

— PARTICIPANTS

Corporate Participants

Roberta Lipson – President, Chief Executive Officer & Founder
Lawrence Pemble – Chief Financial Officer, Treasurer & EVP

Other Participants

Mark Zinski – Managing Director, 21st Century Equity Research
Hamed Khorsand – Founder & President, BWS Financial, Inc.

— MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Chindex International First Quarter 2011 Conference Call. This call is being recorded. I will now turn the call over to your host, Roberta Lipson, the CEO of Chindex. Please go ahead.

Roberta Lipson, President, Chief Executive Officer & Founder

Good morning. I'm glad to welcome you all to our conference call to discuss Chindex International's first quarter of 2011. Joining me today on the call is Larry Pemble, our CFO.

Before we proceed with a 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, and then we'll turn to Q&A.

Larry, please proceed with the Safe Harbor statement.

Lawrence Pemble, Chief Financial Officer, Treasurer & EVP

Yes. Thank you, Roberta, and good morning, everyone. Please note that this call will contain forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in our public filings with the SEC, including in our Form 10-Q for the period ended March 31, 2011, which will be filed today. Chindex does not undertake any obligations to update any forward-looking statements, except as required under applicable law.

Roberta Lipson, President, Chief Executive Officer & Founder

Thanks, Larry. We announced our quarterly results in a press release yesterday. And this included our income statement and balance sheet. In an effort to provide an additional level of detail, we also included our cash flow statement as well as some incremental revenue data, which is also broken out in our filings.

We also began providing you with adjusted EBITDA this quarter and we did this to more clearly highlight our ongoing operating performance separately from our development and start-up expenses, which will be a big part of our build-out plans for the foreseeable future. There was also

some noise in our results this quarter relating to the CML transaction, and I'll let Larry speak to that in his section.

Regarding first quarter performance, we're more enthusiastic than ever about the demand we continue to see across our UFH network. We are uniquely positioned as the leader in premium healthcare in China. And with the trusted brand, increasingly robust service offerings, and plans for aggressive network expansion in the next two years, we're really excited about the market opportunity in front of us.

Healthcare Services revenue for the March quarter was \$24.2 million, up 14% year-over-year, a growth rate we achieved at full capacity utilization in patient care with some increasing demand for outpatient care versus the prior year. Revenue by service offerings stayed relatively consistent between service lines and we think areas like neurosurgery and cardiovascular care are exciting growth opportunities for us, especially once the much anticipated additional capacity comes online later in the year.

While capacity constraints are evident in the first quarter, mostly due to timing of the BJU build-out, this is a temporary reality of doing business in China between construction and bureaucratic delays and we are encouraged by the initial progress of the phase rollout we've planned through the remainder of the year. In fact, our new building in Beijing has already started seeing patients on a limited basis and we anticipate equipment installation for some of the new specialized offerings over the next several months.

The expansion at BJU is an exciting undertaking. And as we've discussed in the past, we're more than doubling the number of patient beds, adding four start-of-the-art operating rooms and adding several new services, including neurosurgery and cardiovascular care, as well as expanding our orthopedics, sports medicine, and infertility departments.

We intend to drive increasing revenues per patient as we offer more and more acute care indications across an even more diverse service offering. Overall, we are responding to demand we consistently see for private healthcare services throughout Beijing, Shanghai and other key markets and we remain focused on quadrupling our network capacity by the end of 2013. This is a goal we're very focused on achieving.

On that note, let's turn our attention to our other outstanding projects. The New Hope Oncology Center is regularly seeing patients for chemotherapy and will roll out radiation therapy, pending equipment arrival later in the year. The center brings a new level of premium care to oncology patients in China. It's really a new model using multidisciplinary team approach and the comfortable therapeutic environment. We believe this unique offering will be well-received.

The Shanghai and Guangzhou facilities continue their strong patient volumes in the March quarter, demonstrating broader demand for UFH's premium level services. In Shanghai, our off-site dental clinic in [ph] Pucy (05:17) is operating and we continue to plan for expansion of outpatient services at the Huashan Pudong Hospital, which we will provide under a shared management agreement. This includes inpatient services later in the year. We expect this new access to the Pudong market to represent significantly increased capacity into Shanghai operations over time. And we do expect this endeavor to contribute to patient volume and financial results over the long-term.

