
MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Chindex International Fourth Quarter and Full Year Fiscal 2009 Conference Call. This call is being recorded.

I would now like to turn the conference over to your host Roberta Lipson, Chief Executive Officer of Chindex International.

Roberta Lipson, Chief Executive Officer and President

Thank you, good morning. I'd like to welcome you all to our conference call in which we will discuss Chindex International's fourth quarter and fiscal year ended 2009 results. As in the past, we have prerecorded our initial comments, which will be followed by a live Q&A session. Joining me today on the call is Larry Pemble, our CFO.

Before we proceed with the summary of operating results for the period and an update on recent events, I'll ask Larry to read the Safe Harbor statement. I'll make some brief comments and then Larry will review the financial results in detail. I will then comment on the quarterly results and our outlook for the fiscal year. Finally, we'll turn to Q&A.

Larry, will you proceed with the Safe Harbor statement please?

Lawrence Pemble, Executive Vice President and Chief Financial Officer

Yes, thank you, Roberta and good morning everyone. Statements made in this conference call relating to plans, strategies, objectives, economic performance and trends, and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended the Securities Act, and Section 21E of the Securities Exchange Act of 1934 as amended the Exchange Act.

Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors which include, but are not limited to, the factors set forth in documents filed by us with the Securities and Exchange Commission from time to time, including without limitation, our annual report on Form 10-K and interim reports on Form 10-Q.

Forward-looking statements may be identified by such terms as may, will, should, could, expects, plans, intends, anticipates, believes, estimates, predicts, forecasts, potential, or continue or similar terms or the negative of these terms. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. We have no obligation to update these forward-looking statements.

Roberta Lipson, Chief Executive Officer and President

Thanks, Larry. We announced our results for the fourth quarter and full fiscal year 2009 in a press release this morning, which included our full income statement, balance sheet, and divisional results for the quarter. We'll use this call to summarize our operational results and to take some of your questions. We are very pleased with our fourth quarter and full year performance.

Revenue in 2009 increased 32% to US\$171.4 million and our fourth quarter was particularly strong increasing 72%. Our operating income in the fourth quarter was \$3.9 million and our net income

was 3.4 million or \$0.24 per share. The medical products division outperformed our expectations and as we anticipated, the back half of the year was extremely busy. We sold four daVincis during the fourth quarter and made substantial progress on our government loan contracts. This success reflects our cumulative efforts and hard work over the past year.

We still have about \$3.6 million in revenue from the existing KfW and Ex-Im contracts that we expect to ship in 2010 and of course our sales efforts continue aggressively. Heading into fiscal year 2010, we continue to believe that demand for high-end medical equipment is only increasing in China, especially with the government's dedication to healthcare expenditure, and we are committed to being one of the leading providers in China. Healthcare services revenue increased 21% over the year and fourth quarter revenue growth was 16% on a year-over-year basis. The slight deceleration reflects seasonality in the first three months of calendar 2009, when many expats are traveling over the holidays into January as well as the Chinese Lunar New Year celebrations.

Our service business continues to have healthy same-store sales growth, even if it has decelerated in the recent past. We have a very long-term focus still, and believe there continues to be an undiminished opportunity to rollout our United Family business model in existing cities as well as second-tier cities. This long-term focus includes building the best team possible in China from administration to patient care. The leaders and future leaders of the United Family Healthcare are professionals who understand China's culture and how to build a presence here in this market. The expertise and dedication we have on the UFH team is spectacular and I believe it is one of our strongest competitive differentiators.

We believe that despite the global financial crisis, China's healthcare sector might turn out to be a relatively protected corner of the economy, considering the government's commitment to increase spending on upgrading public hospitals, especially as part of the stimulus package and healthcare-spending plan. This will be a net positive for both our services and our products business.

I'll now turn the call back to Larry to review the financial results for the quarter.

Lawrence Pemble, Executive Vice President and Chief Financial Officer

Thanks, Roberta. Our 10-K will be filed later today and you can also find a detailed overview of our financials in the press release we just made public. So I'll run through the key highlights. For the fiscal 2009 year, our consolidated performance for the year was strong. We reported 32% top line growth to 171.4 million from 130.1 million from the prior year. Our revenue grew 43% to 92.1 million in the medical products division and 21% to 79.4 million in the healthcare services division for the full year. Income from continuing operations decreased 1.2% to 8.2 million and net income increased 36% to five million for the fiscal year 2009.

