Concord Medical Services Holdings Ltd
Form 20-F
April 30, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

.. **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**

or

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

For the fiscal year ended December 31, 2018

or

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

For the transition period from ____________to ____________

or

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

Date of event requiring this shell company report

Commission file number 001-34563

Concord Medical Services Holdings Limited

(Exact Name of Registrant as Specified in Its Charter)

Cayman Islands
(Jurisdiction of Incorporation or Organization)

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

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(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange on Which Registered
Class A ordinary shares, par value US$0.0001 per share*	**New York Stock Exchange***

* Not for trading, but only in connection with the listing of the American depositary shares ("ADSs") on the New York Stock Exchange under the symbol "CCM." Each ADS represents the right to receive three Class A ordinary shares. The ADSs are registered under the Securities Act of 1933, as amended, pursuant to a registration statement on Form F-6. Accordingly, the ADSs are exempt from registration under Section 12(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 12a-8 thereunder.

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

None

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

None

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

130,178,377 ordinary shares, including 84,390,429 Class A ordinary shares and 45,787,948 Class B ordinary shares, outstanding

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No **x**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes **x** No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes **x** No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer **x**	Non-accelerated filer ¨ Emerging growth company ¨

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ¨

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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

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

Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes ¨ No **x**

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ¨ No ¨

TABLE OF CONTENTS

CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT ON FORM 20-F

Unless otherwise indicated, references in this annual report on Form 20-F to:

- “ADR” are to the American depositary receipts, which, if issued, evidence our ADSs;
- “ADSs” are to our American depositary shares, each of which represents three Class A ordinary shares;
- “China” and the “PRC” are to the People’s Republic of China, excluding, for the purposes of this annual report only, Taiwan and the special administrative regions of Hong Kong and Macau;
- “Concord Medical,” “we,” “us,” “our company” and “our” are to Concord Medical Services Holdings Limited, its predecesso entities and its consolidated subsidiaries;
- “ordinary shares” are to our ordinary shares, par value US$0.0001 per share, which can be divided into Class A ordinary shares and Class B ordinary shares;
- “PRC subsidiaries” are to our subsidiaries incorporated in the People’s Republic of China, including Beijing Meizhong Jiahe Hospital Management Co., Ltd. (formerly known as CMS Hospital Management Co., Ltd., “Meizhong Jiahe” or “MHM”), Beijing Yundu Internet Technology Co., Ltd. (“Yundu”), Shenzhen Aohua Medical Technology Development Co., Ltd. (“Aohua Technology”), Tianjin Concord Medical Technology Limited (formerly known as Tianjing Kangmeng Radiology Equipment Management Co., Ltd, “Tianjin Concord Medical”), Medstar (Shanghai) Leasing Co., Ltd. (“Shanghai Medstar”), Guangzhou Concord Cancer Center Co., Ltd. (formerly known as Guangzhou Concord Cancer Hospital Co., Ltd., “Guangzhou Concord Cancer Center”), Beijing Century Friendship Science & Technology Development Co., Ltd. (“Beijing Century Friendship”), Guangzhou Jinkangshenyou Investment Co., Ltd., Shanghai Concord Cancer Center Co., Ltd (formerly known as Shanghai Concord Cancer Hospital Co., Ltd., “Shanghai Concord Cancer Center” or “SHC”), Shenzhen Concord Medical Investment Limited, Beijing Proton Medical Center Co., Ltd. (“Beijing Proton Medical Center”), Shanghai Taifeng Medical Technology Ltd., Datong Meizhong Jiahe Cancer Center, Wuxi Concord Medical Development Ltd., Taizhou Concord Leasing Co., Ltd., Beijing Concord Medical Technology Co., Ltd., Guofu Huimei (Tianjin) Investment Management Partnership Firm (LP) (“Guofu Huimei”) and Shanghai Meizhong Jiahe Cancer Center Co., Ltd. (also known as Shanghai Concord Medical Cancer Center, “Shanghai Meizhong Jiahe Cancer Center” or “CMCC”);
- “RMB” and “Renminbi” are to the legal currency of China;
- “US$” and “U.S. dollars” are to the legal currency of the United States;

- “£” is to the legal currency of the United Kingdom of Great Britain and Northern Ireland; and
- “SGD” and “Singapore dollars” are to the legal currency of Singapore.

Our reporting currency is the Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars for the convenience of the reader. Conversions of Renminbi into U.S. dollars in this annual report are based on the noon buying rate for U.S. dollars in the City of New York for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.8755 to US$1.00, the noon buying rate in effect as of December 31, 2018.

We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. On April 26, 2019, the noon buying rate was RMB6.7282 to US$1.00.

Part I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated statements of comprehensive income (loss) and other consolidated financial data for the years ended December 31, 2016, 2017 and 2018 (other than the income (loss) per ADS data) and the selected consolidated balance sheets data as of December 31, 2017 and 2018 have been derived from our audited consolidated financial statements, which are included elsewhere in this annual report on Form 20-F. The selected consolidated statements of comprehensive income (loss) data for the years ended December 31, 2014 and 2015 and the selected consolidated balance sheets data as of December 31, 2014, 2015 and 2016 have been derived from our audited consolidated financial statements, which are not included in this annual report on Form 20-F.

You should read the selected consolidated financial data in conjunction with those financial statements and the related notes and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report on Form 20-F. Our consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”). Our historical results are not necessarily indicative of our results expected for any future periods.