We recently announced new projects in Beijing and Tianjin, including a joint venture agreement and location for the United Family Rehab Hospital in Beijing. We are in design phase for the state-of-the-art rehabilitation facility of more than 100 beds to make up for a big void in the care that's available in China. We expect the new rehabilitation hospital to open in mid-2012. In Tianjin, construction continues at our new 25-bed facility and we expect completion on schedule in 2011. We also continue to explore new opportunities and we remain focused on opening our hospital in Guangzhou in 2013.

Our goal remains to quadruple our patient capacity by the end of 2013 and we are aggressively pursuing a national build-out that will bring the UFH brand to more and more cities. Our development team is always looking for new site locations as well as having consistent interactions with local authorities to ensure the right relationships are in place to build new hospitals.

As the leading premium healthcare service provider in China, we are pursuing an ambitious undertaking and our financials reflect this in continued head count development and start-up expenses. We feel strongly these investments today are a great use of capital, as we invest in China's increasing demand for the services we offer.

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

Lawrence Pemble, Chief Financial Officer, Treasurer & EVP

Thanks, Roberta. We added some detail in the press release explaining the change in the presentation of our financial results due to the deconsolidation of the Medical Products division. The key changes are as follows.

Cost of goods sold, which previously reflected the Medical Products division costs, are no longer broken out on the income statement. Depreciation and amortization, which was previously consolidated within the Healthcare Services costs, is now presented as a separate operating expense. And general and administrative expenses, which previously included corporate expenses and was allocated between both Healthcare Services and Medical Products division is now in other operating expenses and allocated to our one division, Healthcare Services.

This last point is an important one, because we no longer can allocate fixed corporate expenses over two divisions. So this explains the change in operating margin for what was previously the Healthcare Services division. For the three-month period, our Healthcare Services revenue was \$24.2 million, an increase of 14% over the prior year period.

On the cost side, we incurred approximately \$400,000 of CML formation and start-up expenses, which we will not see in future periods. Development and start-up expenses rose to over \$798,000 this quarter, reflecting the significant investments we have in Beijing and Tianjin. Salary and compensation expense rose, as we continue to build-out our staff for new facilities. And the increase in corporate expense due to the single segment operation is approximately \$325,000 per quarter.

With these expenses in mind, losses from operations was \$293,000. Overall, this reflects higher than normal operating expenses, as we transition to a pure play services company, and as we aggressively build-out the network.

We provided you with adjusted EBITDA this quarter to better illustrate ongoing operating results, and this was \$2.4 million in the quarter. Adjusted EBITDA excludes development and start-up expenses related to the new and pending hospitals and clinics, equity loss of unconsolidated affiliates, non-recurring charges for CML JV formation, and the effective change in corporate cost allocations. Going forward, this should be a helping metric to use to gauge our fundamental health outside of the \$3 million to \$5 million we anticipate expensing annually on our network build-out in the coming years.

Our quarterly results also include \$1.2 million of non-cash stock compensation expense compared to \$854,000 in the prior year and a \$19,000 unrealized foreign exchange gain. Regarding CML, it was profitable on a local basis but we reported a loss of a \$147,000 for the 49% interest we hold in CML's net income. This consisted of a standalone loss of \$37,000 after recognition of \$279,000 in

stock-based compensation expense, as well as after additional expenses for amortization of certain fair value adjustments made in connection with the formation of the joint venture.

Also note that in the first quarter of 2011 reflected the weakest budgeted quarter for the joint venture, reflecting seasonality and Chinese hospital purchasing patterns. We expect improved results in future quarters, which would offset the stock comp expense and fair value adjustments.

Now let's turn our attention back to our results. Inclusive of the CMO loss, we had a net loss of \$1.2 million or \$0.08 per diluted share compared to net income of \$550,000 in the prior year period. As of March 31, 2011, our cash, cash equivalents and investments were \$81 million, which included \$42.6 million in cash and equivalents, \$37.1 million in current investments, and \$1.3 million in non-current investments.

