



CHINDEX
Chindex International, Inc.



-  Chindex Office
-  Chindex Sales and Service Liaison
-  Existing United Family Hospital Facility
-  Proposed United Family Hospital Facility



Chindex Mission

Prosper as a Cross-Cultural Company by Providing Leading Edge Healthcare Technologies, Quality Products and Services to China's Professional Communities with PRIDE.

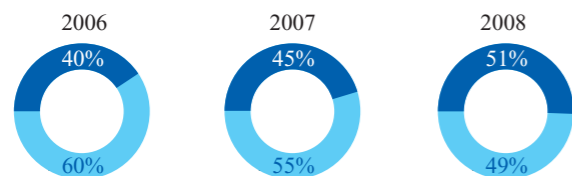
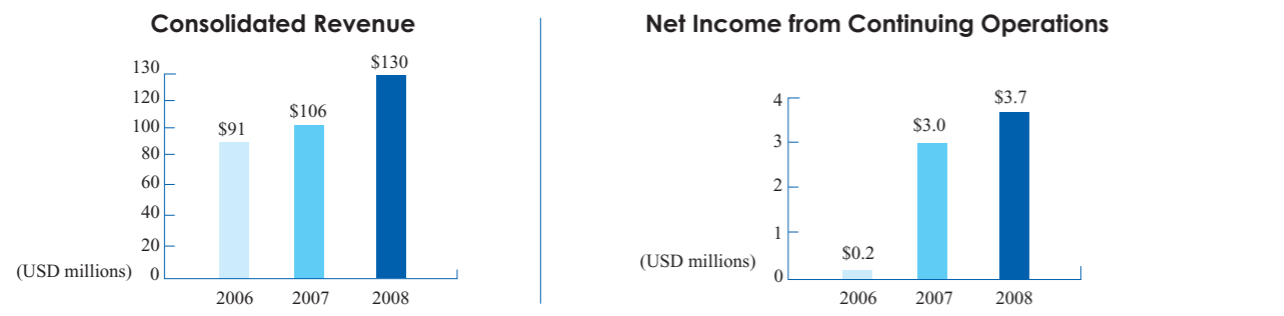


Chindex's United Family Healthcare (UFH) network has established a new standard of excellence in healthcare in China. The first UFH hospital opened in Beijing in 1997. Now the UFH network includes hospitals and clinics in Beijing and Shanghai and will soon commence operations in Guangzhou. In April 2008, Chindex announced the opening of a new UFH project in Wuxi, an affluent city south of Shanghai. The Wuxi United Family Healthcare Center was established by the Wuxi International Travel Healthcare Association and is managed by Chindex's United Family Healthcare network.

Since the mid-1990s Chindex has pioneered government-backed financing for the supply of medical equipment to its customers in China. The company administers programs with the U.S. Export-Import Bank and the German KfW Development Bank. In fiscal 2008, Chindex was awarded two tenders for the supply of €10.8 million of laboratory and hospital products to Centers for Disease Control in China's Gansu and Inner Mongolia provinces.



Chindex Revenue Growth



Divisional Composition

- Healthcare Services Division
- Medical Products Division



Chindex Executive Management

From left to right:

Lawrence Pemble

Roberta Lipson

Elyse Beth Silverberg

Dear Shareholder,

2007 was an exciting year for Chindex. Our revenue growth and profitable operating results provide a glimpse of the great potential we see for the next chapters of growth for our company. China is the world's fastest growing market and Chindex is uniquely positioned to meet the growing demands of the healthcare sector.

Healthcare reform has taken a position of the highest priority in China. The specific policies that will grow out of the government's decision to improve healthcare and expand access for all residents of China are still being formulated. Two things, however, have been made clear with explicit commitments from the Chinese Government:

- The government will substantially increase its investment in healthcare.
- There will be an increasing role for private healthcare providers.

In light of these commitments, we are looking forward to both increased demand for medical equipment from the public sector and an improved investment policy environment for our healthcare services investments. Already, government spending for healthcare investment grew more than 80% in 2007 over 2006.

Healthcare Services Division

The United Family Healthcare (UFH) network of medical facilities in China, owned and operated by Chindex, continues to thrive. This year our first flagship facility, Beijing United Family Hospital, celebrated its tenth anniversary. The network, which now includes two hospitals, three clinics, and a UFH-managed facility, will soon see the addition of two more outpatient clinics: a second clinic in Shanghai and our market-entry facility in Guangzhou in southern China. At the same time, we have expanded the scope and availability of services throughout the existing network to more comprehensively meet the needs of our growing patient base.

Revenue from the Healthcare Services division for fiscal year 2008 was \$65.8 million, an increase of 37% over the prior year. Our income from operations was \$10.3 million, compared to \$5.0 million in fiscal year 2007. This increase of over 106% reflects robust same-facility growth in both the Beijing and Shanghai markets as well a growth in profitability due to increased efficiencies. Our flagship hospitals and our outpatient centers saw steady patient growth throughout the year, which speaks to our success in both meeting a market need and growing its potential. In all of our healthcare facilities we have expanded our scope of services to better meet patient needs.

In April 2008 the Wuxi United Family Healthcare Center was established in Wuxi, a city in southern Jiangsu Province, 75 miles from Shanghai. With all of the investment for building the facility made by a branch of the local government, it was designed and built to our specifications. Managed by the United Family Healthcare network, it operates under the same international standards as our other UFH facilities, and enables the residents of Wuxi to access the same high-quality level of healthcare which is available at the UFH centers in nearby Shanghai and in Beijing. We are currently evaluating the feasibility and relevant investment efficiencies of this model as one approach to future UFH expansion.

Our expansion plans go well beyond the addition of clinics and services. During the last year we finalized a financing package for \$105 million which will be largely used for the development of two new comprehensive UFH hospitals. One of these will be a second hospital in Beijing and the other a new hospital in Guangzhou. These two new facilities will be larger in size and broader in scope of services than our existing operations, which will allow us to better meet the growing demands of the large Chinese patient base in these markets.

Our "United Family" brand and its reputation for quality and service are among our most valuable assets. The organization's continued commitment to quality healthcare was confirmed when the United Family Hospital network in Beijing was audited for re-accreditation by the Joint Commission International (JCI), and the UFH network operations in Shanghai successfully completed their initial JCI accreditation audit in July 2008. JCI accreditation is an objective affirmation of our commitment to quality care. The two United Family Hospital networks were among only three facilities internationally to gain full points for all safety standards. The ability to operate under this high standard not only drives patient satisfaction, but also allows us to continue to formalize systems which can be easily replicated as we expand our network.

We continue to assess the potential opportunities to expand our network throughout China. We believe there is growing market potential in many other major Chinese cities and we are currently evaluating exciting opportunities in those cities for UFH facilities.

Medical Products Division

Developments in the medical products area are also promising. During the year we continued to be hampered by government delays in clarifying and implementing policies for equipment procurement and product registration. In spite of these market factors impacting the business, we have strengthened our sales and marketing teams which allowed us to increase our sales in important target markets. As a result, we were able to report over 55% growth in sales of diagnostic ultrasound scanners compared to the prior year.

The Medical Products division markets, distributes and sells select medical equipment and instruments to hospitals in mainland China and Hong Kong. The division has a strong customer education program, and through its Technical Service department provides "A+" rated support to a customer base of well over 2,000 hospitals. For nearly 30 years Chindex has been a market leader, supplying leading edge technology, world-class products, and top quality service to China's medical professionals.

Total revenue from the Medical Products division was \$64.3 million, an increase of 11% over the prior year. The division reported a loss of \$2.6 million in continuing operations. The increase in revenue was primarily due to the increase in market share for ultrasound products. Unfortunately these gains were offset by continuing difficulties in reaching some of our performance targets.

We have suffered from many delays in receiving product registrations in a timely manner for market entry for our new products. Most notably the da Vinci S product registration for sales in mainland China was not forthcoming until after the end of the fiscal year. Now that it is completely registered, we can look forward to robust sales opportunities in the coming fiscal year.

In addition, we spent much of fiscal 2008 working with the Chinese and American Governments and banking organizations to finalize implementing procedures under the new bilateral trade agreements for U.S. Export-Import Bank financing of our customers purchases. These implementing procedures for our first contract under this framework were finalized only at the end of 2007 and we have subsequently begun to conclude the contracts and commence shipments for



Chindex Management Team

the three projects we have won totaling over \$12 million under this new program. Additionally we continue to press forward with programs utilizing loans from the German KfW Development Bank. In the first quarter of fiscal 2009, contracts were concluded for over €10 million. Most importantly we envision these types of government loan project purchases to be an ongoing and growing opportunity for our company. We have identified an additional \$40 million in future U.S. Exim projects and an additional €50 million in future KfW projects which we will be pursuing.

In fiscal 2009, thanks to the resolution of some of the market and regulatory problems which have been impacting the business in recent periods, we expect to see significant improvement for the Medical Products division. There is a lot of pent-up demand for the da Vinci S robotic system as well as certain aesthetic laser systems which have also been hampered by delays in registration. Our clinical chemistry and women's health imaging product areas are gaining momentum as well. Another strategic development goal for the division is to add new products to our portfolio. Our business development team is in discussion with a number of manufacturers of equipment which will result in exciting additions to our current product lines.

In early 2008 we opened two regional offices – one in Jinan, Shandong Province, and the other in Chengdu, Sichuan Province. Plans are underway to open offices in two or three other regions this year. This expanded base will allow us to improve efficiencies in the sales process while providing an even higher level of service to our customers. At the same time we can deepen our sales reach in areas of the country with identified potential market growth.

The recent period in China has been one of immense hope and excitement as the economy continues to flourish in the double digits and the excitement has been building toward the 2008 Olympics. At the same time, the recent period has been also tempered by several natural disasters including the storms of this past winter, the floods of this spring, and most destructively the great earthquake of May 12, 2008. During the spring months of 2008, public health officials and healthcare providers from all over China have concentrated on participating in the post-earthquake disaster recovery efforts. Although this has disrupted our medical equipment sales in the first half of our fiscal year, we expect that the market will make a quick recovery and return to its path of accelerating expansion in the second half of the year.

A culture of philanthropy and a spirit of giving are key to the corporate mission of Chindex. As a healthcare company we were fortunate to be in a position to also help in recovery efforts immediately after the earthquake in Sichuan. The company implemented a matching donation program with its employees and jointly we raised funds which allowed us to deliver drugs and supplies directly to the affected areas through our on-site employees and customers. We also supported volunteers among our clinical staff to play a direct role in recovery activities in the devastated region. Additionally, for many years now we have contributed to bettering the lives of those less fortunate. Together with the United Foundation for Chinese Orphans we provide free services in kind to hundreds of Chinese orphans and poverty stricken children. These activities not only serve to reinforce the enthusiasm of our staff for our role in effecting positive social change, but also gain recognition and appreciation from the Chinese Government.

People, Passion, Resources, Opportunity.... Chindex has what it takes!

With over 1,200 skilled and dedicated employees and nearly 30 years of on-the-ground experience, Chindex is well-positioned to realize the potential of the Chinese healthcare market. Chindex is the only foreign-invested healthcare company in China which operates in both the healthcare service and medical products segments of the market.

Our vision is for Chindex to expand its role as the leading international integrated healthcare company in China. Our name is synonymous with the highest standards of quality and service. United Family Healthcare is developing into a national brand with a national footprint. As the network expands it is becoming the leading premium hospital network in China, and the first choice for healthcare in the premium market segment. Our Medical Products division is expanding its role as a leader through the introduction of new products and technologies to China, the use of innovative financing programs for our customers, and increasing market penetration in targeted high growth regions. Our distribution channel is developing as a "one-stop shop" for hospital procurement and supply chain management.

In closing, I want to thank you for the continued support and also express appreciation to our employees, partners, and principals for building Chindex to what it is today. Our strategy is sound, the opportunities are exciting, and the future is bright.

Sincerely,

Roberta Lipson
Chief Executive Officer
July 2008 – Beijing, China

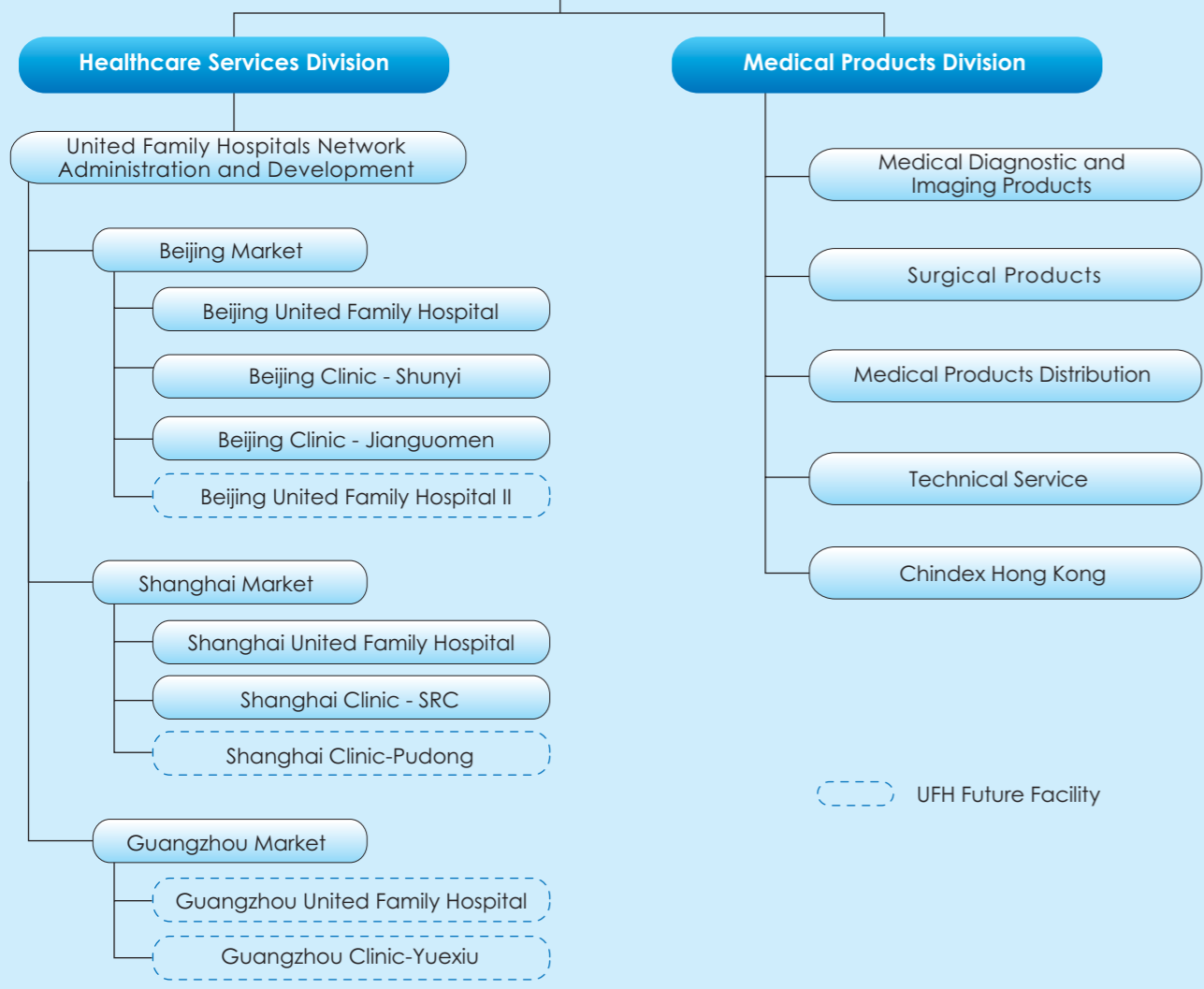


Chindex Board of Directors

Front row, left to right: A. Kenneth Nilsson (Chairman of the Board), Roberta Lipson and Elyse Beth Silverberg

Back row, left to right: Holli Harris, Lawrence Pemble, Carol R. Kaufman and Julius Y. Oestreicher

Chindex Corporate



The United Family Healthcare Network



Chindex is the first foreign-invested multi-facility hospital operating company in China, and since 1998 has pioneered the development of private healthcare services through its United Family Healthcare network (UFH). The network currently consists of two regional hospitals and three outpatient clinics located in Beijing and Shanghai. The network also provides management services on a contractual basis to other facilities. UFH has dynamic growth plans to expand to other major cities in China.

The UFH network is positioned as the leading premium service hospital and clinic service provider in China. The UFH mission is to provide comprehensive, integrated healthcare services in a uniquely warm and caring patient-oriented environment.

A frontrunner in the China healthcare industry, UFH is developing into a national brand with a broadening footprint, best known for its adherence to international quality standards, premium personalized patient care, warm atmosphere and wide range of medical services. Healthcare professionals and policy makers also recognize the company as a successful innovator in healthcare delivery models.

