蓬勃发展

STRONG GROWTH TRENDS—INCREASED EARNINGS

Annual Report 2000

美中互利

CHINDEX

Chindex International, Inc.

U.S.-China Industrial Exchange, Inc.

Operating Groups

HEALTHCARE PRODUCTS

医疗卫生产品

Founded in 1981, Chindex has been the leading independent American supplier of Western medical technologies to Chinese hospitals for nearly two decades. Through its groundbreaking work in government-backed financing programs for capital equipment, the continuing introduction of new healthcare technologies, and an unwavering commitment to customer service, Chindex has long maintained a dominant market position.

Chindex provides direct nationwide marketing, sales and technical support for a robust product portfolio, including primary capital equipment used in diagnostic imaging, clinical laboratory, critical care/operating theater, radiation therapy, cardiology, and infection control.

Capitalizing on its reputation in the hospital market, Chindex has greatly expanded access to the greater healthcare marketplace through investment in new business platforms. The products distribution division provides products and services to the hospital, retail pharmacy and third party logistics services markets.

Chindex has established itself as the gold standard for logistics and supply chain management services in the Chinese healthcare arena. In addition to supplying a wide range of healthcare products to the Chinese hospital market, Chindex also has pioneered the opening of the retail pharmacy markets for imported Western personal care products, setting the stage for continuing growth in the future.

CAPITAL MEDICAL EQUIPMENT

PRODUCTS DISTRIBUTION:
Retail Pharmacy, Logistics, Hospital

HEALTHCARE SERVICES

医院事业

Chindex leads the foreign-invested healthcare services industry in China. In 1997, Chindex established the model for private healthcare services with the opening of its Beijing United Family Hospital. This Chindex hospital continues to provide the standard of excellence in family healthcare and serves as the profitable flagship for the development of the Chindex Healthcare Network. Chindex is moving forward with expansion plans at Beijing United Family Hospital and with plans for the next hospital in the growing Chindex Healthcare Network.

BEIJING UNITED FAMILY HOSPITAL
CHINDEX HEALTHCARE NETWORK

Our Mission

PROSPER AS A CROSS CULTURAL COMPANY BY PROVIDING LEADING EDGE TECHNOLOGIES, QUALITY PRODUCTS AND SERVICES TO GREATER CHINA'S PROFESSIONAL COMMUNITIES WITH PRIDE.

Dear Shareholder:

I am pleased to report that strong growth trends in both segments of Chindex's business led to increased earnings in 2000. Healthcare Products achieved 18% growth in revenues over the prior year and Healthcare Services achieved 52% growth. The dedication we have shown to our long-term growth strategy is paying off. We are also beginning to realize the future potential of the healthcare businesses we have built. As a leader in healthcare development in China, we are capitalizing on nearly two decades of competitive advantage.

For the year ended December 31, 2000, we reported a net profit of $641,000, or $0.76 per share. This compares to a net profit of $392,000 or $0.49 per share in 1999. Total revenues were $45.1 million for the year, compared to $37.1 million in 1999. Our Balance Sheet at year end showed cash and cash equivalents of approximately $3.8 million, total assets of $36.5 million, a current ratio of 1.4:1 and shareholders' equity of $13.2 million.

Sales of capital medical equipment to Chinese hospitals in the Healthcare Products segment were again highlighted by substantial shipments under our loan financing program which is guaranteed by the Export-Import Bank of the United States and provides our customers with attractive financing terms for the purchase of equipment from us. Of our total capital equipment sales of over $26 million during the year, approximately $9 million was delivered under Ex-Im loan financing, with the program continuing in 2001. Our loan financing facilities have become an established component of our capital equipment business and help to sustain our leading position in the face of increased competition in the China marketplace.

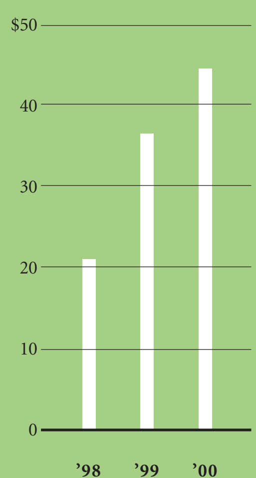
We are pleased to note that when Siemens acquired Acuson, one of our principal clients, in late 2000, they chose to retain Chindex as the sole distributor for the complete color doppler ultrasound product portfolio of the combined companies, including the existing Siemens products. This will provide a significantly expanded ultrasound product portfolio for us in 2001 and is a strong affirmation of the strength of our reputation and leading position in this market segment in China.

STRONG GROWTH TRENDS IN BOTH SEGMENTS OF CHINDEX'S BUSINESS LED TO INCREASED EARNINGS IN 2000.