For the fourth quarter, we reported 806% consolidated top line growth. Income from continuing operations was 3.9 million and net income for the period was 3.4 million. Please note that we recognized approximately \$848,000 of non-cash stock compensation expense in the fourth quarter and approximately 2.9 million for the full year. This equates to roughly \$0.05 per diluted share for the quarter and \$0.18 per diluted share for the year. We also identify our hospital division development and startup expenses each period. For the quarter, they were \$536,000 or approximately \$0.03 per diluted share, and for the year, two million or approximately \$0.13 per diluted share.

Let me run through the divisional results for the quarter as well. For MPD, revenue increased 130% to \$39.5 million from \$17.2 million in the prior year period. The performance of the medical products segment reflects timing of shipments and the accounting standards for revenue recognition. During the fourth quarter, we recognized roughly 65% of our existing KfW and Ex-Im contracts. Gross

margin in this division was approximately 23%, in line with the same period in the prior year and our historical averages. The division reported income from operations in the quarter of 2.7 million.

In the healthcare services division, our revenue was 20.2 million, an increase of 16% over the prior year quarter, and the division reported income from operations in the quarter of 1.3 million. Operating profits in the healthcare services division are impacted by expenses related to our growth programs that include the impact of 536,000 development and startup costs including post-opening expenses in the Guangzhou Clinic.

We reported tax expense of 615,000 in the quarter on an effective rate of 15% for the quarter. On the full year, our effective rate was 35%. As of March 31, 2009, our unrestricted cash, cash equivalents, and investments were 71.8 million, which included 20.3 million in cash and equivalents and 51.5 million in current investments. In addition, we have loan agreements in place with both IFC and DEG for future borrowings of up to 45 million. The new hospital joint ventures who will be the borrowers under these credit facilities have not received formal approval in China yet and we've recently extended the draw down dates under the IFC and DEG facilities. We will need to review the terms of these credit facilities related to changes in the project scope and general market conditions with IFC and DEG, when the joint ventures are formed. We continue to feel confident that we're well funded to execute on our growth plans, and this is a significant benefit to us given the current market environment.

I also want to point out that our accounts receivables increased substantially in the fourth quarter reflecting about 25 million of product sales at the back-end of the year. We expect to collect on these sales in the normal course of business, and our negative cash flow as of March 31, 2009 is a result of the timing of these product sales.

That concludes my comments on the finance side. I will now turn the call back to Roberta for a discussion of operating results and our outlook for fiscal 2010.

Roberta Lipson, Chief Executive Officer and President

Thanks Larry. Before we go to Q&A, I'd like to emphasize a few key points about the market as we head into our fiscal 2010. Firstly, the Chinese government's increasing investment in the healthcare system including the recently announced three-year US\$120 billion stimulus package will help to increase the market for medical devices from top to bottom and presents opportunities to deepen our market penetration in the medium term.

The healthcare reform plan encourages public hospitals to keep their focus on broad coverage of basic services and specifies private investment to be the source for the development of specialty and premium healthcare services within the Chinese healthcare system. This official stance assures a friendly policy environment for the further development of our United Family Healthcare business in the premium market space.

In addition, the government media focus on healthcare reform concentrates consumer awareness about the level of quality of the healthcare available from the public sector and gives them considerations of seeking premium service options from the private sector. These factors create a more compelling market opportunity for Chindex all around.

We continue to invest today for growth tomorrow, and we have made substantial progress on the expansion of our Beijing facility. During the fourth quarter, we laid the groundwork for a new comprehensive cancer treatment center to open in Beijing by early next year. Our Guangzhou United Family Clinic is making progress toward a breakeven point and we are in the process of architectural design for our greenfield 120 bed Guangzhou hospital. Both the Guangzhou and

Beijing expanded hospitals will be the first green building hospital projects in China and are being designed to these certification standards.

We also will continue to pursue revenue growth through new product introductions and market leadership in the medical products division. We expect continued expansion of sales in all current product offerings as well as the addition of select new product lines, and continued growth from our government-backed financing programs to fuel enhanced performance of the division.

Our new product technologies in diagnostic ultrasound, robotically assisted surgical systems, and women's health imaging systems in particular are key growth drivers of the market, which we are pursuing. Our product development process is focused on new areas of minimally invasive and robotic surgical techniques. And our long-range development programs will focus on growing comprehensive supply chain services through strategic partnerships and expansion of our distribution channels. That concludes the prerecorded portion of our call. And we'll now open the floor for live Q&A.

— QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions]. We will go first to Anthony Petrone, Maxim Group.

<Q – Anthony Petrone>: Good morning everybody. Good morning Larry. How is everything?

<A – Lawrence Pemble>: Anthony, how are you?