Our upcoming 12 month capital expenditure plan totals up to \$64 million with up to \$54 million for new hospital development programs and up to \$10 million for existing facility maintenance and development. Our patient service receivable decreased approximately \$582,000 over the three-month period. PP&E increased approximately \$1.3 million, as we recognized additions in leasehold improvements and CIP related to new facility expansion projects.

And to conclude my comments, we believe the 2011 is a year in which we are very focused on hospital development. We expect to incur between \$3 million to \$5 million of development expense through this year and we anticipate revenue growth in the mid-teens that is primarily driven by continued demand for our existing services.

That concludes my comments on the finance side. I'll now turn the call back over to Roberta.

Roberta Lipson, President, Chief Executive Officer & Founder

Thanks, Larry. In conclusion, we're positioned today as the leading provider of premium private healthcare in China and we believe several trends point to the considerable market opportunity in front of us. Demand for diversified services continues across our network and our build-out plan positions us nicely to meet those increasing needs. With the proven history in China, capital in place and a trusted consumer healthcare brand, we are very optimistic about meeting our network expansion and diversification goals.

On the demographic regulatory front, the trends also remain encouraging. Policies are increasingly favoring private investment in the healthcare services sector in China and we have said consistently this is a good thing for Chindex, as it further expands our addressable market and it gets potential patients more comfortable with the concept of premium private healthcare.

The Chinese economy continues strong growth, increasing numbers of patients can afford to choose private care, the government media focus on healthcare reform increases consumer awareness about the varying quality of healthcare available from public and private sector options, and an aging and increasingly industrialized society increases the demand for healthcare services. This combined with an increasingly friendly investment environment for private healthcare presents an unprecedented window of opportunity for an accelerated rollout and scaling of our healthcare services business.

Chindex is the first-mover in premium service private healthcare in China. United Family Healthcare has the most extensive network and the only real national brand appreciation. We plan to continue our leading industry position by taking this opportunity to build out our geographic reach and depth of services to become a truly national network.

That concludes the pre-recorded – well, this is not a pre-recorded call, in fact, that concludes our presentation and we now open the floor for live Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Mark Zinski with 21st Century Equities. Your question, please.

<Q – Mark Zinski – 21st Century Equity Research>: Yes, good morning.

<A – Lawrence Pemble – Chief Financial Officer, Treasurer & EVP>: Good morning, Mark.

<Q – Mark Zinski – 21st Century Equity Research>: Just, first of all, I had a question on the expense side in terms of salaries, wages and benefits. How should we look at that line item going forward? Is that pretty much going to be sort of fixed, and will increase sequentially or is there a variable component in there that might potentially bring that number down a bit?

<A – Roberta Lipson – President, Chief Executive Officer & Founder>: I think you can look at that as sort of a ratchet effect. As new services are about to come on line, it's going to increase as a proportion of revenue. And as those new facilities start making their contribution and revenue rises, obviously, the existing personnel become more fully utilized. And that reduces as – so there is a certain set of fixed SWB. And that's the set that goes on the corporate level and the UFH system level to support the facilities, probably doesn't grow substantially. That's pretty fixed.

And then as you build new facilities, obviously, you have to hire people to do a minimum staffing level. Then it takes a while to get up to a reasonable level of utilization of that minimum staffing level. And obviously, then the SWB number looks a lot more in line with regular operations. So, this is a fast growth phase for us, and there are going to times when we're just opening a new facility, and you'll see the SWB component rising a bit.

And then as its capacity is more and more fully utilized, it will go down. And as we have more facilities in the network, overall, that impact of SWB for one new facility will become that much less and that much less apparent. So when we opened our second facility, it was a very, very impactful member. But by the third facility, it's less impactful and so on.

<Q – Mark Zinski – 21st Century Equity Research>: Okay. I believe on the last call, you had indicated that you thought that exclusive of the development and start-up cost that you thought operating margin in the short term could be – I believe in the mid to high teens. Is that still your line of thinking at this point?

<A – Roberta Lipson – President, Chief Executive Officer & Founder>: Larry?

