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Interviews & News!

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Chindex International And Its United Family Hospitals And Clinics - Offering Premium Healthcare Services And Products In China – The Company Is In The Right Place At The Right Time



Services
Medical Equipment Wholesale
(CHDX-NASDAQ)

Chindex International, Inc.

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Lawrence Pemble
Executive Vice President Finance

BIO:

Mr. Pemble has been with Chindex since 1983 and is one of three original partners

in the company. Mr. Pemble is also a Director of the Company.

Since 1975, Mr. Pemble has dedicated his academic and professional career to endeavors related to China. He holds a degree in Chinese Studies and Linguistics from The State University of New York (1979) and has pursued post-graduate work at Liaoning University in the People's Republic of China (1979 - 80) and at Columbia University, New York City (1982). He is fluent in Mandarin Chinese and made his first trip to China in 1979. In the past 26 years he has traveled to China on more than 100 occasions for business and pleasure.

Mr. Pemble has published articles and given speeches on areas of expertise in China trade. He has served on the American delegation to the Medical Technologies Subgroup of the U.S.-China Joint Commission on Commerce and Trade. He has been interviewed on CNN International and has testified on China trade issues before committees of both the U.S. Senate and House of Representatives.

Company Profile:

Chindex is an American healthcare company that provides healthcare services and supplies medical capital equipment, instrumentation, and products to the Chinese marketplace, including Hong Kong. It provides healthcare services through the operations of its United Family Hospitals and Clinics, a network of private primary care hospitals and affiliated ambulatory clinics in China. The company's hospital network currently operates five facilities in the Beijing and Shanghai metropolitan areas. The company sells medical products manufactured by vari-

ous major multinational companies, including Siemens AG, which is the company's exclusive distribution partner for the sale and servicing of color doppler ultrasound systems. It also arranges financing packages for the supply of medical products to hospitals in China utilizing the export loan and loan guarantee programs of both the U.S. Export-Import Bank and the German KfW Development Bank. With 25 years of experience, more than 1,000 employees, and operations in China, Hong Kong, the United States, and Germany, the company's strategy is to expand its cross-cultural reach by providing leading edge healthcare technologies, quality products and services to Greater China's professional communities.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Pemble, what was the vision 25 years ago and what is it today for Chindex International?

Mr. Pemble: "When we began Chindex in the early 1980's the market for western healthcare products and services in China was just emerging. We saw a unique opportunity to capitalize on our China market expertise over a long period of time and we have been continuing to build a business in western healthcare products and services since that time. We have now established two operating divisions. The first provides healthcare services in China. We own and operate a private healthcare network - the United Family Healthcare Network in China. The second division is our Medical Products division which distributes a variety of west-

ern imported capital equipment to the healthcare industry in China on a national basis.”

CEOFCO: Who is your typical client for the healthcare facilities?

Mr. Pemble: “The Chinese government has focused their investment in healthcare delivery in China on general medical delivery to the broader spectrum of Chinese population and left the development of premium healthcare services to private and foreign investment. This is where Chindex has been investing over the last ten years or so. We just recently celebrated the ten-year anniversary of our first hospital, Beijing United Family Hospital in Beijing. Our facilities are used by both Chinese citizens and expatriates living in China. We are continuing to expand the vision of our premium healthcare service, which is to make it available to an increasingly broad spectrum of the population in China. Obviously, this would be at the more affluent end of the socioeconomic spectrum, which is where the Chinese government wants private investment in healthcare to focus. Therefore, we believe we are offering the appropriate product and the appropriate market segment for China’s developing healthcare needs.”

CEOFCO: What is different about one of your facilities, that might not be obvious to people?

Mr. Pemble: “We operate in Beijing, with the only JCI accredited healthcare network in North Asia, and we soon expect to have JCI accreditation for the United Family healthcare network in Shanghai as well. This means that an international standard of healthcare that is certified by an independent international agency is available in China for the first time in history in a comprehensive way. We offer full service inpatient facilities with 24-hour emergency room coverage and extensive clinical services through our outpatient clinics. The service level is at a very premium level. Our facilities are extremely well appointed; they surpass most facilities that I am familiar with in the United

States. My wife is a physician here in the US, and I will tell you that our United Family Hospital environment exceeds her clinical practice environment here in the United States. We are providing a caring environment at our hospital that doesn’t exist elsewhere in China on a very comprehensive delivery model.”