<Q – Anthony Petrone>: Good. Congratulations on the quarter. I want to begin with Medical Products division and Larry, I guess, for a moment just review the actual increase in AR once again, relative to what was booked to within revenue. And, I guess, more so to tie it into the CDC contract. From my standpoint, I'm viewing this as the remainder of that contract in fact has been shipped, but there's still, I guess, a little bit of a delay on cash recognition, just to clear that up a bit.

<A – Lawrence Pemble>: Sure. Well I mean if you look at the balance sheet, we have, year-on-year, we have increase from 12 to 38 million in receivables that happened substantially right in March, right at the end of the – end of the quarter and at end of the fiscal year. So, I mean this is just normal stuff, the reason – and we also, as we'd mentioned, shipped four daVinci s in the quarter that also happened right at the – right in the latter part of March. So, at March 31, we have a significant AR, it simply takes time to collect those, collect those receivables, that's just normal course. It was particularly significant in this – in this period just because the numbers are so high. We do have the remaining portion of those KfW projects that we did not get out the door and take the revenue at 3/31 are being – are being delivered over this in the – the 2010, substantially in the 2010 first quarter. So we will have a – have a pickup in the first quarter from those – from those items.

<Q – Anthony Petrone>: Okay. If you could just, I believe as of last quarter there was 20 plus million or so still left on that contract, so...

<A – Lawrence Pemble>: Yes.

<Q – Anthony Petrone>: The amount of that is completely being delivered in this current quarter. Is that --

<A – Lawrence Pemble>: Well we – I think – I think we shipped about 17 or maybe 18 million in the fourth quarter and then we have about – about four million left to go.

<Q – Anthony Petrone>: Okay.

<A – Lawrence Pemble>: Yeah.

<Q – Anthony Petrone>: I guess the follow up to that would be just as it relates to orders beyond this current government order. Are you seeing anything in terms of pipeline development, particularly with the recent stimulus package just announced?

<A – Lawrence Pemble>: Well, I – I mean Roberta can speak to the general market, but in – in terms of the loan programs, like KfW and U.S. Ex-Im, we do have a significant forward horizon on these programs. They are long and complex and take a good long time to execute, but we do have the KfW programs, we're still in process with a couple of others. The CDC programs that we've been working on, there is other Ex-Im on the horizon as well. So I think the general – the general picture for continued loan revenue contribution to the MPD division is really quite strong. It's very hard to quantify in any given fiscal year, we had a big, a big component in this – in fiscal '09. Whether it will be exactly as large or larger in the coming year is as yet unknown just because these programs, the timing of them is so – is so variable.

<Q – Anthony Petrone>: Great, that's helpful. If I could just stay on – on stimulus for a moment here; two major, I guess, if I – if I take a look at what's going on and two major components of this would be one, relying or replacing antiquated equipment in the rural regions within – within China, so, as far as a statistic, where some of the equipment could be as old as 30 years, and there is nothing to really go in and replace a lot of that old equipment. And then secondly would be the construction of – of new hospitals and clinics across rural China and I guess the goal is to have at least one clinic in every county by the end of 2011.

So if I take just those two components here, which I think is the focus, what do you see in the way of Medical Products division first? Will you have to expand your distribution network to reach all of these existing rural hospitals? And how does the opportunity of building new hospitals by the end of 2011, or should I say clinics, how do you see that affecting both divisions?

<A – Lawrence Pemble>: I think Roberta....

<A – Roberta Lipson>: Anthony, hi. I will take that question. Actually, the 17,000 rural clinics probably are not our market, but in addition, the Ministry of Health announced building 2,000 new county-level hospitals. And those county-level hospitals are potential customers of ours, certainly the larger ones and the less rural ones certainly are and we consider that part of our – our potential target market. But I think the – the impact of the stimulus – stimulus package on medical products distribution has the ability to go beyond just those county hospitals and rural facilities being built, because I think the bigger commitment – if you can believe there is even a bigger commitment than that – the bigger commitment on the part of the Chinese government is to expand coverage to 90% of the population by the year after next, some level of medical coverage.

And what that means – and also to expand the amount of coverage for each person in China. And what that means is there are going to be a lot more people seeking service and flowing into the system. Now the Chinese government hopes those people will flow into the system on the basic primary care level. But my firm belief is that when the system absorbs so much extra demand, even if it absorbs it first on the primary care basic level, it pushes the referrals up in the system in general. So all of those urban hospitals that are our great customers will have greater demand and they will need more equipment to treat the patients that come in and they'll have greater revenues with a greater ability to buy products.