Building on the success of its network model, UFH entered into a pilot cooperative arrangement with an agency of the Wuxi City government to establish the Wuxi United Family Healthcare Center. Newly constructed according to our design supervision in April 2008, the Wuxi Outpatient Center is managed by the United Family Healthcare network. The Center provides premium healthcare services to the international and local residents of the prosperous city of Wuxi and the surrounding areas and serves as a broadened patient referral base for our Shanghai Hospital. We are assessing this new business model as an option for further expansion of the network's reach.

It is clear that our people, services, facilities and mission are the qualities that make UFH an unparalleled beacon of excellence in the China healthcare industry.

Joint Commission Accreditation and Quality Service

Commitment to quality service and ongoing improvement has always been the top priority for UFH. In 2005 Beijing United Family Hospital and Clinics earned accreditation from the Joint Commission International (JCI), the worldwide leader in improving the quality of healthcare. It is the first integrated health system in Asia to achieve accreditation by the Joint Commission. In July of 2008, the Beijing facility was surveyed for re-accreditation and our Shanghai United Family Hospital and Clinics underwent its initial JCI accreditation survey. Survey results featured our facilities as two of only three facilities internationally to get full points for all safety standards. JCI accreditation of all UFH facilities further attests to our commitment to excellence and quality healthcare.

Providing the finest in patient-centered healthcare services, UFH sets the standard of excellence by which others are measured.



Shared Resources among United Family Healthcare Operations

Our goal is to build a multi-centered, integrated, centrally-administered network of United Family Hospitals and Clinics in which economies of scale are achieved through sharing administrative and clinical resources. We are building on the significant recognition of the UFH brand and market demand for premium patient services and quality to continue to expand in our target markets.

UFH has over 900 employees across China, more than 50% of whom are medical professionals including doctors, nurses, allied healthcare professionals and pharmacists.

Through our staff and facilities, we deploy a wide range of resources to provide premium services to our customers. Our patient base includes international residents of China, and the large and growing segment of Chinese citizens who can afford and are increasingly seeking premium healthcare services.

As an international standard healthcare facility with a cross-cultural management philosophy that serves patients from diverse backgrounds, our hospitals and clinics provide care using the most modern evidence-based treatments and technologies. Each hospital and clinic has its own individual identity and distinct characteristics, but at the same time subscribes to the same high UFH standards and shares UFH resources to provide a unique and comprehensive range of healthcare services for people in Beijing, Shanghai, their neighboring regions, and beyond.

United Family Healthcare Network Infrastructure

In Beijing and Shanghai, UFH provides care to the international populations of the metropolitan and surrounding areas, as well as the growing affluent local populations. Supplementing our 50-bed hospital model are networks of offsite satellite clinics that extend our reach beyond the central geographic sectors of Beijing and Shanghai. The first UFH satellite clinic, located in an affluent residential suburb of Beijing, was opened in 2002 and provides family medicine, mental health and dental services. In 2004, the second offsite UFH clinic was opened in Shanghai, concurrent with the opening of the main hospital facility. This clinic services the affluent suburbs west of Shanghai with family medicine and pediatric services. In 2005, we opened the second offsite clinic in Beijing, extending the reach of UFH operations into the downtown Beijing area. The UFH system offers a membership program that enables members to have access to both the Shanghai and Beijing market facilities, including offsite clinics, and to receive similar benefits at all locations without the need to re-register. The opening of Wuxi United Family International Healthcare Center allows us to extend our warm and caring patient-centered services outwards from Shanghai into neighboring regions.

Our facilities currently include:

- Beijing United Family Hospital and Clinics / opened August 1997
- Shanghai United Family Hospital and Clinics / opened October 2004
- Beijing United Family Clinic – Shunyi / opened November 2002
- Shanghai United Family Clinic - Minhang – SRC / opened December 2004
- Beijing United Family Health & Wellness Center - Jianguomen / opened June 2005

United Family Hospital Managed facility:

- Wuxi United Family Healthcare Center / opened April 2008

Future Development of the United Family Healthcare Network

In order to expand our premium healthcare services to our target markets more effectively, we continue to invest in our proprietary network of hospitals, clinics and health and wellness centers. Chindex has obtained \$105 million in financing to be used for the expansion of the UFH network in the near term.

In the second half of 2008, we will open two new outpatient facilities, one in Guangzhou and one in the Pudong area of Shanghai. These facilities will be structured along the same lines as our existing clinic facilities in Beijing and Shanghai.

Planning is underway for the development of two new full-service hospitals. In 2010, we expect to open a second hospital in Beijing, and our first hospital in Guangzhou. We are currently working with commercial and public insurance authorities to expand payment options to our local patients, which will broaden their access to these new UFH facilities. The new facilities will be larger than our current hospitals, resulting in improved economies of scale, and staff will be increasingly localized, resulting in a more favorable cost basis.

We are also continuing to explore marketing our hospital management expertise to third party invested facilities. If this model proves viable for us, it will further enrich our brand recognition, expand our healthcare services network, and supplement our ongoing expansion plan of building and financing our own facilities.

Our development plan is focused on structuring our services to empower and enable the population we serve to maintain the highest possible state of health and well-being through our advanced and sophisticated centers of excellence.

United Family Healthcare Network Services

United Family Healthcare Network Services		
Outpatient Services		Inpatient Services
Integrative Medicine	Nephrology	ICU
Chiropractics Medicine	Rheumatology	Medical / Surgical ward
Physiotherapy	Neurology	NICU
Psychiatry	Nutrition Counseling	Obstetrics / Gynecology
Traditional Chinese Medicine (TCM)	Obstetrics / Gynecology	Pediatric
Acupuncture	Ophthalmology	Psychiatry
Anti-aging	Pediatrics	
Dentistry including Cosmetic Dentistry	Surgery	Emergency Services
Dermatology		Emergency Department
ENT	Plastic or Cosmetic Surgery	
Family Counseling	Hand & Microsurgery clinic	Support Services
Family Medicine	Pain Clinic	Anesthesiology
Health Screening (Immigration Checkup)	Pediatric Surgery	Laboratory
Internal Medicine	Minimally Invasive Surgery	Nursing
Cardiology	General Surgery	Dietary
Gastroenterology	Orthopedic Surgery	Pharmacy
Pulmonary Medicine	Sports Medicine	Radiology & Diagnostic Imaging
	Urology	

Giving Back

Chindex provides support and charity services to orphans in China through its affiliation with the United Foundation for Chinese Orphans (UFCO). United Family Healthcare facilities donate a proportion of their annual revenue to UFCO in the form of desperately needed medical services. Medical professionals, caregivers, and general staff make regular visits to our “adopted” orphanage in Jiaozuo City, Henan Province. This year we provided life saving and life changing medical services to 53 orphans with urgent needs.

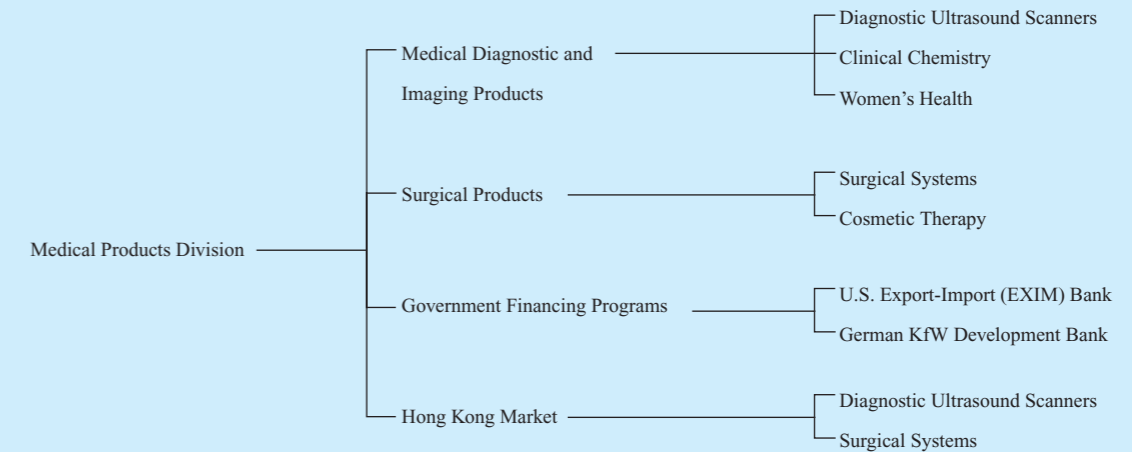
The United Family Hospital and Clinics in Beijing and Shanghai also organize regular community blood drives and other community health education programs. These programs are appreciated by the community and recognized by the Chinese Government.



Medical Products Division

The Medical Products division (MPD) provides western manufacturers with channels for the marketing and distribution of their products in mainland China and Hong Kong. MPD offers a full range of services including focused marketing programs, direct sales, channel distribution, technical support, training, and continuing education. For almost 30 years Chindex has been a market leader, providing leading edge technologies and products to China’s healthcare professionals.

Market Oriented Departments – MPD product portfolios are designed to enhance our market penetration and increase synergies through clinical area clustering.



National Sales and Marketing Network – Our direct sales and marketing teams, supplemented by our national channel distribution network, provide access to hospitals in every major city and many second and third tier cities throughout China. Our national coverage is based in primary offices in Beijing, Shanghai and Guangzhou. With the establishment of regional offices in Jinan and Chengdu, and plans to open offices in Xian and Shenyang, we are further demonstrating our commitment to the market and strengthening our ability to reach our target customers.

New Technologies and Products – Chindex prides itself on its proven record of introducing cutting-edge technologies and products to the China market. Our highly-motivated sales force and technical support teams are in constant contact with our customers. We know exactly what China’s healthcare professionals want and need, and we strive to identify and supply those products and technologies. Our regulatory affairs department works closely with China’s State Food and Drug Administration (SFDA) to obtain market approval for new products and keep our current product line in regulatory compliance at all times. As this report goes to press we have just received long-awaited market entry approval from the SFDA to introduce new products, including the da Vinci S Surgical System manufactured by Intuitive Surgical and the AlexLaser manufactured by Candela Corporation. In fiscal 2009, we will continue the introduction of new imaging and surgical products to our product portfolio.

Financing and Loan Packages – Chindex is one of the few qualified medical equipment suppliers which is capable of utilizing government-backed finance programs to arrange loans for our customers in China facilitating the purchase of medical equipment. In fiscal 2008 the execution protocols under the new bilateral trade agreements between the U.S and China were finalized for U.S. Government supported financing facilities. Since then we have won more than \$12 million worth of contracts under this program, most of which will be delivered in fiscal 2009. An additional €10.8 million in contracts under German KfW Development Bank programs are in the pipeline for delivery in fiscal 2009 as well. We are working with our customers on many more government-financed projects, some of which will be brought to fruition this year.

Focus on Customer Training and Education – A dedicated and highly-trained team of specialists provides advanced clinical applications support, training, and ongoing education to customers for all of the products and technologies which we supply. This helps our customers succeed in the use of our products while keeping them up to date on changing medical technologies, and has the added benefit of stimulating sales of upgrades, accessories and repeat purchases. The focus on training and education is one of the reasons that manufacturers of newly-emerging technologies are confident to entrust the market entry and the successful early adoption of their products and technologies in China to Chindex.



Technical Service Support – Each of our 60 technical service engineers is highly trained in our products and technologies. We utilize regionally-based field service engineers and spare parts depots to increase efficiencies, shorten response time and provide “A+” service to customers. Our Technical Service Department received ISO 9000 recertification in 2007. The Chindex Technical Service Department completed a third-party customer satisfaction survey in 2008 and is rated “Excellent” by our customer base.

Distribution Services – The Medical Products Distribution group provides value-added supply chain management including procurement, importation, stocking, warehousing, shipment and delivery of healthcare products in China. This ISO 9000-certified supply chain infrastructure can conduct local currency sales, manage the physical flow of goods both into China and throughout the country, and arrange local sourcing of products and consolidation for local distribution or export. The Distribution group gives Chindex the unique capability to provide full-service distribution to manufacturers of a wide variety of imported medical products. The platform presents a welcome alternative for foreign manufacturers who desire reliable and transparent distribution partners. This group also acts as the procurement arm of United Family Healthcare Network.

Chindex Medical Products Portfolio

Imaging Products

Siemens Medical Solutions - Ultrasound Division

Diagnostic Ultrasound Scanners

Echocardiography

OB / Gyn

Abdomen

Small Parts

Musculoskeletal

Emergency Medicine

Hologic Corporation

Women's Health Imaging

Analog Mammography

Full Field Digital Mammography

Stereotactic Prone Table for Breast Biopsy Solution

3D Breast Tomosynthesis

Cosmetic Therapy

Candela Corporation

Medical and Aesthetic Laser Systems

Hair removal

Vascular lesions

Pigmented lesions

Acne

Skin Rejuvenation

Diagnostic Products

Johnson & Johnson/Ortho Clinical Diagnostics

VITROS® MicroSlide™ Technology

for Dry Chemistry

Total System Solution for the Clinical

Laboratory

All-in-one Biochemistry, Immunoassay

and Potentiometry Systems

Surgical Products

Intuitive Surgical Systems

da Vinci® S Robotic Surgical System

Extending the Benefits of Minimally

Invasive Surgery to the Broadest Base of

Patients with Improved Outcomes.

Applications Including Cardiac Surgery, Urology,

Gynecology, General Surgery, Pediatric,

Thoracic and ENT

SELECTED FINANCIAL DATA

(in thousands, except for per share data)

	Year ended March 31,				
	2008	2007	2006	2005	2004
Statement of Operations Data*					
Net sales	\$ 130,058	\$ 105,921	\$ 90,836	\$ 83,159	\$ 75,419
Percent increase over prior period	23%	17%	9%	10%	21%
Net income (loss) from continuing operations	3,655	2,982	167	(3,924)	(854)
Net income (loss) from continuing operations per share-basic	.32	.29	.02	(.49)	(.15)
Net income (loss) from continuing operations per share-diluted	.27	.26	.02	(.49)	(.15)
Market closing price per share – end of year	25.17	11.61	6.04	4.12	6.73
Book value per share at end of period	6.14	2.62	2.25	2.56	2.60
Cash dividends declared	.00	.00	.00	.00	.00
Balance Sheet Data (at end of period):					
Total assets	\$ 135,979	\$ 62,907	\$ 57,046	\$ 57,288	\$ 47,851
Long term liabilities	22,578	8,737	8,660	2,873	125
Total stockholders' equity	87,388	27,918	22,638	24,963	17,198

	Year ended March 31,				
	2008	2007	2006	2005	2004
Segment information:					
Healthcare Services division-sales	\$ 65,817	\$ 47,944	\$ 36,500	\$ 22,801	\$ 15,954
Healthcare Services division -operating income (loss)	10,342	5,028	1,585	(2,844)	(680)
Medical Products division-sales	64,241	57,977	54,336	60,358	59,465
Medical Products division -operating (loss) income	(2,607)	(1,154)	(1,436)	(880)	223

Per share information has been retroactively adjusted to give effect to the three-for-two stock split in the form of a stock dividend, which was announced by us on March 18, 2008 with a record date of April 1, 2008.

* In fiscal 2006, the Company determined that the retail operations of our former Healthcare Products Distribution division, which had suffered continuing losses over a nine-year period, would be closed. The close-down of the retail operations, which distributed health and personal care products to the consumer markets in China through retail pharmacies, was completed by the end of fiscal 2007. See Notes 2 and 13 to the consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Statements contained in this annual report relating to plans, strategies, objectives, economic performance and trends and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, the factors set forth under the heading “Risk Factors” and elsewhere in this Annual Report, and in other documents filed by the Company with the Securities and Exchange Commission from time to time. Forward-looking statements may be identified by terms such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “forecasts,” “potential,” or “continue” or similar terms or the negative of these terms. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. The Company has no obligation to update these forward-looking statements.

The following discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements and notes thereto.

Chindex International, Inc. is a Delaware corporation with headquarters located in the Washington, D.C. metropolitan area. We were founded in 1981 and provide healthcare services and products to China including Hong Kong. In fiscal 2006, we determined to discontinue the retail operations of our former Healthcare Products Distribution division, which had suffered continuing losses over a nine year period. The operations which distributed health and personal care products to the consumer markets in China through retail pharmacies were completely closed by the end of fiscal 2007. The distribution and logistics services, which had been part of the discontinued division, have been absorbed by the parent company. The operating results related to the closedown of this business have been segregated from continuing operations and reported as discontinued operations on a separate line item on the consolidated statements of operations. See Notes 2 and 13 to the Company's consolidated financial statements.

We now operate in two business segments:

- **Healthcare Services division.** This division operates the Company's United Family Healthcare network of private hospitals and clinics. United Family Healthcare currently owns and operates hospital and affiliated clinic facilities in the Beijing and Shanghai markets. The division opened its

first managed clinic in the city of Wuxi south of Shanghai in early 2008 and plans to enter the Guangzhou market in southern China in 2008 with an owned clinic facility to be followed by a hospital facility planned for 2010. In addition, an additional owned hospital in Beijing is also planned for opening in 2010. For fiscal 2008, the Healthcare Services division accounted for 51% of the Company's revenue. (See Note 13 to the consolidated financial statements appearing elsewhere in this Annual Report.)

