	32,594
Others	3,842	4,901	2,703	3,762
Total	**37,580**	**28,510**	**53,773**	**87,542**

Our accrued staff cost represents primarily staff costs payable of Jian Gong Hospital. The increase during the Track Record Period was primarily as a result of increased employee benefits of Jian Gong Hospital.

Our deposits from suppliers represent the deposit from one of our suppliers, Hong Hui, to secure its performance under its supply agreement with us. For more details, see "Business — Our Business Model — Supply Chain Business".

We also recorded deposits for capital injection from new investors in the amount of RMB7.5 million as of December 31, 2010, representing deposits from our new investor for their proposed investment in us, which was returned to them upon our receiving the full investment amount and the completion of the transaction in 2011.

Our payable for acquisition of the non-controlling interest represents the payable in connection with our purchase of a non-controlling interest of 27.02% in Jian Gong Hospital.

Our interest payables remained stable during the Track Record Period.

Obligation under finance leases

We commenced leasing certain medical equipment under finance lease in 2012. The average lease term is six years. Interest rates underlying all obligations under finance leases were fixed at respective contract dates ranging from 10.6% to 11.3% per annum.

Net current assets/liabilities

The following table sets forth the breakdown of our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of June 30, 2013	As of September 30, 2013
	2010	2011	2012		
					(unaudited)
	(in thousands of RMB)				
Current assets					
Short-term investment	246,600	23,000	60,450	22,000	131,200
Bank balances and cash	74,675	330,988	113,124	128,246	89,696
Trade receivables	20,100	23,845	83,010	110,518	84,490
Prepayments and other receivables	5,926	13,699	16,723	16,531	21,619
Amounts due from related parties	40,253	75,066	56,831	228,005	37,541
Inventories	22,267	23,200	35,073	30,249	35,640
Total	409,821	489,798	365,211	535,549	400,186
Current liabilities					
Trade payables	77,638	90,131	122,251	122,144	123,859
Other payables	37,580	28,510	53,773	87,542	63,443
Amount due to related parties	19,329	—	—	333,193	256,268
Tax payables	10,288	9,645	19,465	14,999	13,521
Obligations under finance lease	—	—	1,077	1,529	—
Borrowings	—	200,000	5,803	6,274	—
Total	144,835	328,286	202,369	565,681	457,091
Net current assets/ (liabilities)	**264,986**	**161,512**	**162,842**	**(30,132)**	**(56,905)**

Our net current liabilities increased from RMB30.1 million as of June 30, 2013 to RMB56.9 million as of September 30, 2013 primarily due to a decrease in current assets, which was partially offset by a decrease in our current liabilities. The decrease in our current assets reflected primarily the settlement of our transactions with Beijing Wantong, Ms. Liu Xing, Silvapower Investments and Vertex Fund as disclosed below. The decrease in our current liabilities reflected (i) the full settlement of our transactions with Beijing Wantong and Ms. Liu Xing and (ii) borrowings of US$40.5 million (approximately RMB250 million) from Speed Key Limited, our Controlling Shareholder, on July 3, 2013, which will be repaid using a portion of the net proceeds from the Global Offering. Our borrowings from Speed Key Limited were classified as current liabilities because we need to repay it on the earlier of the Listing and the first anniversary of the borrowings. For more details on our borrowings from Speed Key Limited, see "— Recent Developments".

We recorded net current liabilities of RMB30.1 million as of June 30, 2013 as compared to net current assets of RMB162.8 million as of December 31, 2012, which was primarily due to a significant increase in our current liabilities, reflecting primarily an increase of RMB333.2 million in amounts due to related parties, partially offset by an increase of RMB171.2 million in amounts due from a related party. The amounts due to related parties of RMB333.2 million as of June 30, 2013 represented amounts due to Beijing Wantong and Ms. Liu Xing in connection with our purchase of their respective equity interest in Beijing Phoenix during our Reorganization, which were fully settled in July 2013. Our amounts due from related parties as of June 30, 2013 included (i) receivables of RMB100.0 million from our two Shareholders, Silvapower Investments and Vertex Fund, in connection with their subscription of our Shares during the Reorganization, which were fully settled in July 2013, (ii) amounts due from Beijing Wantong in connection with our RMB92.0 million loan to Beijing Wantong, which was fully repaid in September 2013, and (iii) RMB36.0 million due from Yan Hua Hospital Group, including both amounts due in connection with our sales of pharmaceuticals, medical devices and medical consumables to Yan Hua Hospital Group and unpaid management fees. For more details on our Reorganization, see "History and Reorganization — The Reorganization". For more details on the related party transactions, see "— Related Party Transactions".