So – they're also the squeakiest wheel, so if the government is spending money on upgrading hospitals, it's probably the hospitals in the city; although the big policy commitment is to upgrade more rural and neighborhood facilities and county-level facilities, it's those big urban facilities where the people that allocate the funds actually seek their own care that they get to hear the squeaky wheels the most. And we have really in our traditional market continued to see robust demand.

In addition, because of the RMB 860 billion commitment of spending over the next three years, of that, the central government is only really committed to about 40% of the spend. The rest of the spend has to come from the local governments, that means provincial and municipal government. And there's real issues about where that financing is going to come from. And I think that we are going to start seeing a lot of interest in our foreign export credit financing facilities to help those local governments fulfill their commitments for their part of the spend.

So we are quite optimistic, we're seeing robust demand. And, yeah, so looking forward, not wanting to quantify what that actually means, but looking at a year with robust demand.

<Q – Anthony Petrone>: Sure. And I will follow-up with a couple here and get back in queue, give someone else a chance here. With the overspill that could take place here in terms of medical coverage with demand for healthcare services increasing, potentially at urban hospitals can be somewhat inundated, does that present also an opportunity for the healthcare service division

possibly in the way of increased patient traffic, A, and then, B, maybe some management or the licensing agreements where Chindex looks to maybe expand the network in that fashion as well?

<A – Roberta Lipson>: I think none of this is – none of this we can quantify including on the medical equipment side, we had a pretty bang-up year last year and we are looking at robust demand, but I can assure you that -- what the specific numbers coming out of this are. That having been said, on the Healthcare Services side, I think there are some competing factors at play. And I think you're absolutely right – I think you're absolutely right that we – the increased focus that the government and the media has placed on this amazing focus on healthcare reform, raises the recognition on the part of the consumer that healthcare is an important thing in their life, that and maybe asks them to start assessing are they getting the quality of care that they need and raising the awareness level that maybe there are different options in healthcare. And I think that probably bodes well for us.

In addition, the government's commitment as you know to provide basic care to the largest mass number of people and repeated over and over in the healthcare reform documents, say that it's the government's responsibility to ensure the social nature of healthcare in public hospitals, which means it shouldn't be five star facility. They're saying, let's provide efficient, safe and accessible care and affordable care to the largest number of people. And the healthcare reform plan also makes it very clear that there is room or that it's encouraged for special services and services to fulfill the demand of different levels of society should come from private investment. And it also makes things pretty clear in the plan that for-profit – there will be – there will be an improvement in the debt structure for for-profit hospital, but there is no clarity on what that means or how much of an improvement or when that will come about with the clarifying documents and regulations.

So, I think that in general we're sitting in a very pretty position on both sides of our business vis-à-vis the healthcare reform and the stimulus package. But because there is a lot of very high-level policy talks now and not a lot that's translating into specific numbers, I can't quantify that for you.

<Q – Anthony Petrone>: That's still very helpful, thanks again and congratulations once again on the quarter.

<A – Roberta Lipson>: Thank you.

Operator: We will next go to Hamed Khorsand, BWS Financial.

<Q – Hamed Khorsand>: Good morning. Just a – question here is – in the fiscal fourth quarter, you said that you placed four daVinci systems. What kind of trend are you seeing in Q1 – or did you see in Q1, since we are only about a couple of weeks away from it closing?

<A – Lawrence Pemble>: Well, go ahead Roberta.

<A – Roberta Lipson>: Go ahead Larry, that's okay.

<A – Lawrence Pemble>: Well I think we've, I think we've said from the time that we received the approval on the daVinci sale from SFDA last July that our expectation was one to two systems per quarter on average over time. I think we slightly exceeded that in the three quarters of fiscal '09, but our basic expectation has not changed. So I think that we are – we are still within the one to two systems per quarter on average.

<Q – Hamed Khorsand>: Okay. And then given the big numbers you posted in Q4, it seems like there are a lot of shipments there, it's all occurred at one time, but you are not providing guidance as to what you're looking for fiscal 2010. Do you quantify that, is there – is it just too early for you guys to provide 2010 expectations for both divisions and what are you guys looking at from a numbers standpoint?

<A – Roberta Lipson>: No, in fact we – we have not provided specific guidance and we did have a rather robust quarter last – last quarter. And as I say, we see a lot of optimism in the macro pictured here in China certainly much more so than in any other market in the world. And so although we are not giving any specific guidance, we believe that going forward we will have continued growth in both of our divisions.

We are expecting the Medical Equipment division barring really – spectacular things coming directly out of the stimulus plan that certainly will look on a long-term basis of a more regularized growth in the mid-teens.