• **Medical Products division.** This division markets, distributes and sells select medical capital equipment, instrumentation and other medical products for use in hospitals in China and Hong Kong on the basis of both exclusive and non-exclusive agreements with the manufacturers of these products. The division revenues are generated through a nation-wide direct sales force that also manages local sub-dealers regionally throughout the country. The distribution business unit provides supply chain management and logistics services to both divisions of the Company. For fiscal 2008, the Medical Products division accounted for 49% of our revenue. (See Note 13 to the consolidated financial statements appearing elsewhere in this Annual Report.)

Substantially all of our non-cash assets are located in China and substantially all our revenues are derived from our operations in China. Accordingly, our business, financial condition and results of operations are subject, to a significant degree, to economic, political and legal developments in China. The economic system in China differs from the economics of most developed countries in many respects, including government investment, level of development, control of capital investment, control of foreign exchange and allocation of resources.

Our Healthcare Services division is subject to challenges and risks associated with operating in China, including the laws, policies and regulations of the Chinese Government concerning healthcare facilities and dependence upon the healthcare professionals staffing our hospital facilities. Our operating results vary from period to period as a result of a variety of social and epidemiological factors in the patient base served by our hospital network.

Our Medical Products division is subject to challenges and risks as a result of our dependence on our relations with suppliers of equipment and products. In addition, the timing of our revenue from the sale of medical capital equipment is affected by the availability of funds to customers in the budgeting processes of those customers, the availability of credit from the Chinese banking system and otherwise. Finally, our ability to launch, market and sell products is impacted by regulatory delays which are beyond our control and which are experienced by all sellers of medical equipment in China due to the abundance of new regulations and the inability of the Chinese regulatory agencies to efficiently process the backlog of applications. Consequently, our operating results have varied and are expected to continue to vary from period to period.

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us 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 revenue and expenses during the reporting period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Some of our accounting policies require higher degree of judgment than others in their application. These include revenue recognition, receivable collectability, valuation allowance of deferred tax assets and inventories. In addition, Note 1 to the consolidated financial statements includes further discussion of our significant accounting policies.

Revenue recognition

The Company earns revenue from providing healthcare services and sales of products. Substantially all revenue in the Healthcare Services division is from providing services and substantially all revenue in the Medical Products division is from the sale of products. See Note 13 on the Company's consolidated financial statements for further information on sales by division.

Revenue related to services provided by the Healthcare Services division is net of contractual adjustments or discounts and is recognized in the period services are provided. The Healthcare Services division makes an estimate at the end of the month for certain inpatients who have not completed service. This estimate reflects only the cost of care up to the end of the month.

Revenue related to the sale of medical equipment, instrumentation and products to customers in China by our Medical Products division is recognized upon product shipment. Revenue from sales to customers in Hong Kong is recognized upon delivery. We provide installation, warranty, and training services for certain of our capital equipment and instrumentation sales. These services are viewed as perfunctory to the overall arrangement and are not accounted for separately from the equipment sale. Costs associated with installation, training, after-sale servicing and standard warranty are not significant and are recognized in cost of sales as they are incurred. Sales involving multiple elements are analyzed and recognized under the guidelines of SAB 104, "Revenue Recognition" and the Emerging Issues Task Force (EITF) 00-21, "Revenue Arrangements with Multiple Deliverables".

Additionally, the Company evaluates revenue from the sale of equipment in accordance with the provisions of EITF Issue 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," to determine whether such revenue should be recognized on a gross or a net basis. All of the factors in EITF 99-19 are considered with the primary factor being that the Company assumes credit and inventory risk and therefore records the gross amount of all sales as revenue.

In the Healthcare Services division, our revenue is dependent on seasonal fluctuations related to epidemiology factors and the life styles of the expatriate community. In the Medical Products division, sales of capital equipment often require protracted sales efforts, long lead times, financing arrangements and other time-consuming steps. As a result of these factors impacting the timing of revenues, our operating results have varied and are expected to continue to vary from period to period and year to year.

Receivable collectability

We grant credit to some customers in the ordinary course of business. We evaluate collectability of accounts receivable quarterly and adjust our allowance for doubtful accounts in each division based on established policies based on the account aging. Bad debts are experienced in both operating divisions. Write downs are normally made on accounts over one year old and are fully reserved for.

We recognized bad debt expense in the Healthcare Services division of \$1,607,000, \$887,000 and \$797,000 for the years ended March 31, 2008, 2007 and 2006, respectively and \$66,000, \$711,000 and \$0, in the Medical Products division for the years ended March 31, 2008, 2007 and 2006, respectively.

We increased the consolidated reserve for doubtful accounts from \$2,827,000 at March 31, 2007 to \$3,940,000 at March 31, 2008.

Valuation allowance of deferred tax assets

Our operations are taxed in various jurisdictions including the United States and China. In certain jurisdictions, individual subsidiaries are taxed separately. We have identified deferred tax assets resulting from cumulative temporary differences at each balance sheet date. A valuation allowance is provided for those deferred tax assets for which we are unable to conclude that it is more likely than not that the tax benefit will be realized.

We have provided substantial deferred tax valuation allowances for certain deferred tax assets related to various subsidiaries in China and the U.S. for the year ended March 31, 2008 because we are not able to conclude that it is more likely than not that those assets will be realized. The U.S. net operating loss carryforwards expire at varying dates through 2027 and the China net operating loss carryforwards expire at varying dates through 2012.

Inventories

Inventory items held by the Healthcare Services division are purchased to fill hospital operating requirements and are stated at the lower of cost or market using the average cost method.

Inventory held by the Medical Products division consists of items that are purchased to fill executed sales contracts, items that are stocked for future sales, including sales demonstration units and service parts. These items are valued on the specific identification method or average cost basis. Inventory valuation is reviewed on a quarterly basis and adjustments are charged to the provision for inventory, which is a component of our product sales costs. A routine valuation allowance is created to maintain sales demonstration units at net realizable value. Valuation adjustments to inventory were \$600,000, \$254,000 and \$538,000 during fiscal 2008, 2007 and 2006 respectively. The majority of the adjustments in 2008 were related to certain aged merchandise inventory. In 2007 and 2006, the adjustments were related to spare parts inventory items pertaining to machines we no longer service. In addition, in 2008 we reclassified certain demonstration equipment with a net book value of \$1,251,000 from property and equipment to inventory to facilitate enhanced asset utilization.

Fiscal year ended March 31, 2008 compared to fiscal year ended March 31, 2007

Our revenue for fiscal 2008 was \$130,058,000 up 23% from fiscal 2007 revenue of \$105,921,000. Our revenue grew over the period by 37% in the Healthcare Services division and 11% in the Medical Products division. Costs and expenses were \$121,719,000 for fiscal 2008, up 20% as compared with costs and expenses of \$101,276,000 for fiscal 2007. Operating costs increased 29% and 13% over the years in the Healthcare Services and Medical Products divisions, respectively. We recorded income from continuing operations of \$8,339,000 for fiscal 2008, as compared to income from continuing operations of \$4,645,000 for fiscal 2007. Costs at the parent level of the Company, which have been allocated among the divisions as described below, increased by \$3,133,000 over the years. The majority of the increase relates to compensation expense (\$1,971,000), including the additional expense that resulted from stock-based compensation expense in accordance with SFAS 123(R), legal fees (\$269,000), excise taxes (\$280,000) and auditing fees (\$176,000). Foreign exchange gains of \$604,000 and \$771,000 in fiscal 2008 and 2007, respectively, were recognized as credits to general and administrative expenses on the consolidated statements of operations. See "Foreign Currency Exchange and Impact of Inflation" for further details on the impact of the exchange rate changes on our operating results for the period.

Our business operations in fiscal 2009 will focus on continued profitability at the corporate level based on divisional growth strategies. In the Healthcare Services division we expect continued revenue growth and increasing profitability in the existing United Family Healthcare network operations in both the Beijing and Shanghai markets driven by increasing utilization and increasing patient services. Our growth programs will focus on the opening of new satellite clinics in Shanghai and Guangzhou during the year and the development of new hospital facility projects in Beijing and Guangzhou. In the Medical Products division we expect a return to profitability as persisting delays in product registrations, which are subject to Chinese Governmental bureaucratic approval practices, and some of which have been in process for well over a year, are relieved, subject to the receipt of these approvals and the execution of an increased number of U.S. and German Government-backed loan projects. Our development programs will focus on growing comprehensive supply chain services through strategic partnerships, expanding distribution channels, increasing market penetration, offerings of greater range of government sponsored financing alternatives and broadening product offerings.

Healthcare Services Division

The Healthcare Services division operates our network of private healthcare facilities in China. During fiscal 2008, the division consisted of a network of United Family Hospitals and Clinics (UFH) in Beijing and Shanghai. In Beijing, the UFH network included Beijing United Family Hospital and Clinics, and two affiliated free-standing, primary care clinics. In Shanghai, the UFH network included Shanghai United Family Hospital and Clinics and one affiliated, free-standing, primary care clinic. During the year we entered into a management agreement for the operation of the Wuxi United Family International Healthcare Center, which opened on April 2, 2008.

The division has begun expansion of the United Family network of private healthcare facilities in China. In addition to existing cash resources which include proceeds remaining from our IFC financings in 2005, during the year we raised additional capital and established credit facilities in the aggregate amount of

approximately \$105 million to be used principally toward the development and construction of healthcare projects in connection with this expansion (see “Liquidity and Capital Resources”). The projects include affiliated clinic operations in Shanghai and Guangzhou and new joint venture hospitals in Guangzhou and Beijing. As of the end of fiscal 2008, the affiliated clinic projects were in mid-development phase and the joint venture hospitals were in early development phase. The projects, individually and in the aggregate, did not contribute substantially to the results of the period.

For fiscal 2008, revenue from the division was \$65,817,000, an increase of 37% over fiscal 2007 revenue of \$47,944,000 (for information on how the timing of our revenues is affected by seasonality and other fluctuations, see “Timing of Revenue”). This increase in revenue is attributable to growth in both the Beijing and Shanghai markets. Total healthcare services operating costs increased over the years by 29% to \$55,475,000 from \$42,916,000, including salaries which increased by \$4,810,000 over the years (representing 44% and 50% of division revenue in the recent and prior year, respectively). This increase in operating costs was due primarily to the hiring of new personnel to meet the demand for increased services in both the Beijing and Shanghai markets. Other costs increased \$7,748,000 over the periods, primarily due to increases in direct patient care expenses (\$1,279,000), cost allocated from the parent company (\$1,764,000), other professional fees (\$495,000), bank fees (\$291,000), excise taxes (\$1,035,000), bad debt expense (\$631,000) and rent expense (\$480,000). The Healthcare Services division had income from continuing operations before foreign exchange gains of \$10,342,000 in fiscal 2008, a 106% improvement over the \$5,028,000 in fiscal 2007.

Medical Products Division

The Medical Products division markets, distributes and sells select medical capital equipment, instrumentation and other medical products for use in hospitals in China and Hong Kong on the basis of both exclusive and non-exclusive agreements with the manufacturers of these products.

In fiscal 2008, this division's revenue was \$64,241,000 which was an 11% increase over the revenue of \$57,977,000 for fiscal 2007 (for information on how the timing of our revenues is affected by credit availability to our Chinese customers and other factors, see “Timing of Revenue”). During fiscal 2008, we experienced strong sales in diagnostic imaging products due to expanded sales channels and lessening of the adverse market conditions for medical equipment sales.

We continue to be impacted by delays in final delivery of sales contracts under the US Export-Import Bank financing program and delays in approving product registrations by the Chinese Government, some of which have been in process for well over a year, as well as continuing issues related to the impact of the ongoing reforms of the procurement process in the Chinese healthcare system, including increased requirements for public tendering in capital equipment markets. There can be no assurance that regulatory issues of this nature will not continue to arise in the future.

Gross profit for the Medical Products division increased to \$16,562,000 during fiscal 2008 from \$14,086,000 during fiscal 2007. As a percentage of revenue, gross profit from the Medical Products division increased to 26% from 24% over the years. During fiscal 2008, we placed valuation adjustments to inventory of \$600,000 on certain aged merchandise inventories to reflect a lower of cost or market carrying value (a .9% negative impact to gross profit margin). In addition, we recognized \$270,000 (.4% positive impact to gross profit percentage) in additional gross profit due to the reduction in estimates of our future contract obligations. The gross profit margin in the current period is in line with historical averages. The gross profit margin in the prior period included a charge of \$110,000 (.2% negative impact to gross profit percentage) for certain spare parts inventories that had become obsolete as a result of our suppliers' end of service support for certain product platforms.

Expenses for the Medical Products division increased to \$19,169,000 from \$15,240,000 over the years and, as a percentage of division revenue, increased to 30% from 26% over the years. Salaries for the division increased by \$1,414,000 over the year. The other costs for the division increased by \$2,497,000 over the years primarily due to costs allocated from the parent company (\$1,667,000), travel expenses (\$451,000), entertainment expenses (\$462,000) and meeting expenses (\$214,000). The division had a loss from continuing operations before foreign exchange gains of \$2,607,000 in the recent period, compared to a prior period loss from continuing operations before foreign exchange gains of \$1,154,000.

In fiscal 2009, in the Medical Products division we expect a return to profitability as persisting delays in product registrations, which are subject to Chinese Governmental bureaucratic approval practices, and some of which have been in process for well over a year, are relieved, subject to the receipt of these approvals and the execution of an increased number of U.S. and German Government-backed loan projects. Our development programs will focus on growing comprehensive supply chain services through strategic partnerships, expanding distribution channels, increasing market penetration and broadening product offerings.

Other Income and Expenses

Interest expense during the recent period was incurred on short-term capitalized leases of \$36,000, short-term debt of \$82,000, long-term capitalized leases of \$22,000 and long-term debt of \$22,556,000, totaling \$3,575,000 as compared to interest expense of \$766,000 in the same period of the prior year. Included in the current year expense is \$2,860,000 in interest expense due to the conversion of a portion of our convertible debt accounted for in accordance with the provisions of EITF Issue 98-5 “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios,” and EITF 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments”.

Taxes

We recorded a \$2,042,000 tax expense from continuing operations in fiscal 2008 as compared to a tax expense of \$1,205,000 for fiscal 2007. The increase in the effective tax rate in fiscal 2008 was substantially due to a decrease in our net deferred tax asset resulting from increasing the valuation allowance.

Management assessed the realization of the Company's net deferred tax assets throughout each of the quarters of fiscal year 2008. During the year,

management placed a valuation allowance on the deferred tax assets related to certain of its Chinese operations due to net operating loss carry forwards which will expire in the near future. The total tax effect of creating these valuation allowances on Chinese operations was \$848,000. In addition, based on the lack of positive evidence in the past few years in our US entity, we placed a full valuation allowance on the U.S. net deferred tax asset. The effect of this was an additional \$554,000 of income tax expense during the year.

During fiscal 2008, there was a change in the tax law in China that reduced the statutory tax rate from 33% to 25% effective January 1, 2008. In addition, there was a change in the tax rate in one of the enterprise zones in China in which we operate that increased the tax rate from 12.5% to 15%. Since we have net deferred tax assets, we recognized a tax expense during fiscal 2008 of approximately \$94,000 as a result of these changes in statutory tax rates.

Our tax expense reflects the impact of varying tax rates in the different jurisdictions in which we operate. It also includes changes to the valuation allowance as a result of management's judgments and estimates concerning projections of domestic and foreign profitability and the extent of the utilization of net operating loss carryforwards. As a result, we have experienced significant fluctuations in our world-wide effective tax rate. Changes in the estimated level of annual pre-tax income, changes in tax laws particularly related to the utilization of net operating losses in various jurisdictions, and changes resulting from tax audits can all affect the overall effective income tax rate which, in turn, impacts the overall level of income tax expense and net income.

Fiscal year ended March 31, 2007 compared to fiscal year ended March 31, 2006

Our revenue for fiscal 2007 was \$105,921,000, up 17% from fiscal 2006 revenue of \$90,836,000. We experienced continued revenue growth in the Healthcare Services division of 31% over the years. We experienced a 7% increase in revenue over the years in our Medical Products division. Costs and expenses were \$101,276,000 for fiscal 2007, up 12% as compared with costs and expenses of \$90,286,000 for fiscal 2006. Over the years, operating costs increased 23% and 3% over the years in the Healthcare Services and Medical Products divisions, respectively. We recorded income from continuing operations of \$4,645,000 for fiscal 2007, as compared to income from continuing operations of \$550,000 for fiscal 2006. Costs at the parent level of the Company, which have been allocated among the divisions as described below, increased by \$1,567,000 fiscal 2007 over the prior year. The majority of the increase related to compensation expense, including the additional expense, which resulted from our adoption of SFAS 123(R), increased audit fees in relation to Sarbanes-Oxley compliance and office rent. In fiscal 2007 and 2006, foreign exchange gains of \$771,000 and \$401,000, respectively, were recognized as credits to general and administrative expenses on the consolidated statements of operations.

