

CHINDEX

Chindex International, Inc.

AN OVERVIEW

General Profile

Chindex International, Inc. (Chindex)* is a leading American company in the healthcare sectors of the Chinese marketplace, including Hong Kong and Macau. Founded in 1981, the Company has accumulated a unique longevity of executive management expertise in China trade and a dominant competitive position in its healthcare market sectors.

Chindex is an American public company traded on the NASDAQ stock exchange. It is a New York corporation with company headquarters located in the Washington, D.C. metropolitan area. Chindex has over 200 full-time employees worldwide, more than 180 of whom reside in China and Hong Kong. Of the full-time personnel in Asia, 20 are expatriates, and the remainder are Chinese or Hong Kong nationals. In China, Chindex operates three representative offices, three subsidiary companies, and two joint ventures.

The Company's business activities are conducted in China including Hong Kong and Macau. Revenues are generated from the sale of healthcare products and the provision of healthcare services. On the basis of exclusive agreements, Chindex markets, sells, and facilitates the export of select capital healthcare equipment and instrumentation to China. It is the largest independent U.S. distributor of healthcare equipment in China. Through a network of wholly foreign-owned subsidiaries, the Company's Products Distribution business imports and distributes off-the-shelf healthcare instrumentation, consumable products, and pharmaceuticals. Chindex also provides product registration services to manufacturers of pharmaceutical formulations on a consulting basis. Healthcare services revenue is generated through the Company's private hospital, Beijing United Family Hospital.

The Chindex growth plan includes continuing expansion of the capital medical equipment and instrumentation business, rapid expansion of the Products Distribution product portfolio, including products that are sold directly to retail pharmacies, and the development of a network of private family hospitals, based on the Beijing United Family Hospital model, to serve China's growing middle class.

* U.S.-China Industrial Exchange, Inc. has long been known as "Chindex," its original telex address acronym from the early 1980s. Beginning in 1998, the Company formally began doing business as Chindex International, Inc., although its legal name remains U.S.-China Industrial Exchange, Inc.

History

Chindex was founded in June 1981 to take advantage of the marketing opportunities presented by the commercial opening of China to the West in the late 1970s and early 1980s. The Company opened initial offices in Beijing and New York in order to provide representative services, including product marketing, sales, distribution, and technical support to Western manufacturers of electronic instrumentation and industrial machinery.

During its early years of operation, Chindex began work in the healthcare and industrial machinery market sectors. Relationships were initiated with manufacturers of a variety of capital medical instrumentation and off-road construction and mining machinery. By the end of its second year, the Company had hired its first in-house technical support engineer in order to provide service in connection with its sales. By 1985, the Company had developed an organizational structure which consisted of two discrete marketing groups: capital healthcare equipment and industrial machinery. The Company has been continually active in pursuit of new product areas, technologies, and emerging market segments in China.

In response to the fast-paced development of the Chinese market-oriented economic reforms through the mid-1980s, the Company opened regional offices in Guangzhou (southern China) and Shanghai (central China) to expand its sales capabilities. In addition, to expand its technical service capabilities, Chindex opened its first joint venture, the Chindex Meheco Service Center, which provided access to bonded warehouse facilities for the importation of spare parts inventories utilized by the Technical Service operations of the Company. As the Chinese economy has continued to show exceptional growth rates into the 1990s, Chindex has pursued the expansion of its business operations through staff and facilities expansion, as well as increased product offerings. The regional offices support a network of territory sales managers, local area regional representatives, and technical service engineers throughout the country.

In order to increase the Company's overall market access in China, Chindex opened its first foreign subsidiary, Chindex Tianjin, in the Tianjin Free Trade Zone in 1994. A related subsidiary, Chindex Shanghai, was opened in the Waigaoqiao Free Trade Zone of Shanghai, in mid-1998. The subsidiaries are managed by the Products Distribution Department and provide Chindex with a unique nationwide distribution system for off-the-shelf medical devices and consumables used in hospitals as well as pharmaceuticals, OTC, home healthcare, and other products sold to consumers in retail pharmacies.

