

Concord Medical Services Holdings Ltd
Form 20-F
April 25, 2012
Table of Contents

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
- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2011
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)

Mr. Adam Jigang Sun

Telephone: (86 10) 5957-5266

Facsimile: (86 10) 5957-5252

18/F, Tower A, Global Trade Center

36 North Third Ring Road, Dongcheng District

Beijing 100013

People's Republic of China

(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
Ordinary shares, par value US\$0.0001 per share*	New York Stock Exchange*

Edgar Filing: Concord Medical Services Holdings Ltd - Form 20-F

* Not for trading, but only in connection with the listing of the American depositary shares (ADSs) on the New York Stock Exchange. Each ADS represents three 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.

142,353,532 Ordinary Shares*

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

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

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued by the

Other

International Accounting Standards Board

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

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

Edgar Filing: Concord Medical Services Holdings Ltd - Form 20-F

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 "

* The 142,353,532 ordinary shares include 949,935 ordinary shares in the form of ADSs which have been repurchased by the Issuer pursuant to the share repurchase program announced on September 30, 2011, and are pending cancelation as of the date of this annual report.

Table of Contents**TABLE OF CONTENTS**

	Page
PART I	2
ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	2
ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	2
ITEM 3. <u>KEY INFORMATION</u>	2
ITEM 4. <u>INFORMATION ON THE COMPANY</u>	29
ITEM 4A. <u>UNRESOLVED STAFF COMMENTS</u>	52
ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	52
ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	73
ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	81
ITEM 8. <u>FINANCIAL INFORMATION</u>	82
ITEM 9. <u>THE OFFER AND LISTING</u>	83
ITEM 10. <u>ADDITIONAL INFORMATION</u>	84
ITEM 11. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	90
ITEM 12. <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	91
PART II	92
ITEM 13. <u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	92
ITEM 14. <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	92
ITEM 15. <u>CONTROLS AND PROCEDURES</u>	93
ITEM 16A. <u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	94
ITEM 16B. <u>CODE OF ETHICS</u>	94
ITEM 16C. <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	94
ITEM 16D. <u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	94
ITEM 16E. <u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	94
ITEM 16F. <u>CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	95
ITEM 16G. <u>CORPORATE GOVERNANCE</u>	95
ITEM 16H. <u>MINE SAFETY DISCLOSURE</u>	96
PART III	96
ITEM 17. <u>FINANCIAL STATEMENTS</u>	96
ITEM 18. <u>FINANCIAL STATEMENTS</u>	96
ITEM 19. <u>EXHIBITS</u>	96

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:

ADRs are to the American depositary receipts, which, if issued, evidence our ADSs;

ADSs are to our American depositary shares, each of which represents three ordinary shares;

China and the PRC are to the People's Republic of China, excluding, for the purposes of this 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 predecessor entities and its consolidated subsidiaries;

ordinary shares are to our ordinary shares, par value US\$0.0001 per share;

PRC subsidiaries are to our subsidiaries incorporated in the People's Republic of China, including Aohua Medical, Aohua Leasing, Shanghai Medstar, CMS Hospital Management Co., Ltd., or CMS Hospital Management, Xing Heng Feng Medical, Tianjin Kangmeng Radiology Equipment Management Co., Ltd., Shenzhen Lingdun Medical Investment Management Co., Ltd., Wan Jie Hua Xiang Medical Technology Development Limited, Guangzhou Huanan Taihe Medical Technology Ltd., and Medstar Overseas Ltd.

RMB and Renminbi are to the legal currency of China;

US\$ and U.S. dollars are to the legal currency of the United States; and

£ is to the legal currency of the United Kingdom of Great Britain and Northern Ireland.

Table of Contents

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 tables set forth the selected consolidated financial and operating data of us and our predecessor, Our Medical Services, Ltd., or OMS, for the periods indicated. Concord Medical was incorporated on November 27, 2007. On March 7, 2008, the shareholders of Ascendium Group Limited, or Ascendium, exchanged their shares in Ascendium for shares of Concord Medical at the rate of 10 shares in Concord Medical for one share in Ascendium. As a result, Concord Medical became our ultimate holding company. Prior to that, on October 30, 2007, Ascendium had acquired 100% of the equity interest in OMS. We refer to this transaction as the OMS reorganization in this annual report. Our consolidated financial statements have been prepared as if the current corporate structure had been in existence from September 10, 2007, the date on which Ascendium was incorporated. Prior to the OMS reorganization, which became effective on October 30, 2007, OMS, together with Shenzhen Aohua Medical Services Co., Ltd., or Aohua Medical, in which OMS effectively held all of the equity interest at the time, operated all of the business of our company. As a result of the OMS reorganization, there was a change in control of OMS with the Ascendium shareholders effectively acquiring OMS from the OMS shareholders. For additional information relating to our history and reorganization, see Item 4. Information on the Company. For financial statements reporting purposes, OMS is deemed to be the predecessor reporting entity for periods ending on or prior to October 30, 2007.