And in the Healthcare Services sector, considering that we don't have new facilities coming online right away in this year and certainly not until the end of the fiscal year or next year. We will expect to see also growth at least in the mid to high teens. But we are – because of the level of uncertainty of the world economy; we are not really able to go beyond that. There are a lot of potential growth drivers out there right now, and certainly we are focusing our efforts on all those growth drivers. But there is certainly a lot of uncertainty for us to be more aggressive than that at this point.

<Q – Hamed Khorsand>: Will Medical Products division be profitable in Q1?

<A – Roberta Lipson>: I don't think we generally give guidance on such things.

<A – Lawrence Pemble>: Comparable – comparable to Q4, well...

<Q – Hamed Khorsand>: Just in general, I mean well, no, just...

<A – Roberta Lipson>: He said profitable Larry, he said profitable.

<Q – Hamed Khorsand>: Just profitable.

<A – Lawrence Pemble>: Profitable? I thought you said comparable, excuse me.

<Q – Hamed Khorsand>: Profitable.

<A – Lawrence Pemble>: Well we don't, I don't think we, as Roberta said, we don't – we don't give specific – specific expectations on divisional performance on an interim – interim basis. I think that's been – we've had fluctuations in timing of revenues in the profitability as we've seen in fiscal '09. The nature of the – nature of the equipment business hasn't changed. We – while we continue to feel very positive about the growth prospects for the division and the loan programs and the continued sale of daVincis and other – other products, we are not in a position to give specific quarterly indications.

<Q – Hamed Khorsand>: Okay. All right. Thank you.

Operator: We'll go next to James Tong, Roth Capital.

<Q – James Tong>: Hi, Roberta and Larry, congratulations on the quarter. I have a question on the United Family Healthcare – the Healthcare division. Roberta had alluded to the – China healthcare reform is still in the broad stroke mode sort of the guideline without any quantitative numbers here. So, we can stay in a broad stroke. I just wanted to know that, what do you think that, for the like United Family Healthcare service is going to tap into the stimulus program for \$124 billion going forward to provide a higher level of healthcare. And also that there are also higher level hospitals or certain divisions of those hospitals are trying to tap, trying to target the higher income populations, and what is your strategy for this – the growth momentum at this point?

<A – Roberta Lipson>: Right. Well the stimulus package really could not and should be – should not be used to provide premium services. And the reform program has made it very clear that premium services needs to be left to the private market. That having been said, public hospitals were always allowed to devote 10% of their beds to services that – they were allowed to charge higher prices for their beds, than the normally government set prices.

Now those – there are lots of – there still – must be approved by the price that they choose to charge the premium on those beds, have to be approved by the local health bureau and the local pricing bureaus. And they're generally allowed to go maybe three or four times the price of their regular beds. Now, the regular beds in public hospitals are very, very, very, very cheap, I mean for like, \$10 a night or \$20 a night. So maybe we are talking about the \$10 a night going to \$40 a night or \$30 a night. And they are not allowed to charge premiums on the other services in the hospital, which means that even if you are staying in one of those VIP beds, when it's time to get your PET scan or time to get your ultrasound or time to send your blood down to the lab or time to have an operation in the OR, you are using the same facilities as the run of the hospital; there is no special 'common' facilities.

So, whereas there might be more comfortable patient rooms, the rest of the experience is a public hospital experience; the doctors are being paid public hospital salaries and so are nurses. And so chances are the service you get there might be a little bit more customized, but it's not going to be very different from the whole run-of – run-of-business.

How – as I say, how we will benefit from the reform plan has – has more to do with the fact that there is extra focus on people seeking better quality of care, that there is encouragement for commercial insurance products to come into this system, that there is a promise of better tax structure in the future for private hospitals.

<Q – James Tong>: As you have alluded to the commercial insurances, so can you give me an outline of the medical insurance in China? I know that China actually has not – their healthcare insurance is not developed as completely as U. S. And what do you see five years from now, and what is from government and then also the private healthcare? And also the last question will be that there will be some of the private hospitals – actually already are private hospitals in China on a smaller scale, and probably not at as high as Chindex, but they could be competing with Chindex for the future market, we are talking about five years or eight years down the line.

<A – Roberta Lipson>: Well, in terms of the development of the insurance market I think every major commercial insurance provider internationally is here in China looking and excited about the market. And the government is very enthusiastic now about allowing those products to come in, to supplement what they are able to offer in the mandatory social benefit insurance.