	Year Ended December 31,					
	2014	2015	2016	2017	2018	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands, except share, per share and per ADS data)					

Selected Consolidated Statements of Comprehensive Income (Loss) Data						
Revenues, net of business tax, value-added tax and related surcharges	606,883	616,485	455,042	330,977	190,898	27,765
Cost of revenues	(274,562)	(353,336)	(286,543)	(232,979)	(171,136)	(24,891)
Gross profit	332,321	263,149	168,499	97,998	19,762	2,874
Operating expenses:						
Selling expenses[(1)]	(95,096)	(112,815)	(70,093)	(43,608)	(21,718)	(3,159)
General and administrative expenses[(2)]	(53,576)	(132,952)	(205,908)	(237,646)	(291,854)	(42,448)
Impairment of long-lived assets	—	(23,125)	(61,124)	(28,600)	(5,433)	(790)
Other operating income	—	—	—	—	—	—
Operating income (loss)	183,649	(5,743)	(168,626)	(211,856)	(299,243)	(43,523)
Interest expense	(53,470)	(53,214)	(89,327)	(89,959)	(46,232)	(6,724)
Foreign exchange gain, net	9,585	10,348	13,472	4,023	36,531	5,313
(Loss) gain on disposal of long-lived assets	(3,955)	(4,220)	(7,619)	(31,437)	4,711	685
Interest income	21,208	22,447	27,982	12,077	14,168	2,061
Changes in fair value of derivatives	2,605	33,731	713	—	—	—
Loss on debt extinguishment	—	(36,648)	—	—	—	—
Income (loss) from equity method investments	13,911	(5,572)	616	1,454	(20,747)	(3,018)
Gain on disposal of subsidiaries	—	16,381	—	58,913	3,341	486
Other income, net	2,113	17,236	18,191	2,890	34,206	4,975
Gain on disposal of an equity method investment	—	—	—	—	48,019	6,984
Income (loss) from continuing operations before income taxes	175,646	(5,254)	(204,598)	(253,895)	(225,246)	(32,761)
Income tax expenses	(80,850)	(74,025)	(60,486)	(31,789)	(34,051)	(4,953)
Net income (loss) from continuing operations	94,796	(79,279)	(265,084)	(285,684)	(259,297)	(37,714)
Net income (loss) from discontinued operations	25,476	—	—	—	—	—
Net income (loss)	120,272	(79,279)	(265,084)	(285,684)	(259,297)	(37,714)
Net loss attributable to non-controlling interests	(4,437)	(975)	(3,217)	(1,364)	(24,422)	(3,552)
Net income (loss) attributable to Concord Medical Services Holdings Limited	124,709	(78,304)	(261,867)	(284,320)	(234,875)	(34,162)
Earnings (loss) per share for Class A and Class B ordinary shares						
From continuing operations	0.70	(0.58)	(2.00)	(2.19)	(2.76)	(0.40)
From discontinued operations	0.22	—	—	—	—	—
Basic/Diluted	0.92	(0.58)	(2.00)	(2.19)	(2.76)	(0.40)
Earnings (loss) per ADS						
From continuing operations	2.10	(1.75)	(6.00)	(6.56)	(8.28)	(1.20)
From discontinuing operations	0.66	—	—	—	—	—
Basic/Diluted	2.76	(1.75)	(6.00)	(6.56)	(8.28)	(1.20)

(1) Our selling expenses included share-based compensation of RMB0.7 million in 2014, RMB0.8 million in 2015, RMB0.8 million in 2016, RMB1.5 million in 2017 and RMB2.0 million (US$0.3 million) in 2018.

(2) Our general and administrative expenses included share-based compensation of RMB6.6 million in 2014, RMB7.3 million in 2015, RMB7.6 million in 2016, RMB10.1 million in 2017 and RMB9.2 million (US$1.3 million) in

2018.

2

	As of December 31,					
	2014	2015	2016	2017	2018	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
Selected Consolidated Balance Sheet Data						
Cash and cash equivalents	478,682	485,440	189,905	98,191	404,742	58,8
Total current assets	1,463,682	1,501,117	1,194,856	1,111,136	1,228,692	178,
Property, plant and equipment, net	749,683	918,815	775,338	793,571	1,219,309	177,
Goodwill	—	—	—	—	165,171	24,0
Intangible assets, net	61,243	43,453	17,188	7,799	456,844	66,4
Total assets	2,959,332	3,593,591	3,228,603	3,465,390	4,585,394	666,
Long-term bank and other borrowings, current portion	246,233	350,786	82,632	197,139	44,068	6,40
Total current liabilities	769,819	1,507,246	951,059	1,108,171	870,265	126,
Total non-current liabilities	389,455	652,557	1,045,774	1,342,301	1,441,248	209,
Contingently redeemable noncontrolling interest	—	—	—	—	1,720,366	250,
Total equity	1,800,058	1,433,788	1,231,770	1,014,918	553,515	80,5
Total liabilities, mezzanine equity and equity	2,959,332	3,593,591	3,228,603	3,465,390	4,585,394	666,
Selected Consolidated Statements of Cash Flow Data						
Net cash generated from (used in) operating activities	490,381	(175,138)	(78,078)	26,732	(38,591)	(5,61
Net cash generated from (used in) investing activities[(1)]	287,055	(391,083)	(74,847)	(313,010)	(1,000,355)	(145
Net cash (used in) generated from financing activities	(579,144)	590,398	(117,922)	189,899	1,203,042	174,
Effect of foreign exchange rate changes on cash and cash equivalent and restricted cash	(2,643)	(17,419)	(11,240)	157	459	67
Net increase (decrease) in cash[(2)]	195,649	6,758	(282,087)	(96,222)	164,555	23,9

(1) Net cash used in investing activities in 2016 included prepayments in long-term investments of RMB181.5 million and acquisitions of property, plant and equipment of RMB79.0 million. Net cash generated from investing activities in 2016 included proceeds from principal portion of direct financing leases of RMB108.1 million and cash arising from the consolidation of Beijing Century Friendship and Beijing Proton Medical Center of RMB26.2 million. Net cash used in investing activities in 2017 included acquisitions of and deposits for the purchases of property, plant and equipment of RMB289.1 million and investments in equity method investees of RMB97.8 million. Net cash generated from investing activities in 2017 included proceeds from disposal of property, plant and equipment of RMB38.1 million and proceeds from principal portion of direct financing leases of RMB61.9 million. Net cash used in investing activities in 2018 included acquisitions and deposits for the purchases of property, plant and equipment of RMB764.4 million (US$111.2 million) and acquisitions of Guofu Huimei, Shanghai Meizhong Jiahe Cancer Center, Beijing Century Friendship and Beijing Proton Medical Center, net of cash acquired, RMB528.7 million (US$76.9 million) and purchase of short-term investments of RMB252.3 million (US$36.7 million). Net cash generated from investing activities in 2018 included redemption from short-term investments of RMB202.3 million (US$29.4 million), proceeds from disposal of other investment of RMB212.9 million (US$31.0 million) and proceeds from disposal of property, plant and equipment of RMB113.0 million (US$16.4 million).