The following selected consolidated statements of operations and other consolidated financial data for the years ended December 31, 2009, December 31, 2010 and December 31, 2011 (Successor Period) (other than the income (loss) per ADS data) and the selected consolidated balance sheet data as of December 31, 2010 and 2011 (Successor Period) have been derived from our audited consolidated financial statements, which is included elsewhere in this annual report on Form 20-F. The following selected consolidated statements of operations and other consolidated financial data for the period from January 1, 2007 to October 30, 2007 (Predecessor Period), for the period from September 10, 2007 to December 31, 2007 (Successor Period) and the selected consolidated balance sheet data as of December 31, 2008 and 2009 (Successor Period) 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, or U.S. GAAP. The consolidated financial statements of each of us and our predecessor are prepared and presented in accordance with U.S. GAAP. Our historical results are not necessarily indicative of our results expected for any future periods.

Table of Contents

	Predecessor	Period from September 10, 2007 to December 31, 2007	Concord Medical (Successor)					US\$
	Period from January 1, 2007 to October 30, 2007		Year Ended December, 31					
	RMB	RMB	2008 RMB	2009 RMB	2010 RMB	2011 RMB		
(in thousands, except share, per share and per ADS data)								
Selected Consolidated Statements of Operations Data								
Revenues, net of business tax, value-added tax and related surcharges:								
Lease and management services	63,082	13,001	155,061	260,162	349,248	380,457	60,449	
Management services	4,340	982	12,677	28,739	22,805	33,584	5,336	
Other, net			4,051	3,535	17,471	36,084	5,733	
Total net revenues	67,422	13,983	171,789	292,436	389,524	450,125	71,518	
Cost of revenues:								
Lease and management service	(20,396)	(1,908)	(25,046)	(60,937)	(93,771)	(131,710)	(20,927)	
Amortization of acquired intangibles		(2,002)	(20,497)	(26,493)	(26,488)	(25,058)	(3,981)	
Management service	(20)	(4)	(54)	(131)	(2,441)	(2,648)	(421)	
Total cost of revenues	(20,416)	(3,914)	(45,597)	(87,561)	(122,700)	(159,416)	(25,329)	
Gross profit	47,006	10,069	126,192	204,875	266,824	290,709	46,189	
Operating expenses:								
Selling expenses ⁽¹⁾	(1,601)	(757)	(5,497)	(7,675)	(17,150)	(37,453)	(5,951)	
General and administrative expenses ⁽²⁾					(66,789)	(80,628)	(12,810)	
Asset impairment	(8,467)	(57,171)	(18,869)	(29,821)	(3,219)	(333,934)	(53,057)	
Operating income (loss)	36,938	(47,859)	101,826	167,379	179,666	(161,306)	(25,629)	
Interest expense	(954)	(279)	(7,455)	(6,891)	(7,448)	(6,454)	(1,025)	
Change in fair value of convertible notes		(341)	(464)					
Foreign exchange loss		(4)	(325)	(213)	(5,436)	(10,975)	(1,744)	
(Loss) gain from disposal of equipment	(1,555)	(25)	658		543			
Interest income	15		430	948	7,865	13,357	2,122	
Other income (expenses)			7,734		(399)	346	55	
Income (loss) before income taxes	34,444	(48,508)	102,404	161,223	174,791	(165,032)	(26,221)	
Income tax (expenses) benefit	(15,014)	182	(23,335)	(36,396)	(43,873)	(46,320)	(7,360)	
Net income (loss)	19,430	(48,326)	79,069	124,827	130,918	(211,352)	(33,581)	
Accretion of Series A contingently redeemable convertible preferred shares			(270,343)	(30,050)				
Accretion of Series B contingently redeemable convertible preferred shares			(304,763)	(48,359)				
					1,518	3,651	580	

Net income contributable to non-controlling interests

Net income (loss) attributable to ordinary shareholders	19,430	(48,326)	(496,037)	46,418	129,400	(215,003)	(34,161)
--	---------------	-----------------	------------------	---------------	----------------	------------------	-----------------