The Healthcare Products segment also includes our distribution business which achieved sales of $12.4 million or a full 32% of the total revenue for the segment and growth over the prior year of more than 100%. The division's third party logistics and supply chain management services set the standard for the healthcare field in China, attracting Becton-Dickinson (BD) as a new principal in 2000. The division also performs downstream marketing and sales of high quality medical and personal care products in the hospital and retail pharmacy markets. During the year we continued to strengthen our network of local dealers by focusing on more actively supporting and auditing the top 100 dealers in order to provide even more effective coverage nationwide to all of China's 500+ bed hospitals, which account for about 80 percent of the consumption of imported medical products. Cities covered by the retail pharmacy unit increased to 14 of the top 25 markets. In 2001 we will continue our aggressive development of this fast-growing business. In the

THE CHINDEX MANAGEMENT TEAM

Leading Chindex in healthcare development in the China market.



hospital market, we plan expanded offerings in medical imaging equipment and supplies. In the retail pharmacy market, we will launch the Summer's Eve brand of feminine hygiene products in 2001 and are already preparing for the launch of a premier hair care product line in 2002. We expect the volume of business from BD and other multinational clients such as Tyco Healthcare and Guidant to continue to expand rapidly during the coming year.

The Healthcare Services segment reported its first profitable year in 2000. Beijing United Family Hospital posted earnings of $218,000 for the year. We are very proud of this accomplishment. While a new startup hospital might be expected to show losses on operations for five or more years, our facility has achieved profitability in just three years. In 2001 we will begin expansion of the physical facility at Beijing United. Over the next two years we plan to triple the number of beds in the hospital. In addition to significantly increased inpatient facilities, our expansion will also provide for growth in our imaging and clinical laboratory services. With our profitable results this year, we have proven the success of our business model for private healthcare services in China. We will now move forward with our plans to establish the next Chindex hospital. We expect that this facility will be in the Shanghai metropolitan area and follow a business model similar to that of Beijing United. Funding plans for the new venture are being discussed with several potential investors.

WE ARE CAPITALIZING ON NEARLY TWO DECADES OF COMPETITIVE ADVANTAGE IN THE CHINESE HEALTHCARE MARKET.

On behalf of the Board of Directors and management, I would like to express our appreciation to all of our shareholders, employees, principals and partners for their ongoing support. Our commitment to you remains the same: To continue our rapid growth as a leader in healthcare development in China, building shareholder value on the basis of long term investment in the Chinese market.

Roberta Lipson
President and Chief Executive Officer

CHINDEX EXECUTIVE MANAGEMENT

From left:
Robert C. Goodwin, Jr.
Roberta Lipson
Elyse Beth Silverberg
Lawrence Pemble

RESULTS OF OPERATIONS

Fiscal year 2000 compared to 1999

The Company's revenues for 2000 were $45,064,000, up 21% from 1999 revenues of $37,128,000. The Company recorded net income in 2000 of $641,000 or 64% increase over 1999 net income of $392,000.

Healthcare Products

The healthcare products segment, consisting of medical equipment, medical consumables and personal healthcare products, had revenue growth of 18% to $39,049,000 in 2000 from 1999 revenues of $33,182,000. The 2000 revenues included $26,554,000 in sales of medical equipment (68%) and $12,495,000 in sales of medical consumables and personal healthcare products (32%). The largest single component in 2000 and 1999 was $9,396,000 and $11,723,000, respectively, due to sales attributable to shipments made under the Company's EXIM loan transaction. The Company believes that this type of financing is important to its customers and the Company and will continue to try to offer such financings in the future. These financings can be very complex and their impact and timing on the Company's results is difficult to predict (see "Timing of Revenues"). The sales of medical equipment are U.S. Dollar-based export sales often contingent on financing (see "Timing of Revenues"). The sales of medical consumables and personal healthcare products are local currency-based sales made from inventories maintained locally in China (see "Foreign Currency Exchange and Impact of Inflation") to a network of sub-dealers and pharmacies.

Gross profit in 2000 rose to $9,529,000 from $8,234,000 in 1999. As a percentage of revenue, gross profit from the healthcare products segment declined in 2000 to 24% from 25% in 1999.

Expenses for the healthcare products segment in 2000 increased to $9,595,000 (25% of revenue) from $7,991,000 in 1999 (24% of revenue). Salaries increased $873,000 (salaries were 14% of revenue in 2000 and 1999), primarily due to increased hires. In addition, travel and entertainment expense increased $238,000 (travel and entertainment was 5% of revenue in 2000 and 1999) as a result of increased marketing efforts and other costs increased $493,000.

Healthcare Services

The healthcare services segment consists of a Western style primary care hospital and outpatient facility. In 2000, the revenues from this segment increased to $6,015,000 or 52% over 1999 revenues of $3,946,000. During 2000, the Company expanded the dental clinic and continued to offer services providing obstetrics, gynecology, pediatrics, birthing services and executive health care. All of these practice areas experienced continued growth. The Company is exploring the possibility of additional satellite clinics to serve as referral sites to its hospital.

Healthcare services costs increased in 2000 to $5,797,000 or 31% over 1999 costs of $4,410,000. This increase is due to the costs associated with increases in services. Salaries increased by $555,000 (salaries were 39% of revenue in 2000 versus 46% in 1999), with all other costs increasing $832,000.

Other Income and Expenses

Interest income in 2000 declined to $200,000 from $308,000 in 1999. In addition, the Company incurred $94,000 in interest expense in 2000 and had no interest expense in 1999 (see "Liquidity and Capital Resources").