In early 1996, Chindex established operations in Hong Kong and Macau through another foreign subsidiary, Chindex Hong Kong. This subsidiary has been staffed initially for sales and technical support in the healthcare sectors of the Hong Kong and Macau markets.

Chindex is committed to the long term growth potential of the China marketplace. Throughout its seventeen year history, the Company has taken extraordinary care to maintain a balance of administrative, sales, and technical support capabilities in each product sector and geographic area over the course of its development.

To provide funding for growth initiatives and to capitalize on its sustained investment and long-term management expertise in China, Chindex has successfully completed two public offerings. The first, in August of 1994, raised approximately \$7.4 million and the second, in November of 1996, raised approximately \$10 million. This funding base has allowed the Company to initiate and develop an aggressive growth plan based on expansion of its traditional healthcare equipment sales and service operations, development of primary healthcare ventures, expansion of product distribution capabilities in healthcare products, and investment in the growth of the Hong Kong and Macau market services.

In September of 1997, Chindex opened Beijing United Family Hospital (Beijing United), a joint venture between Chindex and the Chinese Academy of Medical Sciences. Chindex invested approximately \$4.0 million in the Beijing United project, which has brought a unique international-standard family hospital to China. The Chindex multi-year development plan includes a series of family hospitals and clinics in major metropolitan centers in China over the next several years as it establishes itself as the premier private hospital corporation in China.

At the end of 1997, Chindex announced a significant restructuring of Company operations to focus exclusively on its strengths in the healthcare industry. Chindex has substantially phased out its involvement in the industrial sector. Chindex believes that this strategic positioning will allow it to focus its efforts and investment into healthcare-related products and services, thereby strengthening the Company's position as it enters the next century of growth in Asia.

Chindex has recognized from its inception that the key to long term success in the China market is strategic long-term product positioning, unwavering dedication to customer service, and a commitment to day-to-day flexibility in the marketplace. This fundamental business philosophy is reflected in the Mission Statement which is common to all Chindex companies and ventures:

**Prosper as a Cross Cultural Company
By Providing Leading Edge Technologies,
Quality Products and Services
to Greater China's Professional Communities with Pride.**

HEALTHCARE PRODUCTS

On the basis of exclusive distribution agreements, Chindex offers manufacturers of top-quality capital healthcare equipment, healthcare consumable products, and pharmaceuticals access to the greater Chinese marketplace through a wide range of marketing, sales, technical, and distribution services for their products. Through a matrix of dedicated marketing and technical service departments, local area product and technical specialists, and local area territory representatives, the Company provides comprehensive marketing coverage on behalf of its clients and suppliers on a nationwide basis. Marketing efforts are based on annual marketing plans developed by each marketing department within Chindex for each product, and normally include attendance at a variety of trade shows throughout China, advertisement in leading Chinese industrial, trade, and clinical journals, production of Chinese language product literature for dissemination to the potential customer base, direct mail and telemarketing campaigns, and other product promotions.

The healthcare product groupings are divided into the capital healthcare equipment and healthcare products distribution market segments.

Capital Healthcare Equipment

Since its founding in 1981, Chindex has invested in its operations in the marketing and sales of capital medical instrumentation. Chindex is now the largest independent U.S. distributor of healthcare equipment in China.

The core medical instrumentation business is managed by the Medical Department, which is organized both by clinical or therapeutic product specialty and by region. Sales representatives are responsible for one or two related product lines, and are assigned to one of six regional Territory Teams. Each Team is headed by a Territory Manager, and is made up of 6-7 sales representatives. The Team's functions are to establish, maintain, and develop Chindex's presence in the market on a local level within a region; tap the existing customer base to identify business opportunities; and ensure a high level of support to existing customers.

Product Managers are responsible for determining and implementing the overall market and sales strategies for a product or group of related products. They manage a Product Team, comprised of clinical, marketing, technical, and sales staff. The Product Manager works with the Territory Teams to set goals for each region for their product line(s). The Product Teams then work closely with the sales representatives in the field to follow up with prospects, provide marketing and sales support, and increase business activities.

Product Managers and Territory Managers report to the Department Manager and Assistant Department Manager, as do a small team of administrative and logistical support staff. The Department Managers coordinate the efforts of the Product and Territory

Teams, and interface with Chindex's other business divisions to streamline the internal coordination process and to maximize sales opportunities nationwide. They also work closely with luminaries and cultivate relationships with important leaders in the healthcare field, building strategic alliances which will positively impact business development.