Our net current assets increased from RMB161.5 million as of December 31, 2011 to RMB162.8 million as of December 31, 2012, which was primarily due to a significant decrease in our current assets, including a decrease in cash and cash equivalents resulting from our share repurchase payment of RMB200.0 million in 2012, primarily offset by a decrease in our current liabilities in 2012 as the RMB200.0 million short-term borrowings were refinanced by long-term borrowings.

Our net current assets decreased from RMB265.0 million as of December 31, 2010 to RMB161.5 million as of December 31, 2011. This decrease was primarily due to an increase in our short-term borrowings of RMB200.0 million due in 2011, primarily because this RMB200.0 million loan was due within one year and became current liabilities.

Related Party Transactions

During the Track Record Period, our related party transactions of our Group primarily consisted of transactions with Yan Hua Hospital Group, Yan Hua Phoenix, Beijing Wantong and another shareholder of Beijing Phoenix. We generated hospital management services segment revenue and supply chain business revenue from the Yan Hua Hospital Group during the Track Record Period. For more details, see "Business — Our Hospital Network — Yan Hua Hospital Group". We expect to continue transactions with Yan Hua Hospital Group. For more details on our continuing related party transactions after the Listing, see "Connected Transaction".

Our transaction with Beijing Wantong was in relation to the RMB92.0 million in connection with our Reorganization. Such loan was approved by Beijing Phoenix's directors and shareholders in order to consolidate shareholding and facilitate the Reorganization. We are of the view that this transaction would not distort our results of operations since it was repaid in full in September 2013.

Our Directors are of the opinion that the related party transactions during the Track Record Period, other than the RMB92.0 million loan to Beijing Wantong, were conducted on an arm's length basis. Our Directors are also of the view that no related party transaction would distort our results of operations. For more details on our loan to Beijing Wantong, see "History and Reorganization — Our History — History of Beijing Phoenix".

Amounts Due from Related Parties

As of December 31, 2010, 2011 and 2012 and June 30, 2013, amounts due from a related party, Yan Hua Hospital Group, were RMB40.3 million, RMB75.1 million, RMB56.8 million and RMB36.0 million, respectively. The trade-nature balance represented primarily receivables from Yan Hua Phoenix in connection with our sales of pharmaceuticals, medical devices and medical consumables and unpaid management fees.

The amount due from Yan Hua Hospital Group disclosed above included amount that are past due as of December 31, 2010, 2011 and 2012 and June 30, 2013 for which we have not recognized an allowance for doubtful debt because there has not been a significant change in credit quality and amounts were fully settled as of December 31, 2010, 2011 and 2012 and June 30, 2013. The following table sets forth an aged analysis of amounts due from Yan Hua Hospital Group which are past due but not impaired as of the dates indicated:

	As of December 31,			As of June 30, 2013
	2010	2011	2012	
	(in thousands of RMB)			
61 to 180 days	3,632	11,223	8,370	8,021
181 days to one year	—	74	—	5,511
one to two years	—	12,502	—	—
Total	3,632	23,799	8,370	13,532

As of June 30, 2013, our amounts due from related parties also included RMB92.0 million due from Beijing Wantong, in connection with our interest-free loans to Beijing Wantong during the six months ended June 30, 2013. The balance was fully settled in September 2013. We do not expect to engage similar transactions going forward.

Amounts Due to Related Parties

As of December 31, 2010, we had amounts due to related parties, Yan Hua Hospital Group and Yan Hua Phoenix, of RMB19.3 million, primarily including RMB15.8 million as the remaining consideration for the management rights of Yan Hua Hospital Group which was settled in 2011.

As of June 30, 2013, we had amounts due to Beijing Wantong and Ms. Liu Xing of RMB203.3 million and RMB129.9 million, respectively, in connection with our purchase of their respective equity interest in Beijing Phoenix as part of our Reorganization. The balances were fully settled in July 2013. For more details on our Reorganization, see "History and Reorganization — The Reorganization".