Other income decreased slightly in 2000 to $558,000 from $588,000 in 1999.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2000, total accounts receivable increased by $9,229,000 as compared to December 31, 1999. This was due to the EXIM transaction shipping at the end of the year ended December 31, 2000 while the 1998 EXIM transaction shipped during the first half of the year ended December 31, 1999.

As a result of the shipment of the EXIM transaction the accounts payable and accrued expenses increased by over $7,000,000 of the $11,481,000 increase in liabilities as of December 31, 2000. The remainder of the increase is related to increased payment terms by suppliers for the consumable products in the healthcare products group.

As of December 31, 2000, inventories were $9,120,000, rising $3,393,000 from the December 31, 1999 balance of $5,881,000. This increase was mainly attributable to new supplier relationships started by the healthcare products group.

The Company continues to consider various financing alternatives to satisfy its future expansion, capital improvements and equipment requirements.

TIMING OF REVENUES

The timing of the Company's revenues is affected by several significant factors. Many end-users of the capital equipment products sold by the Company depend to a certain extent upon the allocation of funds in the budgeting processes of the Chinese government and the availability of credit from the Chinese banking system. These processes and the availability of credit are based on policy determinations by the Chinese government and are not necessarily subject to fixed time schedules.

In addition, the sales of certain products often require protracted sales efforts, long lead times and other time-consuming steps. Further, in light of the dependence by purchasers on the availability of credit, the timing of sales may depend upon the timing of the Company's or its purchasers' abilities to arrange for credit sources, including EXIM financing. As a result, the Company's operating results have varied and are expected to continue to vary significantly from period to period and year to year. In addition, a relatively limited number of orders and shipments may constitute a meaningful percentage of the Company's revenue in any one period. As a result, a relatively small reduction in the number of orders can have a material impact on the Company's revenues in any year. Further, because the Company recognizes revenues and expenses as products are shipped, the timing of shipments could affect the Company's operating results for a particular period.

FOREIGN CURRENCY EXCHANGE AND IMPACT OF INFLATION

The results of operations of the Company for the periods discussed have not been significantly affected by inflation or foreign currency fluctuation. To date, the majority of the Company's purchases and sales have been made in U.S. dollars. Thus, the Company has not had extensive foreign currency risk. However, changes in the valuation of the Chinese *Renminbi* or Hong Kong Dollar may have an impact on the Company's results of operations in the future. The Company's subsidiaries, Chindex Tianjin, Chindex Shanghai and Beijing United, sell products and services in *Renminbi*.

Also, the Company has purchased and will continue to purchase some products in Western currencies other than U.S. dollars and has sold and will continue to sell such products in China for U.S. dollars. To the extent that the value of the U.S. dollar declines against such a currency, the Company could experience a negative impact on profitability. The Company anticipates hedging transactions wherever possible to minimize such negative impacts.

Market for Registrant's Common Equity and Related Stockholder Matters

The Company's Common Stock is listed on the Nasdaq® under the symbol CHDX. The following table (from Nasdaq, IDC) shows the high and low Common Stock bid quotations in the over-the-counter market, as quoted on Nasdaq. Such quotations reflect interdealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Quarter Ended	High Bid	Low Bid
March 31, 1999	$ 6.313	$ 2.000
June 30, 1999	20.000	4.125
September 30, 1999	13.250	6.500
December 31, 1999	44.000	12.000
March 31, 2000	**24.250**	**11.591**
June 30, 2000	**28.500**	**6.023**
September 30, 2000	**15.625**	**8.693**
December 31, 2000	**11.500**	**6.000**

As of March 26, 2001, there are 14 record holders and there are estimated to be approximately 1,170 beneficial owners of the Company's Common Stock. There are three owners of the Company's Class B Common Stock.

The Company has not paid any cash dividends on its Common Stock since inception, and it does not anticipate paying any cash dividends in the foreseeable future. The Company expects to retain earnings for use in its business.

Consolidated Balance Sheets

	December 31, 2000	1999
Assets		
Current assets:		
Cash and cash equivalents	**$ 3,785,000**	$ 4,948,000
Receivables:		
Trade accounts, less allowance for doubtful accounts of $604,000 (2000 and 1999)	**17,196,000**	4,970,000
Current portion—long term trade accounts	—	2,801,000
Inventories	**9,120,000**	5,881,000
Other current assets	**1,592,000**	1,013,000
Total current assets	**31,693,000**	19,613,000
Property and equipment, net	**3,726,000**	3,756,000
Trade accounts receivable, long term	—	196,000
Other	**1,079,000**	819,000
Total assets	**$36,498,000**	$24,384,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	**$22,065,000**	$ 9,561,000
Accrued contract training	**1,108,000**	1,395,000
Current portion-long term accounts payable, net	—	645,000
Income taxes payable	**90,000**	105,000
Total current liabilities	**23,263,000**	11,706,000
Long term accounts payable, net	—	91,000
Total liabilities	**23,263,000**	11,797,000
Stockholders' equity:		
Preferred stock, $.01 par value, authorized 5,000,000, none issued	—	—
Common stock, $.01 par value, 30,000,000 shares authorized (including 2,000,000 designated Class B):		
Common stock—596,563 shares and 657,319 shares issued and outstanding in 2000 and 1999, respectively	**7,000**	6,000
Class B stock—193,750 shares issued and outstanding in 2000 and 1999	**2,000**	2,000
Additional capital	**17,303,000**	17,294,000
Foreign currency equity translation adjustment	—	2,000
Accumulated deficit	**(4,077,000)**	(4,717,000)
Total stockholders' equity	**13,235,000**	12,587,000
Total liabilities and stockholders' equity	**$36,498,000**	$24,384,000