CEOFCO: Please tell us about your medical products.

Mr. Pemble: “Chindex has been a nationally recognized brand in the medical device market in China for over 25 years. Equipment we have supplied is used in

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over three thousand hospitals throughout the country. We maintain a large direct sales force and our technical service capability is second to none. Our reputation in the marketplace is one of continuing commitment to technical and clinical support of our products in the market. In addition, we have had a great deal of success over the years in supplying top-tier medical technologies and introducing new medical technologies into the Chinese healthcare system.”

CEOFCO: Are you strictly a distributor or do you create these products?

Mr. Pemble: “We are a distributor. We have exclusive national distribution rights to many top-tier products from well-known equipment manufacturers.”

CEOFCO: How do these two areas of the business do financially, what gives you the greatest profitability and where do you see the most growth?

Mr. Pemble: “Last year we were a little over one hundred million in revenue. The two divisions were pretty much fifty/fifty. The economic model for these two platforms is quite different. Both generate profit for the company and positive cash flows. The hospital business returns a higher operating margin than you normally see in the United States for example. The distribution business operates on the same economics as other distribution models. They are both interesting market segments in the healthcare sector in China and have been for many years. Because the hospital network that we are developing is a new emerging market segment in China, the growth rates in that segment have been quite high the last several years. Medical capital equipment is a fairly mature industry and a fairly mature business from our side, so the growth rates have been along historical patterns but not as high as an emerging market segment like private healthcare.”

CEOFCO: Is there a demand for the newest and latest in medical equipment?

Mr. Pemble: “Always. From our healthcare services side where you can see everyone is very interested in our premium healthcare but also in the capital equipment field there are always a large number of Chinese institutions who are very interested in the latest technologies, Chindex has a history of “firsts” in China in terms of introducing brand new technologies. We sold two of the first three MR machines that were imported in China back in the early 1980’s. We have recently brought da Vinci surgical robotic system from Intuitive Surgical (NASDAQ-ISRIG), to both the mainland

China and Hong Kong market. We have seen a great deal of interest in this revolutionary surgical product over the last two years.”

CEO CFO: What is the competitive landscape in that area?

Mr. Pemble: “Medical devices is a competitive market everywhere in the world and China is no different. We compete with all the major players in the medical device world. We are proud to be partnering with several of the premier device manufacturers in the world today.”

CEO CFO: What is your financial picture like these days?

Mr. Pemble: “We went through a development cycle a few years ago and had some rough earnings stories during that period, but we have had very nice earnings over the past several quarters. The businesses are returning nicely.”

CEO CFO: Will you be providing some medical services during the Olympics?

Mr. Pemble: “Yes, we were pleased to be able to cooperate with NBC and play a

role in the Olympic event. I think it speaks to our status within the healthcare community in Beijing as a provider of premium services that we would be approached by NBC and have a roll to play in that regard. It is an exciting time as we come closer to the events.”

CEO CFO: What is ahead the next couple of years?

Mr. Pemble: “We just completed a fund raising that has been publicly announced and raised over \$100 million to continue the development of United Family Healthcare Network. We specifically plan to build two new hospital facilities, one in Guangzhou to open the market there to United Family Healthcare and a second, larger facility in Beijing. This was a financing that involved JP Morgan out of Hong Kong, the IFC division of the World Bank as well as DEG a member of the KfW development bank in Germany. We are very happy to have significant equity investments from J.P. Morgan and the IFC as well as debt facilities from both IFC and DEG which will provide for

our future growth over the next couple of years.”

CEO CFO: In closing, why should potential investors be interested and what might they miss when they look at Chindex that they should understand?

Mr. Pemble: “We have a very active involvement with the investment community and I think that there are very few viable investment options in healthcare in China these days. Chindex is an American company and we have been publicly listed for a long time. Being American managed provides a great deal of comfort for our investors. We have demonstrated the earnings potential on our business platform and believe it is really just in the early stages of return on the long-term investment we have made over more than two decades. We see nothing but upside from here because we have proven the model and we are significantly ahead of any competition in private healthcare services in the market. We see our story continuing to grow at a rapid pace over the next several years.”



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