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**MANAGEMENT DISCUSSION SECTION**

Operator: Welcome to the Chindex International Quarterly Earnings Conference Call. I will now hand your call over to your host, Roberta Lipson, Chief Executive Officer of Chindex International.

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**Roberta Lipson, Chief Executive Officer and President**

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Good morning. I'm glad to welcome you all to our conference call to discuss Chindex International's three and nine month periods ended December 31, 2010. 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 and then we'll turn to Q&A.

Larry, will you please proceed with the safe harbor statement?

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**Lawrence Pemble, Executive Vice President and Chief Financial Officer**

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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 particular our transition report on Form 10-K for the period ended December 31, 2010, which will be filed today. Chindex does not undertake any obligations to update any forward-looking statements except as required under applicable law.

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**Roberta Lipson, Chief Executive Officer and President**

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Thanks, Larry. We announced our results for the three and nine month periods in a press release yesterday, which included our income statement, balance sheet and divisional results. In our press release, we laid out some details about the presentation of our financial results this quarter and Larry will also speak to that shortly.

In the December 31 quarter, total revenue was \$50 million, up 7.5% year-over-year and reflecting a 21% year-over-year increase in Healthcare Services revenue. Following the formation of the Medical Products joint venture, we're pleased to focus primarily on the Healthcare Services business going forward. And we're more enthusiastic than ever about the demand we continued to see across our UFH network.

Patient volumes in Beijing and Shanghai continued to be very strong and we're working diligently to quadruple our patient capacity by the end of 2013. We're pleased to have our growth plan in place to get there.

Net income for the quarter ending December 31 was \$1.7 million, which was down from the previous quarter primarily because of two key items that impacted our year-over-year net income comparison. First, during the quarter, we completed the formation of the Chindex Medical Limited

joint venture with FosunPharma. Related to this transaction, we incurred almost \$1 million in legal and professional fees, which we recorded in general and administrative expenses.

Second, in the prior year period, we recorded a benefit of \$1 million to healthcare services costs to reflect the effect of business tax refunds which were unique to that period. So comparing our operating results, should take these two items into consideration.

Let me update you on some of the activities we've been focusing on since our last earnings call. Our Beijing facility expansion is almost complete and we will be finished with construction by the end of this month. Equipment should be installed by midyear and we have phased openings of the new facility underway.

As we have discussed in the past, we're more than doubling the number of patient beds adding four state-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 department. These new facilities are being opened in response to patient demand for new services at BJU. And we intend to drive increasing revenues per patient as we offer more and more acute care indications across an even more diverse service offering. We are also please to bolster the efficiency of our space as we complete the new Beijing United hospital expansion and add on these new services.

The New Hope Oncology Center has received its operating licenses and has already started seeing patients for chemotherapy. The center brings a new level of premium care to oncology patients in China. Between the multidisciplinary team approach and the comfortable therapeutic environment, we believe this unique offering will be very well received. Shanghai and Guangzhou facilities continued their strong patient volumes in the December quarter, demonstrating broader demand for United Family's premium level of services.

In Shanghai, our off-site dental clinic opened this past month and in Pudong we will be expanding our current outpatient services, which we provide under management in the Huashan Pudong Hospital. This will include inpatient facilities later this year. We expect this new access to the Pudong market will represent significant increased capacity in the Shanghai operations over time.

We're also thrilled to announce new projects in Beijing and Tianjin. We recently signed the joint venture agreement and acquired a lease on the new building to house the United Family Rehabilitation hospital in Beijing.

The facility will be located five kilometers from Beijing United Family Hospital and is adjacent to a large park. We are now designing a state-of-the-art rehabilitation facility of more than 100 beds to make up for a big void in the care available in China today. We expect that the new rehabilitation hospital will open in mid-2012. We've also begun construction at our new 25-bed facility in Tianjin, and we expect completion on schedule in 2011.

We also continued to explore new opportunities and remain focused on opening our hospital in Guangzhou in 2013. We continued to aggressively pursue a national build out that will bring the United Family Healthcare brand to more and more cities in China. 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.