Guarantee

As of June 30, 2013, we guaranteed the obligations of Yan Hua Hospital Group under a finance lease for a medical equipment in the amount of RMB21.2 million with China Huarong Financial Leasing Co., Ltd. The guarantee expired when the finance lease terminated in July 2013.

CAPITAL EXPENDITURES

Our Group's capital expenditures principally consisted of expenditures on property, plant and equipment and investments in our in-network hospitals and clinics. The following table sets forth our capital expenditures for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in thousands of RMB)				
Capital expenditure in respect of acquisition of property, plant and equipment	17,157	34,347	28,115	14,793	6,664
Repayable investment amounts to IOT hospitals under IOT agreements[1]	65,000	67,000	45,000	26,015	—
Purchases of management right[2]	7,024	165,768	—	—	—
Total	**89,181**	**267,115**	**73,115**	**40,808**	**6,664**

1 Represent our investments in Mentougou Hospital and Mentougou Traditional Chinese Medicine Hospital and a portion of our investments in Yan Hua Hospital Group.

2 Represent our investments in Jing Mei Hospital Group and a portion of our investments in Yan Hua Hospital Group.

Our Group expects to continue to make capital expenditures in 2013, primarily including investments in Yan Hua Hospital Group pursuant to Yan Hua IOT Agreement and purchases of equipment for Jian Gong Hospital. We expect our capital expenditure in 2014 and 2015 to mainly include (i) investments to expand our hospital network, through both IOT agreements and direct equity investments in other hospitals with a strategic focus in Beijing, (ii) capital investments to upgrade our existing IOT hospitals and clinics infrastructure and facilities and to improve our information technology system, (iii) capital investments to reconstruct certain facilities of, and to purchase large medical equipment for, Jian Gong Hospital, and (iv) investments to establish an advanced clinical testing and laboratory center at our Group level. The table below sets forth our current capital expenditure plans for the periods indicated:

	Year ending December 31,		
	2014	2015	Description of Capital Expenditure
	(In millions of RMB)		
Potential target hospitals	150	150	Expanding hospital network through both PPP and acquisition with a strategic focus in Beijing. Although we did not have any specific target for acquisition or PPP opportunity as of the Latest Practicable Date, we engage in active discussions with potential targets or partners from time to time.
Existing IOT hospitals	63	—	Upgrading our existing IOT hospitals and clinics infrastructure and facilities and improving our information technology system
Jian Gong Hospital	55	56	We plan to allocate 80% of the capital expenditure to reconstruct certain facilities of Jian Gong Hospital and 20% to purchase medical equipment. We expect to expand the capacity of Jian Gong Hospital by approximately 100 hospital beds and purchase additional advanced equipment. We intend to hire approximately 30 additional nurses. For more details on the reconstruction plan, including permit requirements and application status, see "Business — Our Properties".
Group level	80	—	Establishing a premier clinical testing and laboratory center at the Group level

For more details relating to each category of capital expenditures above, the source of funding is a combination of cash generated from operations, borrowings and a portion of net proceeds from the Global Offering, see "Future Plans and Use of Proceeds".

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of June 30, 2013:

	Payment Due by Period		
	As of June 30, 2013	Within 1 year	In more than 1 year but not more than 3 years
	(in thousands of RMB)		
Operating lease obligations[1]	5,479	2,020	3,459
Obligations under IOT agreements[2]	73,000[3]	—	73,000
Total	**78,479**	**2,020**	**76,459**

1 Represent our rentals payable for the office premises leased. These leases were negotiated for lease terms of one to four years at fixed monthly rental.

2 Represent our outstanding investment commitment under the Yan Hua IOT Agreement.

3 Of which RMB10.0 million was paid in July 2013.

The following table sets forth our finance lease obligations as of June 30, 2013:

	Payment Due by Period				
	As of June 30, 2013	Within 1 year	In more than 1 year but not more than 2 years	In more than 2 years but not more than 5 years	In more than 5 years
	(in thousands of RMB)				
Finance lease obligations[1]	10,833	1,636	1,845	6,792	560

1 Represent our obligations under finance lease for certain medical equipment.

CONTINGENT LIABILITIES

Our Directors are of the view that we do not have any significant contingent liabilities as of the Latest Practicable Date.