Healthcare Services Division

The Healthcare Services division operates our United Family Healthcare network of private healthcare facilities in China. During fiscal 2007, the division consisted of a network of United Family Hospitals and Clinics in Beijing and Shanghai. In Beijing, the UFH network included Beijing United Family Hospital and Clinics, and two affiliated, free-standing, primary care clinics, the newer of which was opened in June of 2005. In Shanghai, the UFH network included Shanghai United Family Hospital and Clinics and one affiliated, free-standing, primary care clinic.

For fiscal 2007, revenue from the division was \$47,944,000, an increase of 31% over fiscal 2006 revenue of \$36,500,000 (for information on how the timing of our revenues is affected by seasonality and other fluctuations, see “Timing of Revenue”). The increased revenue is attributable to growth in both the Beijing and Shanghai markets. Total Healthcare Services operating costs increased for fiscal 2007, to \$42,916,000, a 23% over the prior period's operating costs of \$34,915,000. Salaries increased by \$4,514,000 over the periods (representing 50% and 54% of division revenue for fiscal 2007 and 2006, respectively). These increases were due primarily to the hiring of new personnel to meet the demand for increased services in both the Beijing and Shanghai markets. Other costs increased \$3,487,000, primarily due to increases in direct patient care expenses, cost allocated from the parent company, depreciation expense, excise taxes, bad debt expense and auditing fees. The Healthcare Services division had income from continuing operations before foreign exchange gains of \$5,028,000 in fiscal 2007, a 217% improvement over prior period income from continuing operations before foreign exchange gains of \$1,585,000.

Medical Products Division

The Medical Products division markets, distributes and sells select medical capital equipment, instrumentation and other medical products for use in hospitals in China and Hong Kong on the basis of both exclusive and non-exclusive agreements with the manufacturers of these products.

In fiscal 2007, this division's revenue was \$57,977,000, which was a 7% increase over the revenue of \$54,336,000 for fiscal 2006 (for information on how the timing of our revenues is affected by credit availability to our Chinese customers and other factors, see “Timing of Revenue”). The increase was attributable to the impact of new product introductions during fiscal 2006, as well as delivery of goods in the fiscal 2007 period under a government-backed financing program and the delivery of goods under a multi-unit government contract. These positive factors were offset by the impact of ongoing reforms by the Chinese Government of the procurement process in the Chinese healthcare system, which included increased requirements for public tendering in capital equipment markets, a general slowdown in the growth rate of the market for imported medical devices and delays in the product registrations in certain product categories. There can be no assurance that regulatory issues of this nature will not continue to arise in the future.

Gross profit for the Medical Products division increased to \$14,086,000 during fiscal 2007 from \$13,423,000 during fiscal 2006. As a percentage of revenue, gross profit from the Medical Products division decreased to 24% from 25% over the period.

Expenses for the Medical Products division in fiscal 2007 increased to \$15,240,000 from \$14,859,000 in fiscal 2006 and, as a percentage of division revenue over the years, decreased to 26% from 27%. Salaries for the division increased by \$42,000 over the periods. The other costs for the division increased by \$339,000 over the periods primarily due to costs allocated from the parent company and bad debt expense. The division had a loss from continuing operations before foreign exchange gains of \$1,154,000 in fiscal 2007, a 20% improvement over prior year loss from continuing operations before foreign exchange gains of \$1,436,000.

We determined during the period that \$829,000 of our equipment receivable balance was uncollectible and subsequently wrote these balances off against our balance sheet reserve allowance for doubtful accounts. In addition, during the period we took a charge to bad debt expense of \$475,000 to increase our reserve for doubtful accounts to maintain historical levels of coverage.

Other Income and Expenses

Interest expense during the fiscal 2007 was incurred on short-term capitalized leases of \$36,000, short-term debt of \$2,710,000, long-term capitalized leases of \$58,000 and long-term debt of \$8,679,000, totaling \$766,000 as compared to interest expense of \$589,000 in the same period of the prior year.

Taxes

We recorded a \$1,205,000 tax expense from continuing operations in fiscal 2007 as compared to a benefit for taxes of \$51,000 for fiscal 2006. The increase in the tax expense was due primarily to the increase in profitability at certain of our Chinese operations.

During fiscal 2007, there was a change in the tax law in China that will reduce the statutory tax rate from 33% to 25% effective January 1, 2008. In addition, there was a change in the tax rate in one of the enterprise zones in China in which the Company operates that increased the tax rate from 12.5% to 15%. Since the Company had net deferred tax assets, the Company recognized a tax expense of approximately \$364,000 as a result of these changes in statutory tax rates.

The Company's tax expense reflects the impact of varying tax rates in the different jurisdictions in which it operates. It also includes changes to valuation allowance as a result of management's judgments and estimates concerning projections of domestic and foreign profitability and the extent of the utilization of net operating loss carryforwards. As a result, we had experienced significant fluctuations in our world-wide effective tax rate. Changes in the estimated level of annual pre-tax income, changes in tax laws particularly related to the utilization of net operating losses in various jurisdictions, and changes resulting from tax audits can all affect the overall effective income tax rate which, in turn, impacts the overall level of income tax expense and net income.

Discontinued Operations

In November of fiscal 2006, the Company determined that the retail business operated by the Healthcare Products Distribution division would be discontinued. The close down of the retail business was substantially completed by the end of fiscal 2006.

For fiscal 2006 the discontinued retail business operation reported revenue of \$11,370,000 and pretax loss of \$3,105,000 compared to revenue of \$17,616,000 and a pretax loss of \$1,734,000 in the prior year.

The fiscal 2006 results included a pretax charge of \$186,000 for the closedown process at year end; \$110,000 in costs related to employee termination and \$76,000 related to inventory write-offs and accelerated depreciation on equipment.

Liquidity and Capital Resources

As of March 31, 2008, our cash, cash equivalents and restricted cash, trade accounts receivable and net inventories were \$80,381,000, \$21,183,000 and \$9,796,000, respectively, as compared to \$10,696,000, \$19,237,000 and \$7,835,000, respectively, as of March 31, 2007.

As of the end of fiscal 2008, we have entered into a series of equity and debt financings, as described below that provide for \$105 million in total financing. Pursuant to these financings, as of March 31, 2008 we had received a total of \$60 million. The principal purpose of the financings is to provide funds for the expansion of our healthcare system in China, including two joint venture hospitals. Additional details of these financings may be found in Notes 5 and 6 to the consolidated financial statements.

On November 7, 2007, we entered into a securities purchase agreement with Magenta Magic Limited, a wholly owned subsidiary of J.P. Morgan Chase & Co (JPM), pursuant to which we agreed to issue and sell to JPM: (i) 538,793 shares (the "Tranche A Shares") of common stock for an aggregate purchase price of \$10 million or the subscription price of \$18.56 per share, (ii) our Tranche B Convertible Notes due 2017 in the aggregate principal amount of \$25 million, which were converted into 1,346,984 shares of our common stock, and (iii) our Tranche C Convertible Notes due 2017 in the aggregate principal amount of \$15 million (the "Tranche C Notes") for a total purchase price of \$50 million in gross proceeds. The Tranche C Notes have a ten-year maturity, do not bear interest of any kind and are convertible to common stock at the subscription price at any time by JPM or are mandatorily converted at the subscription price to common stock upon certain project-related events. The first closing under the JPM securities purchase agreement occurred on November 13, 2007, at which time we received \$41 million. The second closing under the JPM securities purchase agreement occurred on January 11, 2008 at which time we received \$9 million.

On December 10, 2007, we entered into a securities purchase agreement with the International Finance Corporation (a division of the World Bank) (IFC), pursuant to which we agreed to issue and sell IFC 538,793 shares of common stock for an aggregate purchase price of \$10 million or the subscription price of \$18.56 per share. The closing of the sale of common stock pursuant to the IFC securities purchase agreement occurred on January 11, 2008 at which time we received \$10 million. In addition, on December 10, 2007, we entered into a loan agreement with IFC that provides for loans in the aggregate amount of \$25 million for our future healthcare joint ventures in China (the "IFC Loans"). The IFC Loans would be made directly to one or both of the future healthcare joint ventures in China. The term of the IFC Loans would be 9.25 years and would bear interest equal to a fixed base rate determined at the time of each disbursement (LIBOR) plus 2.75% per annum. The interest rate may be reduced to LIBOR plus 2.0% upon the satisfaction of certain conditions. The loans will include certain other covenants which require the borrowers to achieve and maintain specified liquidity and coverage ratios in order to conduct certain business transactions such as pay intercompany management fees or incur additional indebtedness. The obligation of each borrowing joint venture under the IFC Loans will be guaranteed by the Company. In terms of security, IFC will have, among other things, a pledge of the Company's equity interest in the borrowing joint ventures and a lien over the equipment owned by the borrowing joint ventures, as well as a lien over their bank accounts. There were no amounts outstanding under any IFC Loans as of the date of this report.

On January 10, 2008, we entered into a loan agreement with DEG-Deutsche Investitions-Und Entwicklungsgesellschaft (DEG) of Frankfurt, Germany (a member of the KfW banking group), providing for loans in the aggregate amount of \$20 million for our future healthcare joint ventures in China (the "DEG Loans"). The DEG Loans are substantially identical to the IFC Loans, having a 9.25-year term and an initial interest rate set at LIBOR plus 2.75%. The DEG Loans would also be made directly to one or both of the future healthcare joint ventures in China, neither of which has been formed yet. The obligations under the DEG Loans would also be guaranteed by the Company and would be senior and secured, ranking *pari passu* in seniority with the IFC Loans and sharing pro rata with the IFC Loans in the security interest granted over the Company's equity interests in the future healthcare joint ventures, the security interests granted over the assets of the borrowing joint ventures and any proceeds from the enforcement of such security interests. There were no amounts outstanding under any DEG Loans as of the date of this report.

In October 2005, BJU and SHU obtained long-term debt financing under a program with the IFC for 64,880,000 Chinese Renminbi (approximately \$8,000,000). The term of the loan is 10 years at an initial interest rate of 6.73% with the borrowers required to begin making payments into a sinking fund beginning in the fourth year, with the option to extend the beginning of these payments to the fifth year if certain loan covenants have been met. The interest rate will be reduced to 4.23% for any amount of the outstanding loan on deposit in the sinking fund. The loan program also includes certain other covenants which require the borrowers to achieve and maintain specified liquidity and coverage ratios in order to conduct certain business transactions such as pay intercompany management fees or incur additional indebtedness. The Company guaranteed repayment of this loan in the full amount of the indebtedness should the borrowers default as defined in the loan agreement. In terms of security, IFC has, among other things, a lien over the equipment owned by the borrowers and over their bank accounts. In addition, IFC has a lien over the Company's accounts not already pledged, but not over other Company's assets. As of March 31, 2008, the outstanding balance of this debt was 64,880,000 Chinese Renminbi (current translated value of \$9,163,000) and was classified as long-term.

As of March 31, 2008, there were no letters of credit outstanding and no outstanding balance in borrowings under our \$1,750,000 credit facility with M&T Bank. The borrowings under that credit facility bear interest at 1.00% over the three-month London Interbank Offered Rate (LIBOR). At March 31, 2008 the interest rate on this facility was 3.69%. 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.

In October 2007 we finalized a \$5,000,000 credit agreement with United Commercial Bank, a foreign bank licensed in China for the opening of bid and performance bonds required by the sales contracts in the Medical Products division. The agreements call for 40% cash collateral on deposit for any performance bond issuance and 30% cash collateral on deposit for any bid bond issuances. The credit agreement was signed with our German subsidiary and is guaranteed by the Company. As of March 31, 2008, we had opened bonds under this facility in the aggregate amount of €433,000 (approximately \$684,000) which are partially secured by a cash deposit of approximately 30% held by the issuing bank in China. These bonds expire at various times between June and July of 2008.

In June of 2006, a building contractor brought a lawsuit in China against Shanghai United Family Hospital and Clinics (SHU) claiming certain amounts due in connection with the original construction of the facility. There is a lien on certain SHU cash accounts in the amount of \$880,000 (approximately RMB 6,172,000) which has been classified as restricted cash on our balance sheet.

On May 19, 2008 we received the final verdict from the lawsuit. The final amounts awarded to the building contractor in connection with the original construction of the facility were RMB 22,253,000 (approximately \$3,173,000). Of this amount, we had previously paid RMB 18,616,000 (approximately \$2,654,000) and have accrued RMB 3,637,000 (approximately \$519,000). In addition, interest and penalties of RMB 2,756,000 (approximately \$394,000) were awarded to the building contractor. We do not plan to appeal this verdict.

We have an agreement with a major vendor whereby the vendor has agreed to provide up to \$4,000,000 of long-term (one and one-half years on those transactions that have occurred to date) payment terms on our purchase of certain medical equipment from the vendor under government backed financing program contracts. The arrangement carries an interest component of five percent per annum. At March 31, 2008, the Company had an outstanding long-term debt balance of \$651,000 and no outstanding short-term debt balance under this agreement. At March 31, 2007 the Company had \$2,087,000 of short-term debt outstanding under this agreement.

The Company also has included in debt at March 31, 2008 and March 31, 2007, \$231,000 and \$360,000, respectively, under other long-term payment arrangements. At March 31, 2008 \$82,000 of this balance is classified as short-term and \$149,000 is classified as long-term. At March 31, 2007, \$74,000 of this balance is classified as short-term and \$286,000 is classified as long-term.

Over the next twelve months we anticipate capital expenditures related to the maintenance and expansion of our existing business operations to total approximately \$10.6 million. Our Healthcare Services division intends to finance approximately \$8.6 million in capital development projects including upgrades to its IT systems, expansions of existing facilities, including the satellite clinics in Beijing, and the design, construction and opening of a second satellite clinic in the Pudong district of Shanghai. These expansions will be funded through the 2005 debt financing program with IFC, limited short-term vendor financing arrangements, and cash flows from operations. Our Medical Products division intends to finance approximately \$1.2 million in capital expenditures for market expansion programs, including investment in equipment seeding programs and demonstration units under the vendor financing arrangement discussed above, from cash flows from operations and corporate capital reserves. In addition we intend to finance certain corporate expenditures of approximately \$200,000 for information systems development through cash flows from operations, additional bank loans to the extent available and corporate capital reserves. There can be no assurances that any of the foregoing projects will be completed, that the actual costs or timing of the projects will not exceed our expectations or that the foregoing expected sources of financing will be available or sufficient for any proposed capital expenditures.

In addition to the capital expenditures described above, as noted earlier, we recently entered into agreements providing for \$105 million in financings, the principal purpose of which is to fund expansion of our healthcare system in China. Over the next twelve months we anticipate capital expenditures related to

these expansions to total approximately \$3.5 million, including the design, construction and opening of our first UFH clinic in the southern China metropolis of Guangzhou, initial design and joint venture start-up of a new hospital facility in Guangzhou and initial design and joint venture start-up of a new hospital facility in Beijing. There can be no assurances that any of the foregoing projects will be completed, that the actual costs or timing of the projects will not exceed our expectations or that the foregoing expected sources of financing will be available or sufficient for any proposed capital expenditures.

Contractual Arrangements

The following table sets forth our contractual obligations as of March 31, 2008 (thousands):

	Total	2009	2010	2011	2012	2013	Thereafter
Bank Loan	\$ 13,614(1)	\$ 617	\$ 1,521	\$ 1,499	\$ 1,476	\$ 1,905	\$ 6,596
JPM financing	15,000	-	-	-	-	-	15,000
Vendor financing	882	82	781	19	-	-	-
Capital leases	58	36	22	-	-	-	-
Operating leases	14,310	3,323	2,602	2,096	1,325	1,108	3,856
Other (2)	213	64	71	78	-	-	-
Total contractual obligations	<u>\$ 44,077</u>	<u>\$ 4,122</u>	<u>\$ 4,997</u>	<u>\$ 3,692</u>	<u>\$ 2,801</u>	<u>\$ 3,013</u>	<u>\$ 25,452</u>

(1) Includes interest of \$4,451.

(2) Contractual fees owing to our BJU joint venture partner.

For information about these contractual obligations, see Notes 5 and 9 to the consolidated financial statements appearing elsewhere in this Annual Report.

Timing of Revenue

The timing of our revenue is affected by several factors.

In the Healthcare Services division, our revenue is dependent on seasonal fluctuations related to epidemiology factors and the life styles of the expatriate community. For example, many expatriate families traditionally take annual home leave outside of China during the summer months.

In the Medical Products division, sales of capital equipment often require protracted sales efforts, long lead times, financing arrangements and other time-consuming steps. For example, many end users are required to purchase capital equipment through a formal public tendering process, which often entails an extended period of time before the sale can be completed. Further, in light of the dependence by purchasers of capital equipment on the availability of credit, the timing of sales may depend upon the timing of our or our purchasers' abilities to arrange for credit sources, including loans from local Chinese banks or financing from international loan programs such as those offered by the U.S. Export-Import Bank and the German KfW Development Bank. In addition, a relatively limited number of orders and shipments may constitute a meaningful percentage of our revenue in any one period.

