Mindray Medical International LTD
Form F-1
September 06, 2006

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As filed with the Securities and Exchange Commission on September 6, 2006
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM F-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Mindray Medical International Limited
(Exact name of Registrant as specified in its charter)

Cayman Islands	**3841**	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

Mindray Building
Keji 12th Road South
Hi-tech Industrial Park, Nanshan
Shenzhen 518057
People s Republic of China
(86-755) 2658-2888
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

CT Corporation System
111 Eighth Avenue, 13th Floor
New York, New York 10011
(212) 894-8940
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Shanghai 200040, P.R.C.	**New York, New York, 10036**
86-21-2307-7007	**212-326-2000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered[1][2]	Proposed Maximum Aggregate Offering Price[3]	Amount of Registration Fee
Class A Ordinary Shares, par value HK$0.001 per share	US$276,000,000	US$29,532

(1) American depositary shares evidenced by American depositary receipts issuable upon deposit of the Class A ordinary shares registered hereby have been registered pursuant to a separate registration statement on Form F-6 filed with the Commission on , 2006 (Registration Statement No. 333-). Each American depositary share represents one Class A ordinary share.

(2) Includes (a) all Class A ordinary shares represented by American depositary shares initially offered and sold outside the United States that may be resold from time to time in the United States either as part of the distribution or within 40 days after the later of the effective date of this registration statement and the date the securities are first bona fide offered to the public, and (b) Class A ordinary shares represented by American depositary shares that are issuable upon the exercise of the underwriters option to purchase additional shares. The Class A ordinary shares are not being registered for the purpose of sales outside the United States.

(3) Estimated solely for the purposes of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated , 2006

Mindray Medical International Limited

American Depositary Shares

Representing

Class A Ordinary Shares

Mindray Medical International Limited, or Mindray, is offering American depositary shares, or ADSs, and the selling shareholders identified in this prospectus are offering an additional ADSs. Each ADS represents one Class A ordinary share, par value HK$0.001 per share of Mindray. The ADSs are evidenced by American depositary receipts, or ADRs. We will not receive any proceeds from the ADSs sold by the selling shareholders.

Prior to this offering, there has been no public market for our ADSs or our Class A ordinary shares. It is currently estimated that the initial public offering price per ADS will be between US$ and US$. We have received approval to listed our ADSs listed on the New York Stock Exchange under the symbol MR subject to official notice of issuance.

See Risk Factors beginning on page 9 to read about risks you should consider before buying our ADSs.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per ADS	**Total**
Public offering price	US$	US$
Underwriting discount	US$	US$
Proceeds, before expenses, to Mindray	US$	US$
Proceeds, before expenses, to the selling shareholders	US$	US$

To the extent that the underwriters sell more than ADSs, the underwriters have an option to purchase up to an additional ADSs from us and up to an additional ADS from the selling shareholders at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the ADSs evidenced by the ADRs against payment in US dollars in New York, New York on , 2006.

Prospectus dated , 2006.

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements included elsewhere in this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, especially the risks of investing in our American depositary shares, or ADSs, discussed under Risk Factors, before deciding whether to buy our ADSs.

Our Business

We are a leading developer, manufacturer and marketer of medical devices in China. We also have a significant and growing presence outside of China, primarily in other regions of Asia and in Europe. We offer a broad range of more than 40 products across our three primary business segments: patient monitoring devices, diagnostic laboratory instruments and ultrasound imaging systems. According to Frost & Sullivan, we had the leading market share in China by units sold, and the second leading market share by revenue, for the sale of patient monitoring devices in 2003, and we believe that we continue to be a market leader in China today. In addition, we believe we hold a leading market share position in China in diagnostic laboratory instruments and grayscale ultrasound imaging systems. Due to our leading market position, we believe we have one of the most recognized brands in the medical device industry in China.

We sell our products primarily to distributors, and the balance directly to hospitals, clinics, government agencies, original design manufacturers, or ODMs, and original equipment manufacturers, or OEMs. With over 1,950 distributors and 500 direct sales and sales support personnel, we believe our nationwide distribution, sales and service network is the largest of any medical device manufacturer in China. This extensive platform allows us to be closer than our competitors to end-users and enables us to be more responsive to local market demand. In addition, we sell our products internationally through more than 660 distributors and 75 sales and sales support personnel. This established and expanding international sales and distribution network provides us with a platform from which to build and expand our market position globally. To date, we have sold our products to approximately 25,000 hospitals, clinics and other healthcare facilities in China and sold over 170,000 devices worldwide.

We employ a vertically integrated operating model that enables us to efficiently develop, manufacture and market quality products at competitive prices. Our research and development team and our manufacturing department work closely together to optimize manufacturing processes and develop commercially viable products. In addition, they incorporate regular feedback from our sales and marketing personnel, enabling us to timely and cost-effectively introduce products tailored to end-user needs. Furthermore, our China-based research and development and manufacturing operations provide us with a distinct competitive advantage in international markets by enabling us to leverage low-cost technical expertise, labor, raw materials and facilities.

To enhance our leading market position, we have made and will continue to make significant investments in research and development. We increased our annual investment in research and development activities from 8.6% of net revenues in 2003 to 9.8% of net revenues in 2005 and to 9.9% in the six months ended June 30, 2006, establishing what we believe is the largest research and development team of any medical device manufacturer in China, with more than 570 engineers on our staff. We believe our current spending level, as a percentage of net revenues, is comparable to many of our international competitors and greater than most of our domestic competitors. We continually seek to broaden our market reach by introducing new and more advanced products and new product lines that address different end-user segments. Since 2003, we have introduced more than 25 new products.

Our net revenues increased from RMB460.3 million in 2003 to RMB1,078.6 million (US$134.9 million) in 2005, representing a compounded annual growth rate of 53.1%. Our net revenues grew from RMB436.8 million in the six months ended June 30, 2005 to RMB676.8 million (US$84.7 million) for the same period in 2006, a 54.9% increase. In the six months ended June 30, 2006, our three primary business segments, patient monitoring devices, diagnostic laboratory instruments and ultrasound imaging systems, accounted for 40.5%, 28.4% and 29.9% of our net segment revenues, respectively. Over the past three years, we have significantly expanded our geographic scope and increased the percentage of our revenues generated

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by international sales. Our products are currently sold in more than 120 countries, and international sales grew from 24.7% of our total net revenues in 2003, to 41.9% of our total net revenues in 2005 and to 43.7% of our total net revenue in the six months ended June 30, 2006.

Our Industry

According to Frost & Sullivan, China s market for medical devices had an estimated value of US$7.5 billion in 2004, representing approximately 5% of the US$148 billion global medical device market. China s medical device market, as well as the medical device markets in several developing countries, is projected to grow faster than the global medical device market. According to Frost & Sullivan, China s medical device market is projected to grow from US$7.5 billion in 2004 to US$10.1 billion in 2006. Reasons for this faster growth in China include:

- fast growing economy;
- increasing percentage of gross domestic product, or GDP, expected to be spent on healthcare;
- increasing desire for and utilization of more advanced technologies in Chinese hospitals and clinics;
- increasing availability of healthcare insurance;
- higher degree of operating autonomy at hospitals and clinics; and
- growing desire for better quality of care.

Hospitals and clinics in China purchase almost all of their medical devices and supplies through distributors. These distributors tend to operate in small territories in China, and many focus only on eastern coastal cities. As a result, medical device manufacturers need to develop relationships with several distributors in different regions to be able to reach a broad end-user base. We believe the ability to leverage local contacts and knowledge is vital in establishing an effective distribution network, constituting a significant barrier to entry for both smaller local companies and larger, international competitors that lack a meaningful local presence in China.

Our Products

We believe that we are well positioned to benefit from the growing medical device market in China, as well as from the growing markets in other developing countries. Historically, the primary end-users of a majority of our products have been small- and medium-sized hospitals in China, although a significant portion of our patient monitoring devices have also been sold to large-sized hospitals in China. As these small- and medium-sized hospitals look to offer a higher level of care, we believe our products, which are typically of higher quality than those of most domestic manufacturers, and of comparable quality but lower cost than those of many of our international competitors, will be attractive alternatives.

Our leading product in 2005 was our portable PM-9000 multi-parameter patient monitoring device. We offer more than 15 patient monitoring devices, including four which have received 510(K) clearance from the United States Food and Drug Administration, or FDA. In our diagnostic laboratory instruments business segment, we offer a range of more than ten hematology and biochemistry analyzers that perform analysis on blood, urine and other bodily fluid samples for clinical diagnosis and treatment. We generate a recurring revenue stream by offering single-use reagents, which are substances used to create chemical reactions that are analyzed by our instruments. In our ultrasound imaging systems business segment, we offer more than ten ultrasound imaging systems and we will introduce our first color Doppler ultrasound imaging system in the second half of 2006 for use in several clinical areas, such as urology, gynecology, obstetrics and cardiology.

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Our Strengths, Strategies and Risks

We believe we have the following principal competitive strengths:

strong brand and leading market position in China s medical device market;

extensive distribution, sales and service network for medical devices in China;

established and expanding international distribution and sales network;

proven research and development capabilities; and

efficient vertically integrated operating model.

Our objective is to strengthen our position as a leader in developing, manufacturing and marketing medical devices in China and to become a leader in selected international markets. We intend to achieve our objective by implementing the following strategies:

increasing our market share in China s medical device market;

enhancing our market position and brand recognition in existing and new international markets;

broadening our market reach by introducing more advanced products and new product lines; and

maintaining our disciplined cost focus.

We expect to face risks and uncertainties related to our ability to:

develop and commercialize new products;

establish and maintain our relationships with our distributors;

attract and retain key management and research and development personnel;

build our brand and expand our sales in international markets; and

protect our intellectual property rights.

See Risk Factors for a detailed discussion of these and other risks that we face.

Our Offices

Our principal executive offices are located at Mindray Building, Keji 12th Road South, Hi-tech Industrial Park, Nanshan, Shenzhen, 518057, People s Republic of China, and our telephone number is (86-755) 2658-2888. Our website address is http://www.mindray.com. The information on our website does not form a part of this prospectus.

Conventions That Apply to This Prospectus

Unless we indicate otherwise, all information in this prospectus assumes no exercise by the underwriters of their option to purchase up to additional ADSs representing Class A ordinary shares.

Except where the context otherwise requires and for purposes of this prospectus only:

we, us, our company, our, Mindray International and Mindray refer to Mindray Medical International Li and its consolidated subsidiaries, including Shenzhen Mindray Bio-Medical Electronics Co., Ltd., or Shenzhen Mindray, and Shenzhen Mindray s predecessor entities;

China or PRC refers to the People s Republic of China, excluding, for purposes of this prospectus only, Taiwan and the Special Administrative Regions of Hong Kong and Macau;

all references to Renminbi or RMB are to the legal currency of China, all references to US dollars, dollars, $ US$ are to the legal currency of the United States, and all

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references to HK$ are to the legal currency of the Hong Kong Special Administrative Region of China;

ordinary shares refers to our Class A and Class B ordinary shares, par value HK$0.001 per share;

ADSs refers to our American depositary shares, each of which represents one Class A ordinary share;

ADRs refers to American depositary receipts, which, if issued, evidence our ADSs;

PRC GAAP refers to accounting principles and the relevant financial regulations applicable to PRC enterprises; and

US GAAP refers to generally accepted accounting principles in the United States.

Unless specifically indicated otherwise or unless the context otherwise requires, all references to our ordinary shares have been adjusted to give effect to the automatic conversion of all outstanding convertible redeemable preferred shares to Class A ordinary shares upon the completion of this offering.

This prospectus also gives effect to the re-classification of all of our ordinary shares into Class A (one vote per share) and Class B ordinary shares (five votes per share). All Class B ordinary shares will be held by Messrs Xu, Li and Cheng each of whom is a Mindray executive officer.

This prospectus contains translations of Renminbi amounts into US dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from Renminbi to US dollars were made at the noon buying rates in The City of New York for cable transfers in Renminbi per US dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, as of and for the year ended December 31, 2005 and six months ended June 30, 2006 into United States dollar has been made at the rate of RMB7.9943 to US$1.00 at June 30, 2006. We make no representation that the Renminbi or US dollar amounts referred to in this prospectus could have been or could be converted into US dollars or Renminbi, as the case may be, at any particular rate or at all. On September 5, 2006, the noon buying rate was RMB7.9495 to US$1.00.

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THE OFFERING

The following assumes that the underwriters will not exercise their option to purchase additional ADSs in the offering, unless otherwise indicated.

ADSs offered by Mindray	ADSs
ADSs offered by the selling shareholders	ADSs
Price per ADS	-US$ per ADS
ADSs outstanding immediately after this offering	ADSs
Class A ordinary shares outstanding immediately after this offering	shares, excluding 6,824,000 Class A ordinary shares issuable upon the exercise of outstanding options and 15,000,000 Class A ordinary shares reserved for issuance under our employee share incentive plan.
Class B ordinary shares outstanding immediately after this offering	shares
The ADSs	Each ADS represents one Class A ordinary share, par value HK$0.001 per share. The ADSs will be evidenced by a global ADR. The depositary will be the holder of the Class A ordinary shares underlying your ADSs and you will have rights as provided in the deposit agreement. If we declare dividends on our ordinary shares, the depositary will pay you the cash dividends and other distributions it receives on our Class A ordinary shares, after deducting its fees and expenses. You may turn in your ADSs to the depositary in exchange for Class A ordinary shares underlying your ADSs. The depositary will charge you fees for exchanges. We may amend or terminate the deposit agreement without your consent, and if you continue to hold your ADSs, you agree to be bound by the deposit agreement as amended. You should carefully read the section in this prospectus entitled Description of American Depositary Shares to better understand the terms of the ADSs. You should also read the deposit agreement, which is an exhibit to the registration statement that includes this prospectus.
Proposed New York Stock Exchange trading symbol	MR. We have received approval to list our ADSs on the New York Stock Exchange, subject to official notice of issuance.
Ordinary Shares	Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Each Class A ordinary share shall be entitled to one vote on all matters subject to shareholder vote, and each Class B

ordinary share shall be entitled to five votes on all matters subject to shareholder vote.

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	Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Class B ordinary shares shall be automatically and immediately converted into an equal number of Class A ordinary shares upon any transfer to any person or entity which is not an affiliate of the transferor. In addition, if the number of Class B ordinary shares issued and outstanding is less than 20% of the total number of our issued and outstanding ordinary shares, each issued and outstanding Class B ordinary share shall automatically convert into one Class A ordinary share, and we will not issue any Class B ordinary shares thereafter.
Depositary	The Bank of New York
Option to purchase additional ADSs	We and the selling shareholders have granted to the underwriters an option, exercisable within 30 days from the date of this prospectus, to purchase up to an additional ADSs.
Timing and settlement for ADSs	The ADSs are expected to be delivered against payment on , 2006. The global ADR evidencing the ADSs will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company, or DTC, in New York, New York. In general, beneficial interests in the ADSs will be shown on, and transfers of these beneficial interests will be effected only through, records maintained by DTC and its direct and indirect participants.
Use of proceeds	We expect net proceeds from this offering of approximately US$ million (after deducting underwriting discounts, commissions and the estimated offering expenses payable by us and assuming an initial public offering price of US$, the mid-point of the estimated initial public offering price range shown on the front cover of this prospectus). We anticipate using approximately US$75 million for construction of a new headquarters building and expansion of our manufacturing, assembly and warehouse facilities including the potential relocation into a new facility in Shenzhen, China and the balance to fund working capital and for other general corporate purposes. See Use of Proceeds. We will not receive any of the proceeds from the sale of ADSs by the selling shareholders.
Risk factors	See Risk Factors and other information included in this prospectus for a discussion of risks you should carefully consider before deciding to invest in our ADSs.
Lock-up	We have agreed for a period of 180 days after the date of this prospectus not to sell, transfer or otherwise dispose of any of our ordinary shares or ADSs representing our Class A ordinary shares. Furthermore, each of our directors and executive officers and substantially all of our shareholders, including each of the selling shareholders, have agreed to a similar 180 day lock-up. See Underwriting.

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SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following summary consolidated financial information for the periods and as of the dates indicated should be read in conjunction with our financial statements and the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes, both of which are located elsewhere in this prospectus.

The summary consolidated financial data presented below for the three years ended December 31, 2003, 2004 and 2005 are derived from our audited consolidated financial statements included elsewhere in this prospectus. Our audited consolidated financial statements are prepared in accordance with US GAAP, and have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm. The report of Deloitte Touche Tohmatsu CPA Ltd. on those consolidated financial statements is included elsewhere in this prospectus.

The summary consolidated financial data as of June 30, 2006 and for the six months ended June 30, 2005 and 2006 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Results for the six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the full year. In our opinion, all adjustments necessary for a fair presentation of the financial data for the six months ended June 30, 2006 are contained in the financial statements that are included elsewhere in this prospectus.

Our historical results for any prior period are not necessarily indicative of results to be expected for any future period.

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2003	2004	2005	2005	2005	2006	2006
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(In thousands, except share and per share data)						
Statement of Operations Data:							
Net revenues	460,254	697,837	1,078,573	134,918	436,776	676,764	84,656
Cost of revenues[(1)]	(210,565)	(319,013)	(493,326)	(61,710)	(194,892)	(307,330)	(38,444)
Gross profit	249,689	378,824	585,247	73,208	241,884	369,434	46,212
Operating expenses:							
Selling expenses[(1)]	(61,322)	(92,177)	(146,499)	(18,325)	(69,427)	(99,975)	(12,506)
General and administrative expenses[(1)]	(35,808)	(32,340)	(112,082)	(14,020)	(37,750)	(24,865)	(3,110)
Research and development expenses[(1)]	(39,781)	(61,604)	(106,147)	(13,278)	(48,146)	(66,678)	(8,341)
Operating income	112,778	192,703	220,519	27,585	86,561	177,916	22,255
Other income, net	1,918	39	9,210	1,152	707	239	30
Interest income	531	3,087	3,854	482	611	6,543	819
Interest expense	(2,815)	(3,324)	(2,019)	(253)	(1,201)	(279)	(35)

Income before income taxes and minority interests	112,412	192,505	231,564	28,966	86,678	184,419	23,069
Provision for income taxes	(7,624)	(10,758)	(18,066)	(2,260)	(6,449)	(13,191)	(1,650)
Minority interests			(8,409)	(1,052)		(6,455)	(808)
Net income	104,788	181,747	205,089	25,654	80,229	164,773	20,611
Deemed dividend on issuance of convertible redeemable preferred shares at a discount			(14,031)	(1,755)			
Income attributable to ordinary shareholders	104,788	181,747	205,089	23,899	80,229	164,773	20,611
Basic earnings per share	RMB1.22	RMB2.11	RMB2.31	US$0.29	RMB0.93	RMB2.10	US$0.26
Diluted earnings per share	RMB1.22	RMB2.11	RMB2.31	US$0.29	RMB0.93	RMB1.86	US$0.23
Shares used in computation of:							
Basic earnings per share	86,000,000	86,000,000	82,790,427	82,790,427	86,000,000	78,490,233	78,490,233
Diluted earning per share	86,000,000	86,000,000	82,790,427	82,790,427	86,000,000	88,467,984	88,467,984

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	As of June 30, 2006					
	Actual	Actual	Pro Forma[2]	Pro Forma[2]	As Adjusted[3]	As Adjusted[3]
	RMB	US$	RMB	US$	RMB	US$
	(In thousands)					
Balance Sheet Data:						
Cash and cash equivalents	212,875	26,628				
Working capital[4]	204,554	25,587				
Total assets	1,021,911	127,830				
Total liabilities	262,795	32,873				
Minority interests	10	1				
Mezzanine equity	289,867	36,259				
Total shareholders equity	469,239	58,697				

(1) Share-based compensation charges incurred during the period related to:

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2003	2004	2005	2005	2005	2006	2006
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(In thousands, except share and per share data)						
Cost of revenues			268	34	268	236	30
Selling expenses			8,576	1,073	8,576	3,337	417
General and administrative expenses			59,014	7,382	14,420	4,483	561
Research and development expenses			3,071	384	3,071	2,130	266

(2) Reflects the automatic conversion of all 8,975,105 of our outstanding convertible redeemable preferred shares into 8,975,105 Class A ordinary shares upon completion of this offering.

(3) Reflects the conversion of all of our outstanding convertible redeemable preferred shares and the issuance and sale of ADSs we are offering at an assumed initial public offering price of US$ per ADS, the mid-point of the estimated public offering price shown on the front cover of this prospectus, after deducting underwriting discounts, commissions, and estimated offering expenses payable by us.

(4) Working capital is equal to current assets less current liabilities.

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RISK FACTORS

You should consider carefully all of the information in this prospectus, including the risks and uncertainties described below, before investing in our ADSs. Any of the following risks and uncertainties could have a material adverse effect on our business, financial condition, results of operations and prospects. The market price of our ADSs could decline due to any of these risks and uncertainties, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We may fail to effectively develop and commercialize new products, which would materially and adversely affect our business, financial condition, results of operations and prospects.