INDEBTEDNESS

Our indebtedness during the Track Record Period principally consisted of borrowings from trust companies. The following table sets forth our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(in thousands of RMB)			
Repayable within one year	—	200,000	5,803	6,274
Repayable more than one year, but not exceeding two years	200,000	—	206,173	206,604
Repayable more than two years, but not exceeding five years	—	—	19,770	18,887
Repayable more than five years	—	—	1,328	—
Total	**200,000**	**200,000**	**233,074**	**231,765**

In 2010 and 2011, our borrowings with Jilin Trust were guaranteed by CITIC Trust, with the guarantee fee ranging from 3.5% to 6.0% of the principal amount per annum. We repaid such loan and replaced it with a new two-year loan from CITIC Trust in October 2012. Pursuant to this loan agreement, we are entitled to borrow up to RMB300.0 million, of which RMB200 million was drawn-down as of December 31, 2012 and June 30, 2013. The RMB200 million outstanding loan is secured by our 53.51% of equity interest in Jian Gong Hospital. The remaining RMB100 million undrawn banking facilities, if fully drawn-down, would have to be secured by additional 26.49% equity interest in Jian Gong Hospital held by us. Under this loan agreement, prior consent from CITIC Trust is required in case there is a major share transfer in Beijing Phoenix or assignment of material assets by Beijing Phoenix. In the event that we are unable to repay the loans, CITIC Trust is entitled to enforce its security interests including disposing our pledged equity interest in Jian Gong Hospital. This loan agreement also contains customary restrictive covenants. For example, we are obligated to notify CITIC Trust 30 days in advance and obtain its approval before we lease or divest significant assets, conduct mergers and acquisitions, transfer our material assets or conduct any other transactions that may potentially affect CITIC's rights under this loan agreement. The effective interest rate for our borrowings was 5.8%, 5.8%, 9.85% and 9.85% in 2010, 2011, 2012 and the six months ended June 30, 2013, respectively.

Our Directors confirm that we had no material defaults in payment of trade and non-trade payables and bank borrowings and had not breached any finance covenants during the Track Record Period.

For more details on the indebtedness incurred after June 30, 2013, see "— Recent Developments". As of September 30, 2013, we had (i) outstanding borrowing from CITIC Trust of RMB200.0 million, which was secured by our 53.51% of equity interest in Jian Gong Hospital, and (ii) amount due to Speed Key Limited, our Controlling Shareholders of US$41.7 million (equivalent to RMB256.3 million), which will be repaid using a portion of the net proceeds from the Global Offering. Except as aforesaid and apart from intra-group liabilities, we did not have, as of September 30, 2013, any other outstanding loan issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

DIRECTORS' OPINION ON THE SUFFICIENCY OF OUR WORKING CAPITAL

After due and careful enquiry and taking into account the financial resources available to us and our subsidiaries, including internally generated funds, available banking facilities and the estimated net proceeds from the Global Offering, our Directors are of the opinion that the working capital available to our Group is sufficient for our present requirements for the next 12 months commencing from the date of this prospectus.

We plan to use a portion of the net proceeds from the Global Offering to repay the entire outstanding loan from our major shareholder, Speed Key Limited, in connection with the exchangeable notes issued by Speed Key Limited to Noteholders. Assuming the Global Offering is not completed prior to the maturity date of the exchangeable notes, our Directors are of the opinion that our internally generated funds, together with available credit facilities, is sufficient for our working capital for the next 12 months, including the repayment of the exchangeable notes upon the maturity date. For more details on the exchangeable notes, see "History and Reorganization — The Reorganization — Exchangeable Notes Issued to Silvapower Investments, Vertex Fund and Green Talent".