See accompanying notes

Consolidated Statements of Operations

	Year Ended December 31, 2000	1999
Total sales and service revenue	**$45,064,000**	$37,128,000
Cost and Expenses		
Cost of goods and services sold	**30,529,000**	25,561,000
Salaries and payroll taxes	**7,777,000**	6,349,000
Travel and entertainment	**1,897,000**	1,560,000
Other	**4,709,000**	3,879,000
(Loss) income from operations	**152,000**	(221,000)
Minority interest	**(36,000)**	(18,000)
Other income and (expenses)		
Interest expense	**(94,000)**	—
Interest income	**200,000**	308,000
Miscellaneous income—net	**558,000**	588,000
Income before income taxes	**780,000**	657,000
Provision for income taxes	**(139,000)**	(265,000)
Net income	**$ 641,000**	$ 392,000
Net income per common share—basic	**$ 0.79**	$ 0.49
Weighted average shares outstanding—basic	**808,722**	790,313
Net income per common share—diluted	**$ 0.76**	$ 0.49
Weighted average shares outstanding—diluted	**838,716**	794,527

See accompanying notes

Consolidated Statements of Cash Flows

	Year Ended December 31, 2000	1999
Operating Activities		
Net income	$ 641,000	$ 392,000
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation	750,000	672,000
Inventory write-down	154,000	164,000
Changes in operating assets and liabilities:		
Trade receivables	(9,229,000)	4,683,000
Inventories	(3,393,000)	(274,000)
Other current assets	(579,000)	(316,000)
Other assets	(260,000)	(21,000)
Accounts payable and accrued expenses	11,481,000	(4,609,000)
Income taxes payable	(15,000)	48,000
Net cash (used in)/provided by operating activities	(450,000)	739,000
Investing Activities		
Purchases of property and equipment	(720,000)	(514,000)
Net cash used in investing activities	(720,000)	(514,000)
Financing Activities		
Exercise of stock options	9,000	—
Net cash provided by financing activities	9,000	—
Effect of foreign exchange rate changes on cash and cash equivalents	(2,000)	—
Net (decrease)/increase in cash and cash equivalents	(1,163,000)	225,000
Cash and cash equivalents at beginning of year	4,948,000	4,723,000
Cash and cash equivalents at end of year	$ 3,785,000	$ 4,948,000
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 10,000	$ —
Cash paid for income taxes	$ 368,000	$ 257,000

See accompanying notes

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2000 and 1999

	Common Stock		Common Stock Class B		Additional Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 1998	596,563	$6,000	250,000	$ 3,000	$17,294,000	$(5,109,000)	$ 2,000	$12,196,000
Forfeit of escrow shares			(56,250)	(1,000)				(1,000)
Net income for 1999						392,000		392,000
Balance at December 31, 1999	596,563	6,000	193,750	2,000	17,294,000	(4,717,000)	2,000	12,587,000
September stock dividend	59,756	1,000				(1,000)		
Option exercise	1,000				9,000			9,000
Foreign currency Translation adjustment							(2,000)	(2,000)
Net income for 2000						641,000		641,000
Balance at December 31, 2000	**657,319**	**$7,000**	**193,750**	**$ 2,000**	**$17,303,000**	**$(4,077,000)**	**$ —**	**$13,235,000**

See accompanying notes

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Stockholders
U.S.-China Industrial Exchange, Inc.

We have audited the accompanying consolidated balance sheets of U.S.-China Industrial Exchange, Inc. as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of U.S.-China Industrial Exchange, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

McLean, Virginia
March 9, 2001

1. ACCOUNTING POLICIES

Organization and Description of Business

U.S.-China Industrial Exchange, Inc. (the Company) is a sales representative in China and Hong Kong for several major U.S., European, and other manufacturers of high-technology medical equipment and consumables. The Company markets and sells these products in China and Hong Kong, and provides marketing, sales and technical services for the products. Substantially all direct sales, commissions and purchases of these products are denominated in U.S. dollars.

Two of the Company's subsidiaries, Chindex Holdings International Trade (Tianjin) Ltd., and Chindex Shanghai International Trading Co., Ltd., sell goods and receive payment in local Chinese currency and use the currency to pay for local expenses and U.S. dollar imported goods. Payments are generally required to be made in advance for consumable products.