The medical device market is developing rapidly and related technology trends are constantly evolving. This results in frequent introduction of new products, short product life cycles and significant price competition. Consequently, our future success depends on our ability to anticipate technology development trends and identify, develop and commercialize in a timely and cost-effective manner new and advanced products that our customers demand. New products contribute significantly to our revenues. Products introduced since 2003 accounted for more than 35% of our 2005 total net revenues. We expect the medical device market to continue to evolve toward newer and more advanced products, many of which we do not currently produce. For example, the market for five-part hematology analyzers has been growing faster than the market for three-part hematology analyzers for several years, yet we do not expect to offer a five-part hematology analyzer until the fourth quarter of this year. Moreover, it may take an extended period of time for our new products to gain market acceptance, if at all. Furthermore, as the life cycle for a product matures, the average selling price generally decreases. Although we have previously offset the effect of declining average sales prices through increased sales volumes and reductions in manufacturing costs, we may be unable to do so in the future. Lastly, during a product s life cycle, problems may arise regarding regulatory, intellectual property, product liability or other issues which may affect its continued commercial viability.

Whether we are successful in developing and commercializing new products is determined by our ability to:

accurately assess technology trends and customer needs and meet market demands;

optimize our manufacturing and procurement processes to predict and control costs;

manufacture and deliver products in a timely manner;

increase customer awareness and acceptance of our products;

minimize the time and costs required to obtain required regulatory clearances or approvals;

anticipate and compete effectively with other medical device developers, manufacturers and marketers;

price our products competitively; and

effectively integrate customer feedback into our research and development planning.

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We depend on distributors for a significant majority of our revenues and will rely on adding distributors both in China and internationally for most of our revenue growth. Failure to maintain relationships with our distributors or to otherwise expand our distribution network would materially and adversely affect our business.

We depend on distributors for a significant majority of our revenues and will rely on adding distributors both in China and internationally for most of our revenue growth. We do not have long-term distribution agreements. As our existing distribution agreements expire, we may be unable to renew with our desired distributors on favorable terms or at all. In addition, we seek to limit our dependence on any single distributor by limiting and periodically redefining the scope of each distributor s territory and the range of our products that it sells, which may make us less attractive to some distributors. Furthermore, competition for distributors is intense. We compete for distributors domestically and internationally with other leading medical equipment and device companies that may have higher visibility, greater name recognition and financial resources, and a broader product selection than we do. Our competitors also often enter into long-term distribution agreements that effectively prevent their distributors from selling our products. Consequently, maintaining relationships with existing distributors and replacing distributors may be difficult and time consuming. Any disruption of our distribution network, including our failure to renew our existing distribution agreements with our desired distributors, could negatively affect our ability to effectively sell our products and would materially and adversely affect our business, financial condition and results of operations.

We may not be able to effectively manage our distribution network, and our business, prospects and brand may be materially and adversely affected by actions taken by our distributors.

We have limited ability to manage the activities of our distributors, who are independent from us. Our distributors could take one or more of the following actions, any of which could have a material adverse effect on our business, prospects and brand:

sell products that compete with our products that they have contracted to sell for us;

sell our products outside their designated territory, possibly in violation of the exclusive distribution rights of other distributors;

fail to adequately promote our products;

fail to provide proper training, repair and service to our end-users; or

violate the anti-corruption laws of China, the United States or other countries.

Failure to adequately manage our distribution network, or non-compliance by distributors with our distribution agreements could harm our corporate image among end users of our products and disrupt our sales, resulting in a failure to meet our sales goals. Furthermore, we could be liable for actions taken by our distributors, including any violations of applicable law in connection with the marketing or sale of our products, including China s anti-corruption laws and the US Foreign Corrupt Practices Act, or FCPA. In particular, we may be held liable for actions taken by our distributors even though almost all of our distributors are foreign companies that are not subject to the FCPA. Recently, PRC government has increased its anti-bribery efforts in the healthcare sector to reduce improper payments received by hospital administrators and doctors in connection with the purchase of pharmaceutical products and medial devices. Our distributors may violate these laws or otherwise engage in illegal practices with respect to their sales or marking of our products. If our distributors violate these laws, we could be required to pay damages or fines, which could materially and adversely affect our financial condition and results of operations. In addition, our brand and reputation, our sales activities or the price of our ADSs could be adversely affected if our company becomes the target of any negative publicity as a result of actions taken by our distributors.

The approval of China Securities Regulatory Commission, or the CSRC, may be required in connection with this offering under a recently adopted PRC regulation; any requirement to obtain prior CSRC approval could delay this offering and a failure to obtain this approval, if required, could have a

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material adverse effect on our business, operating results, reputation and trading price of our ADSs, and may also create uncertainties for this offering.

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated a regulation that will become effective on September 8, 2006, or the New M&A Rule. This regulation has some provisions that purport to require offshore special purpose vehicles, or SPVs, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, such as our company, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. The New M&A Rule specifically requires that an SPV, when using its offshore company shares to acquire shares of domestic companies (i.e., a share swap), obtain the approval of the CSRC. However, the New M&A Rule is unclear as to whether an SPV using its cash to acquire the domestic companies needs to obtain approval from the CSRC and is silent on if and how the New M&A Rule is applicable to overseas listings such as ours which is already in process prior to the September 8, 2006 effective date. The application of this New M&A Rule is not yet clear, and the new PRC regulation does not contain any specific requirements regarding the timing and process for obtaining any required approvals from the CSRC. Our PRC counsel, King & Wood, have advised us that based on their understanding of current PRC laws, regulations and the new regulation, listing and trading of our ADSs do not require approval of the CSRC because we have completed our restructuring through which we acquired the shares of our subsidiary, Shenzhen Mindray in exchange for cash (and not by share exchange) and have received all the relevant approvals for such restructuring prior to the promulgation of the New M&A Rule, unless (i) other laws, regulations, rules or formal clarifications and guidance are adopted before the closing of this offering or (ii) the CSRC clearly requires in any form on or after the September 8, 2006 effective date of the new regulation the listing of all SPVs on an overseas stock exchange require the approval of the CSRC. King & Wood advised us that although the possibility that the CSRC may have different opinion is very small, they can not completely rule out this possibility.

If the CSRC subsequently determines its prior approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from this offering into the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. The CSRC or other PRC regulatory agencies also may take actions requiring us, or making it advisable for us, to halt this offering before settlement and delivery of the ADSs offered hereby. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur.

Although the CSRC is expected to promulgate formal implementing rules and possibly other guidance, the procedures, criteria and timing for obtaining any required CSRC consent have not been established and we cannot predict at this time when this may happen. If implementing rules or formal clarifications and guidance is issued prior to the completion of this offering and consequently we conclude we are required to obtain CSRC approval, this offering will be delayed until we obtain CSRC approval, which may take several months or longer. Furthermore, any delay in the issuance of such implementing rules or guidance may create additional uncertainties with respect to this offering. Moreover, implementing rules or guidance, to the extent issued, may fail to resolve current ambiguities under the new PRC regulation. Uncertainties regarding the New M&A Rule could have a material adverse effect on the trading price of our ADSs.

International expansion may be costly, time consuming and difficult. If we do not successfully expand internationally, our profitability and prospects would be materially and adversely affected.

Our future success is significantly dependent upon our ability to expand in our existing international markets and enter into new international markets. In expanding our business internationally, we have entered and intend to continue to enter markets in which we have limited or no experience and in which our brand may be less recognized. To further promote our brand and generate demand for our products so as to attract distributors in international markets, we expect to spend significantly more on marketing and promotion than we do in our existing markets. We may be unable to attract a sufficient number of distributors, and our selected distributors may not be suitable for selling our products. Furthermore, in new markets we may fail to

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anticipate competitive conditions that are different from those in our existing markets. These competitive conditions may make it difficult or impossible for us to effectively operate in these markets. If our expansion efforts in existing and new markets are unsuccessful, our profitability and prospects would be materially and adversely affected.

We are exposed to other risks associated with international operations, including:

- political instability;
- economic instability and recessions;
- changes in tariffs;
- difficulties of administering foreign operations generally;
- limited protection for intellectual property rights;
- obligations to comply with a wide variety of foreign laws and other regulatory requirements;
- increased risk of exposure to terrorist activities;
- financial condition, expertise and performance of our international distributors;
- export license requirements;
- unauthorized re-export of our products;
- potentially adverse tax consequences; and
- inability to effectively enforce contractual or legal rights.

If we fail to accurately project demand for our products, we may encounter problems of inadequate supply or oversupply, especially with respect to our international markets, which would materially and adversely affect our financial condition and results of operations, as well as damage our reputation and brand.

Our distributors typically order our products on a purchase order basis. We project demand for our products based on rolling projections from our distributors, our understanding of anticipated hospital procurement spending, and distributor inventory levels. Lack of significant order backlog and the varying sales and purchasing cycles of our distributors and other customers, however, make it difficult for us to forecast future demand accurately.

Our projections of market demand for our products in international markets are less reliable than our domestic projections because we have less information available on which to base our projections. Specifically, we do not have consistently reliable information regarding international distributor inventory levels, and we often lack extensive knowledge of the local market conditions or about the purchasing patterns, preferences, or cycles of international distributors. Furthermore, because shipping finished products to international distributors typically takes more time than shipping to domestic distributors, inaccurate projections of international demand could result more quickly in unmet demand.

If we overestimate demand, we may purchase more raw materials or components than required. If we underestimate demand, our third party suppliers may have inadequate raw material or product component inventories, which could interrupt our manufacturing and delay shipments, and could result in lost sales. In particular, we are seeking to reduce our procurement and inventory costs by matching our inventories closely with our projected manufacturing needs and by, from time to time, deferring our purchase of raw materials and components in anticipation of supplier price reductions. As we seek to balance reduced inventory costs and production flexibility, we may fail to accurately forecast demand and coordinate our procurement and production to meet demand on a timely

basis. For example, we did not foresee a surge in direct sales orders from hospitals in China during the fourth quarter in 2005. Our underestimation of demand, coupled with our decision to defer our purchase of new raw materials and components in anticipation of a reduction in pricing for certain raw materials and components at the beginning of a new calendar year, resulted in up to three-

week delays in our product deliveries internationally. Our inability to accurately predict our demand and to timely meet our demand could materially and adversely affect our financial conditions and results of operations as well as damage our reputation and corporate brand.

We depend on our key personnel, and our business and growth may be severely disrupted if we lose their services.

Our future success is significantly dependent upon the continued service of our key executives and other key employees. In particular, we are highly dependent on our co-chief executive officers, Mr. Xu Hang and Mr. Li Xiting, and our executive vice president of sales and marketing, Mr. Cheng Minghe, to manage our business and operations, and on our key research and development personnel for the development of new products. We have entered into employment agreements with each of our key executives and other key employees for three-year terms. However, if we lose the services of any senior management or key research and development personnel, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could severely disrupt our business and growth. Furthermore, as we expect to continue to expand our operations and develop new products, we will need to continue attracting and retaining experienced management and key research and development personnel.

Competition for personnel in the medical technology field is intense, and the availability of suitable and qualified candidates in China, particularly Shenzhen, is limited. We compete to attract and retain qualified research and development personnel with other medical device companies, universities and research institutions. Competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which could materially and adversely affect our financial condition and results of operations. We may be unable to attract or retain the personnel required to achieve our business objectives and failure to do so could severely disrupt our business and growth.

Our business is subject to intense competition, which may reduce demand for our products and materially and adversely affect our business, financial condition, results of operations and prospects.

The medical device market is highly competitive, and we expect competition to intensify in the future. We face direct competition both domestically and internationally across all product lines and price points. Our competitors also vary significantly according to business segment. For domestic sales, our competitors include publicly traded and privately held multinational companies, as well as domestic Chinese companies. For international sales, our competitors are primarily publicly traded and privately held multinational companies. We also face competition in international sales from companies that have local operations in the markets in which we sell our products. Some of our larger competitors may have:

greater financial and other resources;

larger variety of products;

more products that have received regulatory approvals;

greater pricing flexibility;

more extensive research and development and technical capabilities;

patent portfolios that may present an obstacle to our conduct of business;

greater knowledge of local market conditions where we seek to increase our international sales;

stronger brand recognition; and

larger sales and distribution networks.

As a result, we may be unable to offer products similar to, or more desirable than, those offered by our competitors, market our products as effectively as our competitors or otherwise respond successfully to competitive pressures. In addition, our competitors may be able to offer discounts on competing products as part of a bundle of non-competing products, systems and services that they sell to our customers, and we

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may not be able to profitably match those discounts. Furthermore, our competitors may develop technologies and products that are more effective than those we currently offer or that render our products obsolete or uncompetitive. In addition, the timing of the introduction of competing products into the market could affect the market acceptance and market share of our products. Our failure to compete successfully could materially and adversely affect our business, financial condition, results of operation and prospects.

Moreover, some of our internationally-based competitors have established or are in the process of establishing production and research and development facilities in China, while others have entered into cooperative business arrangements with Chinese manufacturers. If we are unable to develop competitive products, obtain regulatory approval or clearance and supply sufficient quantities to the market as quickly and effectively as our competitors, market acceptance of our products may be limited, which could result in decreased sales. In addition, we may not be able to maintain our manufacturing cost advantage.

In addition, we believe that corrupt practices in the medical device industry in China still occur. To increase sales, certain manufacturers or distributors of medical devices may pay kickbacks or provide other benefits to hospital personnel who make procurement decisions. Our company policy prohibits these practices by our direct sales personnel and our distribution agreements require our distributors to comply with applicable law. As a result, as competition intensifies in the medical device industry in China, we may lose sales, customers or contracts to competitors.

We rely on one principal manufacturing, assembly and storage facility for our products and intend to expand or move into a new facility within the next two years. Any disruption to our current manufacturing facility or in the build out of the new or expanded capacity could reduce our sales and harm our reputation.

We manufacture, assemble and store almost all of our products, as well as conduct some of our primary research and development activities, at a principal facility located in Shenzhen, China. We do not maintain back-up facilities, so we depend on this facility for the continued operation of our business. A natural disaster or other unanticipated catastrophic events, including power interruptions, water shortage, storms, fires, earthquakes, terrorist attacks and wars, could significantly impair our ability to manufacture our products and operate our business, as well as delay our research and development activities. Our facility and certain equipment located in this facility would be difficult to replace and could require substantial replacement lead-time. Catastrophic events may also destroy any inventory located in our facility. The occurrence of such an event could materially and adversely affect our business.

We intend to construct a new headquarters building and expand our manufacturing, assembly and warehouse facilities, including the potential relocation into a facility, and we will move our primary management and administration functions into the new headquarters facility. Our new construction projects or expanded facilities will require significant build-out before we will be able to relocate. We may experience difficulties that disrupt our management and administration or manufacturing activities as we migrate to our new headquarters building and expanded manufacturing facility, which could harm our business, financial condition and results of operations.

If we are unable to obtain adequate supplies of required materials and components that meet our production standards at acceptable costs or at all, our ability to accept and fulfill product orders with the required quality and at the required time could be restricted, which could materially and adversely affect our business, financial condition and results of operations.

We purchase raw materials and components from third party suppliers and manufacture and assemble our products at our facility. Our purchases are generally made on a purchase order basis and we do not have long-term supply contracts. As a result, our suppliers may cease to provide components to us with little or no advance notice. In addition, to optimize our cost structure, we currently rely on single source suppliers to provide some of our raw materials and components for products in all three of our business segments. If the supply of certain materials or components were interrupted, our own manufacturing and assembly processes would be delayed. We also may be unable to secure alternative supply sources in a timely and cost-effective

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manner. If we are unable to obtain adequate supplies of required materials and components that meet our production standards at acceptable costs or at all, our ability to accept and fulfill product orders with the required quality, and at the required time could be restricted. This could harm our reputation, reduce our sales or gross margins, and cause us to lose market share, each of which could materially and adversely affect our business, financial condition and results of operations.

Failure to manage our growth could strain our management, operational and other resources, which could materially and adversely affect our business and prospects.

Our growth strategy includes building our brand, increasing market penetration of our existing products, developing new products, increasing our targeting of large-sized hospitals in China, and increasing our exports. Pursuing these strategies has resulted in, and will continue to result in substantial demands on management resources. In particular, the management of our growth will require, among other things:

continued enhancement of our research and development capabilities;

information technology system enhancement;

stringent cost controls and sufficient liquidity;

strengthening of financial and management controls and information technology systems;

increased marketing, sales and sales support activities; and

hiring and training of new personnel.

If we are not able to manage our growth successfully, our business and prospects would be materially and adversely affected.

We generate a significant portion of our revenues from a small number of products, and a reduction in demand in any of these products could materially and adversely affect our financial condition and results of operations.

We derive a substantial percentage of our revenues from a small number of products. Our five top selling products accounted for 63.9%, 53.5%, 45.0% and 38.1% of our total net segment revenues in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively. In the six months ended June 30, 2006, our best-selling product, the portable PM-9000 multi-parameter patient monitoring device, accounted for 13.3% of our total net segment revenues. We expect a small number of our key products will continue to account for a significant portion of our net revenues for the foreseeable future. As a result, continued market acceptance and popularity of these products is critical to our success, and a reduction in demand for our key products due to, among other factors, the introduction of competing products by our competitors, the entry of new competitors, or end-users dissatisfaction with the quality of these products could materially and adversely affect our financial condition and results of operations.

Moreover, we are particularly dependent on sales of our patient monitoring devices, which accounted for 41.0% of our net segment revenues in the six months ended June 30, 2006. If the market for patient monitoring devices deteriorates, our financial condition and results of operations could be materially and adversely affected. We are also susceptible to market changes for diagnostic laboratory instruments and ultrasound imaging systems, which accounted for 28.7% and 30.0% of our net segment revenues in the six months ended June 30, 2006, respectively. Future changes in customer demand and market trends may have a material adverse effect on our business and prospects.

If we fail to protect our intellectual property rights it could harm our business and competitive position.

We rely on a combination of patent, copyright, trademark and trade secret laws and non-disclosure agreements and other methods to protect our intellectual property rights. We own over 60 patents in China covering various products and aspects of our products and have additional patent applications pending in

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China. We have also filed 20 patent applications in the United States, which cover some of the more commercially significant aspects of our products and technologies. Due to the different regulatory bodies and varying requirements in the United States and China, we may be unable to obtain patent protection for certain aspects of our products or technologies in either or both of these two countries. In addition, we have not applied for any patents outside of the United States and China.

The process of seeking patent protection can be lengthy and expensive, our patent applications may fail to result in patents being issued, and our existing and future issued patents may be insufficient to provide us with meaningful protection or commercial advantage. Our patents and patent applications may also be challenged, invalidated or circumvented in the future.

We also rely on trade secret rights to protect our business through non-disclosure provisions in the employment agreements with employees. If any of our employees breach their non-disclosure obligations, we may not have adequate remedies in China, and our trade secrets may become known to our competitors.

Implementation of PRC intellectual property-related laws has historically been lacking, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other western countries. Furthermore, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to resort to litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation, if any, could result in substantial costs and diversion of resources and management attention, which could harm our business and competitive position.

We may be exposed to intellectual property infringement and other claims by third parties which, if successful, could disrupt our business and have a material adverse effect on our financial condition and results of operations.

Our success depends, in large part, on our ability to use and develop our technology and know-how without infringing third party intellectual property rights. As we increase our product sales internationally, and as litigation becomes more common in China, we face a higher risk of being the subject of claims for intellectual property infringement, invalidity or indemnification relating to other parties proprietary rights. Our current or potential competitors, many of which have substantial resources and have made substantial investments in competing technologies, may have or may obtain patents that will prevent, limit or interfere with our ability to make, use or sell our products in either China or other countries, including the United States and other countries in Asia. The validity and scope of claims relating to medical device technology patents involve complex scientific, legal and factual questions and analysis and, as a result, may be highly uncertain. In addition, the defense of intellectual property suits, including patent infringement suits, and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. Furthermore, an adverse determination in any such litigation or proceedings to which we may become a party could cause us to:

pay damage awards;

seek licenses from third parties;

pay ongoing royalties;

redesign our products; or

be restricted by injunctions,

each of which could effectively prevent us from pursuing some or all of our business and result in our customers or potential customers deferring or limiting their purchase or use of our products, which could have a material adverse effect on our financial condition and results of operations.

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Unauthorized use of our brand name by third parties, and the expenses incurred in developing and preserving the value of our brand name, may adversely affect our business.

We regard our brand name as critical to our success. Unauthorized use of our brand name by third parties may adversely affect our business and reputation, including the perceived quality and reliability of our products. We rely on trademark law, company brand name protection policies, and agreements with our employees, customers, business partners and others to protect the value of our brand name. Despite our precautions, we may be unable to prevent third parties from using our brand name without authorization. In the past, we have experienced unauthorized use of our brand name in China and have expended resources and the attention and time of our management to successfully prosecute those who used our brand name without authorization. Moreover, litigation may be necessary in the future to protect our brand name. However, because the validity, enforceability and scope of protection of trademarks in the PRC are uncertain and still evolving, we may not be successful in prosecuting these cases. Future litigation could also result in substantial costs and diversion of our resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations. In addition, we are in the process of registering our brandname and logo as trademark in countries outside of China. Our registration applications may not be successful in certain countries, which could weaken the protection of our brand name in those countries or may require that we market our products under different names in those countries.

If we fail to obtain or maintain applicable regulatory clearances or approvals for our products, or if such clearances or approvals are delayed, we will be unable to commercially distribute and market our products at all or in a timely manner, which could significantly disrupt our business and materially and adversely affect our sales and profitability.