(2) Net increase (decrease) in cash in 2016 and 2017 was adjusted due to our adoption of Accounting Standards Update ("ASU") No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, ("ASU 2016-18"), effective January 1, 2018 using the retrospective transition method and included all restricted cash with cash and cash equivalent when reconciling beginning-of-period and end-of-period total amounts presented in the consolidated statements of cash flows.

	Year Ended December 31,					
	2014	2015	2016	2017	2018	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
Total net revenues generated by our primary medical equipment under lease and management services arrangements:						
Linear accelerators	144,694	111,922	98,251	56,959	32,865	4,780
Head gamma knife systems	58,509	53,895	27,514	14,833	8,291	1,206
Body gamma knife systems	31,478	32,959	16,499	9,286	12,356	1,797
PET-CT scanners	116,078	140,598	96,848	57,288	1,058	154
MRI scanners	103,197	106,085	77,969	60,854	44,031	6,404
Others[(1)]	57,635	79,749	61,642	46,214	9,877	1,437
Total net revenues — lease and management services	511,591	525,208	378,723	245,434	108,478	15,778

(1) Included computed tomography ("CT") scanners and emission computed tomograms ("ECT") scanners for diagnostic imaging, electroencephalography for the diagnosis of epilepsy and a CyberKnife.

B. Capitalization and Indebtedness

Not Applicable.

3

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Company

We plan to establish and operate proton centers, premium cancer hospitals and specialty cancer hospitals that will be majority owned by us and are subject to significant risks.

As part of our growth strategy, we plan to establish and operate proton centers, premium cancer hospitals and specialty cancer hospitals that will focus on providing a variety of radiotherapy services as well as diagnostic imaging services, chemotherapy and surgery. For example, at Beijing Proton Medical Center, our planned proton center, we plan to offer proton beam therapy treatment services with which we have had no prior experience.

Since we have limited experience in operating our own centers and hospitals, or in providing many of the services that we plan to offer in such centers and hospitals, such as chemotherapy treatments, surgical procedures or proton beam therapy, we may not be able to provide as high a level of service quality for those treatment options as compared to the other treatments that we offer at our network of centers, which may result in damage to our reputation and growth prospects.

In addition, we may not be successful in recruiting qualified medical professionals to effectively provide the services that we intend to offer in our own centers and hospitals. Although our brand name is well known among referring doctors, patients are not familiar with our brand as we do not carry our own brand name in our network of centers under our existing agreements with our hospital partners. Therefore, when we establish our own centers and hospitals under our brand name, we may not be able to immediately gain wide acceptance among patients and, thus, may be unable to attract a sufficient number of patients to our new centers and hospitals.

We plan to carry out a number of large-scale hospital construction projects in the near future, which requires a substantial increase in capital expenditures. Our operational and financial conditions and results will be adversely affected if we cannot effectively manage our capital expenditures.

We are in the process of establishing Beijing Proton Medical Center. The construction commenced in June 2017, with an estimated construction period of two years. We also commenced construction of Shanghai Concord Cancer Center in September 2017, with an estimated construction period of three years. We also commenced construction of Guangzhou Concord Cancer Center in November 2017, with an estimated construction period of two years. All these cities are considered top-tier cities in China, with large and nationally-renowned government hospitals. To attract patients, our planned proton center and premium cancer hospitals need to train our staff members properly, provide services and treatment environment superior to local hospitals and install high-end equipment, including CyberKnife, positron emission tomography–magnetic resonance ("PET-MR") and proton beam therapy.

The required capital expenditures will be substantial. Planning, designing and constructing the proton center and premium cancer hospitals will be time consuming and complex, and will require a dedicated team in our company. We do not have prior experience and existing team in managing hospital projects of the planned size. If we cannot manage the process properly, our operating and financial results will be adversely affected.

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

We plan to build proton centers, premium cancer hospitals and specialty cancer hospitals in multiple regions in China. Unlike our current cooperative centers, these free-standing centers and hospitals will not be affiliated with local government hospitals. While current healthcare reform policies encourage the establishment of private medical institutions, the implementation process will be complex, time-consuming and subject to uncertainty.

We are identifying suitable regions for free-standing centers and hospitals by considering a number of factors, including regional market size, existing competition and potential strategic partners. There are uncertainties regarding how successfully we can identify the suitable market, acquire required government approvals in a timely manner and control planned investments. In addition, we may face competition from our existing cooperative centers.

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

Our growth has depended on our ability to expand our network of radiotherapy and diagnostic imaging centers by entering into new agreements primarily with top-tier hospitals in China. These hospitals are 3A hospitals, the highest ranked hospitals by quality and size in China determined in accordance with the standards of the National Health Commission of the PRC (formerly the National Health and Family Planning Commission of the PRC) (the “NHC”). The hospitals typically enter into long-term agreements with us and our competitors with terms of up to 20 years.

As a result, in any locality or at any given time, only a limited number of top-tier hospitals may have not already entered into long-term agreements with us or our competitors. In addition, quotas imposed by government authorities as to the number and type of certain medical equipment that can be purchased, such as head gamma knife systems or positron emission tomography-computed tomography (“PET-CT”) scanners, will limit the number of top-tier hospitals with which we or our competitors can enter into agreements in a given period. See “—Risks Related to Our Industry—Healthcare administrative authorities in China currently set procurement quotas for certain types of medical equipment.”