The Medical Department markets its products directly to hospitals, through hospital administrators and the doctors who are the ultimate users of the products. There is virtually no private practice of medicine in China and all physicians are affiliated with hospitals or similar institutions. The Company's marketing is addressed to all relevant participants in the purchasing decision, including the doctors and hospital administrators. Chindex has sold products to approximately 1200 hospitals in China, many of which have been repeat customers.

The work of the Technical Service unit of the Company is closely tied to that of the Medical Department. Chindex is responsible for the technical support of virtually all the medical equipment it sells. To support its capital healthcare equipment business, the Company owns and operates a full-service technical service center. This service center supports spare parts inventories and factory-trained service engineers on a nationwide basis. It also makes use of a joint venture organization, the Chindex Meheco Technical Service Center, which provides access to bonded warehousing facilities.

The Chindex Medical Department is proud to represent the following manufacturers of premier healthcare instrumentation and systems:

Acuson Corporation is a leading American manufacturer of diagnostic ultrasound imaging devices. Chindex has been the exclusive Acuson distributor in China since Acuson entered the China market in 1987. As of 1996, Chindex Hong Kong assumed the distribution of Acuson products for the Hong Kong and Macau markets as well. Chindex believes that Acuson's high-end color doppler scanners have maintained a dominant market position in China since the early 1990s. In the spring of 1996, Chindex and Acuson introduced the revolutionary new Sequoia® ultrasound technology in China. This dramatic new technology from Acuson is destined to be the clinical standard in ultrasound for years to come. In late 1996, the new Aspen™ product platform was introduced as well.

Ortho-Clinical Diagnostics, Inc., a Johnson & Johnson company, is the world's leading manufacturer of the Vitros (formerly Ektachem, a Kodak trademark) dry slide chemistry analyzer system developed originally by the Eastman Kodak Company. This product line was first introduced in China by Chindex in late 1994 and has seen growing acceptance throughout China. The dry slide reagents used in the analyzers are supplied to Chinese customers through the Chindex Products Distribution business.

Howmedica Leibinger GmbH, a Pfizer company, is a leading German manufacturer of radiosurgical treatment planning and stereotactic systems for use in state-of-the-art neurosurgical procedures.

Lunar Corporation, the world leader in bone densitometry, has been a Chindex client since 1994. Lunar has been a pioneer in development of ultrasound-based densitometry as well as traditional x-ray-based systems.

Nova Biomedical, Inc. is a leading American manufacturer of medical laboratory analysis equipment used in critical care as well as central laboratory environments in the hospital. Chindex has represented Nova Biomedical in the China market since 1986.

PLC Medical Systems, a wholly-owned subsidiary of PLC Systems, manufactures The Heart Laser™ System, a patented and innovative technology for Transmyocardial Revascularization (TMR), a new cardiosurgical procedure with the potential to provide patients suffering from coronary artery disease with a third alternative to angioplasty and cardiac bypass surgery. Chindex began to represent PLC in China in early 1998 and expects shipments of The Heart Laser™ to begin within the second half of 1998.

Steris Corporation manufactures the Amsco line of sterilizers and also produces operating theater equipment such as operating room tables and lights. Steris is a leader in comprehensive infection control technology.

XRE Division of TREX Medical Corporation has been a leader in the design and manufacture of angiographic x-ray positioning equipment and interventional x-ray imaging laboratories for over 25 years. Chindex began marketing XRE products to Chinese cardiac catheterization labs in 1998.

In its ongoing pursuit of new products and technologies to introduce in the China marketplace, Chindex management, sales, and marketing teams are constantly reviewing and evaluating new top-quality products and technologies to complement the existing product portfolio. As the traditional core business of the Company, the Medical Department plays a primary role in furthering the reputation that Chindex has built as an American healthcare company in China.