As a result of these factors impacting the timing of revenues, our operating results have varied and are expected to continue to vary from period to period and year to year.

Foreign Currency Exchange and Impact of Inflation

Because we receive over 68% of our revenue and generated 72% of our expenses within China, we have foreign currency exchange risk. The Chinese currency (RMB) is not freely traded and is closely controlled by the Chinese Government. The US dollar has experienced volatility in world markets recently. During fiscal 2008 the RMB strengthened against the USD resulting in a cumulative rate change of 9.3% for the year. During fiscal 2008, we had exchange gains of \$604,000 which are included in general and administrative expenses on our consolidated statements of operations.

As part of our risk management program, we also perform sensitivity analyses to assess potential changes in revenue, operating results, cash flows and financial position relating to hypothetical movements in currency exchange rates. Our sensitivity analysis of changes in the fair value of the RMB to the USD at March 31, 2008, indicated that if the USD uniformly increased in value by 10 percent relative to the RMB, then we would have experienced a 18% decrease in net income. Conversely, a 10 percent increase in the value of the RMB relative to the USD at March 31, 2008, would have resulted in a 22% increase in net income.

Based on the Consumer Price Index, in the calendar year ended December 31, 2007, inflation in China was 4.8% and inflation in United States was 4.1%. The average annual rate of inflation over the three-year period from 2005 to 2007 was 2.8% in China and 3.3% in United States.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company holds the majority of all cash assets in 100% principal protected AAA/Aaa rated Money Market accounts. Therefore, the Company believes that its market risk exposures are immaterial and reasonable possible near-term changes in market interest rates will not result in material near-term reductions in other income, material changes in fair values or cash flows. The Company does not have instruments for trading purposes. Instruments for non-trading purposes are operating and development cash assets held in interest-bearing accounts. The Company is exposed to certain foreign currency exchange risk (See "Foreign Currency Exchange and Impact of Inflation").

FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Chindex International, Inc.
Bethesda, Maryland

We have audited the accompanying consolidated balance sheets of Chindex International, Inc. (the Company) as of March 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chindex International, Inc. at March 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," effective April 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Chindex International, Inc.'s internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 11, 2008, expressed an adverse opinion thereon.

BDO Seidman, LLP

Bethesda, Maryland
June 11, 2008

CHINDEX INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

(thousands except share data)

	March 31, 2008	March 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 79,258	\$ 9,106
Restricted cash	1,123	1,590
Trade accounts receivable, less allowance for doubtful accounts of \$3,940 and \$2,827, respectively		
Product sales receivables	12,098	13,133
Patient service receivables	9,085	6,104
Inventories, net	9,796	7,835
Deferred income taxes	1,656	2,463
Other current assets	3,294	3,153
Total current assets	116,310	43,384
Property and equipment, net	18,428	18,482
Long-term deferred income taxes	-	607
Other assets	1,241	434
Total assets	\$ 135,979	\$ 62,907
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,097	\$ 12,546
Accrued wages	4,326	4,040
Accrued expenses	6,436	3,752
Other current liabilities	3,479	2,539
Short-term portion of capitalized leases	36	36
Short-term debt and vendor financing	82	2,710
Income taxes payable	349	629
Total current liabilities	25,805	26,252
Long-term deferred tax liability	208	-
Long-term portion of capitalized leases	22	58
Long-term debt, vendor financing and convertible debentures	22,556	8,679
Total liabilities	48,591	34,989
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 500,000 shares authorized, none issued	-	-
Common stock, \$.01 par value, 28,200,000 shares authorized, including 3,200,000 designated		
Class B:		
Common stock – 13,074,593 and 9,498,518 shares issued and outstanding at March 31, 2008 and March 31, 2007, respectively	131	95
Class B stock – 1,162,500 shares issued and outstanding at March 31, 2008 and March 31, 2007, respectively	12	12
Additional paid in capital	92,586	38,911
Accumulated other comprehensive income	2,210	106
Accumulated deficit	(7,551)	(11,206)
Total stockholders' equity	87,388	27,918
Total liabilities and stockholders' equity	\$ 135,979	\$ 62,907

The accompanying notes are an integral part of these consolidated financial statements.

CHINDEX INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(thousands except share and per share data)

	Years ended March 31,		
	2008	2007	2006
Product sales	\$ 64,241	\$ 57,977	\$ 54,336
Healthcare services revenue	65,817	47,944	36,500
Total revenue	130,058	105,921	90,836
Cost and expenses			
Product sales costs	47,679	43,891	40,913
Healthcare services costs	51,810	40,534	33,455
Selling and marketing expenses	12,175	9,930	10,195
General and administrative expenses	10,055	6,921	5,723
Income from continuing operations	8,339	4,645	550
Other (expenses) and income			
Interest expense	(3,575)	(766)	(589)
Interest income	1,159	238	173
Miscellaneous (expense) income - net	(226)	70	(18)
Income from continuing operations before income taxes	5,697	4,187	116
(Provision for) benefit from income taxes	(2,042)	(1,205)	51
Net income from continuing operations	3,655	2,982	167
Loss from discontinued operations	-	(247)	(3,105)
Net income (loss)	\$ 3,655	\$ 2,735	\$ (2,938)
Net income (loss) per common share - basic			
Continuing operations	\$.32	\$.29	\$.02
Discontinued operations	.00	(.02)	(.32)
Net income (loss)	\$.32	\$.27	\$ (.30)
Weighted average shares outstanding - basic	11,369,607	10,286,870	9,809,357
Net income (loss) per common share - diluted			
Continuing operations	\$.27	\$.26	\$.02
Discontinued operations	.00	(.02)	(.29)
Net income (loss)	\$.27	\$.24	\$ (.27)
Weighted average shares outstanding - diluted	13,361,443	11,641,893	10,528,484

The accompanying notes are an integral part of these consolidated financial statements.

CHINDEX INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(thousands)

	Years ended March 31,		
	2008	2007	2006
OPERATING ACTIVITIES			
Net income (loss)	\$ 3,655	\$ 2,735	\$ (2,938)
Adjustments to reconcile net income (loss) to net cash provided (used in) by operating activities:			
Depreciation and amortization	3,871	3,258	2,910
Inventory write down	600	254	538
Provision for doubtful accounts	1,673	1,598	797
Loss on disposal of property and equipment	245	95	72
Deferred income taxes	(454)	(442)	(627)
Stock based compensation	1,341	196	-
Foreign exchange (gain) loss	(604)	(771)	(401)
Amortization of debt issuance costs	3	-	-
Amortization of debt discount	2,860	-	-
Changes in operating assets and liabilities:			
Restricted cash	479	(1,183)	(383)
Trade receivables	(2,190)	(6,278)	1,310
Inventories, net	(454)	2,913	3,443
Other current assets	282	(597)	(288)
Other assets	288	300	72
Accounts payable and accrued expenses	681	(110)	(4,582)
Income taxes payable	(344)	480	139
Net cash provided by (used in) operating activities	11,932	2,448	62
INVESTING ACTIVITIES			
Purchases of property and equipment	(3,207)	(2,474)	(4,133)
Cash received on disposal of property and equipment	-	-	108
Net cash used in investing activities	(3,207)	(2,474)	(4,025)
FINANCING ACTIVITIES			
Proceeds from debt and convertible debentures	40,000	148	9,448
Debt issuance costs	(993)	-	(96)
Repayment of debt, vendor financing and capitalized leases	(3,387)	(2,611)	(5,167)
Proceeds from issuance of common stock	19,949	-	-
Proceeds from exercise of stock options and warrants	4,392	2,318	555
Net cash provided by financing activities	59,961	(145)	4,740
Effect of foreign exchange rate changes on cash and cash equivalents	1,466	243	84
Net increase in cash and cash equivalents	70,152	72	861
Cash and cash equivalents at beginning of year	9,106	9,034	8,173
Cash and cash equivalents at end of year	<u>\$ 79,258</u>	<u>\$ 9,106</u>	<u>\$ 9,034</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 740	\$ 749	\$ 235
Cash paid for taxes	\$ 2,869	\$ 1,123	\$ 453
Non-cash investing and financing activities consist of the following:			
Transfer of demonstration equipment from property and equipment to inventory	\$ 1,251	\$ -	\$ -
Acquisition of inventory through vendor financing agreement	\$ 651	\$ 2,087	\$ 1,598
Conversion of convertible debt into common stock (net of unamortized debt issuance costs of \$160)	\$ 24,840	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

CHINDEX INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the years ended March 31, 2008, 2007 and 2006
(thousands except share data)

	Common Stock		Common Stock Class B		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss)Income	Total
	Shares	Amount	Shares	Amount				
Balance at March 31, 2005	8,592,665	\$ 86	1,162,500	\$ 12	\$ 35,851	\$ (11,003)	\$ 17	\$ 24,963
Net loss 2006						(2,938)		(2,938)
Foreign currency translation adjustment							58	58
Comprehensive income								(2,880)
Options and warrants exercised	327,645	3			552			555
Balance at March 31, 2006	8,920,310	89	1,162,500	12	36,403	(13,941)	75	22,638
Net income 2007						2,735		2,735
Foreign currency translation adjustment							31	31
Comprehensive income								25,404
Stock based compensation					196			196
Options and warrants exercised, and issuance of restricted stock	578,208	6			2,312			2,318
Balance at March 31, 2007	9,498,518	95	1,162,500	12	38,911	(11,206)	106	27,918
Net income 2008						3,655		3,655
Foreign currency translation adjustment							2,104	2,104
Comprehensive income								33,677
Stock based compensation					1,341			1,341
Shares issued	2,424,569	24			44,765			44,789
Beneficial conversion feature on convertible debt, net of tax						3,189		3,189
Options and warrants exercised, and issuance of restricted stock	1,151,506	12			4,380			4,392
Balance at March 31, 2008	<u>13,074,593</u>	<u>\$ 131</u>	<u>1,162,500</u>	<u>\$ 12</u>	<u>\$ 92,586</u>	<u>\$ (7,551)</u>	<u>\$ 2,210</u>	<u>\$ 87,388</u>

The accompanying notes are an integral part of these consolidated financial statements.

CHINDEX INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Chindex International, Inc. ("Chindex" or "the Company"), is a Delaware corporation, operating in several healthcare markets in China, including Hong Kong. Revenues are generated from the provision of healthcare services and the sale of medical equipment, instrumentation and products. In the fiscal year ended March 31, 2006 (fiscal 2006), we closed the retail operations of our Healthcare Products Distribution division and restructured our continuing operating divisions. The Company now operates in two business segments.

On March 18, 2008, the Company's Board of Directors and stockholders authorized a 3-for-2 stock split of all shares of the Company's common stock, par value \$0.01 per share, including its Class B common stock, which was effected on April 1st, 2008. All common share and per share information has been retroactively restated to reflect the 3-for-2 stock split.

The Healthcare Services division operates hospitals and clinics in Beijing, Shanghai and Wuxi. These hospitals and clinics generally transact business in Chinese Renminbi, but can also receive payments in U.S. dollars.

The Medical Products division, formerly named the "Medical Capital Equipment division," markets, distributes and sells select medical capital equipment, instrumentation and other medical products for use in hospitals in China and Hong Kong on the basis of both exclusive and non-exclusive agreements with the manufacturers of these products. Sales and purchases are made in a variety of currencies including U.S. dollars, Euros and Chinese Renminbi.

Consolidation

The consolidated financial statements include the accounts of the Company, its subsidiaries and variable interest entities. All inter-company balances and transactions are eliminated in consolidation.

Revenue Recognition

The Company earns revenue from providing healthcare services and sales of products. Substantially all revenue in the Healthcare Services division is from providing services and substantially all revenue in the Medical Products division is from the sale of products. See Note 13 for further information on sales and gross profit by division.

Revenue related to services provided by the Healthcare Services division is net of contractual adjustments or discounts and is recognized in the period services are provided. The Healthcare Services division makes an estimate at the end of the month for certain inpatients who have not completed service. This estimate reflects only the cost of care up to the end of the month.

Revenue related to the sale of medical equipment, instrumentation and products to customers in China by our Medical Products division is recognized upon product shipment. Revenue from sales to customers in Hong Kong is recognized upon delivery. We provide installation, warranty, and training services for certain of our capital equipment and instrumentation sales. These services are viewed as perfunctory to the overall arrangement and are not accounted for separately from the equipment sale. Costs associated with installation, training, after-sale servicing and standard warranty are not significant and are recognized in cost of sales as they are incurred. Sales involving multiple elements are analyzed and recognized under the guidelines of SAB 104, "Revenue Recognition" and the EITF 00-21, "Revenue Arrangements with Multiple Deliverables".

Additionally, the Company evaluates revenue from the sale of equipment in accordance with the provisions of EITF Issue 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," to determine whether such revenue should be recognized on a gross or a net basis over the term of the related service agreement. All of the factors in EITF 99-19 are considered with the primary factor being that the Company assumes credit and inventory risk and therefore records the gross amount of all sales as revenue.

In the Healthcare Services division, our revenue is dependent on seasonal fluctuations related to epidemiology factors and the life styles of the expatriate community. In the Medical Products division, sales of capital equipment often require protracted sales efforts, long lead times, financing arrangements and other time-consuming steps. As a result of these factors impacting the timing of revenues, our operating results have varied and are expected to continue to vary from period to period and year to year.

Accounts Receivable

Accounts receivable are customer obligations due under normal trade terms. They consist primarily of amounts due from the sale of various products and services. Senior management reviews accounts receivable on a quarterly basis to determine if any receivables will potentially be uncollectible based on the aging of the receivable and historical cash collections. Any accounts receivable balances that are determined to be uncollectible, along with a general allowance estimated as a percentage of probable collectibility, are included in the overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Management believes that the allowance for doubtful accounts as of March 31, 2008 and 2007 is adequate; however, actual write-offs might exceed the recorded allowance.

Inventories

Inventory items held by the Healthcare Services division are purchased to fill hospital operating requirements and are stated at the lower of cost or market using the average cost method.

Inventory held by the Medical Products division consists of items that are purchased to fill executed sales contracts, items that are stocked for future sales, including sales demonstration units and service parts. These items are valued on the specific identification method or average cost basis. Inventory valuation is reviewed on a quarterly basis and adjustments are charged to the provision for inventory, which is a component of our product sales costs. A routine valuation allowance is created to maintain sales demonstration units at net realizable value. Valuation adjustments to inventory were \$600,000, \$254,000 and \$538,000 during fiscal 2008, 2007 and 2006 respectively. The majority of the adjustments in 2008 were related to certain aged merchandise inventory. In 2007 and 2006, the adjustments were related to spare parts inventory items pertaining to machines we no longer service. In addition, in 2008 we reclassified certain demonstration equipment with a net book value of \$1,251,000 from property and equipment to inventory to facilitate enhanced asset utilization.

Property and Equipment

Property and equipment, including such assets held by Healthcare Services, 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 medical equipment deployed for clinical use in our hospitals is 10 years. Useful lives for office equipment, vehicles and furniture and fixtures range from 5 to 7 years. Leasehold improvements are amortized on the straight-line method over the shorter of the estimated useful lives of the improvements or the lease term.

The Company assesses the impairment of long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company evaluates its long-lived assets for impairment when indicators of impairment are identified. The Company records impairment charges based upon the difference between the fair value and carrying value of the original asset when undiscounted cash flows indicate the carrying value will not be recovered. No impairment losses have been recorded in the accompanying consolidated statements of operations.

Income Taxes

The Company's U.S. entities file a consolidated U.S. federal tax return. The U.S. provision for income taxes is computed for each entity in the U.S. consolidated group at the statutory rate based upon each entity's income or loss, giving effect to temporary and permanent differences. The Company's foreign subsidiaries file separate income tax returns on a December 31 fiscal year.

In accordance with SFAS No. 109, "Accounting for Income Taxes" (SFAS 109), 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. A valuation allowance reduces the net deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

On April 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No.109"(FIN 48). FIN 48 clarifies the criteria for recognizing tax benefits related to uncertain tax positions under SFAS 109 and requires additional financial statement disclosure. FIN 48 requires that the Company recognize, in its consolidated financial statements, the impact of a tax position if that position is more likely than not to be sustained upon examination, based on the technical merits of the position. FIN 48 also requires explicit disclosure about the Company's uncertainties related to each income tax position, including a detailed roll-forward of tax benefits taken that do qualify for financial statement recognition. The Company and its subsidiaries files income tax returns for U.S. federal jurisdiction and various states and foreign jurisdictions. For income tax returns filed by the Company, the Company is no longer subject to U.S. federal, state and local tax examinations by tax authorities for years before 2005, although carryforward tax attributes that were generated prior to 2005 may still be adjusted upon examination by tax authorities if they either have been or will be utilized. For the foreign jurisdictions the Company is no longer subject to local examinations by the tax authorities for years prior to 2004. It is our policy to recognize interest and penalties related to income tax matters in income tax expense. As of March 31, 2008 we had no accrued interest or penalties related to uncertain tax positions. Adoption of FIN 48 had no impact on the Company's consolidated results of operations and financial position.