Due to the limited supply of suitable top-tier hospitals and increasing competition, we may not be able to enter into agreements with new hospital partners or renew agreements with existing hospital partners on terms as favorable as those that we have been able to obtain in the past, or at all. Certain competitors may have greater financial resources than we do, which may provide them with an advantage in negotiating new agreements with hospitals, including our existing hospital partners. In addition, if adequate funding becomes available for hospitals to purchase medical equipment directly, hospitals may purchase and manage radiotherapy and diagnostic imaging equipment on their own instead of entering into or renewing agreements with us or our competitors.

If we are unable to enter into agreements with new hospital partners or renew existing agreements on favorable terms, or at all, or if hospitals purchase and manage their own medical equipment, our growth prospects could be materially and adversely affected. Finally, the development of new cooperative centers generally involves a ramp-up period during which the operating efficiency of such cooperative centers may be lower than our established cooperative centers, which may negatively affect our profitability.

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

We have historically derived a large portion of our total net revenues from a limited number of partner hospitals. In 2016, 2017 and 2018, net revenues derived from our top five hospital partners amounted to approximately 27.7%, 32.7% and 35.0%, respectively, of our total net revenues. The largest hospital partner accounted for 9.9%, 12.5% and 9.7% of our total net revenues during those periods, respectively.

Cooperative centers located in Shandong Province, Beijing and Shanghai accounted for 11.5%, 11.3% and 10.3%, respectively, of our total net revenue in 2016. Cooperative centers located in Shandong Province, Beijing and Shanghai accounted for 10.5%, 10.9% and 13.0%, respectively, of our total net revenue in 2017. Cooperative centers located in Shandong Province, Henan Province and Hubei Province accounted for 13.0%, 12.2% and 8.6%, respectively, of our total net revenue in 2018.

Such revenue concentration may continue in the future. Due to the concentration of our revenues and our dependence on a limited number of hospital partners, any one or more of the following events may cause material fluctuations or declines in our revenues and materially adversely affect our financial condition, results of operations and prospects:

- reduction in the number of patient cases at the cooperative centers located at these hospital partners;

- loss of key experienced medical professionals;
- decrease in the profitability of such centers;
- failure to maintain or renew our agreements with these hospital partners;
- any failure of these hospital partners to pay us our contracted percentage of any such center's revenue net of specified operating expenses;
- any regulatory changes in the geographic areas where our hospital partners are located; or
- any other disputes with these hospital partners.

In addition, the top ten of our hospital partners in terms of revenue contribution, accounted for 58.2% of our total network accounts receivable as of December 31, 2018. Any significant delay in the payment of such accounts receivable could materially impact our financial condition and results of operations.

We conduct our business in a heavily regulated industry.

The operation of our network of centers and our hospitals is subject to laws and regulations issued by a number of government agencies at the national and local levels. These rules and regulations relate mainly to the procurement of large medical equipment, the pricing of medical services, the operation of radiotherapy and diagnostic imaging equipment, the licensing and operation of medical institutions, the licensing of medical staff and the prohibition on non-profit civilian medical institutions from entering into cooperation agreements with third parties to set up for-profit centers that are not independent legal entities. Our growth prospects may be constrained by such rules and regulations, particularly those relating to the procurement of large medical equipment.

If we or our hospital partners fail to comply with such applicable laws and regulations, we could be required to make significant changes to our business or suffer fines or penalties, including the potential loss of our business licenses, the suspension from use of our medical equipment, and the suspension or cessation of operations at cooperative centers in our network. In addition, many of the agreements we have entered into with our hospital partners provide for termination in the event of major government policy changes that cause the agreements to become unenforceable. Our hospital partners may invoke such termination rights to our disadvantage.

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

Our success depends in part on our and our hospital partners' ability to recruit, train, manage and retain doctors and other medical professionals. Although we may help our hospital partners to identify and recruit suitable, qualified doctors and other medical professionals, almost all of these medical professionals in our network of centers are employed by our hospital partners rather than by us. As a result, we may have little control over whether such medical professionals will continue working in cooperative centers in our network.

In addition, a limited pool of qualified medical professionals possess expertise and experience in radiotherapy and diagnostic imaging in China and Singapore. We and our hospital partners face competition for such qualified medical professionals from other public hospitals, private healthcare providers, research and academic institutions and other organizations. If we or our hospital partners fail to recruit and retain a sufficient number of these medical professionals, the resulting shortage could adversely affect the operation of cooperative centers in our network and our hospital and our growth prospects.

Any failure by our hospital partners to make contracted payments to us or any disputes over, or significant delays in receiving, such payments could materially adversely affect our business and financial condition.

We have established most of the cooperative centers in our network through long-term lease and management services arrangements with our hospital partners. We also provide management services to certain radiotherapy and diagnostic imaging centers through service-only agreements. Our hospital partners typically collect payments for treatment and diagnostic imaging services provided in cooperative centers in our network and then transfer our contracted percentage of such revenue net of specific operating expenses to us on a periodic basis.

Our total outstanding accounts receivable from our hospital partners were RMB188.7 million, RMB127.2 million and RMB77.0 million (US$11.2 million) as of December 31, 2016, 2017 and 2018, respectively. As of December 31, 2018, approximately 13% of the accounts receivable for our network business reported on our consolidated balance sheets as of December 31, 2017 were still outstanding.

Any failure by our hospital partners to pay us our contracted percentage, or any disputes over, or significant delays in, receiving such payments from our hospital partners could negatively impact our financial condition. Accordingly, any failure by us to maintain good working relationships with our hospital partners, or any dissatisfaction of our hospital partners with our services, could negatively affect our cooperative centers and our ability to collect revenue; reduce the likelihood that our agreements with hospital partners will be renewed; damage our reputation; and otherwise materially adversely affect our business, financial condition and results of operation.