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios during the Track Record Period:

	Formulae	As of and for the Year ended December 31,			As of and for the six months ended June 30,
		2010	2011	2012	2013
Gearing ratio.	total debt/total assets × 100%	30.1%	17.6%	23.4%	20.2%
Current ratio	current assets/current liabilities	2.8	1.5	1.8	1.0
Quick ratio.	(current assets — inventories)/ current liabilities	2.7	1.4	1.6	0.9
Return on equity . . .	net profit/average shareholders' equity × 100%	22.2%	10.6%	16.1%	N/A
Return on assets. . . .	net profit/average total assets × 100%	10.8%	6.5%	10.3%	N/A

Gearing Ratio

Gearing ratio represents total debt as a percentage of total assets. The total debt is calculated as total borrowings and obligations under finance leases shown on our combined balance sheet. Our gearing ratio was 30.1%, 17.6%, 23.4% and 20.2% as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The decrease in our gearing ratio from 30.1% as of December 31, 2010 to 17.6% as of December 31, 2011 was primarily due to the significant increase in our total assets resulting primarily from (i) our increased investments in IOT hospitals and clinics, reflected in the form of intangible assets and deposits paid for management rights under IOT agreements, and (ii) lease prepayments for land use rights in connection with the land use right of the premise where Jian Gong Hospital operates and contributed by Beijing Construction Engineering Group, Jian Gong Hospital's minority shareholder. The increase in our gearing ratio from 17.6% as of December 31, 2011 to 23.4%

as of December 31, 2012 was mainly due to the decrease of our total assets, resulting primarily from decrease in our bank balances and cash as of December 31, 2012. The decrease in our gearing ratio from 23.4% as of December 31, 2012 to 20.2% as of June 30, 2013 was mainly due to the increase in our total assets, which was attributable to the increase in our current assets resulting primarily from (i) increased prepayments and other receivables, which represented primarily receivables from our two Shareholders in connection with their subscription of our Shares during the Reorganization, and (ii) increased amounts due from related parties, which represented primarily our RMB92.0 million loan to Beijing Wantong.

Current Ratio and Quick Ratio

Our current ratio, calculated by dividing current assets by current liabilities, was 2.8, 1.5, 1.8 and 1.0 as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our quick ratio, calculated by dividing current assets after subtraction of inventories by current liabilities, was 2.7, 1.4, 1.6 and 0.9 as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The decreases in our current ratio and quick ratio as of December 31, 2011 from December 31, 2010 were primarily due to the increase of our current liabilities primarily as a result of a RMB200.0 million long-term borrowing becoming due within one year and accounted for current liabilities. The increases in our current ratio and quick ratio as of December 31, 2012 from December 31, 2011 were mainly due to the decreases in our current liabilities after we repaid our loan with Jilin Trust and replaced it with borrowings from CITIC Trust in October 2012 that has a term of more than one year. See "— Indebtedness." The decreases in our current ratio and quick ratio as of June 30, 2013 from December 31, 2012 were mainly due to the increases in our current liabilities resulting from increased amounts due to related parties as a result of the Reorganization, which outpaced the growth in our current assets.

Return on Equity

Return on equity represents net profit as a percentage of the arithmetic mean of opening and closing balances of total equity for relevant period. Our return on equity was 22.2%, 10.6% and 16.1% in 2010, 2011 and 2012, respectively. The decrease in our return on equity in 2011 from 2010 was due to slower net profit growth compared with the growth of shareholders' equity during the same period. The increase of our return on equity in 2012 from 2011 was primarily due to our net profit growth during the period and a decrease in our shareholders' equity as a result of the share repurchase in 2012.

Return on Assets

Return on assets represents net profit as a percentage of the arithmetic mean of opening and closing balances of total assets for relevant period. Our return on assets was 10.8%, 6.5% and 10.3% in 2010, 2011 and 2012, respectively. The decrease in our return on assets in 2011 from 2010 was due to an increase in our total assets relating to our investments in Jing Mei Hospital Group and lease prepayments for land use right in Jian Gong Hospital in 2011. The increase of our return on assets in 2012 from 2011 was primarily due to our significant net profit growth during the period and a decrease in our total assets as a result of the share repurchase in 2012.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, our Group had not entered into any off-balance sheet transactions.

QUANTITATIVE AND QUALITATIVE ANALYSIS ABOUT FINANCIAL RISK

We are exposed to various types of financial risks in the ordinary course of our business, including market risk (consisting of interest rates and foreign exchange rates), credit risk and liquidity risk. We did not use derivative financial instruments to hedge our risk exposures on changes in foreign currency exchange rates and interest rates during the Track Record Period.