In 1996 the Company established Beijing United Family Hospital, a contractual joint venture between the Company and a Company controlled by the Chinese Academy of Medical Sciences. This Hospital provides complete Western standard primary care health services including family practice, pediatrics, dental care, physical therapy, obstetrics, gynecology, neonatology and men's health care. Operations commenced in late 1997. Full-time operation began in March 1998. While Beijing United does denominate its revenue and expenses in local Chinese currency it can receive payments in U.S. dollars.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, Chindex, Inc., Chindex Holdings International Trade (Tianjin) Ltd., Chindex Shanghai International Trading Co., Ltd., Chindex Hong Kong and its 100% balance sheet interest and 90% earnings interest in the Beijing United Family Hospital. Significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition

Sales and most commissions are recognized upon product shipment. Costs associated with shipping, handling, installation, after-sale servicing and warranty are not significant and are recognized in cost of sales as they are incurred.

Revenues related to services provided by Beijing United Family Hospital are recognized in the period services are provided. Costs associated with such services are recognized in the period incurred.

Inventories

Inventory purchased to fill signed sales contracts and purchase orders that remain undelivered at year-end (merchandise inventory), service parts and inventory of peripheral components are stated at the lower of cost or market using the specific identification method. In addition, two wholly foreign owned subsidiaries maintain merchandise inventory based on expected sales targets.

Certain items are purchased for demonstration purposes and subsequent sale (demonstration inventory). Management monitors the salability of such demonstration inventory and reduces the carrying amount to net realizable value when there is any impairment in value.

Inventory items held by Beijing United Family Hospital are stated at the lower of cost or market using the average cost method.

Property and Equipment

Property and equipment, including such assets held by Beijing United Family Hospital, are stated at historical cost. The costs of additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Depreciation is computed on the straight line method over the estimated useful lives of the related assets. Useful lives for office equipment, vehicles and furniture and fixtures range from 5 to 7 years. Leasehold improvements are amortized by the straight-line method over the shorter of the estimated useful lives of the improvements or the lease term. Certain medical equipment is depreciated over three years.

The Company assesses the impairment of long-lived assets including intangible assets in accordance with Statement of Financial Standards No. 121, 'Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed of' (Statement 121). Statement 121 requires impairment losses to be recognized for long-lived assets when indicators of impairment are present and the undiscounted cash flows are not sufficient to recover the assets' carrying amounts. Intangibles are also evaluated for recoverability by estimating the projected undiscounted cash flows, excluding interest, of the related business activities. The impairment loss of these assets, including goodwill, is measured by comparing the carrying amount of the assets to its fair value with any excess of carrying value over fair value written off. Fair value is based on market prices where available, an estimate of market value, or determined by various valuation techniques including discounted cash flows.

Long Term Receivables and Payables

Long term receivables and payables are recorded at estimated present values determined based on current rates of interest and reported at the net amounts in the accompanying financial statements. Imputed interest is recognized using the effective interest method and recognized as a component of interest income/expense in the accompanying financial statements.

Income Taxes

Provisions for income taxes are based upon earnings reported for financial statement purposes and may differ from amounts currently payable or receivable because certain amounts may be recognized for financial reporting purposes in different periods than they are for income tax purposes. Deferred income taxes result from temporary differences between the financial statement amounts of assets and liabilities and their respective tax bases.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Fair Value of Financial Instruments

The Company considers the recorded value of its financial instruments, which consist of cash and cash equivalents, trade receivables, commissions receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at December 31, 1999 and 2000.

Earnings Per Share

The Company follows Statement of Financial Accounting Standards No. 128, 'Earnings per Share' (Statement 128) whereby basic earnings per share excludes any dilutive effects of options, warrants and convertible securities and diluted earnings per share includes such effects. The Company does not include the effects of stock option, warrants and convertible securities for periods when the Company reports a net loss as such effects would be antidilutive.

Stock Based Compensation

The Company follows Statement of Financial Accounting Standards No. 123, 'Accounting for Stock-Based Compensation,' (Statement 123) which allows companies to either account for stock-based compensation under the provisions of Statement 123 or under the provisions of Accounting Principles Board Opinion No. 25 'Accounting for Stock Issued to Employees' (Opinion 25), but requires pro forma disclosure in the footnotes to the financial statements as if the measurement provisions of Statement 123 had been adopted. The Company has elected to account for its stock-based compensation to employees pursuant to the provisions of Opinion 25.

Dividends

The Company has not paid cash dividends to the stockholders of its common stock and any cash dividends that may be paid in the future will depend upon the financial requirements of the Company and other relevant factors. On August 25, 2000 the Company declared a 10% stock dividend to holders of record on September 13, 2000.

Derivative and Hedging Activity

In June 1998, Statement of Financial Accounting Standards No. 133, 'Accounting for Derivative Instruments and Hedging Activities' (Statement 133), as amended, was issued and is effective for fiscal years beginning after June 15, 2000. Statement 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair market value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The Company will adopt the new requirement prospectively when required.

2. EXTENDED PAYMENT TERM SALES ARRANGEMENTS

The Company has entered into agreements with certain customers to provide extended payment terms related to the sale of high technology medical equipment. In conjunction with these transactions the Company has negotiated agreements with certain vendors to grant matching extended terms. Receivables and payables under these arrangements were discounted at 6.35% for the year ended December 31, 1999. All transactions in 2000 were in the current account and long term contracts are no longer integral to the sales process. The resulting discounts were recorded as reductions in the gross amounts due from customers and due to suppliers under long term arrangements and reported at net amounts in the accompanying financial statements.