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

We have historically complemented our organic development of new centers and hospitals by selectively acquiring hospital businesses in China and overseas or assets or forming joint ventures, and we may continue to do so in the future. For example, in December 2012, we acquired 19.98% of the equity interests in The University of Texas MD Anderson Cancer Center Proton Therapy Center (the “MD Anderson Proton Therapy Center”), a leading proton treatment center globally. In August 2015, we acquired an additional 7.04% of the equity interests in this entity. In April 2015, we acquired a 100% equity interest in Concord International Hospital (“Concord International Hospital”) from Fortis Healthcare International Pte. Ltd. (“Fortis Healthcare International”). In January 2016, we acquired a 100% equity interest in Beijing Century Friendship, which held a 55% equity interest in Beijing Proton Medical Center. As a result of various subsequent restructurings, we indirectly held a 58% equity interest in Beijing Proton Medical Center through Beijing Century Friendship and King Cheers Holdings Limited (“King Cheers”) as of December 31, 2018.

The identification of suitable acquisition targets or joint venture candidates can be difficult, time consuming and costly, and we may not be able to successfully capitalize on identified opportunities. We may not be able to grow our business as anticipated if we are unable to successfully identify and complete potential acquisitions in the future. Even if we successfully complete an acquisition or establish a joint venture, we may not be able to successfully integrate the acquired businesses or assets or cooperate successfully with the joint venture partner.

For example, in December 2014 we disposed of our 52% equity interest in Chang’an Hospital which we acquired in 2012, in order to concentrate on building a nationwide network of diagnosis and treatment centers and hospitals.

Integration of acquired businesses or assets or cooperation with joint venture partners can be expensive, time consuming and may strain our resources. Such integration or cooperation could also require significant attention from our management team, which may divert key members of our management's focus from other important aspects of our business.

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

We had net current liabilities historically and we may experience net current liabilities in the future.

Historically, we had net current liabilities as a result of our acquisition of Concord International Hospital and investment in additional equity interests in the MD Anderson Proton Therapy Center in 2015. As of December 31, 2017 and 2018, we had net current assets of RMB3.0 million and RMB358.4 million (US$52.1 million), respectively. We believe that our current cash and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months. However, we could have net current liabilities in the future.

If we fail to generate current assets to the extent that the aggregate amount of our current assets exceeds the aggregate current liabilities, we will record net current liabilities. If we have significant net current liabilities for an extended period of time, our working capital for purposes of our operations may be subject to constraints, which may materially adversely affect our business, financial condition and results of operations.

Government authorities may interpret regulations to find that our lease and management agreements are not in compliance with relevant regulations.

Our lease and management agreements with civilian public hospital partners provide that our revenues from hospital-based centers are to be calculated based on contracted percentages of each center's revenue net of specified operating expenses. We believe these agreements comply with the Implementation Opinions on the Classified Management of Urban Medical Institutions and the Opinions on Certain Issues Regarding Classified Management of Urban Medical Institutions.

However, the NHC or other competent authorities could interpret these regulations differently, and determine that our lease and management agreements do not comply with such regulations. As a result, such authorities could declare our lease and management agreements to be void, order our civilian hospital partners to terminate such agreements with us, order our civilian hospitals partners to suspend or cease operation of the centers governed by such agreements, suspend the use of our medical equipment, or confiscate revenues generated under noncompliant agreements.

Furthermore, we may have to change our business model which may not be successful. If any of the above were to occur, our business, financial condition and results of operation could be materially and adversely affected.

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

There may be corrupt practices in the healthcare industry in China. Our competitors, other service providers or their personnel or equipment manufacturers may engage in corrupt practices to influence hospital personnel or other decision-makers in violation of the anti-corruption laws of China and the U.S. Foreign Corrupt Practices Act (the "FCPA").

We have adopted a policy regarding compliance with the anti-corruption laws of China and the FCPA to prevent, detect and correct such corrupt practices. However, as competition persists and intensifies in our industry, we may lose potential hospital partners, patient referrals and other opportunities if our competitors engage in such practices or other illegal activities. In addition, our partner hospitals or the doctors or other medical personnel who work in our network of centers may engage in corrupt practices without our knowledge to procure patient referrals to cooperative centers in our network.

Although our policies prohibit such practices, we have limited control over the actions of our hospital partners or the actions of the doctors and other medical personnel who work in our network of centers since we do not formally employ these individuals. If any of them engages in such illegal practices with respect to patient referrals or other matters, we or the cooperative centers in our network may be subject to sanctions or fines and our reputation may be adversely affected by negative publicity stemming from such incidents.

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

We rely on the doctors and other medical professionals who work in our network and our hospital to make proper clinical decisions regarding the diagnosis and treatment of their patients. We develop treatment protocols for doctors, provide periodic training for medical professionals in our network of centers on proper treatment procedures and techniques, and host seminars and conferences to facilitate consultation among doctors in our network of centers. However, we ultimately rely on our hospital partners to maintain proper control over the clinical activities of each cooperative center and over the doctors and other medical professionals who work in these centers.

Any incorrect clinical decisions by doctors and other medical professionals or any failure by our hospital partners to properly manage the clinical activities of each cooperative center may result in unsatisfactory treatment outcomes, patient injury or possibly death. Although part of the liability for any such incidents may rest with our partner hospitals and the doctors and other medical professionals they employ, we may be made a party to any such liability claim. Regardless of its merit or eventual outcome, these claims could result in significant legal defense costs for us, harm our reputation, and otherwise materially adversely affect our business, financial condition and results of operations.

Since commencing operations, the cooperative centers in our network have experienced claims as to a limited number of medical disputes. We must generally account for expenses resulting from such liability claims as expenses of the relevant cooperative center, which could reduce our revenue from such center. Furthermore, any incorrect clinical decisions on the part of doctors and other medical professionals in our own hospital or our failure to properly manage the clinical activities of our own hospital will subject us to direct liability claims for any such accidents. These claims could result in significant legal defense costs, harm our brand name and materially adversely affect our business, financial condition and results of operations.