<A – Lawrence Pemble – Chief Financial Officer, Treasurer & EVP>: Mark, yeah. We – I think there's some – in general, I think that is true. In the teams, we do have some impact in the current – in our changed presentation related to the impact of corporate expense. I don't think ultimately that is not a hugely impactful number on the operating margin. So I think in general, our expectation for operating margin stays pretty much as it has been in the mid teens in the short term and improving as the revenue ramp on the network as a whole continues to gain efficiencies.

<Q – Mark Zinski – 21st Century Equity Research>: Okay. In terms of new competitive threats, there are some Singapore health organizations that are beginning to set up clinics in Shanghai. And I'm just wondering if you could comment on – if you're seeing any new competitive pressures on the clinic side? And how the western format of healthcare would compare to like an operation from Singapore that's trying to transplant their model?

<A – Roberta Lipson – President, Chief Executive Officer & Founder>: We've seen talk of new clinic operations from Singapore, from Thailand, from Hong Kong forever and ever.

And there are little clinics, couple of Hong Kong doctors set up a clinic in Shanghai, couple of years ago there – but still there's nothing of any scale. And frankly, I think that we'll definitely start seeing more and more.

And one of the things that we've been doing – we'll start seeing more and more interest – we have started seeing more and more interest, lot of interests – from interest to execution in China is a huge [ph] road to hole (19:46). And when we start seeing actually a lot more clinics coming on from these organizations or even more hospitals, I don't know. But it's going to take an awful long time for anybody to really build scale.

That having been said, for the small clinics that there are around Beijing and Shanghai, we're trying to build relationships with them that will make us the place where they want to admit their patients. So the – what the outpatient facility can do is one thing. But that's fine. And maybe that will bring more patients into private healthcare.

We want to be the place that those premium patients are admitted if they ever have an outpatient experience outside of United Family Healthcare. So we're working with the clinicians at those clinics including the existing ones like World Link, which is the Parkway entrant in Shanghai and SOS, which is the other private outpatients clinic with any kind of scale at all in Beijing.

We sponsor medical societies, make sure their clinicians are very familiar with our services, make sure they're familiar with our doctors, so they feel comfortable referring patients to us from our sophisticated or inpatient care.

<Q – Mark Zinski – 21st Century Equity Research>: Okay. And then just last question, is the Fosun final closing still slated to compete in Q2?

<A – Lawrence Pemble – Chief Financial Officer, Treasurer & EVP>: I don't, Mark, we – if we dig into the details of the JV formation documents, you know that there were some business approvals that they needed to obtain for the final purchase by CML of the Fosun Group of Companies. They have received that very recently or at least at the near final stage of that approval.

So we'll begin that process of the actual purchases of those entities by the joint venture, which will then trigger the final closing of the original share purchase agreement by – which will then as you know, Fosun will purchase another 5% of new equity in Chindex International. So I'm not sure that that will close by June 30th, but it is moving forward.

<Q – Mark Zinski – 21st Century Equity Research>: Okay. Great. That's it from me. Thank you.

<A – Lawrence Pemble – Chief Financial Officer, Treasurer & EVP>: Yes, thanks.

Operator: Thank you. [Operator Instructions] Our next question is from Hamed Khorsand with BWS Financial. Your question, please.

<Q – Hamed Khorsand – BWS Financial, Inc.>: Hi, guys.

<A – Lawrence Pemble – Chief Financial Officer, Treasurer & EVP>: Hi Hamed.

<Q – Hamed Khorsand – BWS Financial, Inc.>: The easier question I got was what is the inventory number on the balance sheet and does that go in the June quarter?

<A – Lawrence Pemble – Chief Financial Officer, Treasurer & EVP>: Yeah. Well, the inventory now, as you've noticed, I'm sure has dropped dramatically. So I mean in the hospitals, we have certain inventories for pharmaceuticals and band aids and sutures and that kind of thing. So that's

what that represents. On the MPD, the big bulk of the merchandise inventory that we used to see prior to deconsolidation is gone, and but the current level you see on the balance sheet would be, relatively speaking, about what we'll see going forward.