Cash Equivalents

The Company considers unrestricted cash on hand, deposits in banks, certificates of deposit, money market funds and short-term marketable securities with an original or remaining maturity at the date of acquisition of three months or less to be cash and cash equivalents; such balances approximate fair value. Restricted cash is composed of deposits collateralizing bid and performance bonds (see Note 5) and a lien on certain cash accounts pursuant to a lawsuit (see Note 14).

Fair Value of Financial Instruments

The Company considers the recorded value of its financial instruments, which consist primarily of cash and cash equivalents, trade accounts receivables, net, accounts payable, short-term and long-term debt and vendor financing to approximate the fair value based on the liquidity of these financial instruments or based on the fair market value calculations using all available information.

Earnings Per Share

The Company follows SFAS No. 128, "Earnings per Share" 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 options, warrants and convertible securities for periods when the Company reports a net loss as such effects would be antidilutive.

On March 18, 2008, the Company's Board of Directors and stockholders authorized a 3-for-2 stock split of all shares of the Company's common stock, par value \$0.01 per share, including its Class B common stock, which was effected on April 1st, 2008. All common share and per share information has been retroactively restated to reflect the 3-for-2 stock split.

Stock-Based Compensation

Effective April 1, 2006, the Company adopted SFAS No. 123(R), "Share-Based Payment" and related Securities and Exchange Commission rules included in Staff Accounting Bulletin No. 107, "Share-Based Payment" on a modified prospective basis. SFAS No. 123(R) requires that stock options and other share-based payments made to employees be accounted for as compensation expense and recorded at fair value. Under this new standard, companies are required to estimate the fair value of share-based payment awards on the date of the grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service periods of the options in the Company's consolidated statements of operations. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options granted.

Compensation costs related to equity compensation, including stock options and restricted stock, for the year ended March 31, 2008 and March 31, 2007 were \$1,341,000 and \$196,000, respectively. Of the \$1,341,000, \$291,000 is included in healthcare services, \$47,000 in medical products division costs and \$1,003,000 in general and administrative expenses on the consolidated statements of operations. Of the \$196,000, \$47,000 is included in healthcare services and \$149,000 in general and administrative expenses on the consolidated statements of operations. No amounts relating to the share-based payments have been capitalized.

Prior to April 1, 2006, the Company accounted for stock-based compensation to employees under Accounting Principles Board Opinion (APB) No. 25 "Accounting for Stock Issued to Employees," and complied with the disclosure requirements for SFAS No. 123 "Accounting for Stock-Based Compensation" and SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure - An Amendment of FASB Statement No. 123." Under APB 25 compensation expense was measured as the excess, if any, of the market value of the underlying equity instrument over the amount the employee is required to pay on the date both the number of shares and the price to be paid are known. No compensation expense was recognized in the consolidated statements of operations, as option grants generally were made with exercise prices equal to the fair value of the underlying common stock on the award date, which was typically the date of compensation measurement.

The Company's reported and pro forma loss per share information was as follows (thousands, except share data):

		2006
Net loss, as reported		\$(2,938)
Deduct: total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects		(1,333)
Net loss, pro-forma		<u>\$(4,271)</u>
Pro forma loss per share*:		
Loss per share, basic	As reported	\$ (.30)
Loss per share, basic	Pro forma	\$ (.44)
Loss per share, diluted	As reported	\$ (.27)
Loss per share, diluted	Pro forma	\$ (.41)

*Per share information has been retroactively adjusted to give effect to the three-for-two stock split in the form of a stock dividend, which was announced by us on March 18, 2008 with a record date of April 1, 2008.

The Company generally grants stock options that vest over a three to four year period to senior, long-term employees. Option awards are granted with an exercise price equal to the market price of the Company's stock on the date of grant. Stock options have up to 10-year contractual terms.

Options issued by the Company since 1996 have grant-date fair values calculated using the Black-Scholes options pricing model between \$0.48 and \$9.13. To calculate fair market value, this model utilizes certain information, such as the interest rate on a risk-free security maturing generally at the same time as the expected life of the option being valued and the exercise price of the option being valued. It also requires certain assumptions, such as the expected amount of time the option will be outstanding until it is exercised or it expires and the expected volatility of the Company's common stock over the expected life of the option.

The assumptions used to determine the value of the options at the grant date for options granted during the year ended March 31, 2008 were:

Volatility	71.36% - 71.82%
Dividend yield	0.00%
Risk-free interest rate	3.61% - 4.12%
Expected average life	7.0 years

The assumptions used to determine the value of the options at the grant date for options granted during the year ended March 31, 2007 were:

Volatility	71.02%
Dividend yield	0.00%
Risk-free interest rate	4.95%
Expected average life	7.0 years

Expected volatility is calculated based on the historical volatility of the Company's common stock over the period which is approximately equal to the expected life of the options being valued. The dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. The risk-free interest rate is derived from the yield of a U.S. Treasury Strip with a maturity date which corresponds with the expected life of the options being valued. The expected average life in 2008 and 2007 is based on the Company's historical share option exercise experience along with the contractual term of the options being valued.

Based on historical experience, the Company has assumed a forfeiture rate of 6.00% and 5.74% as of March 31, 2008 and 2007 on both its stock options and restricted stock. The Company will record additional expense if the actual forfeitures are lower than estimated and will record a recovery of prior expense if the actual forfeitures are higher than estimated.

Debt Issuance Costs

Debt issuance costs incurred are capitalized and amortized based on the life of the debt obligations from which they arose, using the effective interest method. The amortization of these costs is included in interest expense on the consolidated statements of operations.

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.

Foreign Currencies

Financial statements of the Company's foreign subsidiaries are translated from the functional currency, generally the local currency, to U.S. dollars. Assets and liabilities are translated at the exchange rates on the balance sheet date. Results of operations are translated at average exchange rates. Accumulated other comprehensive income (loss) in the accompanying consolidated statements of stockholders' equity consists entirely of the resulting exchange difference.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. Areas in which significant judgments and estimates are used include revenue recognition, receivable collectibility, inventory obsolescence, accrued expenses, deferred tax valuation allowances and stock-based compensation.

Reclassifications

Certain balances in the 2007 and 2006 consolidated financial statements have been reclassified to conform to the 2008 presentation.

New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). This standard establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007, except as it relates to certain non-financial assets and liabilities for which SFAS 157 is effective in fiscal 2010. We are currently assessing whether the adoption of SFAS 157 will have a material effect on the Company's financial position or results of operations.

In February, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing whether the adoption of SFAS 159 will have a material effect on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an Amendment of ARB No. 51" (SFAS 160). SFAS 160 requires the ownership interests in subsidiaries held by parties other than the parent to be treated as a separate component of equity and be clearly identified, labeled, and presented in the consolidated financial statements. The effective date of SFAS 160 is for fiscal years beginning on or after December 15, 2008. We are currently assessing whether the adoption of SFAS 160 will have a material effect on the Company's financial position or results of operations.

Any other new accounting pronouncements have been deemed not to be relevant to the operations of the Company; hence the effects of such undisclosed new accounting pronouncements will have no effect on the Company.

2. DISCONTINUED OPERATIONS

In fiscal 2006, the Company determined that the retail operations of our former Healthcare Products Distribution division, which had suffered continuing losses over a nine year period, would be closed. The close-down of the retail operations, which distributed health and personal care products to the consumer markets in China through retail pharmacies, was completed by the end of fiscal 2007. The distribution and logistics services, which had been part of the discontinued division, have been absorbed by the parent company. The distribution of medical products that had been conducted in the former Healthcare Products Distribution division is now conducted by the Medical Products division. The operating results related to the closedown of this business have been segregated from continuing operations and reported as discontinued operations on a separate line item on the consolidated statements of operations. The segment information in Note 13 below has been restated to reflect the new reporting structure.

For the years ended March 31, 2008, 2007 and 2006, net revenue and loss from discontinued operations were as follows (in thousands):

	Year ended March 31,		
	2008	2007	2006
Net revenue from discontinued operations	\$ 0	\$ 0	\$ 11,370
Loss from discontinued operations	\$ 0	\$ (247)	\$ (3,105)

For the year ended March 31, 2006, the loss from discontinued operations included \$186,000 in close down charges.

During the year ended March 31, 2007, we wrote off \$288,000 of the remaining trade accounts receivable related to the discontinued operations. These accounts were offset by adjustments of certain accounts payable and remaining accrual balances totaling \$41,000, resulting in the loss from discontinued operations for the year on the consolidated statements of operations of \$247,000.

There were no assets or liabilities related to the discontinued operations at March 31, 2008 or March 31, 2007.

3. INVENTORIES, NET (in thousands)

	March 31, 2008	March 31, 2007
Inventories, net, consist of the following:		
Merchandise inventory, net	\$ 6,488	\$ 4,422
Healthcare services inventory	763	615
Parts and peripherals	2,545	2,798
	<u>\$ 9,796</u>	<u>\$ 7,835</u>

4. PROPERTY AND EQUIPMENT, NET (in thousands)

	March 31, 2008	March 31, 2007
Property and equipment, net consists of the following:		
Furniture and equipment	\$ 15,030	\$ 12,896
Vehicles	21	68
Demonstration equipment	-	2,762
Leasehold improvements	17,157	14,796
	<u>32,208</u>	<u>30,522</u>
Less: accumulated depreciation and amortization	<u>(13,780)</u>	<u>(12,040)</u>
	<u>\$ 18,428</u>	<u>\$ 18,482</u>

Depreciation and amortization expense for the years ending March 31, 2008, 2007 and 2006 was \$3,871,000, \$ 3,258,000 and \$ 2,910,000, respectively.

5. DEBT

The Company's short term and long term debt balances are (in thousands):

	March 31, 2008		March 31, 2007	
	Short term	Long term	Short term	Long term
Vendor financing	\$ 82	\$ 800	\$ 2,161	\$ 286
Line of credit	-	-	549	-
Long term loan	-	9,163	-	8,393
Convertible Notes, net of debt discount	-	12,593	-	-
	<u>\$ 82</u>	<u>\$ 22,556</u>	<u>\$ 2,710</u>	<u>\$ 8,679</u>

Vendor financing

The Company has a financing agreement with a major vendor whereby the vendor has agreed to provide up to \$4,000,000 of long-term (one and one-half years on those transactions that have occurred to date) payment terms on our purchase of certain medical equipment from the vendor under government backed financing program contracts. The arrangement carries an interest component of five percent per annum. At March 31, 2008, the Company had an outstanding long-term debt balance of \$651,000 and no outstanding short-term debt balance under this agreement. At March 31, 2007 the Company had \$2,087,000 of short-term debt outstanding under this agreement.

The Company also has included in debt at March 31, 2008 and March 31, 2007, \$231,000 and \$360,000, respectively, under other long-term payment arrangements. At March 31, 2008 \$82,000 of this balance is classified as short-term and \$149,000 is classified as long-term. At March 31, 2007, \$74,000 of this balance is classified as short-term and \$286,000 is classified as long-term.

Line of credit

As of March 31, 2008, there were no letters of credit outstanding and no outstanding balance under our \$1,750,000 credit facility with M&T Bank. The borrowings under that credit facility bear interest at 1.00% over the three-month London Interbank Offered Rate (LIBOR). At March 31, 2008 the interest rate on this facility was 3.69%. 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. At March 31, 2007 we had \$549,000 outstanding under this facility.

Long term loan- IFC 2005

In October 2005, Beijing United Family Hospital and Shanghai United Family Hospital, majority-owned subsidiaries of the Company, obtained long-term debt financing under a program with the International Finance Corporation (IFC) (a division of the World Bank) for 64,880,000 Chinese Renminbi (approximately \$8,000,000). The term of the loan is 10 years at an initial interest rate of 6.73% with the borrowers required to begin making payments into a sinking fund beginning in the fourth year, with the option to extend the beginning of these payments to the fifth year if certain loan covenants have been met. The interest rate will be reduced to 4.23% for any amount of the outstanding loan on deposit in the sinking fund. The loan program also includes certain other covenants which require the borrowers to achieve and maintain specified liquidity and coverage ratios in order to conduct certain business transactions such as pay intercompany management fees or incur additional indebtedness. As of March 31, 2008 the Company was in compliance with these covenants. Chindex International, Inc. guaranteed repayment of this loan. In terms of security, IFC has, among other things, a lien over the equipment owned by the borrowers and over their bank accounts. In addition, IFC has a lien over Chindex bank accounts not already pledged, but not over other Chindex assets. As of March 31, 2008, the outstanding balance of this debt was 64,880,000 Chinese Renminbi (current translated value of \$9,163,000, see "Foreign Currency Exchange and Impact of Inflation") and was classified as long-term. At March 31, 2007 the outstanding balance was \$8,393,000, classified as long-term.

Convertible Notes- JPM

On November 7, 2007, the Company entered into a securities purchase agreement with Magenta Magic Limited, a wholly owned subsidiary of J.P. Morgan Chase & Co organized under the laws of the British Virgin Islands (JPM), pursuant to which the Company agreed to issue and sell to JPM: (i) 538,793 shares (the "Tranche A Shares") of the Company's common stock; (ii) the Company's Tranche B Convertible Notes due 2017 in the aggregate principal amount of \$25 million (the "Tranche B Notes") and (iii) the Company's Tranche C Convertible Notes due 2017 in the aggregate principal amount of \$15 million (the "Tranche C Notes" and, with the Tranche B Notes, the "Notes") at a price of \$18.56 per Tranche A Share (for an aggregate price of \$10 million for the Tranche A Shares) and at face amount for the Notes for a total purchase price of \$50 million in gross proceeds (the "JPM Financing").

The Tranche B Notes had a ten-year maturity, bore no interest of any kind and provided for conversion into shares of the Company's common stock at an initial conversion price of \$18.56 per share at any time and automatic conversion upon the Company entering into one or more new committed financing facilities (the "Facilities") making available to the Company at least \$50 million, pursuant to which Facilities all conditions precedent (with certain exceptions) for initial disbursement had been satisfied, subject to compliance with certain JPM Financing provisions. The Facilities as required for conversion of the Tranche B Note had to have a minimum final maturity of 9.25 years from the date of initial drawdown, a minimum moratorium on principal repayment of three years from such date, principal payments in equal or stepped up amounts no more frequently than twice in each 12-month period, no sinking fund obligations, other covenants and conditions, and also limit the purchase price of any equity issued under the Facilities to at least equal to the initial conversion price of the Notes or higher amounts depending on the date of issuance thereof. As of March 31, 2008, the Tranche B Notes have been converted into 1,346,984 shares of our common stock.

The Tranche C Notes have a ten-year maturity, bear no interest of any kind and are convertible at the same conversion price at any time and will be automatically converted upon the completion of two proposed new and/or expanded hospitals in China (the "JV Hospitals"), subject to compliance with certain JPM Financing provisions. Notwithstanding the foregoing, the Notes would be automatically converted after the earlier of 12 months having elapsed following

commencement of operations at either of the JV Hospitals or either of the JV Hospitals achieving break-even earnings before interest, taxes, depreciation and amortization for any 12-month period ending on the last day of a fiscal quarter, subject to compliance with certain JPM Financing provisions.

The JPM Financing was completed in two closings. At the first closing, which took place on November 13, 2007, the Company issued (i) the Tranche A Shares, (ii) the Tranche B Notes and (iii) an initial portion of the Tranche C Notes in the aggregate principal amount of \$6 million, with the closing of the balance of the Tranche C Notes in the aggregate principal amount of \$9 million subject to, among other things, the approval of the Company's stockholders. At the second closing, which took place on January 11, 2008, following such stockholder approval, the Company issued such balance of the Tranche C Notes.

In connection with the issuance of the Notes, the Company incurred issuance costs of \$314,000, which primarily consisted of legal and other professional fees. Of these costs, \$61,000 is attributable to the Tranche A shares, \$159,000 is attributable to Tranche B Notes which converted in February 2008 and the remaining of \$94,000 is attributable to the Tranche C Notes and has been capitalized to be amortized over the life of the Notes. As of March 31, 2008 the unamortized financing cost was \$91,000 and is included in other assets in the consolidated balance sheets.

The Company accounts for convertible debt in accordance with the provisions of Emerging Issues Task Force (EITF) EITF Issue 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," (EITF 98-5) and EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments". Accordingly, the Company records, as a discount to convertible debt, the intrinsic value of the conversion option based upon the differences between the fair value of the underlying common stock at the commitment date and the effective conversion price embedded in the note. Debt discounts under these arrangements are usually amortized over the term of the related debt to their stated date of redemption. So, in respect to the Notes, this debt discount would be amortized through interest expense over the 10 year term of the Notes unless earlier converted or repaid. Under this method, the Company recorded (i) a discount on the Tranche B Notes of \$2,793,000 against the entire principal amount of the Notes; and (ii) a discount on the Tranche C Notes of \$2,474,000 against the entire principal amount of the Notes.