We do not carry professional malpractice liability insurance or other liability insurance at many cooperative centers in our network because the professional malpractice liability insurance is to be purchased by the hospital partners. At our own hospitals that we do carry the professional malpractice liability insurance or other liability insurance, it may not be sufficient to cover any potential liability resulting from such claims. For our planned proton center, premium cancer hospitals and specialty cancer hospitals, we will likely face direct liability claims for any such incidents.

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

Our planned proton center, premium cancer hospitals and specialty cancer hospitals are under development or held for future development. Once we start operating these hospitals, claims alleging medical malpractice against us in these hospitals may arise from time to time. We may also need to obtain certain types of insurance that we do not currently carry for the coverage of additional liability exposure associated with operating these hospitals.

However, such insurance coverage may not be available at a reasonable price and we may not be able to maintain adequate levels of liability insurance coverage, if at all. Any failure for us to maintain sufficient liability insurance coverage for operating of these hospitals at a reasonable price could subject us to substantial cost and diversion of resources arising out of liability claim. Such insurance coverage could also increase our expenses and decrease our profitability, which would adversely affect our business, financial condition and results of operations.

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

Our business exposes us to liability risks inherent in operating complex medical equipment, which may contain defects or experience failures. We rely to a large degree on equipment manufacturers to provide adequate technical training on the proper operation of our complex medical systems to the medical technicians who work in our network of centers. If such medical technicians are not properly and adequately trained by the equipment manufacturers or by us, they may misuse or ineffectively use the complex medical equipment in our network of centers.

These medical technicians may also make errors in operating the complex medical equipment even if they are properly trained. Any medical equipment defects or failures or any failure of the medical personnel who work in the cooperative centers to properly operate the medical equipment could result in unsatisfactory treatment outcomes, patient injury or possibly death.

Although the liability for any such incidents rests with the equipment manufacturers or the medical technicians, we may be made a party to any such liability claim. Any such claim, regardless of its merit or eventual outcome, could result in significant legal defense costs, harm our reputation, and otherwise materially adversely affect our business, financial condition and results of operations.

In addition, we could account for any expenses resulting from such liability claims as expenses of the cooperative center, which could reduce our revenue derived from such center. We do not carry product liability insurance at any of the cooperative centers in our network.

Any downtime for maintaining or repairing our medical equipment could lead to business interruptions that could be expensive and harmful to our reputation and to our business.

Significant downtime associated with maintaining or repairing medical equipment in our network of centers and hospital would result in the inability of our cooperative centers and hospitals to provide radiotherapy treatment or diagnostic imaging services to patients in a timely manner. We primarily rely on equipment manufacturers or third party service companies for maintenance and repair services.

The failure of manufacturers or third party service companies to provide timely repairs could interrupt the operation of our cooperative centers in our network and our hospital for extended periods of time. Such extended downtime could result in lost revenues for us and our partner hospitals, dissatisfaction of our patients and our partner hospitals and damage to the reputation of the cooperative centers in our network, our partner hospitals, our own hospital and our company.

We rely on a limited number of equipment manufacturers.

Much of the medical equipment in our network of centers and our hospital is highly complex and produced by a limited number of equipment manufacturers. These equipment manufacturers provide training on the proper operation of our medical equipment, as well as maintenance and repair services for such equipment, to the medical personnel who work in the cooperative centers in our network and hospital.

Any disruption in the supply of medical equipment or services from these manufacturers, including as a result of failure by any such manufacturers to obtain requisite third-party consents and licenses for the intellectual property used in the equipment they manufacture, may delay the development of new cooperative centers and our planned hospitals. Any such disruption could also negatively affect the operation of cooperative centers and our hospital and could materially adversely affect our business, financial condition and results of operations.

We may fail to protect our intellectual property rights or we may be exposed to misappropriation and infringement claims by third parties, either of which may materially adversely affect our business.

We have applied for and obtained the registration of our trademark “Medstar” and a total of 52 other trademarks, including “Concord Medical,” in China to protect our corporate name. As of December 31, 2018, we also owned the rights to 132 domain names that we use in connection with our business. We believe that such domain names enhance our marketing efforts for the treatments and services provided in our network and enhance patients’ knowledge as to cancers, the benefits of radiotherapy and the various treatment options available. Our failure to protect our trademark or such domain names may undermine our marketing efforts and result in harm to our reputation and the growth of our business.

Equipment manufacturers from whom we purchase equipment may not have all required third-party consents and licenses for the intellectual property used in the equipment they manufacture. As a result, those equipment manufacturers may be exposed to risks associated with intellectual property infringement and misappropriation claims by third parties. In turn, we may be subject to claims that the equipment we have purchased infringes the intellectual property rights of third parties.

We have in the past been subject to, and may in the future be subject to, such claims by third parties. As a result, we may be named as a defendant in, or joined as a party to, intellectual property infringement proceedings against equipment manufacturers relating to any equipment we have purchased. If a court determines that equipment we have purchased from our equipment manufacturers infringes the intellectual property rights of any third party, we may be required to pay damages to such third party. The cooperative centers in our network may also be prohibited from using such equipment, which could damage our reputation and materially adversely affect our business prospects, financial condition and results of operations.

In addition, any such proceeding may be costly to defend and divert our management's attention and other resources away from our business. Furthermore, the standard equipment purchase agreements that we enter into with our equipment manufacturers typically do not contain indemnification provisions for intellectual property claims. Although we have obtained a specific indemnity from one equipment manufacturer for a patent infringement claim, we may not be able to recover damages, lost profits or litigation costs resulting from any intellectual property infringement claims or proceedings in which we are a party.

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

Damage to, or the loss of, such uninsured equipment due to natural disasters, such as fires, floods or earthquakes, could adversely affect our financial condition and results of operation. In addition, the operations of our network of centers and our hospital may be vulnerable to natural disasters that disrupt transportation since many patients travel long distances to reach such centers and hospital. We do not have any business interruption insurance.