Income (loss) per share

basic and diluted ⁽³⁾	0.39	(0.97)	(8.63)	0.62	0.89	(1.51)	(0.24)
Income (loss) per ADS							
basic and diluted	1.17	(2.91)	(25.89)	1.86	2.66	(4.53)	(0.72)
Shares used in computation							
basic and diluted ⁽³⁾	50,000,000	50,000,000	57,481,400	74,648,779	146,040,594	142,251,454	
ADSs used in computation							
basic and diluted	16,666,667	16,666,667	19,160,467	24,882,926	48,680,198	47,417,151	

- (1) Our selling expenses included share-based compensation of RMB0.3 million in 2009, RMB2.5 million in 2010, and RMB2.4 million (US\$0.4 million) in 2011.
- (2) Our general and administrative expenses included share-based compensation expenses related to certain share options granted in 2007, 2008, 2009 and 2011 of RMB49.5 million, RMB4.2 million, RMB0.7 million, RMB7.0 million and RMB6.9 million (US\$1.1 million) in 2007, 2008, 2009, 2010 and 2011, respectively.

Table of Contents

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

	2007	2008	As of December 31,		2011	
	RMB	RMB	2009	2010	RMB	US\$
(in thousands)						
Selected Consolidated Balance Sheet Data						
Cash	39,792	353,991	1,037,239	535,783	219,078	34,808
Total current assets	66,135	492,978	1,252,512	904,416	733,657	116,566
Property, plant and equipment, net	54,703	349,121	573,042	907,336	1,068,703	169,800
Goodwill	259,282	300,163	300,163	300,163		
Acquired intangible assets, net	129,998	181,838	155,345	146,113	129,018	20,499
Total assets	543,023	1,514,395	2,443,865	2,663,044	2,393,446	380,280
Long-term bank borrowings, current portion		39,840	57,487	60,906	77,479	12,310
Long-term bank borrowings, non-current portion		52,120	80,915	45,089	108,700	17,271
Series A contingently redeemable convertible preferred shares		254,358				
Series B contingently redeemable convertible preferred shares		411,101				
Total shareholders' equity	394,878	565,020	2,153,748	2,301,835	2,038,096	323,820
Total liabilities and shareholders' equity	543,023	1,514,395	2,443,865	2,663,044	2,393,446	380,280

	Predecessor		Concord Medical (Successor)			
	Period from January 1, 2007 to October 30, 2007		Period from September 10, 2007 to December 31, 2007		Concord Medical (Successor) Year Ended December 31,	
	RMB	RMB	2008	2009	2010	2011
(in thousands)						
Selected Consolidated Statements of Cash Flow Data						
Net cash generated from operating activities	44,593	6,103	46,774	135,883	190,972	137,102
Net cash used in investing activities ⁽¹⁾	(50,452)	(30,441)	(376,371)	(272,269)	(529,468)	(494,867)
Net cash generated from (used in) financing activities	6,020	63,225	649,494	819,846	(154,933)	41,785
Exchange rate effect on cash		138	(5,698)	(212)	(8,027)	(725)
Net increase (decrease) in cash	161	39,025	314,199	683,248	(501,456)	(316,705)

- (1) Net cash used in investing activities in 2009, 2010 and 2011 includes acquisitions, net of cash acquired, of RMB32.2 million, RMB45.0 million and RMB20.3 million, respectively.

Table of Contents

	Predecessor Period from January 1, 2007 to October 30, 2007 RMB	Concord Medical (Successor) Period from September 1, 2007 to December 31, 2007 RMB	Concord Medical (Successor) Year Ended December 31,					US\$
			2008 RMB	2009 RMB	2010 RMB	2011 RMB		
(in thousands)								
Total net revenues generated by our primary medical equipment under lease and management services arrangements:								
Linear accelerators	3,206	877	40,506	90,278	108,974	114,250	18,152	
Head gamma knife systems	40,408	8,731	65,365	67,406	80,909	77,035	12,240	
Body gamma knife systems	13,537	2,565	20,071	25,241	38,599	42,512	6,754	
PET-CT scanners			5,241	24,196	41,036	59,054	8,383	
MRI scanners	2,899	437	15,123	33,880	51,738	65,031	10,332	
Others ⁽¹⁾	3,032	391	8,755	19,161	27,992	22,576	3,587	
Total net revenues lease and management services	63,082	13,001	155,061	260,162	349,248	380,457	60,449	

- (1) Other primary medical equipment used includes CT scanners and ECT scanners for diagnostic imaging, electroencephalography for the diagnosis of epilepsy, thermotherapy to increase the efficacy of and for pain relief after radiotherapy and chemotherapy, high intensity foc