Healthcare Products Distribution

Until a few years ago, foreign trade regulation in China made it nearly impossible for foreign companies to participate in domestic trading operations. Foreign companies were, and to a large degree still are, prohibited from importing goods themselves and selling them directly to the Chinese market, and have, by and large, been unable to invest in foreign trade enterprises. When the regulations began to ease slightly in the mid-1990s, Chindex seized the opportunity to establish Chindex Holdings International Trade (Tianjin) Ltd. (Chindex Tianjin), a wholly foreign-owned enterprise (WFOE) chartered in the Tianjin Free Trade Zone with dedicated bonded and Customs-cleared warehouses.

Chindex Tianjin enabled Chindex to import foreign products denominated in U.S. dollars or other foreign currencies and to sell these products for RMB to domestic Chinese customers, giving Chindex complete logistical control over the distribution process, including importation, Customs clearance, warehousing, marketing and sales, and physical distribution. Moreover, Chindex Tianjin also provided the capability to establish facilities for co-packaging, light processing, and other value-added services.

Now in its fourth year of distributing a growing volume and variety of products to customers throughout China, the Chindex Products Distribution pipeline system is being significantly expanded. Chindex has determined that a network of three WFOE distribution centers will be required to increase the efficiency and effectiveness of the nationwide system, and to ensure that Chindex continues to be the high quality, low cost provider in this market as the business grows. Accordingly, in mid-1998, Chindex opened a second WFOE distribution center in Shanghai, Chindex Shanghai International Trading Co., Ltd. (Chindex Shanghai), which now serves as the main distribution facility for the Products Distribution network. A third distribution center is planned for Guangzhou with operations expected to begin in 1999.

Marketing and sales of the products sold through the Chindex Products Distribution Department are managed by dedicated product managers for each main product line coupled with regional sales teams and a route sales force. The regional sales teams manage a network of over 100 value-added dealers which carry local stocks and target of the 500 or more bed hospitals in the country. A route sales force is being developed to supply the emerging retail pharmacy market through the Chindex-managed direct supply pipeline.

The Chindex Products Distribution Department was developed on the basis of a core group of experienced managers, with years of success in the areas of logistics and local area dealer network management, and hospital and retail sales and marketing. The Department is in turn supported by the Company's extraordinary wealth of on-the-ground management expertise. The Products Distribution group provides logistical distribution services and marketing for two discrete product areas: healthcare consumables and pharmaceuticals.

Healthcare Consumables Distribution

The logistics distribution operations of the Products Distribution Department began by providing logistical support to existing Chindex businesses. For instance, the high-volume clinical chemistry analyzers manufactured by Ortho-Clinical Diagnostics are marketed and sold by the Medical Department. These analyzers require consumable reagents which are imported and supplied to the customer base throughout China on an ongoing basis through the Chindex Products Distribution pipeline. These reagents are very sensitive to temperature variation and require strict inventory and distribution control to insure undamaged delivery. With the logistical support of the Products Distribution Department, Chindex was able to custom-tailor an ongoing warehousing and distribution solution to avert product damage.

Today, Products Distribution provides logistical, marketing, and sales services to its own client group as well as to clients whose capital equipment is sold by the Chindex Medical Department. The Chindex Products Distribution Department offers to these clients custom solutions for niche products or products with special processing or handling needs. Chindex also has the ability to meet the strictest key performance indicators for its clients.

In mid-1998, Chindex initiated distribution of consumer healthcare products in the growing retail pharmacy sector, which the Company believes was a very important strategic step. Through its activity in the retail pharmacy sector, Chindex is able to greatly expand the markets which it serves through the Products Distribution Department, and because of its many years of experience and investment in distribution and sales resources, the Company is well positioned to capitalize on the growth in China's retail pharmacies. As the distribution pipeline to retail pharmacies becomes more established, Chindex will look to adding new lines of consumer healthcare products to its offerings.

The Chindex Products Distribution Department is proud to represent the following manufacturers of premier healthcare instruments and consumables:

Imperial Chemical Industries PLC is a manufacturer of video print media used in high resolution medical imaging applications to produce high quality color hard copies. Chindex began marketing and distributing ICI video printer "paper" (polyester) in China and Hong Kong in 1997.