On December 3 of last year, the State Council issued a new opinion on the role of private investment in healthcare. This opinion clearly states that the government encourages the continued development of high quality private healthcare as a supplement to the public system and will reform certain policies to facilitate such investment. This has attracted a lot of focus from potential investors. No doubt this will result in some new market entrants. Although it will take years for new entrants to build facilities, teams and reputations, we do think that the eventual expanded

availability of private healthcare will make the choice to use private hospitals, a more acceptable and regular decision for Chinese consumers.

We're also pleased to have been able to report the formation of Chindex Medical Limited with our partners at FosunPharma. This joint venture allows Chindex to focus primarily on our core strength in healthcare services while realizing the benefits of potential synergies and expanded opportunities with Fosun in the medical products space.

We're big believers in the growth opportunity in China's medical device market and going forward we can benefit from the brand and foundation we've built for so many years with our former Medical Products division.

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

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**Lawrence Pemble, Executive Vice President and Chief Financial Officer**

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Thanks, Roberta. Today's call marks the end of a transitional period at Chindex. We calendarize our fiscal year effective beginning January 1 this year, the 10-K we filed today presents the nine month transition period from April 1 to December 31, 2010. We are now in our first quarter of 2011. We will report accordingly going forward. I also call your attention to the statement beginning of the press release related to financial statement presentation.

The financial statements presented in the earnings release present our income statement on a consolidated basis, which includes both the Healthcare Services division and the former Medical Products division. The balance sheet, however, is presented on a deconsolidated basis, which gives effect to the transfer of the Medical Products division of the joint venture on December 31, 2010.

To review the consolidated income statement for the quarter, for the three month period ended December 31 in the Healthcare Services division, our revenue was \$26.1 million, an increase of 21% over the prior year period and the division recorded income from operations before foreign exchange of \$3.8 million. This was down year-over-year from \$5.6 million in the prior year period, which enjoyed a \$3.2 million benefit from business tax refund in that particular period.

For the Medical Products division revenue was \$23.9 million compared to \$24.9 million in the prior year period. Gross margin in this division was flat at 29% and the division reported a loss from operations of \$538,000.

Our consolidated income from operations was \$2.7 million versus \$6.6 million in the year ago period. Keep in mind that \$3.8 million of this variance was due primarily to two items mentioned earlier, approximately \$942,000 in legal and professional fees related to the Chindex Medical Limited joint venture and the prior year period benefit of \$3.2 million reflecting the effects of the business tax refund we did not recognize in the current period.

Our quarterly results also include \$1 million of non-cash compensation expense compared to \$889,000 in the prior year. Development, startup and post opening expenses in the healthcare services division were \$517,000 in the period compared to \$313,000 in the prior year. This primarily reflects expansion projects in Beijing as well as startup operations in Guangzhou. And \$446,000 unrealized foreign exchange loss compared to a loss of \$309,000 in the same quarter of the prior year. Our income was \$1.7 million or \$0.10 per diluted share.

As of December 31, 2010, our cash, restricted cash, cash equivalents and investments were \$73.3 million, which included \$32 million in cash and equivalents, \$37.6 million in current investments and \$2.4 million in noncurrent investments. Our upcoming 12-month capital expenditure plan totals \$64

million with approximately \$54 million for new hospital development programs and approximately \$10 million for existing facility maintenance and development.

Our patient service receivables increased approximately \$1.3 million over the nine months period as a result of increased revenues. [ph] BP and E increased approximately \$13.4 million as we've recognized additions in leasehold improvements and CIP in the Healthcare Services division related to new facility expansion projects.

Regarding the formation of Chindex Medical Limited joint venture, the formation resulted in two entries in our December 31st statements. On the income statement we've recognized a minor loss on deconsolidation of the subsidiaries of \$126,000. On the balance sheet, we've recognized our investment in unconsolidated affiliates of \$31.8 million. There is a substantial amount of information about the CML joint venture in the 10-K. I would refer you specifically to notify in the notes to the consolidated financial statements when the – when the K is filed.