The sale and marketing of our medical device products are subject to regulation in China and in most other countries where we conduct business. For a significant portion of our sales, we need to obtain and renew licenses and registrations with the PRC State Food and Drug Administration, or SFDA, the FDA, and the regulators administering CE marks in the European Union. The processes for obtaining regulatory clearances or approvals can be lengthy and expensive, and the results are unpredictable. In addition, the relevant regulatory authorities may introduce additional requirements or procedures that have the effect of delaying or prolonging the regulatory clearance or approval for our existing or new products. For example, the SFDA introduced a new safety standard to its approval process for new medical devices, which we believe has increased the typical time period required to obtain such approval by approximately three months. This delayed the planned launch of three of our new products in the third quarter of 2006. If we are unable to obtain clearances or approvals needed to market existing or new products, or obtain such clearances or approvals in a timely fashion, our business would be significantly disrupted, and our sales and profitability could be materially and adversely affected. See Regulation.

We are subject to product liability exposure and have limited insurance coverage. Any product liability claims or potential safety-related regulatory actions could damage our reputation and materially and adversely affect our business, financial condition and results of operations.

Our main products are medical devices used in the diagnosis and monitoring of patients, and the manufacture and sale of these products expose us to potential product liability claims if the use of these products causes or is alleged to have caused personal injuries or other adverse effects. Any product liability claim or regulatory action could be costly and time-consuming to defend. If successful, product liability claims may require us to pay substantial damages. We maintain limited product liability insurance to cover potential product liability arising from the use of our products. However, product liability insurance available in China offers limited coverage compared to coverage offered in many other countries. As a result, future liability claims could be excluded or exceed the coverage limits of our policy. As we expand our sales internationally and increase our exposure to these risks in many countries, we may be unable to maintain sufficient product liability insurance coverage on commercially reasonable terms, or at all. A product liability claim or potential safety-related regulatory action, with or without merit, could result in significant negative

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publicity and materially and adversely affect the marketability of our products and our reputation, as well as our business, financial condition and results of operations.

Moreover, a material design, manufacturing or quality failure or defect in our products, other safety issues or heightened regulatory scrutiny could each warrant a product recall by us and result in increased product liability claims. Also, if these products are deemed by the authorities in the countries where we sell our products to fail to conform to product quality and safety requirements, we could be subject to regulatory action. In China, violation of PRC product quality and safety requirements may subject us to confiscation of related earnings, penalties, an order to cease sales of the violating product or to cease operations pending rectification. Furthermore, if the violation is determined to be serious, our business license to manufacture or sell violating and other products could be suspended or revoked.

Our revenues and profitability could be materially and adversely affected if there is a disruption in our existing arrangements with our original design manufacturing and original equipment manufacturing customers.

In 2005 and the six months ended June 30, 2006, ODM customers accounted for 9.7% and 5.4%, respectively, of our net revenues and, during the same period, OEM customers accounted for 7.7% and 5.3%, respectively, of our net revenues. We have invested significant time and resources in cultivating these relationships. In particular, we are typically required to undergo lengthy product approval processes with these customers, which in some cases can take up to 16 months. The length of the approval process may vary and is affected by a number of factors, including customer priorities, customer budgets and regulatory issues. Delays in the product approval process could materially and adversely affect our business, financial condition and results of operations. Moreover, our ODM and OEM customers may develop their own solutions or adopt a competitor s solution for products that they currently purchase from us. We may be unable to maintain our existing arrangements with our ODM and OEM customers. In particular, any failure in generating orders from these customers or decrease in sales to these customers, as well as any adoption by these customers of their own or our competitors product solutions, could have a material adverse effect on our revenues and profitability.

Our quarterly revenues and operating results are difficult to predict and could fall below investor expectations, which could cause the trading price of our ADSs to decline.

Our quarterly revenues and operating results have fluctuated in the past and may fluctuate significantly in the future depending upon numerous factors. Our first quarters ending March 31 have historically been our lowest in terms of quarterly revenues and operating results. We believe that our weaker first quarter performance has been largely due to the Chinese Lunar New Year Holiday. Other factors that may affect our quarterly results include:

- the loss of key customers;
- changes in pricing policies by us or our competitors;
- variations in the purchasing cycles of our customers;
- the length of our sales and delivery cycle;
- the timing and market acceptance of new product introductions by us or our competitors;
- the timing of receipt of government incentives;
- changes in the industry operating environment;
- changes in government policies or regulations (including anti-commercial bribery laws) or their enforcement; and
- a downturn in general economic conditions in China or internationally.

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Many of these factors are beyond our control, making our quarterly results difficult to predict, which could cause the trading price of our ADSs to decline below investor expectations. You should not rely on our results of operations for prior quarters as an indication of our future results.

If we experience a significant number of warranty claims, our costs could substantially increase and our reputation and brand could suffer.

We typically sell our products with warranty terms covering 12 months after purchase. Our product warranty requires us to repair all mechanical malfunctions and, if necessary, replace defective components. We accrue liability for potential warranty claims at the time of sale. If we experience an increase in warranty claims or if our repair and replacement costs associated with warranty claims increase significantly, we may have to accrue a greater liability for potential warranty claims. Moreover, an increase in the frequency of warranty claims could substantially increase our costs and harm our reputation and brand. Our business, financial condition, results of operations and prospects may suffer materially if we experience a significant increase in warranty claims on our products.

Our corporate actions are substantially controlled by our principal shareholders. Our dual-class ordinary share structure with different voting rights could discourage others from pursuing any change of control transactions that our shareholders may view as beneficial.

Prior to the completion of this offering, our shareholders will approve our amended memorandum and articles of association to provide for a dual-class ordinary share structure. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to five votes per share.

Upon completion of this offering, three of our shareholders and their affiliated entities will own approximately % of our outstanding ordinary shares, representing approximately % of our voting power due to our dual-class ordinary share structure. Our co-chief executive officers, Mr. Xu Hang and Mr. Li Xiting, and our executive vice president of sales and marketing, Mr. Cheng Minghe, through their respective affiliates, hold all of our Class B ordinary shares. These shareholders will exert control over all matters subject to shareholder vote until they collectively own less than 20% of our outstanding ordinary shares. This concentration of voting power may discourage, delay or prevent a change in control or other business combination, which could deprive you of an opportunity to receive a premium for your ADSs as part of a sale of our company and might reduce the price of our ADSs. The interests of Mr. Xu, Mr. Li, and Mr. Cheng as officers and employees of our company may differ from their interests as shareholders of our company or from your interests as a shareholder.

Anti-takeover provisions in our charter documents may discourage our acquisition by a third party, which could limit our shareholders opportunity to sell their shares, including Class A ordinary shares represented by our ADSs, at a premium.

Our amended and restated memorandum and articles of association include provisions that could limit the ability of others to acquire control of us, modify our structure or cause us to engage in change of control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares, including Class A ordinary shares represented by ADSs, at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of us in a tender offer or similar transaction.

For example, our board of directors will have the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix the powers and rights of these shares, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our Class A ordinary shares. Preferred shares could thus be issued quickly with terms calculated to delay or prevent a change in control or make removal of management more difficult. In addition, if our board of directors authorizes the issuance of preferred shares, the trading price of our ADSs may fall and the voting and other rights of the holders of our Class A ordinary

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shares may be materially and adversely affected. See Description of Share Capital Issuance of Additional Ordinary Shares or Preferred Shares.

Certain actions require the approval of a supermajority of at least two thirds of our board of directors which, among other things, would allow our non-independent directors to block a variety of actions or transactions, such as a merger, asset sale or other change of control, even if all of our independent directors unanimously voted in favor of such action, thereby further depriving our shareholders of an opportunity to sell their shares at a premium. In addition, our directors are divided into three classes with staggered terms of three years each, which means that shareholders can elect or remove only a limited number of our directors in any given year. The length of these terms could present an additional obstacle against the taking of action, such as a merger or other change of control, that could be in the interest of our shareholders. See Description of Share Capital Board of Directors.

We may undertake acquisitions, which may have a material adverse effect on our ability to manage our business, and may end up being unsuccessful.

Our growth strategy may involve the acquisition of new technologies, businesses, products or services or the creation of strategic alliances in areas in which we do not currently operate. These acquisitions could require that our management develop expertise in new areas, manage new business relationships and attract new types of customers. Furthermore, acquisitions may require significant attention from our management, and the diversion of our management s attention and resources could have a material adverse effect on our ability to manage our business. We may also experience difficulties integrating acquisitions into our existing business and operations. Future acquisitions may also expose us to potential risks, including risks associated with:

the integration of new operations, services and personnel;

unforeseen or hidden liabilities;

the diversion of resources from our existing businesses and technologies;

our inability to generate sufficient revenue to offset the costs, expenses of acquisitions; and

potential loss of, or harm to, relationships with employees or customers, any of which could significantly disrupt our ability to manage our business and materially and adversely affect our business financial condition and results of operations.

We may need additional capital in the future, and we may be unable to obtain such capital in a timely manner or on acceptable terms, or at all.

In order for us to grow, remain competitive, develop new products, and expand our distribution network, we may require additional capital in the future. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

our future financial condition, results of operations and cash flows;

general market conditions for capital raising activities by medical device and related companies; and

economic, political and other conditions in China and elsewhere.

We may be unable to obtain additional capital in a timely manner or on acceptable terms or at all. Furthermore, the terms and amount of any additional capital raised through issuances of equity securities may result in significant shareholder dilution.

We may become a passive foreign investment company, or PFIC, which could result in adverse United States federal income tax consequences to US holders.

Depending upon the value of our shares and ADSs and the nature of our assets and income over time, we could be classified as a passive foreign investment company, or PFIC, by the United States Internal

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Revenue Service, or IRS, for US federal income tax purposes. Based on assumptions as to our projections of the value of our outstanding shares during the year and our use of the proceeds of this offering and of the other cash that we will hold and generate in the ordinary course of our business throughout taxable year 2006, we do not expect to be a PFIC for the taxable year 2006. However, there can be no assurance that we will not be a PFIC for the taxable year 2006 and/or later taxable years, as PFIC status is tested each year and depends on our assets and income in such year. Our PFIC status for the current taxable year 2006 will not be determinable until the close of the taxable year ending December 31, 2006.

We will be classified as a PFIC in any taxable year if either: (1) the average percentage value of our gross assets during the taxable year that produce passive income or are held for the production of passive income is at least 50% of the value of our total gross assets or (2) 75% or more of our gross income for the taxable year is passive income. For example, we would be a PFIC for the taxable year 2006 if the sum of our average market capitalization, which is our share price multiplied by the total amount of our outstanding shares, and our liabilities over that taxable year is not more than twice the value of our cash, cash equivalents, and other assets that are readily converted into cash. In particular, we would likely become a PFIC if the value of our outstanding shares were to decrease significantly while we hold substantial cash and cash equivalents.

If we are classified as a PFIC in any taxable year in which you hold our ADSs or shares and you are a US Holder, you would generally be taxed at higher ordinary income rates, rather than lower capital gain rates, if you dispose of ADSs or shares for a gain in a later year, even if we are not a PFIC in that year. In addition, a portion of the tax imposed on your gain would be increased by an interest charge. Moreover, if we were classified as a PFIC in any taxable year, you would not be able to benefit from any preferential tax rate with respect to any dividend distribution that you may receive from us in that year or in the following year. Finally, you would also be subject to special United States federal income tax reporting requirements. We cannot assure you that we will not be a PFIC for 2006 or any future taxable year. For more information on the United States federal income tax consequences to you that would result from our classification as a PFIC, please see Taxation United States Federal Income Taxation US Holders Passive Foreign Investment Company.

We may not be able to ensure compliance with United States economic sanctions laws, especially when we sell our products to distributors over which we have limited control.

The U.S. Department of the Treasury s Office of Foreign Assets Control, or OFAC, administers certain laws and regulations that impose penalties upon U.S. persons and, in some instances, foreign entities owned or controlled by U.S. persons, for conducting activities or transacting business with certain countries, governments, entities or individuals subject to U.S. economic sanctions, or U.S. Economic Sanctions Laws. We will not use any proceeds from the sale of our ADSs to fund any activities or business with any country, government, entity or individual with respect to which U.S. persons or, as appropriate, foreign entities owned or controlled by U.S. persons, are prohibited by U.S. Economic Sanctions Laws from conducting such activities or transacting such business. However, we sell our products in international markets through independent non-U.S. distributors which are responsible for interacting with the end-users of our products. Some of these independent non-U.S. distributors are located in or conduct business with countries subject to U.S. economic sanctions such as Cuba, Sudan, Iran, Syria and Myanmar, and we may not be able to ensure that such non-U.S. distributors comply with any applicable U.S. Economic Sanctions Laws. Moreover, if a U.S. distributor or our United States subsidiary, Mindray USA Corp., conducts activities or transacts business with a country, government, entity or individual subject to U.S. economic sanctions, such actions may violate U.S. Economic Sanctions Laws. As a result of the foregoing, actions could be taken against us that could materially and adversely affect our reputation and have a material and adverse effect on our business, financial condition, results of operations and prospects.

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We may be unable to establish and maintain an effective system of internal control over financial reporting, and as a result we may be unable to accurately report our financial results or prevent fraud.

Upon the completion of this offering, we will become a public company in the United States that is or will be subject to, the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act, or Section 404, will require that we include a report from management on our internal control over financial reporting in our Annual Report on Form 20-F beginning with our annual report for the fiscal year ending December 31, 2007. In addition, our independent registered public accounting firm must attest to and report on management s assessment of the effectiveness of our internal control over financial reporting. Our management may conclude that our internal controls are not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may disagree and may decline to attest to our management s assessment or may issue an adverse opinion. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our reporting processes, which could adversely affect the trading price of our ADSs.

Our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. Prior to this offering, we have been a private company with limited accounting personnel and other resources with which to address our internal controls and procedures. In connection with this offering, a number of control deficiencies in our internal control procedures have been identified that could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of our management in our consolidated financial statements. Certain identified control deficiencies include the lack of a formalized US GAAP closing and reporting process, internal audit resources and accounting personnel with advanced SEC reporting and US GAAP accounting skills. We may identify additional control deficiencies as a result of the assessment process we will undertake in compliance with Section 404. We plan to remediate control deficiencies identified in time to meet the deadline imposed by the requirements of Section 404 but we may be unable to do so. Our failure to establish and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial reporting processes, which in turn could harm our business and negatively impact the trading price of our ADSs.

RISKS RELATED TO DOING BUSINESS IN CHINA

Changes in China s economic, political and social condition could adversely affect our financial condition and results of operations.

We conduct a substantial majority of our business operations in China and derive a majority of our revenues from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are affected to a significant degree by economic, political and social conditions in China. The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by changes in tax regulations applicable to us. The PRC government has implemented certain measures, including a recent interest rate increase, to control the pace of economic growth. These measures may cause decreased economic activity in China, including a slowing or decline in individual hospital spending, which in turn could adversely affect our financial condition and results of operations.

The PRC legal system embodies uncertainties that could limit the legal protections available to you and us.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have limited precedential value. In 1979, the PRC government began to

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promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly increased the protections afforded to various forms of foreign investment in China. Our PRC operating subsidiary, Shenzhen Mindray, is a foreign-invested enterprise and is subject to laws and regulations applicable to foreign investment in China as well as laws and regulations applicable to foreign-invested enterprises. These laws and regulations change frequently, and their interpretation and enforcement involve uncertainties. For example, we may have to resort to administrative and court proceedings to enforce the legal protections that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may also impede our ability to enforce the contracts we have entered into. As a result, these uncertainties could materially and adversely affect our business and operations.

Recent PRC regulations relating to offshore investment activities by PRC residents may increase the administrative burden we face and create regulatory uncertainties that could restrict our overseas and cross-border investment activity, and a failure by our shareholders who are PRC residents to make any required applications and filings pursuant to such regulations may prevent us from being able to distribute profits and could expose us and our PRC resident shareholders to liability under PRC law.

The PRC State Administration of Foreign Exchange, or SAFE, recently promulgated regulations that require PRC residents and PRC corporate entities to register with and obtain approvals from relevant PRC government authorities in connection with their direct or indirect offshore investment activities. These regulations apply to our shareholders who are PRC residents in connection with our prior and any future offshore acquisitions.

The SAFE regulation required registration by March 31, 2006 of direct or indirect investments previously made by PRC residents in offshore companies prior to the implementation of the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies on November 1, 2005. If a PRC shareholder with a direct or indirect stake in an offshore parent company fails to make the required SAFE registration, the PRC subsidiaries of such offshore parent company may be prohibited from making distributions of profit to the offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion.

We have already notified and urged our shareholders, and the shareholders of the offshore entities in our corporate group, who are PRC residents to make the necessary applications and filings, as required under this regulation. However, as these regulations are still relatively new and there is uncertainty concerning the reconciliation of the new regulation with other approval requirements, it is unclear how the regulation, and any future legislation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. While we believe that the relevant shareholders are in the process of making the applications with local SAFE offices, some of our shareholders may not comply with our request to make or obtain any applicable registrations or approvals required by the regulation or other related legislation. The failure or inability of our PRC resident shareholders to obtain any required approvals or make any required registrations may subject us to fines and legal sanctions, prevent us from being able to make distributions or pay dividends, as a result of which our business operations and our ability to distribute profits to you could be materially and adversely affected.

We rely principally on dividends and other distributions on equity paid by our operating subsidiary to fund cash and financing requirements, and limitations on the ability of our operating subsidiary to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we rely principally on dividends and other distributions on equity paid by our operating subsidiary Shenzhen Mindray for our cash and financing requirements, including the funds

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necessary to pay dividends and other cash distributions to our shareholders, service any debt we may incur and pay our operating expenses. If Shenzhen Mindray incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Furthermore, relevant PRC laws and regulations permit payments of dividends by Shenzhen Mindray only out of its retained earnings, if any, determined in accordance with PRC accounting standards and regulations.

Under PRC laws and regulations, Shenzhen Mindray is required to set aside a portion of its net income each year to fund certain statutory reserves. These reserves, together with the registered equity, are not distributable as cash dividends. As of December 31, 2005, the amount of these restricted portions was approximately RMB160.4 million (US$20.1 million). As a result of these PRC laws and regulations, Shenzhen Mindray is restricted in its ability to transfer a portion of its net assets to us whether in the form of dividends, loans or advances. Limitations on the ability of Shenzhen Mindray to pay dividends to us could adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

Restrictions on currency exchange may limit our ability to utilize our revenues effectively.

A majority of our revenues and operating expenses are denominated in Renminbi. The Renminbi is currently convertible under the current account, which includes dividends, trade and service-related foreign exchange transactions, but not under the capital account, which includes foreign direct investment and loans. Currently, Shenzhen Mindray may purchase foreign exchange for settlement of current account transactions, including payment of dividends to us, without the approval of SAFE. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase foreign currencies in the future. Since a significant amount of our future revenues will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize revenues generated in Renminbi to fund our business activities outside of China denominated in foreign currencies. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities. This could affect the ability of Shenzhen Mindray to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

Fluctuations in exchange rates could result in foreign currency exchange losses.

As a majority of our cash and cash equivalents are denominated in Renminbi and the net proceeds from this offering will be denominated in US dollars, fluctuations in exchange rates between US dollars and Renminbi will affect the relative purchasing power of these proceeds and our balance sheet and earnings per share in US dollars following this offering. In addition, appreciation or depreciation in the value of the Renminbi relative to the US dollar would affect our financial results reported in US dollar terms without giving effect to any underlying change in our business, financial condition or results of operations. Since July 2005, the Renminbi is no longer pegged solely to the US dollar. Instead, the Renminbi is reported to be pegged against a basket of currencies, determined by the People s Bank of China, against which it can rise or fall by as much as 0.3% each day. The Renminbi may appreciate or depreciate significantly in value against the US dollar in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of the Renminbi against the US dollar. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue after this offering which will be exchanged into US dollars and earnings from and the value of any US dollar-denominated investments we make in the future.

Appreciation of the Renminbi relative to other foreign currencies could decrease the per unit revenues generated from international sales. If we increased our international pricing to compensate for the reduced purchasing power of foreign currencies, we would decrease the market competitiveness, on a price basis, of our products. This could result in a decrease in our international sales volumes.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to

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foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

The discontinuation of any of the preferential tax treatments or the financial incentives currently available to us in the PRC could adversely affect our business, financial condition and results of operations.

The PRC government has provided various incentives to Shenzhen Mindray. These incentives include reduced tax rates and other measures. For example, Shenzhen Mindray enjoys preferential tax treatment, in the form of reduced tax rates or tax holidays, provided by the PRC government or its local agencies or bureaus. Shenzhen Mindray benefits from a 15% preferential corporate income tax rate and the preferential policy of two years of exemption and six years of 50% reduction of corporate income tax from the year it becomes profitable, resulting in an effective income tax rate of 7.5% through the end of 2006. Shenzhen Mindray must continue to meet a number of financial and non-financial criteria to qualify for its current tax exemption and future tax holidays.

In 2005, we also received aggregate financial incentives in the form of value added tax refunds of RMB32.1 million (US$4.0 million). In addition, we received certain tax holidays and concessions in 2003, 2004, 2005 and the six months ended June 30, 2006. Without these tax holidays and concessions, we would have had to pay additional tax totaling RMB7.8 million, RMB10.8 million, RMB18.1 million (US$2.3 million), and RMB13.2 million (US$1.7 million) in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively. These financial incentives have been granted by the municipal government of Shenzhen and are subject to annual review by the municipal government. Eligibility for the financial incentives we receive requires that we continue to meet a number of financial and non-financial criteria to continue to qualify for these financial incentives and our continued qualification is further subject to the discretion of the municipal government. Moreover, the central government or the municipal government of Shenzhen could determine at any time to immediately eliminate or reduce these financial incentives, generally with prospective effect. Since the receipt of the financial incentives is subject to periodic time lags and inconsistent government practice on payment times, for so long as we continue to receive these financial incentives, our net income in a particular quarter may be higher or lower relative to other quarters based on the potentially uneven receipt by us of these financial incentives in addition to any business or operating related factors we may otherwise experience.