Kendall Healthcare Products Corporation, a Tyco International Company, is a leading U.S. manufacturer of healthcare consumable products. Kendall selected Chindex as its exclusive distributor throughout China and Hong Kong for its OR/Anesthesia and Urology product lines. Together, Chindex and Kendall developed a three-phased market entry plan which will eventually lead to the introduction of several additional Kendall product lines into both the hospital and emerging retail pharmacy markets in China and Hong Kong.

L’Oreal S.A., the world’s largest producer of cosmetic products, has selected Chindex as the exclusive distributor of VICHY Laboratoires health-oriented cosmetics and skin care products, manufactured by L’Oreal. Chindex was selected as the exclusive distributor because of its unique ability to closely control both the inventory and the distribution channels in China.

Medex, Inc., a Furon company, is a major worldwide manufacturer of medical equipment and supplies used primarily in critical care environments. Chindex markets, sells, imports, and distributes Medex’s products, including LogiCal pressure monitoring systems, PTCA inflation devices, disposable PCAs, and syringe pumps, in China and Hong Kong.

Truphatek is an Israeli manufacturer of laryngoscopes.

Tuttnauer is an Israeli manufacture of autoclave sterilization systems. The Chindex Products Distribution Department markets and distributes Tuttnauer’s line of tabletop autoclaves in China.

In conjunction with the growth and expansion of the Products Distribution Department infrastructure, Chindex is investigating new potential product areas in the healthcare sector, as well as new product lines that complement the products which are currently imported and distributed by the Products Distribution Department. Chindex has invested heavily in its Products Distribution capabilities and, as an integral part of the Company’s growth plan, Chindex plans to continue to capitalize on that investment.

Pharmaceuticals Registration and Distribution

In 1997, as a component of its long-term growth plan designed to capitalize on its significant experience in the Chinese healthcare industry, Chindex established a dedicated business development group to design and initiate market entry strategies for the Company in pharmaceutical and over-the-counter (OTC) healthcare products in China. The Chindex Pharmaceutical Business Development Department has targeted certain sectors within the pharmaceutical market in China, namely family healthcare pharmaceutical products, which it plans as its focus for the initial growth stages of the Department.

Historically, the importation of a foreign-made drug or distribution of a locally-manufactured drug by a foreign company has been highly regulated and, for the most part, channeled through a three-tiered, state-sanctioned Chinese wholesale distribution system. The retail sale of pharmaceuticals is further restricted primarily to hospital pharmacies. While Western pharmaceutical companies have been manufacturing products in China for many years, they have been unable to sell directly to the Chinese customer on a retail or, in many cases, even a direct wholesale basis to Chinese hospitals. While reform of the healthcare system is underway in China, including reform of the virtual monopoly on drug sales by the hospital system, this is a slow process.

One of the first and perhaps most daunting challenges facing a foreign pharmaceutical manufacturer wanting to enter the China market is the registration and approval process that must be completed before pharmaceuticals or OTC products can be sold in China, even through state-sanctioned wholesale distributors. The regulations are confusing and the process is expensive, time-consuming, and highly politicized. The Chindex Pharmaceutical Business Development Department understands the process and has begun to administer the registration process for new pharmaceuticals and OTC formulations on behalf of foreign manufacturers. For pharmaceutical manufacturers wishing to evaluate the market potential for their products in China prior to undertaking the registration process, Chindex assesses the market viability and prepares a market survey report for these manufacturers.

For drugs already registered in China, Chindex provides comprehensive marketing, sales and distribution services on a nationwide or regional basis. Chindex offers to its pharmaceutical clients a completely transparent parallel import structure, which makes use of the established Chindex logistics and hospital market distribution network, administered by the Products Distribution Department.

The Chindex Pharmaceutical Business Development Department is proud to provide comprehensive marketing and distribution services to the following manufacturers of top-quality pharmaceutical products:

Berlin-Chemie AG, one of the largest manufacturers of specialty antibiotic pharmaceuticals in the world, has selected Chindex to import, market and distribute its new pediatric antibiotic formulation Penicillin V Kalium Granulat on an exclusive basis in the Beijing and Shanghai municipalities.