And, to conclude my comments, I'd like to say a couple of things about our current year 2011. We believe that 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. We anticipate revenue growth in the mid-teens that is primarily driven by continued demand from our existing services. That concludes my comments on the finance side.

I'll now turn the call back to Roberta.

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**Roberta Lipson, Chief Executive Officer and President**

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Thanks, Larry. Before we go to Q&A, I'd like to reiterate the opportunity ahead for Chindex. Our company is in incredibly exciting stage of development and 2011 is the year of investment in our future growth. And as a pure play Healthcare Services company, we are more focused than ever to double our patient network capacity over the next six months and quadruple that capacity by the end of 2013.

The regulatory and demographic trends are also working in our favor. The Chinese economy continues strong growth; increasing numbers of patients can afford to choose private care. The government and 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 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.

There are also some recent policies encouraging private investment in healthcare, which will allow increased proportion of foreign ownership of healthcare services and in certain cities fully foreign-owned will be also allowed. The government also delegated some of the approval process to the local government, which could shorten approval cycle timing and this could work in our favor as we navigate new and existing territories.

Overall, the government's policies have increased investor interest in the healthcare services sector in China and as we've 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.

We are also extremely pleased to see a new regulation in Beijing which allows Chinese doctors to register their license to practice at up to two sites instead of one hospital at all times. This will expand the talent pool that's available to our Beijing facility. We expect to see this reform implemented in other cities in the future as well. As for Chindex Medical Limited, we believe there

are economies of scale to be achieved since the combination of Fosun Medical Products Group. The Chindex strong brand and distribution platform combined with Fosun's manufacturing and R&D capabilities will certainly make for formidable force in the China market. We believe that we stand in an exciting inflection point in the market for healthcare services and products and Chindex is uniquely position to greatly profit by these trends.

That concludes this portion of our call, and we'll now open the floor up for questions and answers.

**QUESTION AND ANSWER SECTION**

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

**<Q – Hamed Khorsand>**: Hi. My question in regarding wage inflation in China. Could you just provide some details? I know that there's supposed to be another wave of increases occurring this year.

**<A – Roberta Lipson>**: Well, I can tell you that inflation is the reality here and certainly it will – the inflation in the consumer price index certainly will put some pressure on wages as well. I think that we'll see more of the effect among our lower band employees so – because the inflation is really more in basic commodities, vegetables and such and so that obviously will put pressure on people that rely on their salaries for – a good deal of their salaries for daily expenses and so we will see a bit of pressure as will everybody else in China. But, I don't think it's going to be so dramatic as one would expect.

We also have increased head count this year and so we'll see with all of the new facilities opening a little bit of increase in [ph] SWD in advance of the total revenues coming online from those services. But, we mentioned in the recording exactly what we expect to see in development expenses and that will be reflected in [ph] that post that extra head count.

**<Q – Hamed Khorsand>**: Okay. Just one follow-up on the healthcare operating expenses. What's the proportion of it being associated with the actual revenue side of the business and then the proportion that's related to development side of the business?

**<A – Roberta Lipson>**: Larry, I'm not sure that I quite got that question, I don't know --

**<A – Lawrence Pemble>**: Yeah. There is – Hamed, in the – and so in the quarter there was \$517,000 in expense recognized for development against total operating costs of \$20.3 million. So I would – and you can do that math pretty quickly, but so anyway that's [indiscernible] and yeah so, and then year-to-date, we've got \$1.7 million against total operating cost of \$57.3 million.

**<Q – Hamed Khorsand>**: No let me ask in a different way, the healthcare operating expense seems to be running at a faster rate, higher than your revenue growth and I was just trying to see what's creating that number?

**<A – Lawrence Pemble>**: Well, a part of it – it's not very much faster, right. So we have revenue growth in the nine months period of about 15% over the nine month period and 19% increase in expense over the period. A fair portion of that related to development activities, so \$1.7 million whatever that is, about 2 – below 2% or so. So yeah the expense increase is slightly higher on a nine-month basis as we ramp these revenue programs in both Beijing and Shanghai. I don't know, Roberta if you have any further color on that?