Long term receivables and payables under these arrangements mature during the years ending December 31, as follows:

	1999	
	Accounts Receivable	Accounts Payable
2000	$2,892,000	$658,000
2001	211,000	99,000
	3,103,000	757,000
Less: imputed interest	106,000	21,000
	2,997,000	736,000
Less: current portion	2,801,000	645,000
	$ 196,000	$ 91,000

Amortization of imputed interest on long term accounts receivable was $45,000 for the year ended December 31, 1999. Amortization of imputed interest on long term accounts payable was $14,000 for the year ended December 31, 1999.

3. INVENTORIES

Inventories consist of the following:

	December 31, 2000	1999
Merchandise inventory	**$6,960,000**	$4,026,000
Healthcare services inventory	**149,000**	141,000
Demonstration inventory, net	**489,000**	464,000
Parts and peripheral inventory	**1,522,000**	1,250,000
	$9,120,000	$5,881,000

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

	December 31, 2000	1999
Furniture and equipment	**$3,312,000**	$2,861,000
Vehicles	**109,000**	109,000
Leasehold improvements	**3,094,000**	2,825,000
	6,515,000	5,795,000
Less: accumulated depreciation and amortization	**2,789,000**	2,039,000
	$3,726,000	$3,756,000

5. STOCKHOLDERS' EQUITY

Common Stock

The Class B common stock and the common stock are substantially identical on a share-for-share basis, except that the holders of Class B common stock have six votes per share on each matter considered by stockholders and the holders of common stock have one vote per share on each matter considered by stockholders. Each share of Class B common stock will convert at any time at the option of the original holder thereof into one share of common stock and is automatically converted into one share of common stock upon (i) the death of the original holder thereof, or, if such stocks are subject to a stockholders agreement or voting trust granting the power to vote such shares to another original holder of Class B common stock, then upon the death of such original holder, or (ii) the sale or transfer to any person other than specified transferees.

The holders of the Class B common stock had placed 56,250 shares in escrow. These shares were not assignable or transferable (but could be voted) until such time as they are released from escrow based upon the Company meeting certain earnings levels or the common stock attaining certain price levels. All escrow shares on March 31, 1999 were forfeited and contributed to the Company's capital on March 31, 1999.

Stock Option Plan

The Company's 1994 Stock Option Plan (the Plan) provides for the grant, at the discretion of the Board of Directors, of (i) options that are intended to qualify as incentive stock options (Incentive Stock Options) within the meaning of Section 422A of the Internal Revenue Code to certain employees, consultants and directors, and (ii) options not intended to so qualify (Nonqualified Stock Options) to employees, consultants and directors. The total number of shares of common stock for which options may be granted under the Plan is 62,500. Late in 2000 the Board of Directors approved a 200,000 increase in the amount of stock authorized for issuance. This increase is subject to stockholder approval at the Company's 2001 annual meeting.

The Plan is administered by the Board of Directors, which determines the terms of options, including the exercise price, the number of shares subject to the options and the terms and conditions of exercise. No option granted under the Plan is transferable by the optionee other than by will or the laws of descent and distribution and each option is exercisable during the lifetime of the optionee only by such optionee.

The exercise price of options granted under the Plan must be at least equal to the fair market value of such shares on the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting rights of the Company's outstanding capital stock, the exercise price of any Incentive Stock Option may be not less than 110% of the fair market value on the date of grant. With respect to any Incentive Stock Option granted to a participant who owns stock possessing more than 10% of the total combined voting power of all classes of the Company's outstanding capital stock, the maximum term is five years.

The following is a summary of stock option activity during the years ended December 31, 1999 and 2000:

	2000	1999	Exercise Price Range
Options outstanding,			
beginning of year:	**46,318**	38,856	$7.48–$36.00
Granted*	**171,498**	10,000	$8.21–$36.88
Exercised	**(1,000)**	0	$9.13
Canceled	**(6,795)**	(34,106)	$8.21–$36.00
Repriced and Reissued	**0**	31,568	$8.21
Options outstanding,			
end of year	**210,021**	46,318	$7.48–$36.00

**Granted in 2000 subject to shareholder approval at the 2001 annual meeting. The Company has not provided disclosures under FAS 123 for proforma net income and proforma earnings per share, as such amounts are not materially different from reported amounts. The weighted average exercise price of options outstanding is $12.00 and $9.95 and the weighted average remaining contractual life of such options is 9.2 years and 9.4 years respectively as of December 31, 1999 and 2000.*

Shares of Common Stock Reserved

At December 31, 2000 the Company has reserved 256,250 shares of common stock for issuance upon exercise of stock options and Class B common stock convertibility.