Pursuant to a PRC tax policy intended to encourage the development of software and integrated circuit industries, our primary operating subsidiary in the PRC, Shenzhen Mindray, was previously entitled to a refund of value-added tax paid at a rate of 14% of the sale value of self-developed software that is embedded in our products. The amount of the refund for this value-added tax included in net revenues was RMB18.5 million, RMB24.6 million and RMB32.1 million (US$4.0 million) in 2003, 2004 and 2005, respectively. Beginning in 2006, our embedded self-developed software is no longer eligible for this value-added tax refund due to changes in the types of software that are eligible for this tax refund.

We may not continue to enjoy these preferential tax treatments or financial incentives in the future. Any increase in Shenzhen Mindray s corporate income tax rate, or any discontinuation of these preferential tax treatments or financial incentives could adversely affect our business, financial condition and results of operations. Moreover, our historical operating results may not be indicative of our operating results for future periods as a result of the expiration of the tax holidays and value-added tax refunds we enjoy.

Any future outbreak of severe acute respiratory syndrome or avian flu in China, or similar adverse public health developments, may severely disrupt our business and operations.

Adverse public health epidemics or pandemics could disrupt businesses and the national economy of China and other countries where we do business. From December 2002 to June 2003, China and other countries experienced an outbreak of a new and highly contagious form of atypical pneumonia now known as

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severe acute respiratory syndrome, or SARS. On July 5, 2003, the World Health Organization declared that the SARS outbreak had been contained. However, a number of isolated new cases of SARS were subsequently reported, most recently in central China in April 2004. During May and June of 2003, many businesses in China were closed by the PRC government to prevent transmission of SARS. Moreover, some Asian countries, including China, have recently encountered incidents of the H5N1 strain of bird flu, or avian flu. We are unable to predict the effect, if any, that avian flu may have on our business. In particular, any future outbreak of SARS, avian flu or similar adverse public health developments may, among other things, significantly disrupt our ability to adequately staff our business, and may adversely affect our operations. Furthermore, an outbreak may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our business and prospects. As a result, any future outbreak of SARS, avian flu or similar adverse public health developments may have a material adverse effect on our financial condition and results of operations.

RISKS RELATING TO THIS OFFERING

An active trading market for our ADSs may not develop.

Prior to this offering, there has been no public market for our ADSs or our ordinary shares underlying the ADSs. If an active public market for our ADSs does not develop after this offering, the market price and liquidity of our ADSs may be adversely affected. We have applied to have our ADSs listed on the New York Stock Exchange. A liquid public market for our ADSs may not develop. The initial public offering price for our ADSs will be determined by negotiation between us and the underwriters based upon several factors, and the price at which our ADSs trade after this offering may decline below the initial public offering price. As a result, investors in our ADSs may experience a decrease in the value of their ADSs regardless of our operating performance or prospects.

The trading prices of our ADSs are likely to be volatile, which could result in substantial losses to you.

The trading prices of our ADSs are likely to be volatile and could fluctuate widely in response to factors beyond our control. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States may affect the volatility in the price of and trading volumes for our ADSs. Recently, a number of PRC companies have listed their securities, or are in the process of preparing for listing their securities, on US stock markets. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of these PRC companies securities at the time of or after their offerings may affect the overall investor sentiment towards PRC companies listed in the United States and consequently may impact the trading performance of our ADSs. These broad market and industry factors may significantly affect the market price and volatility of our ADSs, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for specific business reasons. In particular, factors such as variations in our revenues, earnings and cash flow, announcements of new investments and cooperation arrangements or acquisitions, could cause the market price for our ADSs to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our ADSs. In the past, following periods of volatility in the market price of a company s securities, shareholders have often instituted securities class action litigation against that company. If we were involved in a class action suit, it could divert the attention of senior management, and, if adversely determined, could have a material adverse effect on our financial condition and results of operations.

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The sale or availability for sale of substantial amounts of our ADSs could adversely affect their trading price and could materially impair our future ability to raise capital through offerings of our ADSs.

Sales of substantial amounts of our ADSs in the public market after the completion of this offering, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our future ability to raise capital through offerings of our ADSs.

There will be ordinary shares (consisting of Class A ordinary shares represented by ADSs and Class B ordinary shares) outstanding immediately after this offering, or ordinary shares (consisting of Class A ordinary shares and Class B ordinary shares) if the underwriters exercise in full their option to purchase additional ADSs, in each case based on the number of shares outstanding as of August 18, 2006. In addition, as of September 1, 2006, there were outstanding options to purchase 6,824,000 ordinary shares, 150,000 of which were exercisable as of that date. All of the ADSs sold in this offering will be freely tradable without restriction or further registration under the US Securities Act of 1933, as amended, or the Securities Act, unless held by our affiliates as that term is defined in Rule 144 under the Securities Act, or Rule 144. The ordinary shares outstanding prior to this offering (assuming the conversion of all outstanding preferred shares into ordinary shares) are restricted securities as defined in Rule 144 and may not be sold in the absence of registration other than in accordance with Rule 144 or another exemption from registration.

In connection with this offering, we, each of our directors and executive officers and substantially all of our shareholders, including each of the selling shareholders, have agreed, among other things, not to sell any ordinary shares or ADSs for 180 days after the date of this prospectus without the written consent of the underwriters. However, the underwriters may release these securities from these restrictions at any time, subject to applicable regulations of the National Association of Securities Dealers, Inc., or NASD. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs. See Underwriting and Shares Eligible for Future Sale for a more detailed description of the restrictions on selling our securities after this offering.

As the initial public offering price is substantially higher than the pro forma net tangible book value per share, you will incur immediate and substantial dilution.

If you purchase ADSs in this offering, you will pay more for your ADSs than the amount paid by existing shareholders for their ordinary shares on a per ADS basis. As a result, you will experience immediate and substantial dilution of approximately RMB (US$) per ADS (assuming no exercise of outstanding options to acquire ordinary shares), representing the difference between our pro forma net tangible book value per ADS as of June 30, 2006, after giving effect to this offering and the initial public offering price of US$ per ADS (the mid-point of the estimated initial public offering price range shown on the front cover of this prospectus). In addition, you will experience further dilution to the extent that our ordinary shares are issued upon the exercise of share options. All of the ordinary shares issuable upon the exercise of currently outstanding share options will be issued at a purchase price on a per ADS basis that is less than the initial public offering price per ADS in this offering. See Dilution for a more complete description of how the value of your investment in our ADSs will be diluted upon the completion of this offering.

You may face difficulties in protecting your interests, and our ability to protect our rights through the US federal courts may be limited, because we are incorporated under Cayman Islands law.

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Cayman Islands Companies Law and the common law of the Cayman Islands. The rights of shareholders to take action against the directors and actions by minority shareholders are to a large extent governed by the common law of the Cayman Islands. Cayman Islands law in this area may not be as established and may differ from provisions under statues or judicial precedent in existence in the United States. As a result, our public shareholders may face different considerations in protecting their interests in actions against our

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management or directors than would shareholders of a corporation incorporated in a jurisdiction of the United States.

The rights of shareholders and the responsibilities of management and members of the board of directors under Cayman Islands law, such as in the areas of fiduciary duties, are different from those applicable to a company incorporated in a jurisdiction of the United States. For example, the Cayman Islands courts are unlikely:

- to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of US federal securities laws; and

- in original actions brought in the Cayman Islands, to impose liabilities against us based on certain civil liability provisions of US federal securities laws that are penal in nature.

As a result, our public shareholders may have more difficulty in protecting their interests in connection with actions taken by our management or members of our board of directors than they would as public shareholders of a company incorporated in the United States.

Certain judgments obtained against us by our shareholders may not be enforceable.

We are a Cayman Islands company and substantially all of our assets are located outside of the United States. Substantially all of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the US federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers. For more information regarding the relevant laws of the Cayman Islands and China, see Enforcement of Civil Liabilities.

We have not determined a specific use for a portion of the net proceeds from this offering, and we may use these proceeds in ways with which you may not agree.

We have not determined a specific use for a portion of the net proceeds of this offering. Our management will have considerable discretion in the application of these proceeds received by us. You will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. You must rely on the judgment of our management regarding the application of the net proceeds of this offering. The net proceeds may be used for corporate purposes that do not improve our profitability or increase our ADS price. The net proceeds from this offering may also be placed in investments that do not produce income or lose value.

Your voting rights as a holder of our ADSs are limited by the terms of the deposit agreement.

You may only exercise your voting rights with respect to the Class A ordinary shares underlying your ADSs in accordance with the provisions of the deposit agreement. Upon receipt of voting instructions from you in the manner set forth in the deposit agreement, the depositary for our ADSs will endeavor to vote your underlying Class A ordinary shares in accordance with these instructions. Under our amended and restated memorandum and articles of association and Cayman Islands law, the minimum notice period required for convening a general meeting is ten days. When a general meeting is convened, you may not receive sufficient notice of a shareholders meeting to permit you to withdraw your Class A ordinary shares to allow you to cast your vote with respect to any specific matter at the meeting. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but you may not receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any

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instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your Class A ordinary shares are not voted as you requested.

The depositary for our ADSs will give us a discretionary proxy to vote our Class A ordinary shares underlying your ADSs if you do not vote at shareholders meetings, except in limited circumstances, which could adversely affect your interests.

Under the deposit agreement for our ADSs, the depositary will give us a discretionary proxy to vote our Class A ordinary shares underlying your ADSs at shareholders meetings if you do not vote, unless:

we have failed to timely provide the depositary with our notice of meeting and related voting materials;

we have instructed the depositary that we do not wish a discretionary proxy to be given;

we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;

a matter to be voted on at the meeting would have a material adverse impact on shareholders; or

voting at the meeting is made on a show of hands.

The effect of this discretionary proxy is that you cannot prevent our Class A ordinary shares underlying your ADSs from being voted, absent the situations described above, and it may make it more difficult for shareholders to influence the management of our company.

You may not receive distributions on our Class A ordinary shares or any value for them if it is illegal or impractical to make them available to you.

The depositary of our ADSs has agreed to pay you the cash dividends or other distributions it or the custodian for our ADSs receives on our Class A ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of our Class A ordinary shares your ADSs represent. However, the depositary is not responsible if it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed pursuant to an applicable exemption from registration. The depositary is not responsible for making a distribution available to any holders of ADSs if any government approval or registration required for such distribution cannot be obtained after reasonable efforts made by the depositary. We have no obligation to take any other action to permit the distribution of our ADSs, Class A ordinary shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our Class A ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material and adverse effect on the value of your ADSs.

You may not be able to participate in rights offerings and may experience dilution of your holdings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. The depositary may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

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You may be subject to limitations on transfer of your ADSs.

Your ADSs represented by ADRs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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FORWARD LOOKING STATEMENTS

This prospectus contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about us and our industry. All statements other than statements of historical fact in this prospectus are forward-looking statements. These forward-looking statements can be identified by words or phrases such as anticipate, believe, continue, estimate, expect, intend, is / are likely to may, plan, should, expressions. The forward-looking statements included in this prospectus relate to, among others:

- our goals and strategies;
- our future business development, financial condition and results of operations;
- the expected growth of the medical device market in China and internationally;
- market acceptance of our products;
- our expectations regarding demand for our products;
- our ability to expand our production, our sales and distribution network and other aspects of our operations;
- our ability to stay abreast of market trends and technological advances;
- our ability to effectively protect our intellectual property rights and not infringe on the intellectual property rights of others;
- competition in the medical devices industry in China and internationally;
- relevant government policies and regulations relating to the medical device industry; and
- general economic and business conditions in the countries in which we operate.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may turn out to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in the Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, and other sections in this prospectus.

The forward-looking statements made in this prospectus relate only to events or information as of the date on which the statements are made in this prospectus. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.

Market Data and Forecasts

This prospectus also contains data related to the medical device industry in China. These market data include projections that are based on a number of assumptions. The medical device market may not grow at the rate projected by market data, or at all. The failure of this market to grow at the projected rate may have a material adverse effect on our business and the market price of our ADSs. In addition, the rapidly changing nature of the medical device industry subjects any projections or estimates relating to the growth prospects or future condition of our market to significant uncertainties. Furthermore, if any one or more of the assumptions underlying the market data turns out to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

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Unless otherwise indicated, information in this prospectus concerning economic conditions and our industry is based on information from independent industry analysts and publications, as well as our estimates. Except where otherwise noted, our estimates are derived from publicly available information released by third party sources, as well as data from our internal research, and are based on such data and our knowledge of our industry, which we believe to be reasonable. Other than the Frost & Sullivan statement that in 2003, we had the largest market share for patient monitors in China based on revenues, which comes from a report that we commissioned, none of the independent industry publication market data cited in this prospectus were prepared on our or our affiliates behalf.

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OUR CORPORATE STRUCTURE

We are a Cayman Islands holding company and conduct substantially all of our business through our consolidated subsidiary Shenzhen Mindray. We own approximately 99.9% of the equity of Shenzhen Mindray through two British Virgin Islands, or BVI, non-operating holding companies. Our corporate structure reflects common practice for companies with operations in several different countries where separate legal entities are often required or advisable for purposes of obtaining relevant operating licenses in such jurisdictions. Our holding company structure allows our management and shareholders to take significant corporate actions without having to submit these actions for approval or consent of the administrative agencies in every country where we have significant operations. Moreover, our choice of the Cayman Islands as the jurisdiction of incorporation of our ultimate holding company was motivated in part by its relatively well-developed body of corporate law, various tax and other incentives, and its wide acceptance among internationally recognized securities exchanges as a jurisdiction for companies seeking to list securities. For example, it is possible for a Cayman Islands company to list its securities on the Hong Kong Stock Exchange as well as in the United States. We hold our interests in Shenzhen Mindray through two British Virgin Islands holding companies as a matter of historical legacy. Many of the former shareholders of Shenzhen Mindray, from whom we acquired equity interests, chose to incorporate in the British Virgin Islands in part because of the advantageous tax treatments they received. We acquired these equity interests by consolidating the holdings of various British Virgin Islands entities into these two entities because this form of transaction was convenient and effective under British Virgin Islands law.

We commenced operations in 1991 through our predecessor entity and established Shenzhen Mindray, our current operating company in 1999. To enable us to raise equity capital from investors outside of China, we set up a holding company structure by establishing our current Cayman Islands holding company, Mindray International, on June 10, 2005. Mindray International became our holding company in September 2005 when the majority of our existing shareholders, transferred through a series of linked transactions, approximately 91.1% of the equity of Shenzhen Mindray to Mindray International. All such linked transactions involving transfer of shares in Shenzhen Mindray for cash were subject to the approval of the PRC Ministry of Commerce and its appropriate local counterpart, as well as registration with the PRC State Administration of Industry and Commerce and its appropriate local counterpart, and we have obtained those required approvals and registration. There were no conditions or contingencies upon which these approvals were based. As a result of this share transfer, our holding company Mindray International, through two BVI companies, Greatest Elite Limited, or Greatest Elite, and Giant Glory Investments Limited, or Giant Glory, which respectively held approximately 46.0% and 45.1% of the equity of Shenzhen Mindray, controlled approximately 91.1% of Shenzhen Mindray, with the remaining approximately 8.9% distributed among four other shareholders. In May 2006, we changed our name to Mindray Medical International Limited.

In April 2006, Mindray International injected additional capital of RMB174.2 million to subscribe for an additional 99 million shares of Shenzhen Mindray. In addition, we issued to offshore shareholders of Shenzhen Mindray 7,649,646 shares of our company, approximately 8.9% of our share capital, in exchange for all outstanding shares of Shenzhen Mindray not already owned by Mindray International except for 0.0002% of the enlarged share capital of Shenzhen Mindray consisting of 300 shares held by three PRC shareholders who remain as shareholders in order to fulfill corporate requirements under PRC law that a company limited by shares have at least two shareholders, at least one of which should be a PRC domestic shareholder. These 300 shares entitle their owners to identical economic and voting rights as the shares held by our subsidiaries, Giant Glory and Greatest Elite. All other Shenzhen Mindray shares are held by Giant Glory and Greatest Elite, which now collectively hold approximately 99.9% of the equity of Shenzhen Mindray.

Shenzhen Mindray has one subsidiary, Beijing Shen Mindray Medical Electronics Technology Research Institute Co., Ltd., or Beijing Mindray, in which Shenzhen Mindray has a 99.9% equity interest and through which we conduct some of our research and development activities. At the time that Beijing Mindray was incorporated, the PRC Company Law required that any domestic limited liability company have at least two separate legal or natural persons as equity holders. We satisfied this requirement by establishing Beijing Mindray with a principal shareholder and two additional shareholders with nominal equity holdings in the

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entity. The remaining 0.1% equity interest in Beijing Mindray is held in equal 0.05% interests by Messrs. Xu Hang and Li Xiting, our co-CEOs and entitles its owners to identical economic and voting rights as the equity interest held by Shenzhen Mindray. Mindray International has four subsidiaries, two of which are Greatest Elite and Giant Glory that hold only the equity of Shenzhen Mindray. The other two Mindray International subsidiaries, Mindray (UK) Limited, organized under the laws of the United Kingdom, and Mindray USA Corp., incorporated in the State of Massachusetts in the United States, have been established to support our sales in Europe and the United States.

The diagram below illustrates our current corporate structure and the place of formation and affiliation of each of our subsidiaries as of the date of this prospectus:

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USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately US$ million, or approximately US$ million if the underwriters exercise their option to purchase additional ADSs in full, after deducting underwriting discounts, commissions and the estimated offering expenses payable by us and based upon an assumed initial public offering price of US$ per ADS (the mid-point of the estimated initial public offering price range shown on the front cover of this prospectus). We will not receive any of the proceeds from the sale of ADSs by the selling shareholders. A US$ increase (decrease) in the assumed initial public offering price of US$ per ADS would increase (decrease) the net proceeds to us from this offering by US$ million, after deducting the estimated underwriting discounts and commissions and estimated aggregate offering expenses payable by us and assuming no exercise of the underwriters option to purchase additional ADSs and no other change to the number of ADSs offered by us as set forth on the cover page of this prospectus.

We currently intend to use the net proceeds we receive from this offering as follows:

- approximately US$75 million for construction of a new headquarters building and expansion of our manufacturing, assembly and warehouse facilities, including the potential relocation into a new facility in Shenzhen, China; and

- the balance to fund working capital and for other general corporate purposes.

We may use proceeds to fund through capital contributions Shenzhen Mindray s operations in the future if it requires additional cash resources. Any capital contributions must be approved by the PRC Ministry of Commerce. We may not be able to obtain these government registrations or approvals on a timely basis, if at all.

The foregoing represents our intentions with respect of the use and allocation of the net proceeds from this offering based upon our present plans and business conditions. Our management, however, will have significant flexibility and discretion in applying the net proceeds from the offering. Unforeseen events or changed business conditions may result in application of the proceeds from this offering in a manner other than as described in this prospectus.

Pending their use, we intend to invest the net proceeds from this offering in short-term, interest bearing, debt instruments or bank deposits. These investments may have a material adverse effect on the US federal income tax consequences of your investment in our ADSs. In particular, it is possible that we may become a passive foreign investment company for United States federal income tax purposes, which could result in negative tax consequences for you. See Risk Factors Risks Relating to our Business and Industry We may become a passive foreign investment company, or PFIC, which could result in adverse United States federal income tax consequences to US holders and Taxation United States Federal Income Taxation US Holders Passive Foreign Investment Company.

We will not use the proceeds from the sale of any ADSs, directly or indirectly, for any purpose or activity in connection with business, operations or contracts with the governments or with any person or entity of the Cuba, Sudan, North Korea, Iran, Syria and Myanmar, or any person or entity that is subject to sanctions under any program administered by OFAC.

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DIVIDEND POLICY

Beginning in 2007, we intend to pay annual cash dividends in an amount equal to an aggregate of approximately 20% of our annual net income each year. Cash dividends, if any, will be at the discretion of our board of directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial conditions, shareholders interests, contractual restrictions and other factors as our board of directors may deem relevant. We can pay dividends only out of profits or other distributable reserves.

In addition, our ability to pay dividends depends substantially on the payment of dividends to us by our operating subsidiary, Shenzhen Mindray. Shenzhen Mindray may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in China. Moreover, pursuant to relevant PRC laws and regulations applicable to our subsidiaries in the PRC, Shenzhen Mindray is required to provide 10% of its after-tax profits to a statutory common reserve fund. When the aggregate balance in the statutory common reserve fund (also referred to as statutory surplus reserve) is 50% or more of the subsidiaries registered capital, our subsidiaries need not make any further allocations to the fund. Shenzhen Mindray s registered capital is RMB185 million. Allocations to these statutory reserves can only be used for specific purposes and are not distributable to us in the form of loans, advances, or cash dividends. The specific purposes for which statutory common reserve funds can be used include provision of a source of reserve funds to make up deficits in periods in which Shenzhen Mindray has net losses, expansion of production and operations of Shenzhen Mindray, or for conversion into additional working capital in periods in which Shenzhen Mindray does not have a deficit. Furthermore, if Shenzhen Mindray incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us. Any limitation on the payment of dividends by our subsidiary could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends and otherwise fund and conduct our businesses.

We paid cash dividends of RMB17.2 million, RMB86.0 million, RMB206.4 million (US$25.8 million) and RMB323.5 million (US$40.5 million), in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively. See Managements Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Financing Activities.