Any business disruption could result in substantial expenses and diversion of resources and could materially adversely affect our business, financial condition and results of operations. For example, the strong earthquake that struck Sichuan Province in May 2008 resulted in the suspension of operations at three of our cooperative centers in Chengdu, the provincial capital of Sichuan Province, for approximately one month due to the diversion of hospital resources toward the treatment of earthquake victims.

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

Most of the radiotherapy and diagnostic imaging equipment in our network of centers and our hospital, including gamma knife systems, proton beam therapy systems, linear accelerators and PET-CT systems, contain radioactive materials or emit radiation during operation. Radiation and radioactive materials are extremely hazardous unless properly managed and contained. Any accident or malfunction that results in radiation contamination could harm human beings, subject us to significant legal expenses and harm to our reputation.

Although equipment manufacturers and our hospital partners and their staff may bear some or all of the liability and costs associated with any accidents or malfunctions, if we are found to be liable in any way we may also face severe fines, legal reparations and possible suspension of our operating permits. Any of the foregoing could materially adversely affect our business, results of operations and financial condition. In addition, certain of our medical equipment require the periodic replacement of their radioactive source materials.

We do not directly oversee the handling of radioactive materials during the replacement or reloading process or during the disposal process. Any failure of our hospital partners or us to handle or dispose of such radioactive materials in accordance with PRC and Singapore laws and regulations may adversely affect the operation of such centers and hospital.

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

The cooperative centers in our network collect and store medical data from radiotherapy treatments for training doctors providing services in our cooperative network and improving the effectiveness of the treatments provided in our network of centers. In addition, doctors in our network utilize such medical data to conduct clinical research. We do not make any such medical data public and retain such medical data for our internal use and for research purposes by doctors upon the approval of our medical affairs department and our hospital partners.

Chinese regulations governing the use of such medical data remain in development but do not impose restrictions on the internal use of such data as long as we have the permission of our hospital partners who have ownership of such data. Any change in the regulations governing the use of such medical data could adversely affect our ability to use such medical data and could subject us to liability for past use of such data, either of which could materially adversely affect our business and financial results.

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

The majority of patients in our network of centers are covered under national basic medical insurance. We settle payments with local medical insurance agencies on a regular basis. However, our planned proton centers and premium cancer hospitals will offer high-end radiotherapy and other services that may not be covered under the national basic medical insurance program. Our patients need to self-pay or be covered under various commercial insurance coverages.

We will need to negotiate with various insurance companies, both domestic and international, to enroll our hospitals in their coverages. Since February 28, 2019, the nuclear magnetic resonance imaging and cancer radiotherapy services and the basic medical services, including general outpatient registration, chemotherapy, linear accelerator radiotherapy, blood examination, image examination (such as nuclear magnetic resonance, CT, ultrasound, molybdenum target, electrocardiogram), medicines and consumables, of our Shanghai Meizhong Jiahe Cancer Center's basic medical services have been fully covered by Shanghai basic medical insurance. However, we cannot assure you that we can establish and manage the business relationship with insurance companies properly and effectively. Without the insurance coverage, our future revenue may not meet our forecasts and profitability will be adversely affected. We may also face collection risks as insurance companies may not pay for certain clinical procedures.

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

Recently, patient-doctor conflicts and litigation have increased in China. Patients in China are demanding higher-service quality of the medical services and treatments they receive from hospitals. In our centers and hospitals, we also deal with patient disputes and litigation due to real or perceived medical incidents and practices. While we offer periodic training to all medical staff in our centers and hospitals, our patients may still raise issues with treatment procedures, especially cancer patients who experience higher than expected side-effects, sometimes resulting in unexpected deaths.

While our cooperative centers and our hospitals in operation are covered by medical malpractice insurance and we have also purchased bodily-injury insurance for our medical staff, the process to reach a settlement, typically in the form of a financial settlement under the medical malpractice insurance, is time-consuming. The settlement process also requires our management team to divert attention from the normal operation of the centers and hospital. If we cannot properly handle the medical disputes in our centers and hospitals, we may face increasing risks of litigation and our reputation among patients may be adversely affected.

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

The financial and operational performance of our existing hospital and our planned proton center, premium cancer hospitals and specialty cancer hospitals depend on our ability to attract and retain quality doctors, nurses, hospital administrators and managers. Under the regulatory environment in China, doctors and nurses remain affiliated with hospitals and their professional registration and accreditation require the approval of hospitals they serve. The government policy is relaxing on the mobility of doctors and other medical professionals, such as the policy to allow "multiple-location practices" for doctors. However, full enactment and implementation may take time and vary from region to region.

To attract, train and retain qualified doctors, nurses and hospital managers, we may need to offer compensation packages superior to those of government hospitals, provide more professional training opportunities, such as overseas training and exchange, and include the medical team in our employee share incentive plan. These measures may result in higher compensation and administrative expenses and adversely affect our financial and operational results.

Our business is subject to seasonality.

During a fiscal year, the first quarter usually sees fewest patient visits, both inpatient and outpatient, mainly due to the Chinese New Year. The fourth quarter is usually the busiest quarter during the year, as most patients, especially patients from the rural areas, will have more free time to visit hospitals. Since our cooperative centers are located within the government hospitals, they are subjected to seasonality of patient traffic as well.

Our planned proton center, premium cancer hospitals and specialty cancer hospitals will also be affected by seasonality, although to a lesser degree, as cancer patients need to receive treatment and diagnosis immediately. If we cannot manage and mitigate the seasonality effectively, our financial and operational results will be adversely affected.

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

We depend on the key members of our management team and of our material subsidiaries, including Dr. Jianyu Yang, chairman and our chief executive officer, Mr. Jing Zhang, consultant of Beijing Meizhong Jiahe Hospital Management Co., Ltd. and the chairman of Beijing Proton Medical Center and Datong Meizhong Jiahe Cancer Center, and Mr. Yaw Kong Yap, our chief financial officer, as well as other key personnel for the continued growth of our business. The loss of any of these key members or other key personnel could delay the implementation of our business strategy and adversely affect our operations.