The combined debt discount pursuant to the Notes as of March 31, 2008 was \$2,407,000. Amortization of the discount has accreted to approximately \$2,860,000 as of March 31, 2008. This amount is included as a component of interest expense in the accompanying audited consolidated statements of operations, for the year ended March 31, 2008.

Loan Facility- IFC 2007

On December 10, 2007, the Company entered into a loan agreement with IFC (the "IFC Facility"), providing for loans (the "IFC Loans") in the aggregate amount of \$25 million to expand the Company's United Family Hospitals and Clinics network of private hospitals and clinics in China. The IFC Loans will fund a portion of the Company's planned \$105 million total financing for the expansion program.

The IFC Loans will be made directly to one or both of the joint venture entities (the "Joint Ventures") to be established to undertake the construction, equipping and operation of the proposed healthcare facilities. As of the date, no Joint Venture has been formed. The IFC Loans will bear interest equal to a fixed base rate determined at the time of each disbursement plus 2.75% per annum, with a reduction in the spread first to 2.50% and second to 2.00% per annum upon, in each case, upon the satisfaction of certain conditions, and will mature 9.25 years from the date of first disbursement.

The obligations of each borrowing Joint Venture under the IFC Facility would be guaranteed by the Company pursuant to a guarantee agreement with IFC, will be secured by a pledge by the Company of its equity interests in the borrowing Joint Ventures pursuant to a share pledge agreement by the Company with IFC and will be secured pursuant to a mortgage agreement between each borrowing Joint Venture and IFC.

The IFC Facility contains customary financial covenants, including maintenance of a maximum ratio of liabilities to tangible net worth and a minimum debt service coverage ratio, and covenants that, among other things, place limits on the Company's ability to incur debt, create liens, make investments and acquisitions, sell assets, pay dividends, prepay subordinated debt, merge with other entities, engage in transactions with affiliates, and make capital expenditures. The IFC Facility also contains customary events of default. The covenants under the IFC Facility become effective upon the first disbursement of the IFC Loans.

The IFC Facility was subject to shareholder approval, which was received on January 9, 2008.

Loan Facility- DEG 2008

On January 10, 2008, Chindex China Healthcare Finance, LLC (China Healthcare), a wholly-owned subsidiary of the Company, entered into a Loan Agreement with DEG-Deutsche Investitions-Und Entwicklungsgesellschaft (DEG) of Frankfurt, Germany, a member of the KfW banking group, providing for loans (the "DEG Loans") in the aggregate amount of \$20 million to expand the Company's United Family Hospitals and Clinics network of private hospitals and clinics in China (the "DEG Facility").

The DEG Loans will be made directly to one or both of the joint ventures. The DEG Loans will bear interest equal to a fixed base rate determined at the time of each disbursement plus 2.75% per annum, with a reduction in the spread first to 2.50% and second to 2.00% per annum upon, in each case, the satisfaction of certain conditions, and will mature 9.25 years from the date of first disbursement. The obligations under the DEG Facility will be guaranteed by the Company and will be senior and secured, ranking pari passu in seniority with the IFC Facility and sharing pro rata with the IFC in the security interest granted over the Company's equity interests in the Joint Ventures, the security interests granted over the assets of the Joint Ventures and any proceeds from the enforcement of such security interests.

The Company's guarantee of the DEG Facility contains customary financial covenants, including maintenance of a maximum ratio of liabilities to tangible net

worth and a minimum debt service coverage ratio, and covenants that, among other things, place limits on the Company's ability to incur debt, create liens, make investments and acquisitions, sell assets, pay dividends, prepay subordinated debt, merge with other entities, engage in transactions with affiliates, and make capital expenditures. The DEG Facility contains customary events of default. The covenants under the DEG Facility become effective upon the first disbursement of the DEG Loans.

In anticipation of the DEG Facility, the Company and IFC entered into an amendment to the IFC Facility, dated January 3, 2008, whereby IFC consented to the DEG Facility, including in particular the amount thereof and the ranking thereof as pari passu with the IFC Facility and sharing pro rata in the security interests relating thereto.

In connection with the issuance of the IFC and DEG facilities, the Company incurred issuance costs of \$740,000, which primarily consisted of legal and other professional fees. These issuance costs have been capitalized and will be amortized over the life of the debt. As of March 31, 2008 the balance of the unamortized financing cost was \$740,000 and is included in other assets in the consolidated balance sheets.

The following table sets forth the Company's debt obligations as of March 31, 2008 (in thousands):

	Total	2009	2010	2011	2012	2013	Thereafter
Long term loan	\$ 9,163	\$ -	\$ 916	\$ 916	\$ 916	\$ 1,374	\$ 5,041
Convertible Notes	15,000	-	-	-	-	-	15,000
Vendor financing	882	82	781	19	-	-	-
Total	\$ 25,045	\$ 82	\$ 1,697	\$ 935	\$ 916	\$ 1,374	\$ 20,041

In addition, in October 2007 we finalized a \$5,000,000 credit agreement with United Commercial Bank, a foreign bank licensed in China, for the opening of bid and performance bonds required by the sales contracts in the Medical Products division. The agreements call for 40% cash collateral on deposit for any performance bond issuance and 30% cash collateral on deposit for any bid bond issuances. The credit agreement was signed with our German subsidiary and guaranteed by the Company. As of March 31, 2008, we had opened bonds under this facility in the aggregate amount of €433,000 (approximately \$684,000) which are partially secured by a cash deposit of approximately 30% held by the issuing bank in China. These cash deposits are included in restricted cash in the consolidated balance sheets. These bonds expire at various times between June and July of 2008.

6. 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.

On March 18, 2008, the Company's Board of Directors and stockholders authorized a 3-for-2 stock split of all shares of the Company's common stock, par value \$0.01 per share, including its Class B common stock, which was effected on April 1st, 2008. All common share and per share information has been retroactively restated to reflect the 3-for-2 stock split.

Stock Option Plan

On September 1, 2004, the Company's Board of Directors approved and on October 14, 2004, the Company's shareholders approved the Company's 2004 Incentive Stock Plan (2004 Plan). The 2004 Plan became effective upon the shareholders' approval. The 2004 Plan provides for grants of: options to purchase common stock; restricted shares of common stock (which may be subject to both issuance and forfeiture conditions), which we refer to as restricted stock; deferred shares of common stock (which may be subject to the completion of a specified period of service and other issuance conditions), which we refer to as deferred stock; stock units (entitling the grantee to cash payments based on the value of the common stock on the date the payment is called for under the stock unit grant); and stock appreciation rights (entitling the grantee to receive the appreciation in value of the underlying common stock between the date of exercise and the date of grant), which are referred to as SARs. SARs may be either freestanding or granted in tandem with an option. Options to purchase the common stock may be either incentive stock options that are intended to satisfy the requirements of Section 422 of the Code, or options that do not satisfy the requirements of Section 422 of the Code. Compensation costs for stock options and restricted stock are recognized ratably over the vesting period of the option or stock, which usually ranges from immediate to three years. All of the shares authorized under the 2004 Plan have been granted as of March 31, 2008.

On September 11, 2007, the Company adopted the 2007 Incentive Stock Plan (2007 Plan). The 2007 Plan provides for grants of: options to purchase common stock; restricted shares of common stock, deferred shares of common stock, stock units, and stock appreciation rights. Compensation costs for stock options and restricted stock are recognized ratably over the vesting period of the option or stock, which usually ranges from immediate to four years.

During the years ending March 31, 2008 and 2007 the total intrinsic value of stock options exercised was \$9,802,000 and \$1,169,000, respectively. The actual cash received upon exercise of stock options was \$2,229,000 and \$629,000, respectively. The unamortized fair value of the stock options as of March 31, 2008 was \$2,559,000, the majority of which is expected to be expensed over the next four years.

A summary of the status of the Company's non-vested options as of March 31, 2008 and changes during the twelve month period is presented below:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested options outstanding, March 31, 2007	40,300	\$ 3.48
Granted	324,750	9.13
Vested	(23,274)	3.24
Canceled	(9,000)	3.07
Nonvested options outstanding, March 31, 2008	<u>332,776</u>	<u>\$ 8.91</u>

A summary of the status of the Company's non-vested options as of March 31, 2007 and changes during the twelve month period is presented below:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested options outstanding, March 31, 2006	114,500	\$ 3.51
Granted	4,500	3.93
Vested	(53,450)	2.81
Canceled	(25,250)	4.89
Nonvested options outstanding, March 31, 2007	<u>40,300</u>	<u>\$ 3.48</u>

The total fair value of options vested during the years ended March 31, 2008 and 2007 was \$75,000 and \$138,000 respectively.

The table below summarizes activity relating to restricted stock for the twelve months ended March 31, 2008:

	Number of shares underlying restricted stock	Aggregate Intrinsic Value of Restricted Stock (in thousands) *
Outstanding as of March 31, 2007	42,000	
Granted	124,322	
Vested	(40,499)	
Forfeited	(4,500)	
Outstanding as of March 31, 2008	<u>121,323</u>	\$ 3,054
Expected to vest	<u>114,044</u>	\$ 2,870

The table below summarizes activity relating to restricted stock for the twelve months ended March 31, 2007:

	Number of shares underlying restricted stock	Aggregate Intrinsic Value of Restricted Stock (in thousands) *
Outstanding as of March 31, 2006	-	
Granted	42,000	
Vested	-	
Forfeited	-	
Outstanding as of March 31, 2007	<u>42,000</u>	\$ 488
Expected to vest	<u>39,590</u>	\$ 460

The weighted average contractual term of the restricted stock, calculated based on the service-based term of each grant, is two and three years, respectively. As of March 31, 2008 and 2007, the unamortized fair value of the restricted stock was \$1,227,000 and \$248,000, respectively. This unamortized fair value will be recognized over the next four and three years, respectively. Restricted stock is valued at the stock price on the date of grant. There was no restricted stock granted in fiscal 2006.

The following is a summary of stock option activity during the years ended March 31, 2008, 2007 and 2006:

	2008	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)*	2007	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)*	2006	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)*
Options outstanding, beginning of year	1,700,459	\$ 3.48		1,973,613	\$ 3.69		1,669,716	\$ 3.23	
Granted	324,750	13.55		4,500	5.53		673,575	4.11	
Exercised	(686,181)	3.25		(180,612)	3.48		(327,645)	1.69	
Canceled	(29,569)	7.36		(97,042)	7.73		(42,033)	8.03	
Options outstanding, end of year	<u>1,309,459</u>	\$ 6.01	\$ 25,085	<u>1,700,459</u>	\$ 3.48	\$ 13,824	<u>1,973,613</u>	\$ 3.69	\$ 9,399
Weighted Average Remaining Contractual Term (Years)	6.02			5.85			6.98		
Options exercisable at end of year	<u>976,682</u>	\$ 3.56	\$ 21,106	<u>1,660,159</u>	\$ 3.45	\$ 13,558	<u>1,859,113</u>	\$ 3.60	\$ 8,707
Options exercisable at end of year and expected to be exercisable**	<u>1,289,493</u>	\$ 5.90	\$ 24,846	<u>1,691,789</u>	\$ 3.46	\$ 13,788	***	***	***

* The aggregate intrinsic value on this table was calculated based on the positive difference between the closing market price of the Company's common stock on March 31, 2008, 2007 and 2006 (\$25.17, \$11.61 and \$6.04, respectively) and the exercise price of the underlying options.

** Options exercisable at March 31, 2008, 2007 and 2006, and expected to be exercisable include both vested options and non-vested options outstanding less our expected forfeiture rate.

*** Not calculated in prior years.

Security Issuances – Warrants Exercised

The Company issued warrants in 2004 and 2005 in connection with the sale of common stock. No additional warrants were issued in subsequent years. During the years ended March 31, 2008 and 2007, there were 514,121 and 513,801 warrants exercised leaving an outstanding balance of 288,923 and 803,044 as of March 31, 2008 and 2007, respectively. During the years we had 121,478 and 116,205, respectively, warrants exercised as cashless. No warrants were exercised in the year ended March 31, 2006. During years ended March 31, 2008 and 2007 the warrants exercised had exercise prices ranging from \$6.07 to \$7.16. As of March 31, 2008 all the outstanding warrants had an exercise price of \$6.07 and will expire in March 2010.

Securities Issuances – Private Placement:

On November 7, 2007, the Company entered into a securities purchase agreement with Magenta Magic Limited, a wholly owned indirect subsidiary of J.P. Morgan Chase & Co (JPM) in which the Company agreed to sell to JPM, (i) 538,793 shares of Common Stock at a purchase price of \$18.56 for a total amount of \$10 million, less issuance costs of \$61,000 for net proceeds to the Company of \$9,939,000, (the "JPM Shares") and (ii) convertible notes at face value for a total of \$40 million. (See Note 5 Debt to the consolidated financial statements for additional information on the convertible notes).

Securities Purchase Agreement- IFC:

On December 10, 2007, the Company entered into a Securities Purchase Agreement with IFC pursuant to which the Company agreed to issue and sell to IFC 538,793 shares (the "IFC Shares") of the Company's common stock at a price of \$18.56 per IFC Share for an aggregate price of \$10 million. The transaction was subject to shareholder approval, which was received on January 9, 2008. The proceeds from the sale of the IFC Shares would fund a portion of the Company's planned \$105 million total financing for the expansion program described above.

Shares of Common Stock Reserved

As of March 31, 2008, the Company has reserved 3,936,132 shares of common stock for issuance upon exercise of remaining private placement securities, stock options and Class B common stock convertibility.

7. 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 (loss) and other related disclosures (thousands except share and per share data):

	Years ended March 31,		
	2008	2007	2006
Basic net income (loss) per share computation:			
Numerator:			
Net income from continuing operations	\$ 3,655	\$ 2,982	\$ 167
Loss from discontinued operations	-	(247)	(3,105)
Net income (loss)	\$ 3,655	\$ 2,735	\$ (2,938)
Denominator:			
Weighted average shares outstanding- basic	11,369,607	10,286,870	9,809,357
Net (loss) income per common share - basic:			
Net income from continuing operations	\$.32	\$.29	\$.02
Loss from discontinued operations	.00	(.02)	(.32)
Net income (loss)	\$.32	\$.27	\$ (.30)
Diluted net income (loss) per share computation:			
Numerator:			
Net income from continuing operations	\$ 3,655	\$ 2,982	\$ 167
Loss from discontinued operations	-	(247)	(3,105)
Net income (loss)	\$ 3,655	\$ 2,735	\$ (2,938)
Denominator:			
Weighted average shares outstanding- basic	11,369,607	10,286,870	9,809,357
Effect of dilutive securities:			
Shares issuable upon exercise of dilutive outstanding stock options, conversion of convertible debentures, vesting of restricted stock and exercise of warrants:	1,991,836	1,355,023	719,127
Weighted average shares outstanding-diluted	13,361,443	11,641,893	10,528,484
Net (loss) income per common share - diluted:			
Net income from continuing operations	\$.27	\$.26	\$.02
Loss from discontinued operations	.00	(.02)	(.29)
Net income (loss)	\$.27	\$.24	\$ (.27)

The share and per share information has been restated after giving retroactive effect to the three-for-two stock split in the form of a stock dividend, which was announced by us on March 18, 2008 and having a record date of April 1, 2008.

The following shares are not included in the computation of diluted earnings per share because the assumed proceeds were greater than the average market price of the Company's stock during the related periods and the effect of including such options in the computation would be antidilutive:

	2008	2007	2006
Number of shares considered antidilutive for calculating diluted net income per share	390,900	42,000	92,173

8. INCOME TAXES

U.S. and international components of income (loss) from operations before income taxes were comprised of the following, for the years ended March 31 (in thousands):

	2008	2007	2006
U.S.	\$ (5,832)	\$ (875)	\$ (544)
Foreign	11,529	5,062	660
Total	\$ 5,697	\$ 4,187	\$ 116

For the years ended March 31, the (provision for) benefit from income taxes from operations consists of the following (in thousands):

	2008	2007	2006
Current:			
Federal	\$ (8)	\$ -	\$ -
State	-	-	-
Foreign	(2,581)	(1,596)	(576)
	(2,589)	(1,596)	(576)
Deferred:			
Federal	1,667	(1,301)	(53)
State	(144)	51	(10)
Foreign	(976)	1,641	690
	547	391	627
Total (provision) benefit	\$ (2,042)	\$ (1,205)	\$ 51

For the years ended March 31, the (provision) benefit for income taxes differs from the amount computed by applying the federal statutory income tax rate to the Company's income from operations before income taxes as follows:

	2008	2007	2006
Income tax expense at federal statutory rate	34.0%	34.0%	34.0%
State taxes (net of federal benefit)	(5.6)%	(1.0)%	5.6%
Foreign rate differential	(24.2)%	(5.0)%	(227.6)%
Change in valuation allowance	23.9%	(3.4)%	140.5%
Change in tax rate	1.2%	0.00%	0.00%
Other permanent differences	3.8%	4.2%	3.5%
Other	2.7%	0.00%	0.00%
	35.8%	28.8%	(44.0)%

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows, as of March 31 (in thousands):

	2008	2007
Deferred tax assets, net:		
Allowance for doubtful accounts	\$ 928	\$ 803
Sales commissions	76	187
Net operating loss carryforwards	5,222	4,235
Alternative minimum tax	47	47
Depreciation	90	82
Start-up costs	329	491
Other	758	458
	7,450	6,303
Valuation allowance	(4,583)	(3,081)
Deferred tax assets, net of valuation allowance	2,867	3,222
Deferred tax liabilities:		
Allowance for doubtful accounts	(144)	-
Convertible debt beneficial conversion feature	(949)	-
Depreciation	(152)	-
Other	(174)	(152)
Total deferred tax liabilities	(1,419)	(152)
Total net deferred taxes	\$ 1,448	\$ 3,070

The Company has U.S. federal net operating losses of approximately \$11.4 million that expire at varying dates through 2027. The Company also has foreign losses from China of approximately \$6.8 million that expire at varying dates through 2012. The US net operating loss carry forwards may be subject to an annual limitation in accordance with Internal Revenue Code Section 382. However, management does not believe that the extent of such limitation would impact the Company's ability to utilize the net operating loss carry forwards before expiration.