Interest Rate Risk

Our Group is exposed to fair value interest rate risk in relation to short-term investments, fixed-rate borrowings and obligations under finance leases, and cash flow interest risk in relation to variable-rate bank balance, which carry prevailing market interest rates. Our Group currently does not have a specific policy to manage our interest rate risk and have not entered into interest rate swaps to hedge its exposure, but will closely monitor our interest rate risk exposure in the future. No sensitivity analysis on interest rate risk on bank balance is presented as we consider the sensitivity on interest rate risk on bank balances is insignificant.

Foreign Exchange Risk

Foreign exchange rate risk refers to the risk that movement in foreign currency exchange rates will affect our financial results and cash flows. Our functional currency is RMB in which most of our transactions are denominated. During the Track Record Period, we only undertook very limited finance and operating transactions in foreign currencies. As a result, we do not believe we are exposed to significant foreign exchange rate risk. We do not use any derivative contracts to hedge against our expose to currency risk and manage this risk by closely monitoring the movement of the foreign currency rates. In addition, as the proceeds of the Global Offering will be in Hong Kong Dollars, any appreciation of the Renminbi against the Hong Kong Dollar will reduce the amount of proceeds we receive in terms of Renminbi. On the other hand, a depreciation of Renminbi would adversely affect the value of any dividends we pay to our Shareholders subsequent to the Global Offering.

The following table sets forth our Group's sensitivity to a 5% increase or decrease in the RMB against the HK dollar and the US dollar. The sensitivity rate used when reporting foreign currency risk internally to our key management personnel is 5%, which represents our management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to RMB at year or period end for a 5% change in foreign currency rates. A positive number in the table below indicates an increase in post-tax profit where RMB weakens 5% against the relevant currency. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	HK dollar				US dollar			
	As of December 31,			As of June 30,	As of December 31,			As at June 30,
	2010	2011	2012	2013	2010	2011	2012	2013
	(RMB in thousands)							
Gain (loss)	—	—	—	(39)	—	—	—	556

Credit risk

Our maximum exposure to credit risk which will cause a financial loss to us due to failure to discharge an obligation by the counterparties is represented by the carrying amounts of the respective recognized financial assets as stated in our consolidated statements of financial position.

We are exposed to credit risk relating to our funds deposited with several banks in China. However, the credit risk on cash and bank balances and restricted bank balances is limited because the majority of the counterparties are state-owned banks.

We are also exposed to credit risk in respect of amounts due from a related party. Under such circumstances, the management considers that our credit risk is insignificant.

In addition, we are exposed to credit risk in respect of trade-nature receivables due from our customers some of which are related parties. See "— Discussion of Certain Items from the Statement of Financial Position — Trade-nature Receivables".

Limitations of Sensitivity Analysis

While we use sensitivity analysis to provide us with an estimation of market risk exposures, we recognize that there are certain limitations in its use. Our sensitivity analysis is an estimate based on a fixed point in the past. Nearly all of our assets and liabilities are subject to market risk from fluctuating interest rates and foreign exchange rates. These fluctuations cannot be foreseen and could occur very suddenly. The quantitative risk measures provided by the sensitivity analysis are a snapshot, describing the potential losses to investments under a particular set of assumptions and parameters, which, although reasonably possible, may differ considerably from actual losses experienced in the future.

PROPERTY VALUATION

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has valued the property interests of the Group, comprising our operations, as of September 30, 2013. Texts of its letters, summary of valuation and valuation certificates issued are included in Appendix III to this prospectus.

DIVIDENDS AND DIVIDEND POLICY

The amount of dividends that we paid or declared during the Track Record Period was nil. We have no plan to pay or declare any dividends prior to the Listing.

After completion of the Global Offering, our Shareholders will be entitled to receive dividends that we declare. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant.

Future dividend payments will also depend upon the availability of dividends received from our operating subsidiaries in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require our subsidiaries in the PRC to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our operating subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instrument or other agreements that we or our subsidiaries may enter into in the future.

DISTRIBUTABLE RESERVES

As of June 30, 2013, the Company had no distributable reserves available for distribution to our Shareholders.