Right now the social benefit insurance premiums are mandatory for every employer and employee in China, and the premiums can be as high as \$1,500 a year, shared between employee and employer. And that's for every urban employed individual. That plan has recently been expanded for a separate cooperative plan for urban unemployed individuals, including college students, retirees and out of work individuals.

There is also an insurance plan in the countryside, which is called the rural cooperative medical scheme. And these plans, the rural cooperative medical scheme, up till now have been a premium of about RMB 120 per individual, shared between the individual and the government. That's meant to triple – as much as triple in certain areas of the country. And so the premium is being expanded, the benefit is also being expanded, and the number of people are being expanded. So they are expecting eventually that between the urban and the rural plan, 90% of the population will be covered by the year after next. That's really an amazing achievement, but the coverage level is quite low.

So for even those urban workers that have this social benefit coverage that get their care 100% in just the run-of-the-mill normal public hospital will still probably only have less than 40% of their bill covered by this insurance. So there is a lot of interest and a lot of demand for supplemental insurance. In addition, because of part of this healthcare reform, we believe that – well we are already seeing that there is a great commitment on the part of the government to make the public benefit portable. And that means portable geographically, but also portable to the private system.

So, as you may have heard me say before, we have been working with the government intensively to allow people to get reimbursement at our facility at the same level they get reimbursed at public facilities and then supplement that with – to our price level with their out-of-pocket or commercial level insurance.

Now, not only are enlightened individuals in the government working with us on this, but it's also now been confirmed in a public policy way that this is consistent with policy. So we're hoping to see that happen soon and, in conjunction with that, working on commercial product for people to be able to supplement that reimbursement opportunity with that commercial project. I hope that was helpful.

<Q – James Tong>: Yeah, it is.

<A – Roberta Lipson>: I think, yeah, a second part of your question is our competition from other private providers. We have seen some other private providers coming into the market. But the vast majority of the other private providers are providing a service that's similar to the public facility and priced either at or below the public facility pricing. We have seen a few entrants in the maternity area, who have experimented with a little bit of a premium over the public pricing level and, in one case, a substantial premium, but still not quite at our level. And there is a delta, I mean we've been at this for 10 years. We are one of the – of only four Joint Commission International hospitals – Joint Commission International accredited hospitals in China, two of which are ours and the other two are facilities that charge at the public level.

It's not an easy achievement to reach that level of quality and to also reach the level of brand recognition that United Family has reached at this point; even in cities in China where we don't have facilities, our brand is well recognized.

So I believe there will continue to be entrants, we are looked at as a real success story and success certainly inspires imitation or emulation, and I expect that we will see that. But I think we have a huge lead in terms of the maturity of our management team, the culture we have been able to build through all of our facilities and a national brand recognition, which is going to be hard for any private entrant to catch up to in any short time.

<Q – James Tong>: Thank you. I appreciate it.

Operator: We will go next to Gregg Hillman, First Wilshire Securities Management.

<Q – Gregg Hillman>: Good morning, Roberta and Larry.

<A – Roberta Lipson>: Hi.

<Q – Gregg Hillman>: Just a – Larry, just a couple of questions about, well, first of all, in the non-stock compensation charges, is that expected to continue at that level going forward?

<A – Lawrence Pemble>: We have the – well, under 123R, it's spread over the life of the – over the life of the grants and, if you look at our disclosure, most of those grants are between three and four years. So we do have a continuing non-cash charge for equity comp that will continue into the

future. So basically the question is, yes, the actual charge fluctuates a little year-to-year and period-to-period, but I think the expectation is that those non-cash charges will continue.

<Q – Gregg Hillman>: Okay. And then the – the startup costs that you're expensing for the, I guess Guangzhou or possibly for the campus in Beijing, the two million for the year, the 536,000 for the quarter, exactly what was that for – what was those expenses for?

<A – Lawrence Pemble>: Well, what we – what we try to do here is to identify what – I think, we and I know you and others track operating margin in the division quite closely. And so we are trying to give a number to get to an apples-to-apples comparison over prior years on existing operations through identifying this development expense, which includes startup and post-opening expenses in newly opened facilities. So that includes expense for development operations in Beijing, Shanghai, and Guangzhou markets. I think in the coming year, just by virtue of the development cycle, we will see that number go down year-on-year for the period of time because we – the development cycle in Beijing will likely not see significant expense hitting the P&L until late in the current – in the current fiscal year 2010. The operations in Guangzhou are ramping up quite nicely, as Roberta said, we will see them coming close to break-even in the next couple of quarters and so that number over the course of fiscal 2010 will likely decrease.

<Q – Gregg Hillman>: Okay. And, in terms of the utilization, the hospitals in Beijing and Shanghai, do you know where that is currently Roberta, percentage of beds utilized?