During fiscal 2008, stock options were exercised for the purchase of shares of common stock resulting in a tax deduction of \$2,425,000. In accordance with SFAS 123(R), the Company will not recognize a deferred tax asset with respect to the excess stock compensation deductions until those deductions actually reduce our income tax liability. As such, the Company has not recorded a deferred tax asset related to the net operating losses resulting from the exercise of these stock options in the accompanying financial statements. At such time as the Company utilizes these net operating losses to reduce income tax payable, the tax benefit will be recorded as an increase in additional paid in capital.

During fiscal 2007, there was a change in the tax law in China that will reduce the statutory tax rate from 33% to 25% effective January 1, 2008. In addition, there was a change in the tax rate in one of the enterprise zones in China in which the Company operates that increased the tax rate from 12.5% to 15%. Since the Company had net deferred tax assets, the Company recognized a tax expense of approximately \$94,000 as a result of these changes in statutory tax rates.

Management assessed the realization of its deferred tax assets throughout each of the quarters of fiscal year 2008. During the year, management placed a valuation allowance on the deferred tax assets related to certain of its Chinese operations due to net operating loss carry forwards which will expire in the near future. The total tax effect of creating these valuation allowances on Chinese operations was \$848,000 during the year. In addition, based on the lack of positive evidence in the past few years in our US entity, we placed a full valuation allowance on the U.S. net deferred tax asset. The effect of this was an additional \$554,000 of income tax expense during the year.

The Company intends to indefinitely reinvest the undistributed fiscal 2008 earnings of its foreign subsidiaries. Accordingly, the annualized effective tax rate applied to the Company's pre-tax income for the year ended March 31, 2008 did not include any provision for U.S. federal and state taxes on the projected amount of these undistributed 2008 foreign earnings. The total amount of undistributed earnings as of March 31, 2008 was approximately \$16.5 million.

The Company's tax expense reflects the impact of varying tax rates in the different jurisdictions in which it operates. It also includes changes to valuation allowances as a result of management's judgments and estimates concerning projections of domestic and foreign profitability and the extent of the utilization of net operating loss carry forwards. As a result, we have experienced significant fluctuations in our world-wide effective tax rate. Changes in the estimated level of annual pre-tax income, changes in tax laws particularly related to the utilization of net operating losses in various jurisdictions, and changes resulting from tax audits can all affect the overall effective income tax rate which, in turn, impacts the overall level of income tax expense and net income.

On April 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No.109" (FIN 48). FIN 48 clarifies the criteria for recognizing tax benefits related to uncertain tax positions under SFAS 109 and requires additional financial statement disclosure. FIN 48 requires that the Company recognize, in its consolidated financial statements, the impact of a tax position if that position is more likely than not to be sustained upon examination, based on the technical merits of the position. FIN 48 also requires explicit disclosure about the Company's uncertainties related to each income tax position, including a detailed roll-forward of tax benefits taken that do qualify for financial statement recognition. The Company and its subsidiaries files income tax returns for U.S. federal jurisdiction and various states and foreign jurisdictions. For income tax returns filed by the Company, the Company is no longer subject to U.S. federal, state and local tax examinations by tax authorities for years before 2005, although carryforward tax attributes that were generated prior to 2005 may still be adjusted upon examination by tax authorities if they either have been or will be utilized. For the foreign jurisdictions the Company is no longer subject to local examinations by the tax authorities for years prior to 2004. It is our policy to recognize interest and penalties related to income tax matters in income tax expense. As of March 31, 2008 we had no accrued interest or penalties related to uncertain tax positions. Adoption of FIN 48 had no impact on the Company's consolidated results of operations and financial position.

9. COMMITMENTS

Leases

The Company leases office space, warehouse space, and space for hospital and clinic operations under operating leases. Future minimum payments under these noncancelable operating leases consist of the following (thousands):

Year ending March 31:	
2009	\$ 3,323
2010	2,602
2011	2,096
2012	1,325
2013	1,108
Thereafter	3,856
Net minimum rental commitments	<u>\$14,310</u>

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

Rental expense was approximately \$3,261,000, \$2,799,000 and \$2,849,000 for the years ended March 31, 2008, 2007 and 2006, respectively.

10. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivables. Substantially all of the Company's cash and cash equivalents at March 31, 2008 and March 31, 2007 were held by one U.S. financial institution and two Chinese financial institutions. All of the Company's sales during the years were to end-users located in China or Hong Kong. Most of the Company's medical equipment, instrumentation or product sales are accompanied by down payments of cash and/or letters of credit. Most of the Company's healthcare services provided by United Family Hospitals and Clinics were performed in China for patients residing in China.

The Company conducts its marketing and sales and provides its services exclusively to buyers located in China, including Hong Kong. The medical services and products provided by United Family Hospitals and Clinics 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 assets at March 31, 2008 and 2007, approximately \$57,952,000 and \$48,733,000, respectively, of such assets are located in China, consisting principally of cash and cash equivalents, trade accounts receivable, inventories, leasehold improvements, equipment and other assets. Also, see Note 11.

11. SIGNIFICANT CUSTOMERS/SUPPLIERS

Substantially all China purchases of the Company's U.S. dollar sales of 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 several suppliers were each over 10% of total product cost of goods. These were Siemens (\$29,109,000) for the year ended March 31, 2008 and Siemens (\$19,978,000) and Guidant (\$4,817,000) for the year ended March 31, 2007. For the year ended March 31, 2006, these were Siemens (\$18,556,000), Guidant (\$11,110,000) and L'Oreal (\$10,365,000).

12. ACCOUNTING FOR VARIABLE INTEREST ENTITIES (VIE)

FIN 46(R)-, "Consolidation of Variable Interest Entities – An Interpretation of ARB No. 51", requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is obligated to absorb a majority of the risk of loss from the VIEs activities, is entitled to receive a majority of the VIEs residual returns (if no party absorbs a majority of the VIEs losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIEs assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest.

The Company's clinics in Shunyi (a densely expatriate-populated suburb of Shunyi County just outside of Beijing), Jianguomen (a district in downtown Beijing) and at the Shanghai Racquet Club (geographically located in a Shanghai expatriate residential district) as well as any future clinics are consolidated VIE's. These entities were founded for the express purpose of projecting United Family Healthcare general patient services closer to a large patient population for the convenience of the patients. These are primarily storefront facilities each with assets of less than \$2,086,000 consisting primarily of cash and leasehold improvements.

13. SEGMENT REPORTING

The Company operates in two businesses: Healthcare Services and Medical Products. The Company evaluates performance and allocates resources based on profit or loss from operations before income taxes, not including foreign exchange gains or losses. All segments follow the accounting policies described in Note 1. The following segment information has been provided per SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information:"

For the year ended March 31, 2008:

	Healthcare Services	Medical Products	Total
Assets	\$ 93,727,000	\$ 42,252,000	\$ 135,979,000
Sales and service revenue	\$ 65,817,000	\$ 64,241,000	\$ 130,058,000
Gross Profit	n/a *	16,562,000	n/a
Gross Profit %	n/a *	26%	n/a
Income (loss) from continuing operations before foreign exchange	\$ 10,342,000	\$ (2,607,000)	\$ 7,735,000
Foreign exchange gain			604,000
Income from continuing operations			\$ 8,339,000
Other (expense), net			(2,642,000)
Income from continuing operations before income taxes			<u>\$ 5,697,000</u>

For the year ended March 31, 2007:

	Healthcare Services	Medical Products	Total
Assets	\$ 34,129,000	\$ 28,778,000	\$ 62,907,000
Sales and service revenue	\$ 47,944,000	\$ 57,977,000	\$ 105,921,000
Gross Profit	n/a *	14,086,000	n/a
Gross Profit %	n/a *	24%	n/a
Income (loss) from continuing operations before foreign exchange	\$ 5,028,000	\$ (1,154,000)	\$ 3,874,000
Foreign exchange gain			771,000
Income from continuing operations			\$ 4,645,000
Other (expense), net			(458,000)
Income from continuing operations before income taxes			\$ 4,187,000

For the year ended March 31, 2006:

	Healthcare Services	Medical Products	Total
Assets	\$ 29,801,000	\$ 26,239,000	\$ 56,040,000
Sales and service revenue	\$ 36,500,000	\$ 54,336,000	\$ 90,836,000
Gross Profit	n/a *	13,423,000	n/a
Gross Profit %	n/a *	25%	n/a
Income (loss) from continuing operations before foreign exchange	\$ 1,585,000	\$ (1,436,000)	\$ 149,000
Foreign exchange gain			401,000
Income from continuing operations			\$ 550,000
Other (expense), net			(434,000)
Income from continuing operations before income taxes			\$ 116,000

Total consolidated assets of \$57,046,000 as of March 31, 2006 include \$1,006,000 of assets pertaining to our healthcare products retail business which was discontinued in fiscal year 2006.

* Gross profit margins not routinely calculated in the healthcare industry.

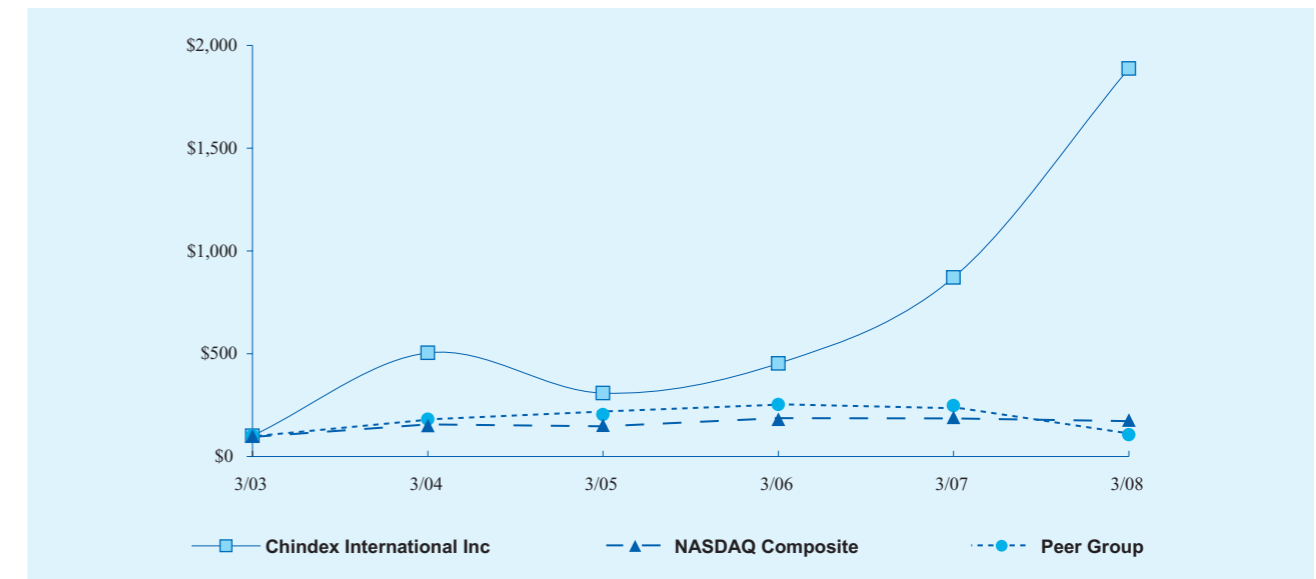
14. SUBSEQUENT EVENTS

In June of 2006, a building contractor brought a lawsuit in China against Shanghai United Family Hospital and Clinics (SHU) claiming certain amounts due in connection with the original construction of the facility. There was a lien on certain SHU cash accounts in the amount of \$880,000 (approximately RMB 6,172,000) which was classified as restricted cash on our balance sheet.

On May 19, 2008 we received the final verdict from the lawsuit. The final amounts awarded to the building contractor in connection with the original construction of the facility were RMB 22,253,000 (approximately \$3,173,000). Of this amount, we had previously paid RMB 18,616,000 (approximately \$2,654,000) and have accrued RMB 3,637,000 (approximately \$519,000). In addition, interest and penalties of RMB 2,756,000 (approximately \$394,000) were awarded to the building contractor, which is included in our operating expenses in the consolidated statements of operations. We do not plan to appeal this verdict.

CHINDEX INTERNATIONAL, INC. COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

The following table compares the cumulative return to holders of the Company's Common Stock for the five years ended March 31, 2008 with the National Association of Securities Dealers Automated Quotation System Market Index and a randomly selected peer group of companies with a market capitalization similar to that of the Company's for the same period. Due to its unique operations in China, the Company does not use a published industry or line-of-business basis for identifying a peer group, and does not believe it could reasonably identify a different peer group. The companies that comprise the selected peer group are set forth below the table. The comparison assumes \$100 was invested at the close of business on March 31, 2003 in the Company's Common Stock and in each of the comparison groups, and assumes reinvestment of dividends. The Company paid no cash dividends during the foregoing period.



Total Return to Shareholders (Includes reinvestment of dividends)

Company Name / Index	Base Period March 03	INDEXED RETURNS Years Ending				
		March 04	March 05	March 06	March 07	March 08
Chindex International, Inc.	100	504.50	309.00	453.00	871.00	1,888.00
Nasdaq Index	100	151.07	152.56	181.40	189.95	177.20
Peer Group	100	181.36	204.31	253.12	248.17	106.19

Peer Group Companies

AMERICAN VANGUARD CORPORATION
BROOKFIELD HOMES CORPORATION
CENTRAL PACIFIC FINANCIAL CORP
CHRISTOPHER & BANKS CORPORATION
CITI TRENDS, INC.
CLINICAL DATA, INC.
COMPUcredit CORPORATION

FLOW INTERNATIONAL CORPORATION
GREENFIELD ONLINE, INC.
GRUBB & ELLIS COMPANY
HORIZON LINES, INC.
KULICKE AND SOFFA INDUSTRIES, INC.
PMI GROUP, INC.
RAM ENERGY RESOURCES, INC.

Corporate Directory

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HBH Consulting

Carol R. Kaufman
Senior Vice President of Legal Affairs,
Secretary and Chief
Administrative Officer
The Cooper Companies, Inc.

Roberta Lipson
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Chindex International, Inc.

Julius Y. Oestreicher, Esq.
Partner
Oestreicher and Ennis, LLP

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

Lawrence Pemble
Executive Vice President
Chief Financial Officer and Treasurer
Chindex International, Inc.

EXECUTIVE OFFICERS

Roberta Lipson
Chief Executive Officer

Elyse Beth Silverberg
Executive Vice President and Secretary

Lawrence Pemble
Executive Vice President
Chief Financial Officer and Treasurer

SENIOR MANAGEMENT Corporate Administration

Walter Stryker, Jr.
Senior Vice President
China Administration

Cheryl Chartier
Corporate Controller

Walter Xue
Vice President Finance and Controller,
China

Daniel Fulton
Vice President,
Information Technology Services

Judith Zakreski
Vice President, U.S. Operations

Healthcare Services Division

Anne Moncure
President,
United Family Hospitals and Clinics

Ming Wong
Vice President and Chief Financial Officer,
United Family Hospitals and Clinics

Medical Products Division

Wai Ho Leung
Vice President
Medical Diagnostic and Imaging Products

Zhang Pin Qing
Vice President
Technical Service

2008 Annual Report

GENERAL INFORMATION

Form 10-K Availability:

The Company will provide to any beneficial owner of its stock, without charge, a copy of its Annual Report on SEC Form 10-K upon written request to the Corporate Offices. The Company's Annual Report filed on Form 10-K, Quarterly Reports filed on Form 10-Q and Current Reports filed on Form 8-K may be accessed online at the Company website, www.chindex.com

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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Bethesda, Maryland

Transfer Agent:

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Trust Company
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