Holders of ADSs will be entitled to receive dividends, subject to the terms of the deposit agreement, to the same extent as holders of our Class A ordinary shares, less the fees and expenses payable under the deposit agreement. Cash dividends will be paid by the depositary to holders of ADSs in US dollars. Other distributions, if any, will be paid by the depositary to holders of our ADSs in any means it deems legal, fair and practical. See Description of American Depositary Shares Dividends and Other Distributions.

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CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2006:

- on an actual basis;
- on a pro forma basis, to reflect the automatic conversion of all 8,975,105 of our outstanding convertible redeemable preferred shares into 8,975,105 Class A ordinary shares upon completion of this offering and the re-classification of our ordinary shares into Class A and Class B ordinary shares; and
- on a pro forma as adjusted basis to give effect to (1) the conversion of all of our outstanding convertible redeemable preferred shares and (2) the issuance and sale of ADSs we are offering at an assumed initial public offering price of US$ per ADS, the mid-point of the estimated public offering price range shown on the front cover of this prospectus, after deducting underwriting discounts, commissions and estimated offering expenses payable by us.

You should read this table in conjunction with Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and related notes included elsewhere in this prospectus.

	As of June 30, 2006					
	Actual	Actual	Pro Forma	Pro Forma	Pro Forma as Adjusted	Pro Forma as Adjusted
	RMB	US$	RMB	US$	RMB	US$
	(In thousands, except for share data)					
Total debt						
Minority interests	10	1				
Mezzanine equity						
Convertible redeemable preferred shares (HK$0.001 par value: 1,000,000,000 shares authorized and 8,975,105 shares issued and outstanding, actual; no shares issued and outstanding, pro forma and pro forma as adjusted)	289,867	36,259				
Shareholders equity						
Ordinary shares (HK$0.001 par value: 5,000,000,000 shares authorized and 84,099,572 shares issued and outstanding, actual; none pro forma and pro forma as adjusted)	88	11				
Class A ordinary shares (HK$0.001 par value: no shares authorized and no shares issued						

and outstanding, actual; 4,000,000,000 authorized and and shares issued and outstanding pro forma, and pro forma as adjusted, respectively)

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	As of June 30, 2006					
	Actual	Actual	Pro Forma	Pro Forma	Pro Forma as Adjusted	Pro Forma as Adjusted
	RMB	US$	RMB	US$	RMB	US$
	(In thousands, except for share data)					
Class B ordinary shares (HK$0.001 par value: no shares authorized and no shares issued and outstanding, actual; 1,000,000,000 authorized and shares issued and outstanding pro forma, and pro forma as adjusted)						
Additional paid-in capital[1]	402,123	50,301				
Retained earnings	67,028	8,385				
Total shareholders equity[1]	469,239	58,697				
Total capitalization[1]	469,239	58,697				

(1) A US$1.00 increase (decrease) in the assumed initial public offering price of US$ per ADS would increase (decrease) each of additional paid-in capital, total shareholders equity and total capitalization by US$ million, after deducting the estimated underwriting discounts and commissions and estimated aggregate offering expenses payable by us and assuming no exercise of the underwriters option to purchase additional ADSs and no other change to the number of ADSs offered by us as set forth on the cover page of this prospectus.

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DILUTION

If you invest in our ADSs, your interest will be diluted to the extent of the difference between the initial public offering price per ADS and our net tangible book value per ADS after this offering. Dilution results from the initial public offering price per Class A ordinary share underlying the ADSs substantially exceeding the book value per Class A ordinary share attributable to our presently outstanding ordinary shares.

Our net tangible book value as of June 30, 2006 was approximately RMB190 million (US$24 million), or RMB2.25 (US$0.28) per ordinary share outstanding at that date, and RMB2.25 (US$0.28) per ADS. Net tangible book value is determined by subtracting the value of our intangible assets and total liabilities from our total assets. Dilution is determined by subtracting net tangible book value per ordinary share, after giving effect to the conversion of all outstanding convertible redeemable preferred shares into Class A ordinary shares upon completion of this offering, from the assumed initial public offering price per ordinary share, which is the mid-point of the estimated initial public offering price range shown on the front cover of this prospectus and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

Without taking into account any other changes in net tangible book value after June 30, 2006, other than to give effect to our sale of the ADSs offered in this offering at the assumed initial public offering price of US$ per ADS, with estimated net proceeds of US$ million after deducting underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value at June 30, 2006 would have been RMB million (US$ million), or RMB (US$) per outstanding ordinary share, including ordinary shares underlying our outstanding ADSs, and RMB (US$) per ADS. This represents an immediate increase in pro forma net tangible book value of RMB (US$) per ordinary share, or RMB (US$) per ADS, to existing shareholders and an immediate dilution in pro forma net tangible book value of RMB (US$) per ordinary share, or RMB (US$) per ADS, to new investors in this offering.

The following table illustrates this per ordinary share dilution:

	RMB	US$
Assumed initial public offering price per ordinary share		
Net tangible book value per ordinary share at June 30, 2006		
Increase in net tangible book value per ordinary share attributable to this offering		
Increase in net tangible book value per ordinary share attributable to the underwriters exercising in full of their option to purchase additional shares		
Net tangible book value per ordinary share after the offering		
Pro forma net tangible book value per ordinary share after the offering if underwriters exercising in full their option to purchase additional shares		
Dilution in net tangible book value per ordinary share to new investors in the offering		
Dilution in net tangible book value per ADS to new investors in the offering		

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The following table summarizes the number of ordinary shares purchased from us as of June 30, 2006, the total consideration paid to us and the average price per ordinary share/ADS paid by existing investors and by new investors purchasing Class A ordinary shares evidenced by ADSs in this offering at the assumed initial public offering price of US$ per ADS giving effect to underwriting discounts and commissions and other estimated offering expenses payable by us.

	Ordinary Shares Purchased		Total Consideration		Average Price per Class A Ordinary Share Equivalent	Average Price per ADS Equivalent
	Number	Percent	Amount	Percent		
			(000)			
Existing shareholders						
New investors						
Total						

The foregoing discussion and tables do not include the impact of assuming the exercise of the 6,928,000 share options outstanding as of June 30, 2006, each with an exercise price of US$5.00.

If the underwriters exercise in full their option to purchase additional shares, our existing shareholders would own approximately and our new investors would own approximately of the total number of our ordinary shares outstanding after this offering.

A US$1.00 increase (decrease) in the assumed initial public offering price per ADS would increase (decrease) our pro forma net tangible book value after giving effect to the offering by US$ million, the pro forma net tangible book value per ordinary share and per ADS after giving effect to this offering by US$ per ordinary share and US$ per ADS and the dilution in pro forma net tangible book value per ordinary share and per ADS to new investors in this offering by US$ per ordinary share and US$ per ADS, assuming no exercise of the underwriters option to purchase additional ADSs and no change to the number of ADSs offered by us as set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and the estimated aggregate offering expenses payable by us. The pro forma information discussed above is illustrative only. Our net tangible book value following the completion of this offering is subject to adjustment based on the actual initial public offering price of our ADSs and other terms of this offering determined at pricing.

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EXCHANGE RATES

The following table sets forth information concerning exchange rates between the Renminbi and the US dollar for the periods indicated.

	Renminbi per US Dollar Noon Buying Rate			
	AVERAGE	HIGH	LOW	PERIOD-END
2001	8.2770	8.2786	8.2676	8.2766
2002	8.2770	8.2800	8.2669	8.2800
2003	8.2770	8.2800	8.2272	8.2769
2004	8.2768	8.2774	8.2764	8.2765
2005	8.1940	8.2765	8.0702	8.0702
2006				
March	8.0350	8.0505	8.0167	8.0167
April	8.0143	8.0248	8.0040	8.0165
May	8.0131	8.0300	8.0005	8.0215
June	8.0042	8.0225	7.9943	7.9943
July	7.9897	8.0018	7.9690	7.9690
August	7.9722	8.0000	7.9538	7.9538
September (through September 5, 2006)	7.9514	7.9533	7.9495	7.9495

Source: Federal Reserve Bank of New York

On September 5, 2006, the noon buying rate was RMB7.9495 to US$1.00.

We publish our financial statements in Renminbi. This prospectus contains translations of Renminbi amounts into US dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from Renminbi to US dollars were made at the noon buying rate in The City of New York for cable transfers in Renminbi per US dollar as certified for customs purposes by the Federal Reserve Bank of New York, as of June 30, 2006, which was RMB7.9943 to US$1.00. No representation is made that the Renminbi amounts referred to in this prospectus could have been or could be converted into US dollars at any particular rate or at all.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information for the periods and as of the dates indicated should be read in conjunction with our financial statements and the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes, both of which are located elsewhere in this prospectus.

The selected consolidated balance sheet data as of December 31, 2003 were derived from our audited consolidated financial statements that are not included in this prospectus. The selected consolidated financial data presented below as of December 31, 2004 and 2005 and for the three years ended December 31, 2003, 2004 and 2005 are derived from our audited consolidated financial statements included elsewhere in this prospectus. Our audited consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or US GAAP, and have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm. The report of Deloitte Touche Tohmatsu CPA Ltd. on those consolidated financial statements is included elsewhere in this prospectus.

The selected consolidated financial data as of and for the six months ended June 30, 2005 and 2006 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Results for the six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the full year. In our opinion, all adjustments necessary for a fair presentation of the financial data for the six months ended June 30, 2006 are contained in the financial statements that are included elsewhere in this prospectus.

The selected historical statement of operations data for the years ended December 31, 2001 and 2002 and the selected historical balance sheet data as of December 31, 2001 and 2002 have been derived from our unaudited consolidated financial statements that are not included in this prospectus.

Our historical results for any prior period are not necessarily indicative of results to be expected for any future period.

	For the Year Ended December 31,						For the Six Months Ended June 30,		
	2001	2002	2003	2004	2005	2005	2005	2006	2006
	RMB	RMB	RMB	RMB	RMB	US$	RMB	RMB	US$
	(In thousands, except share and per share data)								
Statement of Operations Data:									
Net revenues	201,798	306,592	460,254	697,837	1,078,573	134,918	436,776	676,764	84,656
Cost of revenues[(1)]	(95,472)	(141,004)	(210,565)	(319,013)	(493,326)	(61,710)	(194,892)	(307,330)	(38,444)
Gross profit	106,326	165,588	249,689	378,824	585,247	73,208	241,884	369,434	46,212
Operating expenses:									
Selling expenses[(1)]	(30,550)	(43,567)	(61,322)	(92,177)	(146,499)	(18,325)	(69,427)	(99,975)	(12,506)
General and administrative expenses[(1)]	(16,266)	(23,497)	(35,808)	(32,340)	(112,082)	(14,020)	(37,750)	(24,865)	(3,110)
Research and development expenses[(1)]	(13,249)	(24,797)	(39,781)	(61,604)	(106,147)	(13,278)	(48,146)	(66,678)	(8,341)

Operating income	46,261	73,726	112,778	192,703	220,519	27,585	86,561	177,916	22,255
Other income, net	1,231	851	1,918	39	9,210	1,152	707	239	30
Interest income	1,413	1,322	531	3,087	3,854	482	611	6,543	819
Interest expense	(2,577)	(3,746)	(2,815)	(3,324)	(2,019)	(253)	(1,201)	(279)	(35)
Income before income taxes and minority interests	46,328	72,153	112,412	192,505	231,564	28,966	86,678	184,419	23,069
Provision for income taxes	(3,443)	(4,817)	(7,624)	(10,758)	(18,066)	(2,260)	(6,449)	(13,191)	(1,650)
Minority interests					(8,409)	(1,052)		(6,455)	(808)
Net income	42,885	67,335	104,788	181,747	205,089	25,654	80,229	164,773	20,611

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	For the Year Ended December 31,						For the Six Months Ended June 30		
	2001	2002	2003	2004	2005	2005	2005	2006	2006
	RMB	RMB	RMB	RMB	RMB	US$	RMB	RMB	US$
	(In thousands, except share and per share data)								
med dend									
ance									
ertible emable erred es at ount					(14,031)	(1,755)			
me outable nary eholders	42,885	67,335	104,788	181,747	191,058	23,899	80,229	164,773	20,
c ings share	RMB0.50	RMB0.78	RMB 1.22	RMB 2.11	RMB 2.31	US$ 0.29	RMB 0.93	RMB 2.10	US$
ted ings share	RMB0.50	RMB0.78	RMB 1.22	RMB 2.11	RMB 2.31	US$ 0.29	RMB 0.93	RMB1.86	US$
es in putation									
ic nings share	86,000,000	86,000,000	86,000,000	86,000,000	82,790,427	82,790,427	86,000,000	78,490,233	78,490,
uted nings share	86,000,000	86,000,000	86,000,000	86,000,000	82,790,427	82,790,427	86,000,000	88,467,984	88,467,
dends nary e		RMB0.15	RMB0.20	RMB1.00	RMB2.40	US$ 0.30	RMB2.40	RMB3.60	US$

	As of December 31,						For the Six Months Ended June 30,		
	2001	2002	2003	2004	2005	2005	2005	2006	2006
	RMB	RMB	RMB	RMB	RMB	US$	RMB	RMB	US$
	(In thousands)								
Balance Sheet Data:									
Cash and cash equivalents	76,666	53,961	130,297	178,556	446,143	55,808	107,610	212,875	26,628
Working capital[(2)]	82,988	98,909	138,065	219,486	468,831	58,647	93,454	204,554	25,587
Total assets	211,341	245,946	384,674	483,053	840,835	105,179	476,452	1,021,911	127,830
Total liabilities	102,625	82,794	133,934	136,556	206,281	25,802	229,763	262,795	32,873
Minority interests				10	37,596	4,703	10	10	1
Mezzanine equity					325,389	40,703		289,867	36,259
Total shareholders equity	108,716	163,151	250,740	346,487	271,569	33,971	246,679	469,239	58,697
Total liabilities and shareholders equity	211,341	245,946	384,674	483,053	840,835	105,179	476,452	1,021,911	127,830

(1) Share-based compensation charges incurred during the period related to:

	For the Year Ended December 31,						For the Six Months Ended June 30,		
	2001	2002	2003	2004	2005	2005	2005	2006	2006
	RMB	RMB	RMB	RMB	RMB	US$	RMB	RMB	US$
	(In thousands)								
Cost of revenues					268	34	268	236	30
Selling expenses					8,576	1,073	8,576	3,337	417
General and administrative expenses					59,014	7,382	14,420	4,483	561
Research and development expenses					3,071	384	3,071	2,130	266

(2) Working capital is equal to current assets less current liabilities.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section entitled Selected Consolidated Financial Information and our audited consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors and elsewhere in this prospectus.

Overview

We are a leading developer, manufacturer and marketer of medical devices in China. We also have a significant and growing presence outside of China, primarily in other regions of Asia and in Europe. We offer a broad range of more than 40 products across our three primary business segments: patient monitoring devices, diagnostic laboratory instruments and ultrasound imaging systems.

We sell our products primarily to distributors. In the six months ended June 30, 2006, distributor sales accounted for 78.6% of our net revenues. We believe we have one of the largest distribution, sales and service network for medical devices in China, with over 1,950 distributors and 500 direct sales and sales support personnel, and we sell our products internationally through more than 660 distributors and 75 sales and sales support personnel. We also sell our products directly to hospitals, clinics, government health bureaus, and to ODM and OEM customers. To date, we have sold our products to approximately 25,000 hospitals and clinics in China and sold over 170,000 medical devices worldwide, both through our distributors and direct sales.

Our net revenues increased from RMB460.3 million in 2003 to RMB697.8 million in 2004 and to RMB1,078.6 million (US$134.9 million) in 2005, representing a compound annual growth rate of 53.1%. Our net revenues grew from RMB436.8 million in the six months ended June 30, 2005 to RMB676.8 million (US$84.7 million) in the same period in 2006, a 54.9% increase. These significant increases reflect our success in expanding our product lines to include more advanced products and our increasing market penetration, particularly internationally. Our net revenues outside of China from 2003 to 2005 grew at a faster rate than net revenues in China in both real and percentage terms, increasing from RMB113.5 million, or 24.7% of our net revenues in 2003, to RMB238.2 million, or 34.1% of our net revenues in 2004, and to RMB451.6 million (US$56.5 million), or 41.9% of our net revenues in 2005, representing a compound annual growth rate of 99.5%. In the six months ended June 30, 2006, our net revenues outside of China grew to RMB295.8 million (US$37.0 million), or 43.7% of our net revenue, from 38.9% in the same period in 2005, a 74.3% increase. International net revenue growth has been augmented by our expansion of international sales coverage from 67 countries in 2003, to 91 countries in 2004 and to more than 120 countries in 2005, as well as by our increased penetration in existing international markets through our enhanced distributor network, and the introduction of new products in the international markets. As discussed further below, changes in hospitals purchasing patterns as a result of changes in PRC anti-bribery laws and the enforcement thereof and delays in launching certain new products resulted from the changes in the SFDA approval process have had, and may continue to have, an adverse effect on our net revenues.

We continually seek to broaden our market reach by introducing new and more advanced products and new product lines that address different end-user segments. Between 2003 and 2005, we introduced more than 25 new products. We introduced two new products during the six months ended June 30, 2006, and we plan to introduce at least five new products by the end of 2006, including our first color Doppler ultrasound imaging system, DC-6, and our first five-part hematology analyzer, BC-5500.

We increased our annual investment in research and development as a percentage of net revenues from 8.6% in 2003, to 9.8% in 2005 and to 9.9% in the six months ended June 30, 2006. Our investment in research and development in 2005 and the six months ended June 30, 2006 is consistent with our plan to annually invest approximately 10% of our net revenues in research and development activities. This level of investment demonstrates our commitment to creating and maintaining what we believe is the largest research

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and development team of any medical device manufacturer in China, with more than 570 engineers on our staff, and continuing to develop and commercialize new and more advanced products.

Pricing

To gain market penetration, we price our products at levels that we believe offer attractive economic returns to our distributors, taking into account the prices of competing products and our gross margins. We do not typically make pricing adjustments based on whether a distributor is located in or out of China. We believe that we offer products of comparable quality to our international competitors at substantially lower prices.

In addition to the sales to distributors, we also sell our products directly to hospitals and clinics in China. We also sell directly to government health bureaus in China by participating in competitive bidding and tenders run by government bidding agents to procure large volume purchase contracts. Although the prices of products sold to hospitals, clinics and government health bureaus in China tend to be slightly lower than those of products sold to distributors, these sales represent an additional source of income for us.

Through our continuous efforts to improve manufacturing efficiencies and reduce our raw material costs, we have been able to reduce our production costs, which contributed to our ability to decrease the average sales prices of our products in recent years. We believe that our ability to offer price reductions without a significant impact to our gross margins allows us to generate increased sales volume and gross profits, and helps alleviate any pricing pressures we may face.

Revenues

Our net revenues represent our total revenues from operations, less value-added taxes, plus a 14% refund for value-added taxes on sales of our software that is embedded in our products. Beginning in 2006, our embedded software is no longer eligible for this value-added tax refund, due to changes in the types of software that qualify for this tax refund. See Taxes and Incentives.

We use a distribution network because we believe it is the most cost-effective way to reach a broad end-user base. Our sales are generally made on a purchase order basis, rather than under any long-term commitments, and we do not currently have long-term contracts with any of our distributor customers. We rely on sales to distributors for a majority of our net revenues. In 2005 and the six months ended June 30, 2006, sales to distributors accounted for 74.0% and 78.9% of our sales in China and 66.9% and 78.3% of our international sales, respectively.

Our customer base is widely dispersed on both a geographic and revenues basis. Our largest customer in each of the years ended 2003, 2004 and 2005 and the six months ended June 30, 2006 was an international ODM customer that accounted for 4.0%, 7.3%, 6.2% and 2.7% of our net revenues, respectively. No other customer accounted for more than 5% of our net revenues in 2003, 2004, 2005 or the six months ended June 30, 2006.

We primarily derive revenues from three business segments: patient monitoring devices, diagnostic laboratory instruments and ultrasound imaging systems. These business segments accounted for 40.5%, 28.4% and 29.9% of our total net segment revenues in the six months ended June 30, 2006, respectively. The accounting policies underlying the net revenues information provided for our business segments are based on accounting principles applicable under PRC GAAP that are different from US GAAP.

Patient Monitoring Devices. We derive revenues for our patient monitoring devices segment from sales of patient monitors and related accessories. Our patient monitoring devices track the physiological parameters of patients, such as heart rate, blood pressure, respiration and temperature. Our patient monitoring devices segment is our largest business segment and has the most extensive market penetration of our three segments both domestically and internationally. We expect to continue to penetrate large-sized hospitals in China and international markets with the introduction of additional advanced products in this business segment.

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Diagnostic Laboratory Instruments. We derive revenues for our diagnostic laboratory instruments segment from sales of diagnostic laboratory instruments and related reagents. Our diagnostic laboratory instruments provide data and analysis on blood, urine and other bodily fluid samples for clinical diagnosis and treatment. Our current diagnostic laboratory instruments portfolio consists of two primary product categories: hematology analyzers and biochemistry analyzers. We also sell reagents for use with our products in both of these categories. A reagent is used each time an analysis is performed, generating a recurring revenue stream for us. Diagnostic laboratory instrument sales accounted for 87.4% and 86.3% of the segment s net revenues in 2005 and the six months ended June 30, 2006, respectively, while reagent sales accounted for 11.2% and 10.2% of the segment s net revenues in the same periods, respectively with the balance being revenues generated from related accessories. We anticipate that, on a percentage basis, revenues from the sale of reagents will grow more quickly than revenues from the sale of diagnostic laboratory instruments, as our installed base of diagnostic laboratory instruments grows and we increase the number of reagents that we offer and expand reagent sales internationally. We anticipate that we will continue to grow at a rapid pace as we further penetrate the diagnostic laboratory instruments market through the introduction of new advanced product offerings, such as our five-part hematology analyzers in 2006, and the expansion of the number of reagents we sell to our customers.