<A – Roberta Lipson>: Well, I can tell you that in Beijing we frequently bump against our capacity, getting close on to the capacity, which is why we hope that by the end of this fiscal year we will have new beds opened in Beijing. So I'll say a couple of times a month, a couple of times a month we are nearing capacity. And that's not good for a hospital and that's why we are on a fast track to expand our bed count to 120 beds in Beijing. And we are in the heat of the design phase of that renovation that we are doing here to expand our bed size. And in Shanghai, we still have quite a bit of capacity, it's obviously a newer facility and we don't feel like we'll have to add beds there for a number of years to come.

<Q – Gregg Hillman>: So Shanghai is maybe closer to like 50% utilization?

<A – Roberta Lipson>: Yeah, somewhat under 50%.

<Q – Gregg Hillman>: Okay.

<A – Roberta Lipson>: Close to.

<Q – Gregg Hillman>: And then, well, you expected to grow the product sales, what was the normal seasonality of the product sales, does it normally hit in the fourth quarter?

<A – Roberta Lipson>: [inaudible].

<A – Lawrence Pemble>: I don't think – go ahead, Roberta.

<A – Roberta Lipson>: Yeah -- I am sorry, Larry...

<Q – Gregg Hillman>: I was just asking about the seasonality of the product sales...

<A – Lawrence Pemble>: Yeah, well, Gregg, I don't think if you can, well, if you model this out over a period of years, I'm not sure you can quite come to anything that describes a normal seasonality in the capital equipment business. There is a – there are many factors involved in the timing of revenues. I mean there is kind of a – the Chinese budgeting cycle operates on a calendar year basis, so there is some impact related to that, we operate on a March 31 fiscal year basis,

government backed financings are kind of anybody's guess. So we – and there is always some push toward the end of the year, we have large clients who have fiscal years that end at various times during the course of any given year and they have pushes to close the year strongly and all those kinds of things. So I think it's very difficult to get to any clear expectation of what is a normal seasonal flow in the capital equipment business.

<Q – Gregg Hillman>: Okay. And I guess, just finally in terms of the marketing of your services, have you experimented with advertising or any other new ways to draw patients into your hospitals that's cost effective?

<A – Roberta Lipson>: Yeah. We tend to do print advertising only – well more intensively early in any facility's opening, because once there's a patient flow in the facility, print is not necessarily the way to go. We find that more community engagement programs, educational programs in the community, co-marketing with clubs and with luxury brands, like we have a co-marketing program with Mercedes-Benz here in China. We have co-marketing programs with the exclusive social clubs, country clubs and dining clubs. We – so we do a lot of community engagement through the international schools, through the high-end Chinese schools together with health insurance companies, together with Kimberly for example. So we do a lot of co-marketing events.

And in print, we really far prefer softer advertising like advertorials and wherever possible, real editorial content in print media. We have a pretty unique thing going here in China, so it's not really hard for us to get the ear of the press and the media, I'm often on – interviewed on TV, on the radio about healthcare reform, about different options in private healthcare, about prevention, all kinds of health issues. So, a few of us have become some kind of minor celebrities in some way in this field, which is something that attracts a lot of interest these days with the healthcare reform stimulus program. So we much prefer that kind of soft advertising. We do do some advertising, but there are also very strict regulations in China about how you are able to advertise healthcare and medical services.

<Q – Gregg Hillman>: Okay. And finally you alluded to trying to get part of the reimbursement from the government that's already allowed for the private – for the public hospitals, but what moneys – are you receiving reimbursement right now for patient care from insurance companies?

<A – Roberta Lipson>: We have extensive relationships with international commercial insurance companies. And our international patients tend to have pretty good insurance, and I'd say about 70% of our international patients are covered with really good insurance. Most of our Chinese patients are paying out-of-pocket, paying cash for their services. I expect to see that change obviously as the commercial insurance industry develops in China and as we develop these co-products – these co-insurance products with the public reimbursement. But right now we get no reimbursing from the public benefit. We hope to see that change by the end of the year.

<Q – Gregg Hillman>: Okay. And I – actually one last question, what's your mix between expats and local Chinese patients?

<A – Roberta Lipson>: It's been fairly consistent over the last few years at about 65:35.

<Q – Gregg Hillman>: 65?

<A – Roberta Lipson>: 65%, and it depends on the facility, but and it depends on the departments, some departments are significantly higher number of locals than others, for example we have a higher percentage of locals in both the maternity and the pediatric departments. But on average it's about 65:35.