LISTING EXPENSES

We have incurred legal, professional and other fees with respect to the Listing. In accordance with the relevant accounting standards, listing related fees that are directly attributable to issuance of new Shares are recorded as prepaid expenses, which will be deducted from equity upon Listing. The remaining listing related fees are charged to statements of profit or loss and other comprehensive income. It is expected that approximately RMB36.0 million of listing related expenses will be charged to our combined statements of profit or loss and other comprehensive income for the year ending December 31, 2013. Listing expenses incurred but not reflected in the Track Record Period totaled approximately RMB34.2 million.

RECONCILIATION OF APPRAISED PROPERTY VALUES WITH NET BOOK VALUES

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer and consultant, has valued our property interests as of September 30, 2013. The full text of the letter, valuation certificate with regard to such property interest is included in Appendix III to this prospectus.

The table below sets forth the reconciliation between the net book value of our property interest as of June 30, 2013 and the valuation of such property interest as of September 30, 2013 in millions of RMB:

Net book value of property interests as of June 30, 2013	
Buildings and leasehold improvement in property, plant and equipment	58.4
Lease prepayments for land use right	163.1
	221.5
Movement for the three months ended September 30, 2013	
Add: Net additions during the period (unaudited)	5.0
Less: Depreciation and amortization during the period (unaudited)	(2.9)
Net book value as of September 30, 2013	223.6
Less: Net book value of certain properties as of September 30, 2013 (unaudited)[(1)]	(24.3)
Net book value less certain properties as of September 30, 2013	199.3
Attributable to the Company[(2)]	159.4
Capital value of property interests as of September 30, 2013, as set forth in the property valuation report in Appendix III to this prospectus[(3)]	195.7
Valuation surplus	36.3

(1) As of September 30, 2013, we had not yet obtained value titles or rights to use certain properties. The aggregate net book value of such property interest was RMB24.3 million. Our property valuer has valued such titles of no commercial value as they are not freely transferable.

(2) Calculated based on net book value less certain properties as of September 30, 2013 multiplied by 80.00%, being the percentage of our equity interest in Jian Gong Hospital, the subsidiary that holds all our property interests.

(3) Capital value of property interests attributable to us as of September 30, 2013, as set forth in the property valuation report in Appendix III to this prospectus, was RMB195.7 million.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to our equity holders, which has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules, is set forth below to illustrate the effect of the Global Offering on our combined net tangible assets of the Group attributable to our equity holders as of June 30, 2013 as if it had taken place on June 30, 2013.

This unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to our equity holders has been prepared for illustrative purposes only and, due to its hypothetical nature, may not give a true picture of the combined net tangible assets (liabilities) of the Group attributable to our equity holders had the Global Offering been completed as of June 30, 2013 or at any future date. It is prepared based on the audited combined net tangible liability of the Group attributable to our equity holders as of June 30, 2013 as set forth in the Accountants' Report contained in Appendix I to this prospectus, and adjusted as described below.

	Audited combined net tangible liabilities of the Group attributable to our equity holders as of June 30, 2013(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to our equity holders	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to our equity holders per Share(3)
	(in thousands of RMB, except for per Share data)			
Based on an Offer Price of HK$5.88 per Share	(31,102)	857,471	826,369	1.03
Based on an Offer Price of HK$7.38 per Share	(31,102)	1,086,514	1,055,412	1.31

(1) The audited combined net tangible liabilities of the Group attributable to our equity holders as of June 30, 2013 is extracted from the Accountants' Report set forth in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to our equity holders as of June 30, 2013 of approximately RMB285.1 million less the intangible assets of the Group as of June 30, 2013 of approximately RMB316.2 million.

(2) The estimated net proceeds from the Global Offering are based on 200,907,000 Offer Shares of the indicative Offer Price of HK$5.88 (equivalent to RMB4.66) and HK$7.38 (equivalent to RMB5.84) per Offer Share, respectively after deduction of total estimated underwriting commissions and fees and other related expenses (excluding approximately RMB1.8 million listing expenses which has been accounted for up to June 30, 2013) payable by us, and does not take into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or upon the exercise of options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to the Directors.

For the purpose of the estimated net proceeds from the Global Offering, the amount denominated in Hong Kong dollars ("HK$") has been converted in Renminbi ("RMB") at the rate of RMB1.00 to HK$1.2630, as set out in "Information about This Prospectus and the Global Offering — Currency Translations". No representation is made that the HK$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or at all.