Our future success also depends in large part on our ability to attract and retain highly qualified management personnel. The process of hiring suitable, qualified personnel is often lengthy and such talented and highly qualified management personnel is often in short supply in China. If our recruitment and retention efforts are unsuccessful, it may be more difficult for us to execute our business strategy.

We may not always make a similar smooth transition if any executive officers or key personnel leave our company in the future. Although none of the key members of our management team is of retirement age in the near future and we are not aware of any current key members of our management team and of our material subsidiaries or other key personnel planning to retire or leave us, if one or more of such personnel are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Consequently, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers.

In addition, we do not maintain key employee insurance. We have entered into employment agreements and confidentiality agreements with the key members of our management team and other key personnel. However, if any disputes arise between any of our key members of our management team or other key personnel and us, we cannot assure you, in light of uncertainties associated with the PRC legal system, the extent to which any of these agreements could be enforced in China, where all key members of our management team and other key personnel reside and hold some of their assets. See "—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could materially adversely affect us."

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

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

Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or to make removal of management more difficult. If our board of directors issues preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be adversely affected.

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

Our business may require expenditures that exceed our available capital resources. To the extent that our funding requirements exceed our financial resources, we will seek additional financing or defer planned expenditures. We may not be able to obtain these bank loans or additional funds on terms acceptable to us, or at all. In addition, our ability to raise additional funds is subject to a variety of uncertainties, including, but not limited to:

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

If we raise additional funds through equity or equity-linked financings, your equity interest in our company may be diluted. Alternatively, if we incur debt obligations, we may be subject to covenants under the relevant debt instruments that may, among other things, restrict our ability to pay dividends or obtain additional financing, or require us to provide notice or obtain consent for certain significant corporate events.

Some of our loan agreements may contain cross-default provisions where a technical default on one of our obligations under other agreements will trigger a technical default under such agreements. Servicing such debt obligations could also be burdensome to our operations. If we fail to service such debt obligations or are unable to comply with any of these covenants, we could be in default under such debt obligations and our liquidity and financial condition could be materially adversely affected.

If we fail to comply with financial covenants under our loan agreements, our financial condition, results of operations and business prospects may be materially and adversely affected.

We have entered into and may in the future enter into loan agreements containing financial covenants that require us to maintain certain financial ratios. We may not be able to comply with these financial covenants from time to time. If we need to obtain waivers from lenders with respect to prepayment or to amend financial covenants or other relevant provisions under such loan agreements to address potential breaches, we may not be able to reach agreements with the lenders to avoid a breach.

If we are required to repay a significant portion or all of our existing indebtedness prior to their maturity, we may lack sufficient financial resources to do so. A breach of those financial covenants will also restrict our ability to pay dividends. Any of those events could materially adversely affect our financial condition, results of operations and business prospects.

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

In order to secure our bank loans, we granted security interests in equipment with a net carrying value of RMB111.7 million, RMB37.5 million and nil, representing 14.4%, 4.7% and nil of the net value of our net property, plant and equipment of RMB775.3 million, RMB793.6 million and RMB1,219.3 million (US$177.3 million) as of December 31, 2016, 2017 and 2018, in each case respectively. Although we did not grant security interest in equipment to secure our bank loans in 2018, we granted other forms of security, such as prepaid land lease payment and construction in progress, and we cannot assure you that we will not grant security interest in equipment in the future.

Any failure to satisfy our obligations under these loans could lead to the forced sale of our medical equipment that secure these loans, the suspension of the operation of the centers in which such medical equipment is used, or otherwise damage our relationship with our hospital partners and our reputation in the medical community, all of which could materially adversely affect our business, financial condition and results of operation.

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

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

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2018. See "Item 15. Controls and Procedures." Our independent registered public accounting firm has issued an attestation report, which has concluded that our internal control over financial reporting was effective in all material aspects as of December 31, 2018. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could in turn result in loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

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

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

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

We adopted our 2008 share incentive plan on October 16, 2008, which was subsequently amended on November 17, 2009, November 26, 2011 and May 29, 2015 Although the 2008 share incentive plan was terminated on its tenth anniversary of the effective date in October 2018, we are still required to account for share-based compensation in accordance with ASC 718, *Compensation-Stock Compensation*, which requires a company to recognize, as an expense, the fair value of share options and other equity incentives to employees based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award.

We granted the options and/or restricted shares under our 2008 share incentive plan in 2009, 2011, 2014, 2017 and 2018. See details of the grants in "Item 6. Directors, Senior Management and Employees—B. Compensation—Compensation of Directors and Executive Officers—Share Incentive Plans" We did not grant any option under our 2008 share incentive plan in 2010, 2012, 2013, 2015 and 2016.

We granted share options in 2007, before adopting our 2008 share incentive plan, to certain executive officers that were subsequently exercised in 2008.

As a result, we incurred share-based compensation expenses of RMB8.4 million in 2016, RMB11.6 million in 2017 and RMB11.2 million (US$1.6 million) in 2018 related to share-based awards. If we grant more options, restricted shares or other equity incentives in the future, we could incur significant compensation charges and our results of operations could be adversely affected.

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than that under U.S. law, you may have less protection for your shareholder rights than you would under U.S. law.

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, the Companies Law (as amended) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take legal action against the directors and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands.

The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States.

The Cayman Islands has a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests through actions against us, our management, members of the board of directors or controlling shareholders than they would as shareholders of a company incorporated in the U.S.

You may have difficulty enforcing judgments obtained against us.

We are a Cayman Islands company and substantially all of our assets are located outside of the United States. We conduct substantially all of our operations in the PRC and Singapore. In addition, most of our directors and officers are nationals and residents of countries other than the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons.

It may also be difficult for you to enforce judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors. Most of our officers and directors not residents in the United States and the substantial majority of their assets are located outside of the United States.