<Q – Hamed Khorsand – BWS Financial, Inc.>: Okay. And then as far as the current hospitals and clinics that are open right now, are they fully staffed?

<A – Roberta Lipson – President, Chief Executive Officer & Founder>: Yes. The ones that – yeah like, I guess fully staffed is a kind of tough question to answer because you add a service or you add a new therapy or you might want to hire. But I'd say except for the Pudong clinic, the Pudong clinic, which is about to be come in the next half year, [ph] fully (24:01) that includes inpatient care.

We still have some hiring left to do, but not a lot. And the Beijing new facility, as we open inpatient rooms later in the year, there'll probably be some new staff, not a lot coming on.

<Q – Hamed Khorsand – BWS Financial, Inc.>: That was the leading question for my – other question I had. So the Q2 – usually, you see a uptick as far as patient flow and obviously revenue. So would that mean that your operating margins would expand? How much capacity do you have that you could see revenue growth in Q2 compared to Q1?

<A – Roberta Lipson – President, Chief Executive Officer & Founder>: Well, I don't want to say how much revenue growth we're going to see in Q2 except to say that yes, it is consistently a much better quarter than Q1.

We see good numbers of patients coming through the doors now, we're not disappointed as far as that goes at all. In our Beijing next annex or new building in Beijing, we've just added a whole bunch of more clinic outpatient capacity. We haven't opened any inpatient rooms there, but it's also freed up some inpatient space in the main building. And so we do expect a robust quarter there. We've added some new outpatient capacity in Shanghai by opening the dental clinic, by moving some pressure out of Puxi into Pudong as well.

And so, yes, there is definitely a little bit of pressure let off of our capacity situation in this quarter. And I expect you'll see it reflected in the revenue numbers. Larry, did you have something else you wanted to...

<A – Lawrence Pemble – Chief Financial Officer, Treasurer & EVP>: Yeah, I just wanted to remind that we – Q1 is, we had two New Year's holidays and a short month. So you're right that Q1 is a – from a revenue perspective, there's significantly less number of days in this quarter effectively than any other quarter during the year. So good to point that out.

<A – Roberta Lipson – President, Chief Executive Officer & Founder>: Yeah. And people go on long vacations, it's not, yeah...

<A – Lawrence Pemble – Chief Financial Officer, Treasurer & EVP>: Right.

<A – Roberta Lipson – President, Chief Executive Officer & Founder>: It's definitely the case that Q1 is always a low point, Q2 is always a very good quarter.

<Q – Hamed Khorsand – BWS Financial, Inc.>: Yes. So I was just trying to get – how much capacity is there? How much increase in revenue can you see because it sounds like you're at capacity now, so I'm just trying...

<A – Roberta Lipson – President, Chief Executive Officer & Founder>: No, no. I think the point is that we've just added capacity, Hamed. It's the Beijing, we just opened a new building, not

completely, we opened only a third of it. It's going to be a phased opening through the year. But that added some several score of new exam rooms.

We also moved some of the exam rooms out of the old building and turned them into patient rooms. So we have added capacity there.

We just opened our – moved our dental clinic out and made some construction changes in Shanghai that added a bit of capacity there. And we have, definitely, things are rolling. And by the second half of the year, we'll start to see the Tianjin facility opening and adding lots of capacity. So whereas capacity constraints have been a big story up till now, they were somewhat of a story in the first quarter. Going into the second quarter – the second half of the second quarter, things begin to get alleviated a bit on capacity.

And so, for the last few quarters, you've seen us building revenue through increasingly sophisticated patient services, through adding some services we didn't have before. Now we're starting slowly, but surely to make that investment pay and add capacity as well.

<Q – Hamed Khorsand – BWS Financial, Inc.>: Okay. That helps. Thank you.

Operator: Thank you. [Operator Instructions] There appears to be no further questions in queue at this time. I would now like to turn the conference back over to Roberta Lipson.

Roberta Lipson, President, Chief Executive Officer & Founder

Well, I'd like to thank you all for joining us this morning and thank you for your interest and good bye.

Operator: Ladies and gentlemen, thank you for your participation. That concludes the conference. You may disconnect and have a wonderful day.

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