(3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to our equity holders as of June 30, 2013 per Share is arrived at after the adjustments referred to in note 2 and on the assumption that 803,627,000 Shares (being the number of shares in issue as of date of this prospectus and those shares to be issued pursuant to the Global Offering) were in issue upon completion of the Global Offering. It does not take into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or upon the exercise of options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by us under the general mandates for the allotment and issue or repurchase of Shares granted to the Directors.

(4) No adjustment has been made to the audited combined net tangible liabilities of the Group attributable to our equity holders as of June 30, 2013 to reflect any trading result or other transaction of the Group entered into subsequent to June 30, 2013.

(5) Based on the property valuation reports as of September 30, 2013 as set forth in "Appendix III — Property Valuation Report", the property interests of the Group attributable to the equity holders of the Company had a revaluation surplus up to September 30, 2013 of approximately RMB36.3 million for more details, see "Financial Information — Reconciliation of Appraised Property Value with Net book Value", representing the excess of the market value of these properties over their book value to the extent attributable to equity holders of the Company. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to the equity holders of the Company has not taken into account of the revaluation surplus of properties held for own use properties, nor will the Group incorporate the revaluation surplus in its future financial statements. If the revaluation surplus up to September 30, 2013 is to be incorporated in the Group's future financial statements, additional annual depreciation and amortization of approximately RMB2.3 million would be charged as expense in the combined statements of profit or loss and other comprehensive income.

For more details, see "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there have been no circumstances that would give rise to the disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules had the Shares listed on the Stock Exchange.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since June 30, 2013 and there is no event since June 30, 2013 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

RECENT DEVELOPMENTS

The following also sets forth certain data of our unaudited consolidated statements of profit or loss and other comprehensive income in the nine months ended September 30, 2013:

- our revenue increased by 17.1% from RMB520.1 million in the nine months ended September 30, 2012 to RMB609.0 million in the nine months ended September 30, 2013, reflecting primarily increases in revenue generated by our supply chain and general hospital services businesses; and

- our gross profit increased by 5.8% from RMB125.0 million in the nine months ended September 30, 2012 to RMB132.2 million in the nine months ended September 30, 2013.

We continue to be affected by the trends and key factors that affected our results of operations in the six months ended June 30, 2013 including, in particular, our higher cost and expenses relating to employees. For more details, see "— Factors Affecting Our Financial Condition and Results of Operations — Cost and Expenses Relating to Employees".

On July 3, 2013, we borrowed from Speed Key Limited, our Controlling Shareholder, in the amount of US$40.5 million (approximately RMB250 million) at an interest rate of 12.0% per annum, which will be repaid using a portion of the net proceeds from the Global Offering. Pursuant to the terms of this loan, we used all the net proceeds to acquire equity interest in Beijing Phoenix as part of our Reorganization. For more details, see "History and Reorganization — The Reorganization". We have incurred interest expenses of approximately RMB7.5 million in the three months ended September 30, 2013 on this loan, and will continue to incur interest expenses in the amount of approximately US$0.4 million (equivalent to RMB2.5 million) per month on this loan until it is repaid. We plan to repay such loan and the accrued interest upon the Listing using net proceeds from the Global Offering. For more details, see "Future Plans and Use of Proceeds".

Since June 30, 2013, we have also incurred non-recurring expenses of professional fees in relation to the Global Offering. For more details regarding our expenses relating to the Global Offering, see "— Listing Expenses".

We have extracted these data from our unaudited consolidated statements of profit or loss and other comprehensive income, which were prepared on the same basis as our audited combined financial statements. These unaudited consolidated statements of profit or loss and other comprehensive income reflect all adjustments, consisting only of normal and recurring adjustments, which we consider necessary for a fair statement of our results of operations for the period presented. We cannot assure you that our financial results in the nine months ended September 30, 2013 will be indicative of our financial results in the full year ending December 31, 2013 or for future periods.

In September 2013, we approved a sub-division in our share capital, whereby each ordinary share of nominal value HK$0.001 was sub-divided into four ordinary shares of nominal value of HK$0.00025 each. For more details, see "Appendix V. Statutory and general information — A. Further Information About Our Group — 2. Changes in Share Capital".