Polichem S.A. is an affiliate of Poli Group, a major manufacturer of chemical-pharmaceutical products with a strong presence in Europe. In mid-1998, Chindex assumed exclusive responsibility for importation, marketing, and physical distribution of Polichem's new immunostimulating Polimed pediatric formulation in China. Polimed is used to treat children with recurrent respiratory infections and adults with chronic, obstructive pulmonary disease.

Schering AG is one of the largest developers and manufacturers of pharmaceuticals in the world. In late 1997, Chindex entered into an agreement with Schering AG's wholly owned subsidiary, Schering Limited Hong Kong, to introduce, co-market, and import Levovist, Schering's newly-developed contrast agent used in diagnostic ultrasound studies.

The Company's development plans in pharmaceutical markets include the continuing expansion of its product portfolio as well as the acquisition of a certified manufacturing platform for the value-added processing and manufacture of pharmaceuticals in China.

HEALTHCARE SERVICES

As a leading supplier of medical instrumentation to the healthcare industry in China for more than 17 years, Chindex is proud of its role in the advancement of healthcare services in China. Using this long-term expertise in healthcare as a foundation, in 1994 Chindex began a long-term program to establish a private hospital network in China. In September of 1997, Chindex opened Beijing United Family Hospital (Beijing United), marking the successful completion of the first phase of its program. Beijing United is the first officially-approved private, international-standard hospital in China.

Beijing United Family Hospital

Beijing United is a unique, state-of-the-art, fee-for-service, 20-bed specialty hospital providing primary family care for expatriates and Chinese citizens in Beijing. The Hospital is housed in a modern facility in the eastern section of Beijing, and features seven birthing suites, two operating suites, an inpatient pediatric ward, clinical laboratory and diagnostic imaging facilities, as well as a pharmacy and a large outpatient clinic.

Chindex anticipates that Beijing United will expand to become a 60-80 bed facility in the future. An affiliated dental clinic will open adjacent to Beijing United in early 1999. In addition, plans are underway to open five affiliated satellite clinics throughout Beijing to provide outpatient services.

Emphasizing the need for well-care and patient-centered care, Beijing United offers a full range of top-quality family healthcare services, including mental health services, for men, women, and children. The Hospital is staffed by a mix of Western and Chinese physicians and operates on international hospital standards. Beijing United is also committed to community outreach programs, and offers healthcare education classes, including CPR, Lamaze, and Stress Management.

Beijing United was the first officially approved healthcare joint venture to provide international-standard healthcare services in China. It was formed as a 90/10 contractual joint venture between Chindex and the Chinese Academy of Medical Sciences and received its initial national level approvals from the Chinese Ministry of Public Health (MOPH) and Ministry of Foreign Trade and Economic Cooperation (MOFTEC) in 1995. Chindex invested a total of \$4.0 million in the hospital, retains 100% ownership, as well as complete operational control. The venture markets its services to the expatriate and affluent Chinese communities in Beijing.

With Beijing United, Chindex has introduced a new standard of quality in healthcare in China. As such, Chindex envisions an important role for Beijing United in serving as an educational model for future Chindex hospitals.

Chindex Healthcare Network Expansion

Chindex's strategy is to project quality specialty healthcare into affluent Chinese society. The Chindex Healthcare Network will provide boutique family healthcare to the affluent one-child-per-family generation. The Chindex strategic business plan calls for the establishment of five additional 50-100 bed hospitals, each with five affiliated satellite clinics, in five different cities throughout eastern China. Chindex anticipates an investment of \$8-12 million per facility. These hospitals will be networked with each other and with Beijing United, through a central administrative arm. In addition to the top-quality primary family healthcare services that will be available at each hospital in the network, Chindex also plans to integrate visits by rotating specialists to each hospital, expanding the range of services offered.

Network economics are expected to lead to significant economies of scale, enabling the new hospitals to charge 50-60% of U.S. fee levels. This fee structure will make the new hospitals readily accessible to China's growing middle class, who are anxious for quality healthcare.

An initial business plan for expansion of the Chindex healthcare network is currently under consideration and potential locations for the new hospitals are under evaluation. In late 1997, the Chindex hospital development team completed its initial field work which resulted in a short list of potential locations for the second and third Chindex hospitals. Discussions are currently underway with the preferred venture partners in these locations.