Ultrasound Imaging Systems. We derive revenues for our ultrasound imaging systems segment from sales of ultrasound devices and related accessories. Our ultrasound imaging systems use computer-managed sound waves to generate real-time images of anatomical movement and blood flow, and are commonly employed in medical fields such as urology, gynecology, obstetrics and cardiology. We anticipate that net revenues in our ultrasound imaging systems segment will continue to grow more quickly than net segment revenues, as we further penetrate the ultrasound imaging systems market and as we expand our products offerings to include our first color Doppler ultrasound imaging system in 2006.

In 2005 and the six months ended June 30, 2006, our best-selling product across our three business segments, the PM-9000 patient monitoring device, accounted for 20.5% and 13.3% of our net segment revenues, respectively. No other product accounted for more than 8% of our net segment revenues in either period. Although our best selling products change over time, we expect that a small number of key products will continue to account for a substantial portion of our revenues. See Risk Factors Risks Relating to Our Business and Industry We generate a substantial portion of our revenues from a small number of products, and a reduction in demand in any of these products could materially and adversely affect our financial condition and results of operations.

China has an ongoing program to reduce improper payments received by hospital administrators and doctors in connection with the purchase of pharmaceutical products and medical devices. In June 2006, PRC commercial anti-bribery laws were modified to expand and clarify the scope of persons potentially subject to prosecution. For example, it is now easier to prosecute hospital administrators and doctors for illegal activities under the commercial anti-bribery laws. We maintain a strict policy prohibiting our employees and distributors from engaging in improper activities in connection with the sale of our products, and we believe that more strict enforcement is beneficial for our industry and our business in the long term. We believe that our PRC customers have modified their purchasing patterns in response to the statutory modifications and increased enforcement activities. As a result, we expect our revenues will be adversely impacted in the third and possibly the fourth quarters of 2006 and possibly longer.

In May 2006, the SFDA changed the approval process for new medical devices by adding a new medical equipment safety standard, which we estimate increased by three months the typical time period required to obtain approval for new medical devices. This change delayed our planned introduction during the third quarter of 2006 of three new products, including our five-part hematology analyzer, color ultrasound imaging device and our Beneview patient monitor.

As a result of the events described above, our operating results in the six months ended June 30, 2006 may not be indicative of our operating results for the full year of 2006.

Our ability to grow our revenues depends on our ability to increase the market penetration of our existing products and on our ability to successfully identify, develop, introduce and commercialize, in a

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timely and cost-effective manner, new and upgraded products. We generally choose to devote resources to product development efforts that we believe are commercially feasible, can generate significant revenues and margins and can be introduced into the market in the near term.

In any period, a number of factors will impact our net revenues, including for example:

- the level of acceptance of our products among hospitals and other healthcare facilities;
- our ability to attract and retain distributors;
- new product introductions by us and our competitors;
- our ability to maintain prices for our products at levels that provide favorable margins; and
- our ability to expand into new international markets.

For a detailed discussion of the factors that may cause our net revenues to fluctuate, see Risk Factors Risks Relating to Our Business and Industry Our quarterly revenues and operating results are difficult to predict and could fall below investor expectations, which could cause the trading price of our ADSs to decline.

Cost of Revenues

Cost of revenues includes our direct costs to manufacture our products, including component and material costs, salaries and related personnel expenses, depreciation costs of plant and equipment used for production purposes, shipping and handling costs and provisional cost of warranty-based maintenance, repair services, and the cost of providing sales incentives.

Product mix is the most significant factor in determining our cost of revenues as a percentage of our net revenues. Cost of revenues has historically been highest in our ultrasound imaging systems segment, which was our fastest-growing segment from 2003 through the six months ended June 30, 2006. See Comparison of Six Months Ended June 30, 2005 and June 30, 2006 Gross Profit and Gross Margin and Comparison of Years Ended December 31, 2003, December 31, 2004 and December 31, 2005 Gross Profit and Gross Margin. We expect our ultrasound imaging systems segment to grow more quickly, as a percentage of net revenues, than our revenues overall, which could negatively impact our average gross margins. However, we have recently been able to improve our cost of revenues for our ultrasound imaging systems, resulting in gross margins of these products in the six months ended June 30, 2006 being comparable to those of our diagnostic laboratory instruments.

The direct costs of manufacturing a new product are generally highest when a new product is first introduced. In periods when we introduce a greater than average number of new products, our cost of revenues as a percentage of net revenues tends to be higher due to start-up costs associated with manufacturing a new product and generally higher raw material and component costs due to lower initial production volumes. As production volumes increase, we typically improve our manufacturing efficiencies and are able to strengthen our purchasing power by buying raw materials and components in greater quantities. In addition, we are able to lower our raw material and component costs by identifying lower-cost raw materials and components. Moreover, when production volumes become sufficiently large, we often gain further cost efficiencies by producing additional components in-house.

We currently have a relatively low cost base compared to medical device companies in more developed countries because we source a significant portion of our raw materials and components and manufacture all of our products in China. Historically, we have been able to reduce our raw material and component costs as we increase purchase volumes and make improvements in manufacturing processes. We have typically passed the majority of these cost savings on to our customers by offering them lower prices while maintaining targeted gross margin levels. However, we believe that, in the future, these reductions will be increasingly offset by rising costs of raw materials, components and wages in China resulting from China s further economic development. In particular, we expect that the costs of raw materials will increase in the near term. In addition, as we focus on more advanced products and new product lines, we may find it necessary to use

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higher-cost raw materials and components that may not be cheaper in China. We plan to mitigate future increases in raw material and component costs by using more common resources across our product lines, increasing in-house manufacture of components and adopting more uniform manufacturing and assembly practices.

Gross Profit and Gross Margin

Gross profit is equal to net revenues less cost of revenues. Gross margin is equal to gross profit divided by net revenues. Changes in our gross margins from period to period are primarily driven by changes in product mix. See Cost of Revenues. Between 2003 and 2005 and the six months ended June 30, 2006, we were able to maintain gross margins between approximately 50% and 60% across our business segments. We expect this trend to continue because we generally seek to develop only those products that we believe can provide us with an average gross margin of at least 50% over their life cycles. Gross margins for domestic and international sales tend to be substantially similar. Although the average sales prices of each of our products will generally decrease over time, these decreases do not tend to impact our gross margins negatively because in most instances they result from our ability to reduce our cost of revenues and our strategic decision to pass on these cost savings to our customers.

Operating Expenses

Our operating expenses consist of selling expenses, general and administrative expenses, research and development expenses, and employee share-based compensation expenses.

Selling Expenses

Selling expenses consist primarily of compensation and benefits for our sales and marketing staff, expenses for promotional, advertising, travel and entertainment activities, lease payments for our sales offices, and depreciation expenses related to equipment used for sales and marketing activities.

Between 2003 and 2005 and the six months ended June 30, 2006, selling expenses increased primarily as a result of increased headcount and increased international sales and marketing activities. Selling expenses as a percentage of net revenues decreased from 2003 to 2004, reflecting improved selling efficiencies, and increased in 2005 primarily as a result of employee share-based compensation expenses attributable to the contribution of shares to certain employees by our shareholders. Selling expenses as a percentage of net revenues decreased in the six months ended June 30, 2006 compared to the same period in 2005, principally as a result of a decrease in employee share-based compensation expenses. In the near term, we expect that certain components of our selling expenses will increase as we open new international sales and service offices to increase our market penetration in selected international markets. We presently operate four international sales and service offices and expect to open three more in the next 12 months.

Similar to most China-based manufacturers of medical devices, we primarily sell our products to distributors. Consequently, our sales and marketing expenses as a percentage of net revenues are significantly lower than manufacturers of medical devices that primarily sell their products directly to end-users. While we intend to continue to sell our products primarily to distributors, we also seek to build recognition of our brand through increasing marketing activities, which may increase our selling expenses in the future.

General and Administrative Expenses

General and administrative expenses consist primarily of compensation and benefits for our general management, finance and administrative staff, depreciation and amortization with respect to equipment used for general corporate purposes, professional advisor fees, lease payments and other expenses incurred in connection with general corporate purposes. We expect that most components of our general and administrative expenses will increase in the future as our business grows and as we incur increased costs related to being a public company. However, as a percentage of net revenues, we expect that general and administrative expenses will decrease in 2006 as compared to 2005 due primarily to lower share-based

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compensation expenses and improved operating leverage attributable to growing our staff more slowly than our net revenues. See Employee Share-Based Compensation Expenses.

Research and Development Expenses

Research and development expenses consist primarily of costs associated with the design, development and testing of our products. Among other things, these costs include compensation and benefits for our research and development staff, expenditures for purchases of supplies, depreciation expenses related to equipment used for research and development activities, and other relevant costs. Research and development expenses as a percentage of net revenues increased from 8.6% in 2003 to 9.8% in 2005 and to 9.9% in the six months ended June 30, 2006. Our investment in research and development in 2005 and in the six months ended June 30, 2006 is consistent with our plan to annually invest approximately 10% of our net revenues in research and development activities. This level of investment demonstrates our commitment to creating and maintaining what we believe is the largest research and development team of any medical device manufacturer in China, and continuing to develop and commercialize new and more advanced products.

Employee Share-Based Compensation Expenses

We account for employee share-based compensation expenses based on the fair value of share option grants at the date of grant, and we record employee share-based compensation expense to the extent that the fair value of those grants are determined to be greater than the price paid by the employee.

We did not incur any employee share-based compensation expenses in 2003 or 2004. We incurred three separate employee share-based compensation charges in 2005 totaling RMB70.9 million (US$8.9 million). The first charge, in the amount of RMB26.3 million (US$3.3 million), was recorded in connection with shares granted in 2005 to certain employees by our shareholders in consideration of past and present services to us. The second charge, in the amount of RMB11.6 million (US$1.5 million), was recorded in connection with the issuance of three million of our preferred shares to some of our employees and one non-employee director in exchange for three million of our ordinary shares. The third charge, in the amount of RMB33.0 million (US$4.1 million), related to an earnings adjustment provision entered into between those employees and our preferred shareholders. See notes 2(p) and 9 to our consolidated financial statements included elsewhere in this prospectus. We do not expect any future shareholder contribution of shares as part of any future employee share-based compensation plan.

The table below shows the effect of the 2005 and 2006 share-based compensation charges on our operating expense line items:

Employee Share-Based Compensation Related to:	**2003**	**2004**	**2005**	**1H2005**	**1H2006**
			(in RMB thousands)		
Cost of revenues			268	268	236
Selling expenses			8,576	8,576	3,337
General and administrative expenses			59,014	14,420	4,483
Research and development expenses			3,071	3,071	2,130

In February 2006, we adopted a new employee share-based compensation plan, pursuant to which certain members of our senior management and certain of our key employees received options to purchase up to 7,033,000 ordinary shares at an exercise price of US$5.00 per ordinary share. These options generally vest over the required service period, with approximately 25% of them vesting on each of January 31, 2007, 2008, 2009 and 2010. These options will also vest only if the option holder is still an employee of our company at the time of the relevant vesting and the individual has met performance criteria at that time. These options will expire on the eighth anniversary of their grant.

We incurred RMB10.2 million (US$1.3 million) in employee share-based compensation expenses in the six months ended June 30, 2006, and expect to incur employee share-based compensation expense in the amount of approximately RMB21.2 million (US$2.7 million) for the year ending December 31, 2006.

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Other Income (Expense)

Other income (expense), is the sum of the line items other income, net plus interest income less interest expense from our consolidated financial statements. Other income, net, has in the past consisted primarily of government subsidies for the development of new high technology medical products and government incentives for making high technology investments in our local region. We do not receive government subsidies or government incentives on a regular basis, and the amounts that we have received in the past have tended to fluctuate significantly. While we intend to continue to apply for government subsidies and government incentives in the future, there can be no guarantee that we will receive any.

Corporate Structure

Our predecessor entity was established and began operations in 1991. Today, we operate through a structure that was implemented in September 2005 under our Cayman Islands holding company Mindray International. We operate our business primarily through our PRC operating subsidiary, Shenzhen Mindray, which was formed in 1999. We conduct some of our research and development activities through Shenzhen Mindray s subsidiary, Beijing Mindray. In 2005, we established two subsidiaries in North America and Europe to support sales and service in those parts of the world.

Mindray International became our holding company on September 26, 2005 when the majority of our equity shareholders transferred approximately 91.1% of the equity of Shenzhen Mindray to Mindray International, through a series of linked transactions. In April 2006, we acquired all remaining shares in Shenzhen Mindray except for 300 shares. As a result, our holding company, Mindray International, now holds approximately 99.9% of the equity of Shenzhen Mindray. See Our Corporate Structure.

Taxes and Incentives

Our company is a tax exempted company incorporated in Cayman Islands and is not subject to taxation under the current Cayman Islands law. Our subsidiaries operating in the PRC are subject to PRC taxes as described below and the subsidiaries incorporated in the BVI are not subject to taxation.

The basic corporate income tax rate for the foreign-invested enterprises in the PRC is currently 33% (30% state tax and 3% local tax). However, as Shenzhen Mindray is a manufacturing enterprise located in Shenzhen special economic zone, the applicable income tax rate is 15% state tax and no local tax. Shenzhen Mindray is entitled to a tax exemption for two years from the year of its first taxable profit and a 50% tax reduction for the third to fifth year (7.5% state tax and nil% local tax). The first profitable year was 1999. Shenzhen Mindray also has been designated as a new and high technology enterprise, and is therefore eligible to receive a special additional corporate income tax holiday which represents a reduction in income tax of 50% resulting in a reduced tax rate of 7.5% for three years beginning in 2004 through 2006. For 2007, we plan to apply for classification of Shenzhen Mindray as a key software company, which would result in the qualification for a reduced corporate income tax rate of 10% for Shenzhen Mindray. Shenzhen Mindray has qualified as a key software enterprise in prior years, but did not apply for this 10% tax rate because its corporate tax rate was lower in those years. In 2007, a 10% corporate income tax rate would be the lowest rate available to Shenzhen Mindray. If Shenzhen Mindray does not qualify for key software enterprise status, it would be subject to a corporate income tax rate of 15%.

Beijing Mindray is entitled to a corporate income tax exemption for three years from its first year of operations and 50% tax reduction for the fourth to sixth year (15% state tax and no local tax).

The additional tax that would otherwise have been payable without corporate income tax preferential treatment totaled RMB7.8 million, RMB10.8 million, RMB18.1 million (US$2.3 million) and RMB13.2 million (US$1.7 million) in 2003, 2004, 2005 and in the six months ended June 30, 2006, respectively, representing a reduction in basic earnings per ordinary share of RMB0.09, RMB0.13, RMB0.22 (US$0.03) and RMB0.17 (US$0.02) in 2003, 2004, 2005 and in the six months ended June 30, 2006, respectively.

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Pursuant to a PRC tax policy intended to encourage the development of software and integrated circuit industries, Shenzhen Mindray was previously entitled to a refund of value-added tax paid at a rate of 14% of the sale value of self-developed software that is embedded in our products. The amount of the refund for this value-added tax included in net revenues was RMB18.5 million, RMB24.6 million and RMB32.1 million (US$4.0 million) in 2003, 2004 and 2005, respectively. Beginning in 2006, our embedded self-developed software is no longer eligible for this value-added tax refund due to changes in the types of software that are eligible for this tax refund. In the six months ended June 30, 2006, no value-added tax refunds were refundable on sales made during this period for embedded self-developed software, compared with refunds of RMB13.6 million in the same period of 2005.

We classify value-added tax refunds as Other income under segment reporting and include them in net revenues in our consolidated statement of operations included elsewhere in this prospectus.

Our effective income tax rates in 2003, 2004 and 2005 were 6.8%, 5.6% and 7.8%, respectively. Our effective income tax rates in the six months ended June 30, 2005 and 2006 were 7.4% and 7.2%, respectively.

As a result of the pending lapse of reduced corporate income tax rates for Shenzhen Mindray and Beijing Mindray and the loss of eligibility for value-added tax refunds for embedded, self-developed software, our historical operating results may not be indicative of our operating results for future periods. See Risk Factors Risks Related to Doing Business in China The discontinuation of any of the preferential tax treatments or the financial incentives currently available to us in the PRC could adversely affect our business, financial condition and results of operations.

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Results of Operations

The following table sets forth our condensed consolidated statements of operations by amount and as a percentage of our total net revenues for the periods indicated:

	Year ended December 31,						Six Months ended June 30,				
	2003		2004		2005		2005		2006		
	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues	Amount	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues	Amount	Amount	%
	RMB		RMB		RMB	US$		RMB (Unaudited)		RMB (Unaudited)	US$ (Unaudited)	
	(In thousands, except percentages)											
venues	460,254	100.0%	697,837	100.0%	1,078,573	134,918	100.0%	436,776	100.0%	676,764	84,656	1
f es[1]	(210,565)	45.7	(319,013)	45.7	(493,326)	(61,710)	45.7	(194,892)	44.6	(307,330)	(38,444)	
profit	249,689	54.3	378,824	54.3	585,247	73,208	54.3	241,884	55.4	369,434	46,212	
ting ses:												
g ses [1]	(61,322)	13.3	(92,177)	13.2	(146,499)	(18,325)	13.6	(69,427)	15.9	(99,975)	(12,506)	
ral and nistrative ses[1]	(35,808)	7.8	(32,340)	4.6	(112,082)	(14,020)	10.4	(37,750)	8.6	(24,865)	(3,110)	
rch and opment ses [1]	(39,781)	8.6	(61,604)	8.8	(106,147)	(13,278)	9.8	(48,146)	11.0	(66,678)	(8,341)	
ting ses	(136,911)	29.7	(186,121)	26.7	(364,728)	(45,623)	33.8	(155,323)	35.6	(191,518)	(23,957)	
ting e	112,778	24.5	192,703	27.6	220,519	27,585	20.4	86,561	19.8	177,916	22,255	
income se)[2]	(366)	0.0	(198)	0.0	11,045	1,381	1.0	117	0.0	6,503	814	
e before e taxes nority ts	112,412	24.4	192,505	27.6	231,564	28,966	21.5	86,678	19.8	184,419	23,069	
ion for e taxes	(7,624)	1.7	(10,758)	1.5	(18,066)	(2,260)	1.7	(6,449)	1.6	(13,191)	(1,650)	
					(8,409)	(1,052)	0.8			(6,455)	(808)	

ity ts											
come	104,788	22.8%	181,747	26.0%	205,089	25,654	19.0%	80,229	18.3	164,773	20,611

(1) Share-based compensation charges incurred during the period related to:

	Year ended December 31,						Six Months ended June 30,				
	2003		2004		2005			2005		2006	
	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues	Amount	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
	RMB		RMB		RMB	US$		RMB		RMB	US$	
	(In thousands, except percentages)										
Cost of revenues					268	34		268		236	30	
Selling expenses					8,576	1,073	0.8%	8,576	2.0%	3,337	417	0.5%
General and administrative expenses					59,014	7,382	5.5%	14,420	3.3%	4,483	561	0.7%
Research and development expenses					3,071	384	0.3%	3,071	0.7%	2,130	266	0.3%

(2) Other income (expense) is the sum of the line items other income, net plus interest income less interest expense from our audited consolidated financial statements.

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Comparison of Six Months Ended June 30, 2005 and June 30, 2006

Net Revenues

The following table sets forth net revenues by geographic regions and the percentage of our total net revenues and net revenues by business segment for the six months ended June 30, 2005 and 2006:

	Six Months Ended June 30				
	2005		2006		
	Net Revenues RMB	Net Revenues % of Total	Net Revenues RMB	Net Revenues US$	Net Revenues % of Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Geographic Data:					
China	267,067	61.1%	380,935	47,651	56.3%
Other Asia	77,851	17.8	86,672	10,842	12.8
Europe	35,514	8.1	114,245	14,291	16.9
North America	35,280	8.1	44,593	5,578	6.6
Other	21,064	4.8	50,320	6,294	7.4
Total Net Revenues	436,776	100.0%	676,764	84,656	100.0%
Segment Data:[(1)]					
Patient monitoring devices	217,731	51.8%	271,571	33,971	40.5%
Diagnostic laboratory instruments	104,491	24.9	190,454	23,824	28.4
Ultrasound imaging systems	93,037	22.1	200,300	25,055	29.9
Others	4,960	1.2	8,266	1,034	1.2
Total net segment revenues	420,219	100.0%	670,591	83,884	100.0%

(1) The segmental information was prepared primarily in accordance with PRC GAAP.

Our net revenues increased by RMB240.0 million (US$30.0 million), or 54.9%, to RMB676.8 million (US$84.7 million) in the six months ended June 30, 2006 from RMB436.8 million in the same period in 2005. This increase reflects primarily our continued sales volume growth in China and expanding sales volume in the international markets. In addition, we increased our number of exclusive domestic and international distributors to approximately 600 during this period.