6. EARNINGS PER SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted Earnings per Share (EPS) computations for net income and other related disclosures:

	For the Year Ended December 31, 2000		
	Net income (Numerator)	Shares (Denominator)	Per Share Amount
Net income/Basic EPS	**$641,000**	**808,722**	**$ 0.79**
Effect of dilutive securities:			
Warrants and options	**—**	**29,994**	**(0.03)**
Net income/Diluted EPS	**$641,000**	**838,716**	**$ 0.76**

	For the Year Ended December 31, 1999		
	Net income (Numerator)	Shares (Denominator)	Per Share Amount
Net income/Basic EPS	$392,000	790,313	$0.49
Effect of Dilutive Securities:			
Warrants and options	—	4,214	—
Net income/Diluted EPS	$392,000	794,527	$0.49

Options to purchase 46,318 and 210,021 of common stock between $7.48 and $36.00 were outstanding during most of 1999 and 2000 respectively. See note 5.

7. INCOME TAXES

Provision for income taxes consists of the following:

	Year Ended December 31, 2000	1999
Current:		
Federal	$ —	$ —
Foreign	**(139,000)**	(265,000)
State	—	—
	(139,000)	(265,000)
Deferred:		
Federal	—	—
State	—	—
	$(139,000)	$(265,000)

The net deferred tax assets and liabilities have been reduced 100% by a valuation allowance and consist of the following as of December 31:

	2000	1999
Deferred Tax Liabilities:		
Rate differential on Hong Kong earnings	**$ (146,000)**	$ —
Deferred Tax Assets:		
Allowance for doubtful accounts	**225,000**	225,000
Inventory write downs	**237,000**	295,000
Net operating loss carry forwards	**2,300,000**	2,494,000
Foreign tax credit	**51,000**	210,000
Other	**3,000**	3,000
Sub-total	**2,816,000**	3,081,000
Less valuation allowance	**(2,816,000)**	(3,081,000)
Net deferred tax asset	**$ —**	$ —

The Company's effective income tax rate varied from the statutory federal income tax rate for the year ended December 31 as follows:

	2000	1999
Statutory federal income tax rate	**34.0%**	34.0%
Adjustments:		
State income taxes, net of federal tax benefit	**3.5**	3.5
Foreign tax rate differential	**(31.5)**	(33.5)
Use of foreign net operating losses	**(20.7)**	—
Change in valuation allowance	**34.0**	27.4
Other, including permanent differences	**(1.5)**	9.0
Effective income tax rate	**17.8%**	40.4%

A valuation allowance has been recorded as of December 31, 1999 and 2000 to reduce the net deferred tax assets as it is more likely than not that the net deferred tax assets will not be realized for the foreseeable future.

The Company and its subsidiaries file separate income tax returns; the Company is on a June 30 fiscal year and its subsidiaries on a December 31 fiscal year.

The Company has U.S. Federal net operating losses of approximately $5.1 million of which $2.4 million expire principally in 2012 and $2.7 million expire in 2018. The Company also has foreign losses from China of approximately $1.2 million that expire in 2002 and 2003.

8. COMMITMENTS

Employment Agreements

The Company has entered into three-year employment agreements with four key executives which, as amended or revised to date, provide for annual base salaries amounting to an aggregate of $700,000 per year until May 2001.

Leases

The Company leases office space, warehouse space, and space for Beijing United Family Hospital under operating leases. Future minimum payments under these noncancelable operating leases consist of the following:

Year Ending December 31:	
2001	$ 707,000
2002	515,000
2003	464,000
2004	464,000
2005	464,000
Thereafter	2,218,000
	4,832,000
Less total minimum sublease rentals	323,000
Net minimum rental commitments	$4,509,000

The above leases require the Company to pay certain pass through operating expenses and rental increases based on inflation.

Included in Other income for the year ended December 31, 1999 and 2000 is net sublease income of $379,000 and $512,000, respectively.

Rental expense was approximately $850,000 and $953,000 for the years ended December 31, 1999 and 2000, respectively.

9. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, trade receivables and commission receivables. Substantially all of the Company's cash and cash equivalents at December 31, 1999 and 2000 were held by two U.S. financial institutions. All of the Company's sales during the year were to end-users located in China or Hong Kong. Most of the Company's sales are accompanied by down payments of either cash or letters of credit with one Chinese financial institution. Sales on extended payment terms usually have down payments in the form of a letter of credit and additional payments are secured through several methods. Before extended payment terms are provided, the Company performs a thorough review of the local operation, secures a guarantee from higher authorities than the end-user, and performs other steps as needed. All of the Company's medical services provided by Beijing United Family Hospital were performed in China for patients residing in China. Substantially all of the payments received for such services were denominated in local currency; however, the Company is authorized to accept payment in other currencies.

Extended payment term transactions are entered into in the context of the Company's sales activities in China and, as such, the risks attendant to doing business in China apply to such transactions as well. The absence of a comprehensive and effective legal system in China, among other concerns, requires alternative arrangements in order to reduce the Company's credit risks. Guarantees from higher governmental authorities, for example, usually involve requiring customers to have a provincial or municipal governmental organization sign a statement that the payment obligations will be satisfied. This political commitment is, in the Company's experience, an effective method in helping ensure payment of obligations in China. These commitments, however, are different from traditional commercial guarantees in the United States, which guarantees are not available in China for transactions of the type engaged in by the Company.