**<A – Roberta Lipson>**: No, I mean I think that that's to be expected given the stage of growth that we're in. We are working hard to operate in an increasingly efficient way and I think that over time those efficiencies will be realized even just directly from the economies of scale we get from operating on a larger base. But, at this point where we are, building, growing, hiring and adding beds, we're in a period where you're going to see a slightly faster growth in a percentage way [indiscernible]

**<A – Lawrence Pemble>**: I also think so on a year-to-date, Hamed, on a year-to-date basis we've got about between almost 3% on a nine-month basis of expense that's related directly to development. So actually when you net out development expense, you're almost even, not quite but almost.

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

Operator: Thank you. [Operator Instructions] Our next question is from Ingrid Yin from Brean, Murray. Your question please?

<Q – Ingrid Yin>: Hi. Good evening, everyone.

<A – Lawrence Pemble>: Hi.

<Q – Ingrid Yin>: My first question is about the pricing trend at your hospital. We saw very good revenue growth, very strong, can you elaborate on that?

<A – Roberta Lipson>: Yes, I can. Revenue growth is really primarily due to number one growth in patients numbers and number two the growth in the kinds of services, the services mix that are being – are growing more quickly that means that more sophisticated surgeries with higher per patient price tags are increasing at a faster rate than just sort of daily cough and cold kind of patient mix. So the growth in revenue as you can see from two different quarters, one increased patient numbers, number two increase in the number of acute indications that are being handled at the facilities. There has been no price increase in the period if that's what your question is about.

<Q – Ingrid Yin>: I see. So then we should be assuming a stable pricing trend?

<A – Roberta Lipson>: Yes.

<Q – Ingrid Yin>: My second question is regarding the guidance for 2011. So you've guided \$112 million for revenue, and can you provide some color in terms of gross margin and G&A trend as we talked earlier about potential inflation on labor?

<A – Roberta Lipson>: Ingrid, I think that we've got – I think we've talked before about the general operating margin in the hospital division. So when we look at – we know that the steady state operations in the division run in the mid to high teens, a little bit of fluctuation period to-period, but that's a fairly stable range. And then we need to net out development expense from that to our – we will have as we have had an impact each quarter from the development expense and we call out that number as we just discussed. So, the apple-to-apples operations will continue in that general operating expense range. Of course, we've talked in general over time we expect that to improve, but I don't think that's a sequential quarter-to-quarter expectation we need to look that over, you know an extended period of time on that expectation. So, that's the general operating margin picture I think for the coming year. I'm sorry, what was the second part of your question?

<Q – Ingrid Yin>: Yes, that's basically a gross margin trend and the G&A trend, yes?

<A – Lawrence Pemble>: Right. And then you need to – of course we have, there'll still be some periods when we have on the face of the income statement you will see a large differential related to the business tax. So, we have the business tax running through the early part of last year, the first two or three quarters as I recall. So, I mean we'll obviously call that out during the quarterly disclosures, but you could keep in mind that those are 5% business tax assessed during the first part of last year.

<A – Roberta Lipson>: Yes. I think the relevance when you look at the – also the growth in expenses is that looking at as we mentioned in answer to the last question looking at the 19% growth in expenses quarter-over-quarter as against the 15% growth in revenue that 19% growth in expenses, yes, represent refunds that we had from business tax in the prior quarter. So, the expenses of the prior quarter look perhaps less than they might – than they actually were related to that quarter. I don't know if I said that clearly or not.

<Q – Ingrid Yin>: Yes.

<A – Roberta Lipson>: But the growth in actual period-to-period operating expenses was less than that.

<Q – Ingrid Yin>: Okay, another question, so congratulations on having this new project in Beijing, a 100 plus bed at the rehab center project, I wonder if you could elaborate, give more information whether that will be a JV or what is the portion of Chindex ownership and the main difference of this rehab center and your existing hospitals and what kind of market potential you are expecting from that business and the CapEx plan for that project?