<Q – Gregg Hillman>: Okay.

<A – Roberta Lipson>: Certain market, for example in Guangzhou, it's overwhelmingly local, there aren't so many foreigners there, in Wuxi, it's a lot more local.

<Q – Gregg Hillman>: And do you have big expectations for your new cancer center?

<A – Roberta Lipson>: Yes, yes absolutely. I think we made our first name for ourselves in bringing in the new model of care in obstetric services, and we really raised the bar and brought in lots of new concept, and it was an instant success. And I see the same kind of opportunity in cancer care. Cancer care in China is done, tends to be done in specialty hospitals or public hospitals, it doesn't matter, but both the specialty hospitals and the public hospitals have the same issue of being very highly compartmentalized. And so depending on where the patient comes into the system, whether the patient first gets to see a surgeon or first gets to see a chemotherapist or first gets to see somebody in the radiation department, and sometimes that just happens to be because they know somebody or somebody introduces the other person, they tend to be treated by that department. And there is very little in the way of cross departmental team approach to diagnosis and treatment planning.

In addition, those hospitals are very overwhelmed, they're very busy, there are too many patients. And you're lucky if when you get your first cancer diagnosis, you get between five – if you get over five minutes with the – with the diagnosing doctor, it's a lot. And that's – you think about that, getting a cancer diagnosis and having to like ask your questions or think of your questions in five minutes. And it's very hard for patients to navigate through those systems. And I think that bringing an approach of team – a team approach to the issue, with the medical oncologist, the surgeon, the chemotherapist, the psychological support group, all work together, the radiation therapist, all work together for a treatment plan, and a support plan and ongoing support for that patient in a beautiful facility where the patient can come in a beautiful environment and have their chemotherapy on a daily basis, rather than having to stay in a very private hospital. In fact, we found a site for our facility which overlooks a beautiful park, really enthusiastic about it. It's a new model and it's going to take up a little time to ramp up, but I think it's going to – so far, we are getting an excellent reception to the concept.

Operator: We'll go next to Anthony Petrone, Maxim Group.

<Q – Anthony Petrone>: Thanks. Just a couple of follow-up questions just, I don't know if you had mentioned the timing on cancer and I'm assuming it's Beijing first and how quickly will you roll that out in your other hospitals and then just a follow-up on notable products and operating expenses as well?

<A – Roberta Lipson>: Well you're right it is Beijing first and, in fact we have already identified and secured a location which as I say it's a beautiful location on the edge of a park with views of the park. It is not a very big – it's not a huge renovation job. But it probably will be early next calendar year that we can move into that facility. In the meantime, we're starting to see some patients in this – in our existing facility. But the actual big bang won't come until we are able to open that stand-alone facility and I am hoping it's before the end of our fiscal year.

<Q – Anthony Petrone>: And just in terms of cost in healthcare services, or the margin on those services, would those be higher, I am assuming they'd be higher, but before the – the facility's up and running we could see an incremental jump in expenses getting that up and running?

<A – Roberta Lipson>: Well there are – obviously there are development costs to every facility that we open, and that's being developed in conjunction with the expansion here in Beijing as sort of part of the whole expansion project. But what I'd like to remind you is that this strategy of expanding on our existing campus, and the outpatient facility is just about a half a kilometer from here. So, it's very close, it's 500 meters away.

There is huge advantage in terms of sharing of administrative overhead, not having – compared to moving to a completely new hospital site. So, whereas there – of course every time you – you expand or you open a new facility, there is development costs involved. But Anthony we see the opportunity for this not only in Beijing but in every place we have a facility and yes we will roll it out after we prove the model out here. And you know we are a little bit conservative in that we like to prove our models out before we roll them out. But we are hoping that if it is the success that we see, we'll be able to follow on pretty quickly in Shanghai and plan for that as part of our facility when we open the hospital in Guangzhou. So, and beyond that, I mean if the model works it works nationally.

So, in terms of pricing, obviously cancer care services are pretty pricey no matter where in the world you get them. And we will – so each patient that comes through the door obviously means a lot more revenue, in terms of margins, probably the margins will look very healthy. But I'm not able to talk at great length of that because we're still proving out our pricing structure and pricing strategy. It's quite complicated because there's myriad of chemotherapy agents and also quite extensive equipment in the radiation therapy aspect of it. But once a patient walks in the door, the revenue opportunity is really quite high.

<Q – Anthony Petrone>: Thanks again.

Operator: This concludes today's question-and-answer session. This also concludes Chindex International's fourth quarter and full year fiscal 2009 conference call. At this time we appreciate your participation. You may now disconnect.

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