On a geographic basis, net revenues generated in China increased by RMB113.8 million (US$14.2 million), or 42.6%, to RMB380.9 million (US$47.7 million) in the six months ended June 30, 2006 from RMB267.1 million in the same period in 2005. This increase reflects improvements across all of our business segments and increased government tender activities. Net revenues generated outside of China grew even faster than net revenues generated in China, increasing by 74.3% to RMB295.8 million (US$37.0 million) in the six months ended June 30, 2006 from RMB169.7 million for the same period in 2005. As a percentage of total net revenues, net revenues generated outside of China increased in the six months ended June 30, 2006 to 43.7% from 38.9% in the same period in 2005. This increase reflects our improved penetration in the international markets. In the six months ended June 30, 2006, net revenues from Europe increased by RMB78.7 million (US$9.8 million) compared to the same period in 2005. This

increase was primarily due to an increase in sales of biochemistry analyzers. We also began selling an additional ultrasound imaging system during this period in the European market after receiving the CE mark. Gross margins for domestic and international sales were substantially the same during this period. In the long-term, we expect that our net revenues generated outside of China will continue to grow at a faster rate than revenues generated in China.

Each of our business segments experienced significant net revenue growth in the six months ended June 30, 2006. Net revenues in our patient monitoring devices segment increased by RMB53.9 million (US$6.7 million), or 24.7%, to RMB271.6 million (US$34.0 million) in the six months ended June 30, 2006 from RMB217.7 million in the same period in 2005. This growth was primarily due to increased sales of our existing patient monitoring devices, particularly new products, which we define as those introduced in the

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preceding four quarters, in both our domestic and international markets. In particular, more than 50% of net revenues in our patient monitoring devices segment was attributable to new products such as our PM-8000 and PM-9000 patient monitoring devices. One ODM customer accounted for approximately 10.0%, and 6.5% of our patient monitoring devices segment revenues in the six months ended June 30, 2005 and 2006, respectively.

Net revenues in our diagnostic laboratory instruments segment increased by RMB86.0 million (US$10.8 million), or 82.3%, to RMB190.5 million (US$23.8 million) in the six months ended June 30, 2006 from RMB104.5 million in the same period in 2005. This growth was mainly due to increased sales of our diagnostic laboratory instruments, with sales of new products accounting for more than 50% of net revenues in our diagnostic laboratory instruments segment. In particular, our BS-200 a biochemistry analyzer, which we introduced in late 2005, accounted for more than 10% of our diagnostic laboratory instruments segment revenues in the six months ended June 30, 2006.

Net revenues in our ultrasound imaging systems business segment increased by RMB107.3 million (US$13.4 million), or 115.3%, to RMB200.3 million (US$25.1 million) in the six months ended June 30, 2006 from RMB93.0 million in the same period in 2005. This growth was principally a result of increased sales of our existing ultrasound imaging systems, particularly DP-9900, DP-6600, DP-3300 and DP-8800, and our increasing penetration into European and North American markets. In addition, there were increased government tender activities for ultrasound imaging equipment during the six months ended June 30, 2006 in China.

Cost of Revenues

Total cost of revenues as a percentage of total net revenues increased slightly from 44.6% to 45.4% in the six months ended June 30, 2005 and 2006, respectively. This slight increase as a percentage of total net revenues is due to elimination of value-added tax refunds on embedded self-developed software since 2006, and minor price decreases across our product lines, offset by cost controls on raw materials and component costs. Total cost of revenues increased by RMB112.4 million (US$14.1 million), or 57.7%, to RMB307.3 million (US$38.4 million) in the six months ended June 30, 2006 from RMB194.9 million in the same period in 2005. This increase was primarily due to an increase in the volume of our products sold during this period.

Gross Profit and Gross Margin

The following table sets forth gross profit in total and by segment, and gross margin (being gross profit divided by the related net revenues) overall and by segment in the six months ended June 30, 2005 and 2006:

	Six Months ended June 30,				
	2005		2006		
	Gross Profit	Gross Margin	Gross Profit	Gross Profit	Gross Margin
	(RMB)		(RMB)	(US$)	
	(in thousands, except percentages)				
Total:[1]	241,884	55.4%	369,434	46,212	54.6%
Segment Data:[2]					
Patient monitoring devices	130,285	59.8%	163,249	20,421	60.1%
Diagnostic laboratory instruments	58,875	56.3%	107,395	13,434	56.4%
Ultrasound imaging systems	47,313	50.9%	112,029	14,014	55.9%
Others	(5,246)		(8,133)	(1,017)	
Total	231,227		374,540	46,851	

(1) As reported in the consolidated statements of operations included elsewhere in this prospectus.

(2) The segmental information was prepared primarily in accordance with PRC GAAP.

Total gross profits increased by RMB127.5 million (US$15.9 million), or 52.7%, to RMB369.4 million (US$46.2 million) in the six months ended June 30, 2006 from RMB241.9 million in the same period in 2005. Our consolidated gross margin decreased to 54.6% in the six months ended June 30, 2006 from 55.4% in the same period in 2005, due to the elimination in 2006 of value-added tax refunds on embedded self-

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developed software previously available to us, which had contributed an additional RMB13.6 million to gross profits during the same period in 2005.

Gross margin for the patient monitoring devices segment slightly increased to 60.1% in the six months ended June 30, 2006 from 59.8% in the same period in 2005, primarily due to our ability to continue to increased sales of higher margin products.

Gross margin for the diagnostic laboratory instruments segment increased to 56.4% in the six months ended June 30, 2006 from 56.3% in the same period in 2005, reflecting primarily increased sales of models with higher margins as well as our ability to improve our cost structure as we improved economies of scale in manufacturing diagnostic laboratory instruments introduced during the last two years.

Gross margin for the ultrasound imaging systems increased to 55.9% in the six months ended June 30, 2006 from 50.9% in the same period in 2005, principally as a result of increased sales of models with higher margins, and increased net revenues from sales of our own brand products, as a percentage of total segment net revenue relative to ODM and OEM products. In particular, ODM sales tend to have lower gross margins but are higher in unit volume than sales to distributors or other customers. We do not intend to actively seek new ODM customers, as our growth strategy is focused on increasing sales of new products sold under our own brand. However, we may decide to add new ODM customers, if we believe these new customers would provide a valuable strategic opportunity. See Business Customers.

Operating Expenses

Our operating expenses consist primarily of selling expenses, general and administrative expenses, and research and development expenses. Our operating expenses increased by RMB36.2 million, or 23.3%, to RMB191.5 million (US$24.0) million in the six months ended June 30, 2006 from RMB155.3 million in the same period in 2005. This increase was primarily attributable to increases in salaries and expenses resulting from headcount increases. However, operating expense, as a percentage of total net revenue, decreased to 28.3% in the six months ended June 30, 2006 from 35.6% in the same period in 2005. This decrease was primarily attributable to a decrease in employee share-based compensation expenses included in operating expenses.

Selling Expenses

Our selling expenses increased by RMB30.5 million, or 44.0%, to RMB100.0 million (US$12.5 million) in the six months ended June 30, 2006 from RMB69.4 million in the same period in 2005. As a percentage of total net revenues, selling expenses decreased to 14.8% in the six months ended June 30, 2006 from 15.9% in the same period in 2005. This decrease was attributable to a decrease in share-based compensation allocated to selling expenses, partially offset by growing sales headcount, particularly on our international sales team, as well as increasing marketing expenses from a higher level of promotional activities.

General and Administrative Expenses

Our general and administrative expenses decreased by RMB12.9 million, or 34.1%, to RMB24.9 million (US$3.1 million) in the six months ended June 30, 2006 from RMB37.8 million in the same period in 2005. As a percentage of total net revenues, general and administrative expenses decreased to 3.7% in the six months ended June 30, 2006 from 8.6% in the same period in 2005. Of the total decrease, approximately RMB9.9 million was attributable to a decrease in share-based compensation expense in addition to a decrease of approximately RMB8.3 million in overhead expenses, such as social insurance and meal expenses, which have been classified as selling and research and development expenses starting from January 1, 2006. Such decreases were partially offset by an increase in salaries and depreciation expense.

Research and Development Expenses

Our research and development expenses increased by RMB18.5 million, or 38.5%, to RMB66.7 million (US$8.3 million) in the six months ended June 30, 2006 from RMB48.1 million in the same period in 2005.

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This increase was primarily attributable to increases in salaries and related expenses and increases in corporate overhead expenses. As a percentage of total net revenues, research and development expenses decreased to 9.9% in the six months ended June 30, 2006 from 11.0% in the same period in 2005. The decrease was attributable primarily to increased share-based compensation expense attributed to research and development expenses in the six months ended June 30, 2005.

Other Income

Other income was RMB0.1 million and RMB6.5 million (US$0.8 million) in the six months ended June 30, 2005 and 2006, respectively. The increase in other income was primarily due to an increase in interest income to RMB6.5 million (US$0.8) million in the six months ended June 30, 2006 compared to RMB0.6 million in the same period in 2005 as our average cash balance grew significantly.

Provision for Income Taxes

Provision for income taxes increased to RMB13.2 million (US$1.7 million) in the six months ended June 30, 2006, from RMB6.4 million in the same period in 2005. Due to various special tax rates and incentives in China, our taxes have been relatively low. Our effective income tax rates in the six months ended June 30, 2005 and 2006 were 7.4% and 7.2%, respectively. If these tax incentives had expired or were determined not to be available to us, we would have been required to pay an additional RMB13.2 million (US$1.7 million) in the six months ended June 30, 2006.

Minority Interests

Minority interests was RMB6.5 million (US$0.8 million) in the six months ended June 30, 2006 compared to nil in the same period in 2005, reflecting minority interests resulted from our reverse acquisition in September 2005, in which majority shareholders of Shenzhen Mindray exchanged their shares, representing approximately 91.1% of the share capital of Shenzhen Mindray, for the entire share capital of our holding company. We expect the minority interests charge to decrease substantially as a result of our acquisition of the minority interests in April 2006 which increased our holding company s equity ownership of Shenzhen Mindray to approximately 99.9%. See Our Corporate Structure .

Net Income

As a result of the foregoing, net income in the six months ended June 30, 2006 increased to RMB164.8 million (US$20.6 million) from RMB80.2 million in the same period in 2005, while net margin in the six months ended June 30, 2006 increased to 24.3% from 18.3% in the same period in 2005.

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Comparison of Years Ended December 31, 2003, December 31, 2004 and December 31, 2005

Net Revenues

The following table sets forth net revenues by geography and the percentage of our total net revenues and net revenues by business segment for 2003, 2004 and 2005:

	Year ended December 31,						
	2003		2004		2005		
	Net Revenues RMB	Net Revenues % of Total	Net Revenues RMB	Net Revenues % of Total	Net Revenues RMB	Net Revenues US$	Net Revenues % of Total
	(in thousands, except percentages)						
Geographic Data:							
China	346,772	75.3%	459,602	65.9%	626,997	78,431	58.1%
Other Asia	33,523	7.3	103,604	14.8	181,094	22,653	16.8
Europe	30,633	6.7	51,720	7.4	135,586	16,960	12.6
North America	35,271	7.7	52,825	7.6	69,135	8,648	6.4
Other	14,055	3.0	30,086	4.3	65,761	8,226	6.1
Total net revenues	460,254	100.0%	697,837	100.0%	1,078,573	134,918	100.0%
Segment Data:[(1)]							
Patient monitoring devices	280,584	63.5%	364,994	54.9%	496,464	62,102	47.8%
Diagnostic laboratory instruments	116,733	26.4	172,703	26.0	263,162	32,919	25.3
Ultrasound imaging systems	36,281	8.2	112,739	17.0	264,267	33,057	25.5
Others	8,142	1.9	14,481	2.1	14,334	1,793	1.4
Total net segment revenues	441,740	100.0%	664,917	100.0%	1,038,227	129,871	100.0%

(1) The segmental information was prepared primarily in accordance with PRC GAAP.

Our total net revenues increased from RMB460.3 million in 2003 to RMB697.8 million in 2004 and to RMB1,078.6 million (US$135.0 million) in 2005, or 51.6% and 54.6% growth, respectively. These increases primarily resulted from improved penetration in both our domestic and international markets and our introduction of new products. In addition, we increased our number of distributors from approximately 1,400 in 2003 to approximately 2,000 in 2004 and to approximately 2,500 in 2005. Between 2003 and 2005, we introduced more than 25 new products, which accounted for more than 35% of our 2005 total net revenues.

On a geographic basis, net revenues generated in China increased from RMB346.8 million in 2003 to RMB459.6 million in 2004 and to RMB627.0 million (US$78.4 million) in 2005, or 32.5% and 36.4% growth, respectively. These increases reflect increased sales generated from our new products to existing and new customers

as we added products that meet the needs of customers from different segments.

During the period from 2003 to 2005, net revenues generated outside of China grew even faster than net revenues generated in China, increasing from RMB113.5 million in 2003 to RMB238.2 million in 2004 and to RMB451.6 million (US$56.5 million) in 2005, or 109.9% and 89.6% growth, respectively. As a percentage of total net revenues, net revenues generated outside of China increased from 24.7% in 2003 to 34.1% in 2004 and to 41.9% in 2005. These increases reflect our improved penetration in international markets, with sales into 67 countries in 2003, 91 countries in 2004 and more than 120 countries in 2005. In 2005, net revenues from Europe increased by RMB83.9 million (US$10.5 million), or 162.3%, compared to 2004, while our net revenues in Asia, other than China, increased by RMB77.5 million (US$9.7 million), or 74.8%, compared to 2004. Gross margins for domestic and international sales are substantially similar. In the long term, we expect that these revenues will continue to grow at a faster rate than revenues from China.

Each of our business segments experienced significant net revenues growth in 2004 and 2005. Net revenues in our patient monitoring devices segment increased from RMB280.6 million in 2003 to

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RMB365.0 million in 2004 and to RMB496.5 million (US$62.1 million) in 2005, or 30.1% and 36.0% growth, respectively. This growth primarily resulted from increased sales of our existing patient monitoring devices, the introduction of our MEC-1000, MEC-2000 and PM-5000 patient monitoring devices in 2003, PM-50 and two OEM patient monitoring devices in 2004, and our PM-7000, VS-800 and Hypervisor VI patient monitoring devices in 2005. One ODM customer accounted for approximately 6.6%, 9.7%, and 7.3% of our patient monitoring devices segment revenues in 2003, 2004, and 2005, respectively.

Net revenues in our diagnostic laboratory instruments segment increased from RMB116.7 million in 2003 to RMB172.7 million in 2004 and to RMB263.2 million (US$32.9 million) in 2005, or 47.9% and 52.4% growth, respectively. This growth primarily resulted from increased sales of our existing diagnostic laboratory instruments, and the introduction of our BC-1800 hematology analyzer and BS-300 biochemistry analyzer in 2003 and the introduction of our BC-2800 series hematology analyzer in 2005.

Net revenues in our ultrasound imaging systems business segment increased from RMB36.3 million in 2003 to RMB112.7 million in 2004 and to RMB264.3 million (US$33.1 million) in 2005, or 210.5% and 134.5% growth, respectively. This growth primarily resulted from increased sales of our existing ultrasound imaging systems and the introduction of our MG-66 and DP-8800 ultrasound imaging systems in 2003, the introduction of our DP-6600 ultrasound imaging system and the production of an ultrasound imaging system for an ODM customer in 2004, and the introduction of our three ultrasound imaging systems, our DP-7700, DP-3200 and DP-3300, in 2005. This ODM customer accounted for 44.6% and 25.4% of our ultrasound imaging systems segment revenues in 2004 and 2005, respectively.

Cost of Revenues

Total cost of revenues as a percentage of total net revenues was 45.7% in each of 2003, 2004 and 2005. This stability is attributable primarily to the increase in sales volume being offset by savings on raw materials and components and improved manufacturing efficiencies. Total cost of revenues increased from RMB210.6 million in 2003 to RMB319.0 million in 2004 and to RMB493.3 million (US$61.7 million) in 2005, or 51.5% and 54.6% growth, respectively. These increases were primarily due to increases in the volume of our products sold during these periods.

Gross Profit and Gross Margin

The following table sets forth gross profit in total and by segment, and gross margin overall and by segment for the periods indicated:

	For the Years Ended December 31,						
	2003		2004		2005		
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Profit	Gross Margin
	(RMB)		(RMB)		(RMB)	(US$)	
	(In thousands, except percentages)						
Total[(1)]	249,689	54.3%	378,824	54.3%	585,247	73,208	54.3%
Segment Data[(2)]:							
Patient monitoring devices	163,426	58.2%	220,695	60.5%	293,643	36,732	59.1%
Diagnostic laboratory instruments	61,846	53.0	91,149	52.8	147,442	18,443	56.0
	17,849	49.2	56,603	50.2	133,348	16,680	50.5

Ultrasound imaging systems				
Others	(6,061)	(7,733)	(12,950)	(1,620)
Total	237,060	360,714	561,483	70,235

(1) As reported in the consolidated statement of operations included elsewhere in this prospectus.

(2) The segmental information was prepared primarily in accordance with PRC GAAP.

Total gross profit increased from RMB249.7 million in 2003 to RMB378.8 million in 2004 and to RMB585.2 million (US$73.2 million) in 2005, or 51.7% and 54.5% growth, respectively. Our consolidated gross margin was 54.3% in each of 2003, 2004 and 2005.

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Gross margin for the patient monitoring devices segment increased from 58.2% in 2003 to 60.5% in 2004, reflecting primarily improvements in the cost structure of our best selling patient monitoring device, PM-9900, and decreased to 59.1% in 2005, reflecting slight margin declines in some of our best selling patient monitoring devices, as a result of our strategic decision to further expand market share in China and internationally by selling at more competitive prices.

Gross margin for the diagnostic laboratory instruments segment decreased from 53.0% in 2003 to 52.8% in 2004, reflecting primarily a change in product mix as we increased sales of our new biochemistry products introduced in 2003, and increased to 56.0% in 2005, reflecting the introduction of an upgraded model with a higher gross margin to one of our best selling hematology analyzers and our ability to improve the cost structure of our best selling biochemistry analyzers.

Gross margin for the ultrasound imaging systems segment increased from 49.2% in 2003 to 50.2% in 2004, reflecting primarily a change in product mix as we increased sales of new products with higher gross margin, and increased again slightly to 50.5% in 2005, due to increased sales of our own brand products, which generally have higher gross margins than our ODM and OEM products in 2005.

Operating Expenses

Our operating expenses consist of selling expenses, general and administrative expenses, and research and development expenses. Our operating expenses increased from RMB136.9 million in 2003 to RMB186.1 million in 2004 and to RMB364.7 million (US$45.6 million) in 2005, or 35.9% and 96.0% growth, respectively. Operating expense, as a percentage of total net revenue, decreased from 29.7% in 2003 to 26.7% in 2004, and increased to 33.8% in 2005.

Selling Expenses

Our selling expenses, as a percentage of total net revenues, decreased from 13.3% in 2003 to 13.2% in 2004 and increased to 13.6% in 2005, reflecting improved selling efficiencies in each of these years, which was offset in 2005 by employee share-based compensation expenses. Our selling expenses increased from RMB61.3 million in 2003 to RMB92.2 million in 2004 and to RMB146.5 million (US$18.3 million) in 2005. These increases were primarily attributable to the following:

- increases in salaries and bonus payments accounted for 38.5% of the increase in 2004, and 46.3% of the increase in 2005 (excluding employee share-based compensation expenses relating to a share grant contributed by shareholders in the amount of RMB8.6 million);
- increases in travel and entertainment expenses accounted for 13.8% of the increase in 2004, and 22.5% of the increase in 2005;
- increases in marketing and training expenses accounted for 25.9% of the increase in 2004, and 8.3% of the increase in 2005; and
- an increase in 2005 in employee share-based compensation expenses related to a share grant contributed by shareholders as compensation for past and current services provided, which accounted for 5.9% of the increase in 2005.

General and Administrative Expenses

Our general and administrative expenses, as a percentage of total net revenues, decreased from 7.8% in 2003 to 4.6% in 2004, and increased to 10.4% in 2005. Our general and administrative expenses decreased from RMB35.8 million in 2003 to RMB32.3 million in 2004, and increased to RMB112.1 million (US$14.0 million) in 2005. Of the total decrease between 2003 and 2004, a decrease in salaries and performance bonus payments accounted for the majority of the decrease, which was partially offset by increases in other overhead expenses such as training costs. Of the total increase in our general and administrative expenses between 2004 and 2005, 74.0% was attributable to employee share-based compensation expenses in connection with both a share grant contributed by shareholders in January 2005 as

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compensation for past and current services provided, and the issuance of convertible preferred shares in September 2005.

Research and Development Expenses

Our research and development expenses, as a percentage of total net revenues, increased from 8.6% in 2003 to 8.8% in 2004 and to 9.8% in 2005. Our research and development expenses increased from RMB39.8 million in 2003 to RMB61.6 million in 2004 and to RMB106.1 million (US$13.3 million) in 2005. Increases in the headcount of our research and development staff accounted for 65.4% of the increase in 2004, and 57.3% of the increase in 2005. Employee share-based compensation expenses accounted for 6.9% of the increase in 2005. See Employee Share-Based Compensation Expenses.

Other Income (Expense)

We had other expenses of RMB(0.4) million and RMB(0.2) million in 2003 and 2004, and other income of RMB11.0 million (US$1.4 million) in 2005, respectively. A majority of other income in 2005 was related to our receipt of government subsidies. We receive government subsidies on an intermittent basis, and while we expect to continue to apply for them, we may not receive them in the future.