The Company has a $1,750,000 credit facility with Allfirst Bank for short term working capital needs, standby letters of credit, and spot and forward foreign exchange transactions. Balances outstanding under the facilities are payable on demand, fully secured and collateralized by government securities acceptable to the Bank having an aggregate fair market value of not less than $1,945,000. As of December 31, 2000, letters of credit issued by the bank amounted to approximately $400,000 and no amounts were outstanding under the line of credit facility. Borrowings under the credit facility bear interest at 1% over three month London Interbank Offered Rate ("LIBOR").

The Company conducts its marketing and sales and provides its services exclusively to buyers located in China and Hong Kong. The medical services and products provided by Beijing United Family Hospital and the marketing of such services are performed exclusively for/to patients in China. The Company's results of operations and its ability to obtain financing could be adversely affected if there was a deterioration in trade relations between the United States and China.

Of the Company's net assets at December 31, 1999 and 2000, approximately $6,693,000 and $12,022,000, respectively, of such assets are located in China, consisting principally of cash, inventories, property improvements and equipment.

See Note 10 also.

10. SIGNIFICANT CUSTOMERS/SUPPLIERS

Substantially all China purchases of the Company's products, regardless of the end-user, are made through Chinese foreign trade corporations (FTCs). Although the purchasing decision is made by the end-user, which may be an individual or a group having the required approvals from their administrative organizations, the Company enters into formal purchase contracts with FTCs. The FTCs make purchases on behalf of the end-users and are authorized by the Chinese government to conduct import business. FTCs are chartered and regulated by the government and are formed to facilitate foreign trade. The Company markets its products directly to end-users, but in consummating a sale the Company must also interact with the particular FTC representing the end-user. By virtue of its direct contractual relationship with the FTC, rather than the end-user, the Company is to some extent dependent on the continuing existence of and contractual compliance by the FTC until a particular transaction has been completed.

Purchases from one supplier totaled approximately $9,616,000 and $4,251,000 for the years ended December 31, 1999 and 2000, respectively. The Company has entered into a security arrangement to ensure the payment of such supplier's accounts payable.

11. SEGMENT REPORTING

The following segment information has been provided per Statement of Financial Accounting Standards No. 131, 'Disclosures about Segments of an Enterprise and Related Information':

For the year ended December 31, 2000:

Segments	**Healthcare Products**	**Healthcare Services**	**Total**
Assets	**$30,847,000**	**$5,651,000**	**$36,498,000**
Sales and service revenue	**$39,049,000**	**$6,015,000**	**$45,064,000**
Gross Profit	**9,529,000**	**n/a**	**n/a**
Gross Profit %	**24%**	**n/a**	**n/a**
Expenses	**9,595,000**	**5,797,000**	**44,912,000**
Income/(loss) from operations	**$ (66,000)**	**$ 218,000**	**152,000**
Other income/expense, net			**664,000**
Minority interest			**(36,000)**
Income before income taxes			**$ 780,000**

For the year ended December 31, 1999:

Segments	Healthcare Products	Healthcare Services	Total
Assets	$19,708,000	$4,676,000	$24,384,000
Sales and service revenue	$33,182,000	$3,946,000	$37,128,000
Gross Profit	8,234,000	n/a	n/a
Gross Profit %	25%	n/a	n/a
Expenses	7,991,000	4,410,000	37,349,000
Income/(loss) from operations	$ 243,000	$ (464,000)	(221,000)
Other income/expense, net			896,000
Minority interest			(18,000)
Income before income taxes			$ 657,000

Intersegment transactions were eliminated for the years ended December 31, 1999 and 2000.

Corporate Directory

BOARD OF DIRECTORS

Roberta Lipson
Chairperson of the Board of Directors
Chief Executive Officer and President
Chindex International, Inc.

Lawrence Pemble
Executive Vice President Finance and Business Development
Chindex International, Inc.

Elyse Beth Silverberg
Executive Vice President and Secretary
Chindex International, Inc.

Robert C. Goodwin, Jr.
Executive Vice President Operations, Treasurer and General Counsel
Chindex International, Inc.

A. Kenneth Nilsson
Chairman and Chief Executive Officer
Eureka Group, Inc.

Julius Y. Oestreicher, Esq.
Partner
Oestreicher and Ennis

Carol R. Kaufman
Vice President and Chief Administrative Officer
The Cooper Companies, Inc.

CORPORATE EXECUTIVES

Roberta Lipson
President and Chief Executive Officer

Lawrence Pemble
Executive Vice President Finance and Business Development

Elyse Beth Silverberg
Executive Vice President and Secretary

Robert C. Goodwin, Jr.
Executive Vice President Operations, Treasurer and General Counsel

GENERAL INFORMATION

Form 10-KSB Availability:
The Company will provide to any beneficial owner of its stock, without charge, a copy of its annual report on SEC form 10-KSB upon written request to the Corporate Offices.

Listing:
Nasdaq® symbol: "CHDX"

Company Information:
To obtain materials about our Company please contact the Corporate Offices or check the Company website at www.chindex.com

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Shanghai
Guangzhou

Subsidiary Offices in China:
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Shanghai
Tianjin

Joint Ventures in China:
Beijing United Family Hospital
Meheco-Chindex Service Center

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