<A – Roberta Lipson>: Yes, it is a JV in similar proportions to – on a similar basis to our other facilities.

<Q – Ingrid Yin>: So id that 70%?

<A – Roberta Lipson>: Yes.

<Q – Ingrid Yin>: Okay.

<A – Roberta Lipson>: And the services that are going to be offered are rehabilitation services in for post-neurosurgery patients, which is one of the new services that are going to be offered at Beijing United, so it will be a place for us to be able to offer our patients longer-term rehab services than they will be able to get at the main hospital. Also there will be outpatient sports medicine rehab which is something that's sorely lacking in Beijing and post-stroke, post-trauma and with – the company that we are partnering with is a company that was formed by some of the most senior and capable neurosurgeons and neurointerventionalist in the country and so we expect to have an ongoing source of patients from their practices as well.

<Q – Ingrid Yin>: Okay, yes. That is very helpful. Can you talk about the market potential? I know you said the service basically is non-existent in Beijing so where – how big you think that market could be?

<A – Roberta Lipson>: Well, I think that there is opportunity beyond Beijing for rehab services. It is not – the service is not non-existent. There is one rehab hospital in Beijing that was originally started as a public hospital that was started for rehabilitation for handicapped people and that continues to be the main provider of rehab services in Beijing, but there is a huge waiting list for beds, the conditions are very typical of a public hospital – Chinese public hospital conditions. And so the – it doesn't even make a dent in the demand. I don't think we are ready to quantify the demand now, but we do believe that there are even less services available in many other cities in China as well. So, once more we are starting a pilot which potentially will be scalable to other cities and this will be the originating flagship as we've done in our general hospitals with Beijing United and then with our patient cancer facility another model and this a third model, but all of these facilities will provide – mutually provide services to each other and also [ph] practice patient treaters to each other.

<Q – Ingrid Yin>: Got it. So you are providing premium service with this rehab as well so that [indiscernible]

<A – Roberta Lipson>: Yes, very much so. Yeah.

<Q – Ingrid Yin>: [indiscernible] [ph] on the public run we have center in Beijing, right.

<A – Roberta Lipson>: Exactly. Exactly.

<Q – Ingrid Yin>: What is the CapEx plan for this project? I know you said it will be completed mid-2012?

<A – Roberta Lipson>: I don't think we've – we published the CapEx plan for this project. It's --

<Q – Ingrid Yin>: Yeah, I only need a ballpark number for --

<A – Lawrence Pemble>: Yeah, I think Ingrid we've said that our overall CapEx forward 12 months is approximately \$64 million, so with the Beijing Rehab in general terms we're talking about capital funding – fund requirement from Chindex of about \$15 million or so, which is mostly included in that period.

<Q – Ingrid Yin>: I see – I see it's included. Okay, and at your existing hospitals, I don't know Larry if you could provide utilization rates and – for the last quarter, and going forward will you break out outpatient and inpatient revenue?

<A – Roberta Lipson>: Well, I can tell you that in Beijing we're running up around 80%-85%, which is about the highest average that you can run in – anywhere from 70% to 85%, which is about as high as you want to get in a hospital --

<Q – Ingrid Yin>: Yeah, yeah, I understand. Yeah. Right.

<A – Roberta Lipson>: [indiscernible] [ph] tap out. But yeah and in Shanghai it's probably around 60%-65%, and but growing. And, yeah, so that's why we have to look ahead in Shanghai and hopefully we'll be able to open some inpatient services at the facility in Pudong to supplement the services that we [ph] haven't proceed by the end of the summer.

<Q – Ingrid Yin>: Okay, great. Thank you for answering my questions.

<A – Roberta Lipson>: You're welcome.

Operator: Thank you. [Operator Instructions] I am showing no further questions at this time. I would now like to turn the conference back over to Ms. Roberta Lipson.

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**Roberta Lipson, Chief Executive Officer and President**

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Yes, well thank you all very much. If there are no further questions, I'm going to bid you all a good day and hope to be back with more exciting news next quarter.

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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