Provision for Income Taxes

Provision for income taxes increased from RMB7.6 million in 2003 to RMB10.8 million in 2004 and to RMB18.1 million (US$2.3 million) in 2005. Due to various special tax rates, tax holidays and incentives that have been granted to us in China, our taxes in recent years have been relatively low. The additional amounts of taxes that we would have otherwise been required to pay had we not enjoyed the various special tax rates, tax holidays and incentives in China would have been RMB7.8 million in 2003, RMB10.8 million in 2004 and RMB18.1 million (US$2.3 million) in 2005.

Minority Interests

We had no minority interests in 2003, and minority interests increased to RMB1.0 million on 2004 and to RMB8.4 million (US$1.1 million) in 2005. The increase in 2005 resulted from the reverse merger in September 2005.

Net Income

As a result of the foregoing, net income increased from RMB104.8 million in 2003 to RMB181.7 million in 2004 and to RMB205.1 million (US$25.7 million) in 2005, while net margin increased from 22.8% in 2003 to 26.0% in 2004 and decreased to 10.0% in 2005. The increase in net margin from 2003 to 2004 reflects primarily a decrease in general and administrative expenses, which was partially offset by an increase in research and development expenses. The decrease in net margin from 2004 to 2005 reflects primarily increases in employee share-based compensation expenses, minority interests and research and development costs.

Liquidity and Capital Resources

	Years ended December 31,				Six Months ended June 30,		
	2003	2004	2005	2005	2005	2006	2006
	RMB	RMB	RMB	US$	RMB (Unaudited)	RMB (Unaudited)	US$ (Unaudited)
	(In thousands)						
Cash and cash equivalents	130,297	178,556	446,143	55,808	107,610	212,875	26,628
Net cash from operating activities	149,406	165,840	363,385	45,455	149,191	203,474	25,452
Net cash used in investing activities	(53,869)	(21,591)	(62,428)	(7,809)	(37,630)	(137,385)	(17,186)
Net cash used in financing activities	(19,200)	(95,990)	(33,370)	(4,174)	(182,507)	(299,357)	(37,446)

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Operating Activities

Net cash provided by operating activities in 2003, 2004, 2005 and the six months ended June 30, 2006, was generated from our net income of RMB104.8 million, RMB181.7 million, RMB205.1 million (US$25.7 million), and RMB164.7 million (US$20.6 million), after adjustment in each year for non-cash items, such as depreciation and amortization, and for changes in various assets and liabilities, such as accounts receivables, inventories and prepaid expenses.

Our inventory balances as of December 31, 2003, 2004, 2005 and June 30, 2006 were RMB65.3 million, RMB86.3 million, RMB105.4 million (US$13.2 million) and RMB120.7 million (US$15.1 million), respectively. Our number of inventory days, which we define as the average annual inventory balances divided by cost of revenues, multiplied by 365, declined from 87 days in 2004, to 71 days in 2005, and to 67 days in the six months ended June 30, 2006. As of December 31, 2004 and 2005, we had aggregate increases of RMB13.7 million and RMB32.4 million (US$4.0 million), respectively, in accounts receivable, in each case as compared to the prior year. Our accounts receivable decreased from RMB71.3 million as of December 31, 2005 to RMB66.6 million (US$8.3 million) as of June 30, 2006. Average accounts receivable days increased from 17 days in 2004 and to 19 days in 2005 and remained at 19 days in the six months ended June 30, 2006. These increases primarily resulted from our growth in net revenues from expansion of international sales, because of our international distributors receiving longer average payment terms and in some cases paying by letter of credit, and our increased volume of tender sales.

Our accounts payable as of December 31, 2003, 2004, 2005 and June 30, 2006 were RMB14.5 million, RMB33.0 million, RMB62.8 million (US$7.9 million) and RMB66.1 million (US$8.3 million), respectively. Our average number of days of accounts payable at December 31, 2004 and 2005 and June 30, 2006 was 27 days, 35 days and 38 days, respectively.

Investing Activities

Investing activities primarily include pledged bank deposits, restricted cash, third party loans and purchases of property, plant and equipment. Net cash used in investing activities was RMB53.9 million in 2003, RMB21.6 million in 2004 and RMB62.4 million (US$7.8 million) in 2005, reflecting largely purchases of property, plant and equipment. These purchases were primarily made in connection with the expansion and upgrade of our research and development and manufacturing facilities. Net cash used in investing activities was RMB137.4 million (US$17.2 million) in the six months ended June 30, 2006, reflecting primarily an investment of RMB100.0 million (US$12.5 million) in a two-year debt instrument guaranteed by a major PRC commercial bank. See note 6 to our consolidated financial statements included elsewhere in this prospectus. We expect other investing activities for the full year in 2006 to remain at levels comparable to 2005. However, net cash to be used in investing activities in the next three years will likely increase significantly from previous levels, reflecting our plan to further upgrade and expand our existing facilities, particularly the expansion of our headquarters building adjacent to our current Shenzhen headquarters.

Financing Activities

Cash used in financing activities consist of dividend payments, which totaled RMB17.2 million, RMB86.0 million and RMB206.4 million (US$25.8 million) in 2003, 2004 and 2005, respectively, and repayment of bank loans, which totaled RMB2.0 million, RMB10.0 million and RMB37.0 million (US$4.6 million) in 2003, 2004 and 2005, respectively. Cash used in financing activities in 2005 was partially offset by cash in the amount of RMB209.9 million (US$26.3 million) that we generated from the issuance of convertible preferred shares. In the six months ended June 30, 2006, cash used in financing activities primarily consisted of dividend payments of RMB299.4 million (US$37.4 million).

We maintain three small working capital facilities with banks in China. We have applied RMB17.2 million (US$2.1 million) of the credit facilities towards issuance of letters of credit used as payments to our suppliers and also as security deposits when we bid in government tenders. As of June 30, 2006, the total borrowing capacity under these working capital facilities was RMB250.0 million (US$31.3 million), of which RMB247.6 million (US$31.0 million) was available. We maintain these working

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capital facilities primarily to foster long-term relationships with our banks and are not subject to any operational or financial covenants under these working capital facilities.

Pursuant to relevant PRC laws and regulations applicable to our subsidiaries in the PRC, these subsidiaries are required to make appropriations from net income as determined in accordance with PRC GAAP to non-distributable reserves (also referred to as statutory common reserves), which included a statutory surplus reserve and a statutory welfare reserve as of December 31, 2005. Based on newly revised PRC Company law which took effect on January 1, 2006, the PRC subsidiaries are no longer required to make appropriations to the statutory welfare reserve but appropriations to the statutory surplus reserve are still required to be made at 10% of the profit after tax as determined under PRC GAAP until the balance of such reserve fund reaches 50% of the subsidiaries registered capital.

The statutory surplus reserve is used to offset future extraordinary losses. Our subsidiaries may, upon a resolution passed by the shareholders, convert the statutory surplus reserve into capital. The statutory welfare reserve was used for the collective welfare of the employees of subsidiaries. These reserves represent appropriations of retained earnings determined according to PRC law and may not be distributed. There were no appropriations to reserves other than to those of our subsidiaries in the PRC during any of the periods presented. However, as a result of these laws, approximately RMB160.4 million (US$20.1 million) of our retained earnings was not available for distribution as of December 31, 2005.

We believe that our current levels of cash and cash equivalents and cash flows from operations, combined with the net proceeds from this offering, will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, we may need additional cash resources in the future if we experience changed business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar action. If we ever determine that our cash requirements exceed our amounts of cash and cash equivalents on hand, we may seek to issue debt or equity securities or obtain a credit facility. Any issuance of equity securities could cause dilution for our shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and finance covenants. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all.

Capital Expenditures

In 2003, 2004, 2005 and the six months ended June 30, 2006, our capital expenditures totaled RMB50.5 million, RMB28.1 million, RMB68.2 million (US$8.5 million) and RMB26.9 million (US$3.4 million), respectively. In past years, our capital expenditures consisted primarily of the purchases of property, plant and equipment and investments in buildings that we made in connection with expansions of our sales and services offices. We expect to spend approximately RMB240.0 million (US$30.0 million) in the next 12 months on the expansion of our headquarters building adjacent to our current Shenzhen headquarters.

Contractual Obligations

A summary of our contractual obligations at December 31, 2005 is as follows:

	Contractual Obligations					
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total	Total
	RMB	RMB	RMB	RMB	RMB	US$
	(In thousands)					
Capital commitments	11,512				11,512	1,440
Operating leases[1]	4,682	7,487	2,127		14,296	1,788
Bank loans						
Notes payable	17,153				17,153	2,146

Total	33,347	7,487	2,127	42,961	5,374

(1) Operating leases are for office premises and our assembly and manufacturing facility.

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Off-Balance Sheet Arrangements

We do not have any outstanding off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts. In our ongoing business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financials partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies

We prepare our financial statements in conformity with US GAAP, which requires us to make estimates and assumptions that affect our reporting of, among other things, assets and liabilities, contingent assets and liabilities and net revenues and expenses. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and other factors that we believe to be relevant under the circumstances. Since our financial reporting process inherently relies on the use of estimates and assumptions, our actual results could differ from what we expect. This is especially true with some accounting policies that require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our audited consolidated financial statements because they involve the greatest reliance on our management s judgment.

Allowance for Doubtful Accounts

We generally require domestic customers to make a deposit prior to shipment, and from time to time we also grant credit to domestic customers in the normal course of business. Our international customers are required to pre-pay for their products in cash or with letters of credit. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance is determined by (1) analyzing specific customer accounts that have known or potential collection issues and (2) applying historical loss rates to the aging of the remaining accounts receivable balances. The allowance for doubtful accounts was RMB2.0 million, RMB2.0 million (US$0.3 million) and RMB 2.0 million (US$0.3 million) in 2004, 2005 and the six months ended June 30, 2006, respectively. In the future, additional allowance may be required if we change our credit policy as our customer base expands and further diversifies, or if we begin to extend credit to our international customers, and if the financial condition of our customers were to deteriorate.

Provisions for Inventories

Inventories, which include material, labor and manufacturing overhead, are valued at the lower of cost or market using the weighted average method of determining inventory cost. Management evaluates inventory from time to time for obsolete or slow-moving inventory and we base our provisions on our estimates of forecasted net revenue levels, economic market conditions and quantity on hand. A significant change in the timing or level of demand for our products as compared to forecasted amounts may result in recording additional provisions for obsolete or slow-moving inventory in the future. We record such adjustments to cost of sales in the period the condition exists.

Provisions for Income Taxes

We record liabilities for probable income tax assessments based on our estimate of potential tax related exposures. Recording of these assessments requires significant judgment as uncertainties often exist in respect to new laws, new interpretations of existing laws and rulings by taxing authorities. Differences between actual results and our assumptions, or changes in our assumptions in future periods, are recorded in the period they become known. Although we have recorded all probable income tax accruals in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*, and SFAS No. 109, *Accounting for Income Taxes*, our accruals represent accounting estimates that are subject to the inherent uncertainties associated with the tax audit process, and therefore include certain contingencies. We believe that any potential tax assessments from the various tax authorities that are not covered by our income tax

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provision will not have a material adverse impact on our consolidated financial position or cash flows. However, they may be material to our consolidated earnings of a future period. Our overall effective tax rate was 7.8% in 2005 and 7.2% for the six months ended June 30, 2006.

Revenue Recognition

Our revenue primarily consists of the sale of medical products. Revenue is considered to be realized or realizable and earned when all of the following criteria are met: persuasive evidence of a sales arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectibility is reasonably assured. These criteria are generally met at the time of shipment when the risk of loss passes to the customer.

We offer sales incentives to certain customers in the form of future credits or free products. We treat and accrue the cost of these sales incentives as a cost of revenues and classify the corresponding liability as current.

Valuation of Share-Based Compensation

We account for share-based compensation to our employees based on SFAS No. 123, and will record compensation expense to the extent the fair value of the options or shares transferred is determined to be greater than the price paid by the employee on the date of grant. We incurred three separate compensation charges in 2005 totaling RMB70.9 million (US$8.9 million). The first charge, in the amount of RMB26.3 million (US$3.3 million), was recorded in connection with a share grant contributed by shareholders in January 2005 to certain of our employees for past and current services. The second charge in the amount of RMB11.6 million (US$1.5 million), was recorded in connection with the issuance of three million of our preferred shares to some of our employees and one non-employee director in exchange for three million of our ordinary shares. The third charge, in the amount of RMB33.0 million (US$4.1 million), related to our earnings adjustment provision entered into between those employees and our preferred shareholders. See Related Party Transactions Shareholders Agreement and notes 2(p) and 9 to our consolidated financial statements included elsewhere in this prospectus for a discussion of the mechanics of the earnings adjustment provision.

With respect to the shares granted in January 2005, we retained an independent appraiser to produce a valuation report on the fair value of our company. The independent appraiser employed two valuation approaches, the comparable transaction method and a discounted cash flow model, and presented in the valuation report a fair value of US$2.49 per share, based on a weighted average of the resulting valuations from the two different approaches. Significant management judgment is involved in determining the discounted cash flows and the underlying variables. The discount rate reflects the risk that is specific to the business. We concluded that US$2.49 was the fair value based on management s evaluation of the report.

The fair value of preferred shares issued has been estimated at fair value of approximately US$4.18, which was based on a valuation report by an independent appraiser on the fair value of our company that allocated the value between the convertible preferred shares and ordinary shares. The independent appraiser employed two valuation approaches, the comparable transaction method and a discounted cash flow model, and presented in the valuation report with a 13.0% differential between the ordinary and convertible preferred shares, based on a weighted average of the resulting valuations from the two different approaches. Significant management judgment is involved in determining the discounted cash flows and the underlying variables. The discount rate reflects the risk that is specific to the business. We concluded that the best estimate of fair value of the ordinary shares in September 2005 was approximately US$3.70.

In the first quarter of 2006, we granted share options to our employees. We used the Black-Scholes option-pricing model to determine the amount of employee share-based compensation expense. This approach requires us to make assumptions on such variables as share price volatility, expected lives of options and discount rates. Changes in these assumptions could significantly affect the amount of employee share-based compensation expense we recognize in our consolidated financial statements.

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Quantitative and Qualitative Disclosures about Market Risk

Foreign Exchange Risk

Although the conversion of the Renminbi is highly regulated in China, the value of the Renminbi against the value of the US dollar (or any other currency) nonetheless may fluctuate and be affected by, among other things, changes in China s political and economic conditions. Under the currency policy in effect in China today, the Renminbi is permitted to fluctuate in value within a narrow band against a basket of certain foreign currencies. China is currently under significant international pressures to liberalize this government currency policy, and if such liberalization were to occur, the value of the Renminbi could appreciate or depreciate against the US dollar.

We use the Renminbi as the reporting and functional currency for our financial statements. All transactions in currencies other than the Renminbi during the year are re-measured at the exchange rates prevailing on the respective relevant dates of such transactions. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than the Renminbi are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our consolidated statement of operations.

Fluctuations in exchange rates may affect our costs, operating margins and net income. For example, in 2005, 58.1% of our net revenues were generated from sales denominated in Renminbi, and 4.7% of our operating expenses were denominated in US dollars and other foreign currencies. In 2005 and the six months ended June 30, 2006, fluctuations in the exchange rates between the Renminbi and US dollar and other foreign currencies resulted in an increases in operating income of RMB2.8 million (US$0.3 million) and RMB2.6 million (US$0.3 million), respectively, and decreases in operating expenses of RMB4.0 million (US$0.5 million) and RMB3.7 million (US$0.5 million), respectively.

Fluctuations in exchange rates may also affect our balance sheet. For example, to the extent that we need to convert US dollars received in this offering into Renminbi for our operations, appreciation of the Renminbi against the US dollar would have an adverse effect on the Renminbi amount that we receive from the conversion. Conversely, if we decide to convert our Renminbi into US dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the US dollar against the Renminbi would have a negative effect on the US dollar amount available to us. Considering the amount of our cash and cash equivalents as of June 30, 2006, and including with that amount the anticipated net proceeds that we will receive from this offering, a 1.0% change in the exchange rates between the Renminbi and the US dollar will result in an increase or decrease of RMB10.5 million (US$1.3 million) for our total amount of cash and cash equivalents.

We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk and do not currently intend to do so.

Interest Rate Risk

As of June 30, 2006, we had no short-term or long-term borrowings. If we borrow money in future periods, we may be exposed to interest rate risk. We do not have any derivative financial instruments and believe our exposure to interest rate risk and other relevant market risks is not material.

Inflation

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the change in Consumer Price Index in China was 1.2%, 3.9% and 1.8% in 2003, 2004 and 2005, respectively.

Recently Issued Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board, or the FASB, issued Statement of Financial Accounting Standard, or SFAS, No. 151, which is entitled *Inventory Costs an amendment of ARB No. 43, Chapter 4.* SFAS No. 151 clarifies the accounting principles that require abnormal amounts of

idle facility expenses, freight and handling costs and spoilage costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred on or after June 15, 2005. The issuance of SFAS No. 151 did not have a material effect on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), also known as SFAS No. 123R, which is entitled *Share-Based Payments.* SFAS No. 123R eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board, or APB, Opinion No. 25, which is entitled *Accounting for Stock Issued to Employees,* to stock compensation awards issued to employees. Instead, companies are required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award. SFAS 123R is effective for the fiscal year beginning January 1, 2006 and applies to all awards granted, modified, repurchased or cancelled such that date. The issuance of SFAS No. 123R did not have a material effect on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, which is entitled *Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29.* SFAS No. 152 amends APB Opinion No. 29, which is entitled *Accounting for Nonmonetary Transactions,* to eliminate the exception for nonmonetary exchanges of similar productive assets. The eliminated exception is replaced a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS 153 is effective for nonmonetary assets exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this statement is not expected to have a material effect on our financial position or results of operations.

In March 2005, the FASB issued FASB Interpretation No., or FIN, 47, which is entitled *Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS No. 143.* FIN 47 clarifies that an entity is required to recognize a liability for a legal obligation to perform an asset retirement activity if the fair value can be reasonably estimated even though the timing and/or method of settlement are conditional on a future event. FIN 47 is required to be adopted for annual reporting periods ending after December 15, 2005. We are currently evaluating the effect of the adoption of FIN 47 and believe at this time that the issuance of FIN 47 will not have a material effect on our financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, which is entitled *Accounting Changes And Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3.* SFAS No. 154 supersedes both APB Opinion No. 20, which is entitled *Accounting changes* and SFAS No. 3, which is entitled *Reporting Accounting changes in Interim Financial Statements.* SFAS No. 154 requires changes in accounting principles to be retrospectively applied to financial statements for past periods, unless it would be impracticable to determine the period-specific effects or the cumulative effects of such changes. Under the previous standard set forth in APB Opinion No. 20, most voluntary changes in accounting principles were required to be recognized by including in the net income for the period of a change the cumulative effects of such change. SFAS No. 154 will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The issuance of SFAS No. 154 is not expected to have a material effect on our financial position or results of operations.

In September 2005, the FASB s Emerging Issues Task Force, or EITF, reached a final consensus on Issue 04-13, which is entitled *Accounting for Purchases and Sales of Inventory with the Same Counterparty.* EITF 04-13 requires two or more legally separate exchange transactions by a party with the same counterparty to be combined and considered a single arrangement for purposes of applying APB Opinion No. 29, which is entitled *Accounting for Nonmonetary Transactions,* when such legally separate transactions are entered into in contemplation of one another. EITF 04-13 is effective for new arrangements entered into, or modifications or renewals of existing arrangements made, in the reporting periods beginning after March 15, 2006. The adoption of EITF 04-13 is not expected to have a material effect on our financial position or results of operations.

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OUR INDUSTRY

The Global Medical Device Industry Overview

According to Frost & Sullivan, the global medical device industry had an estimated value of US$148 billion in 2004. The United States is the largest market for medical devices with an estimated value of US$64 billion in 2004, or 43.0% of the global market. Europe is the second largest market for medical devices with an estimated value of US$44 billion in 2004, or 30.0% of the global market. China s market for medical devices had an estimated value of US$7.5 billion, or 5.1% of the global market.

Background on China s Medical Device Market

China s medical device market, as well as the medical device markets in several developing countries, is projected to grow faster than the global medical device market. According to Frost & Sullivan, China s medical device market is projected to grow from US$7.5 billion in 2004 to US$10.1 billion in 2006. Reasons for this faster growth in China include:

A fast growing domestic economy. According to Frost & Sullivan, China s GDP is projected to grow from $1.6 trillion in 2004 to $2.5 trillion in 2008.

Increasing expenditures on healthcare as a percentage of GDP. Frost & Sullivan estimates that in 2005, the United States, with a population of approximately 296 million, had healthcare expenditures representing 15.9% of its GDP, compared to just 6.7% of GDP that China, with a population of approximately 1.3 billion, spent on healthcare. China s healthcare expenditures grew from 5.0% of GDP in 1999 to 6.7% of GDP in 2005, representing a growth rate of approximately 5%. During the same period, US healthcare expenditures grew from 13.2% to 15.9%, representing a growth rate of approximately 3%.

Increasing desire for and utilization of more advanced technologies in Chinese hospitals and clinics. The market penetration of common medical equipment in Chinese hospitals is low when compared to hospitals in more developed countries. However, we believe hospitals in China are purchasing more advanced technology as they attempt to compete for patients and generate additional profits.

Increasing availability of healthcare insurance. The increasing availability of healthcare insurance generally provides coverage for more advanced and extensive healthcare services than were previously available.

Increasing autonomy at the hospital level. Although governmental entities own and control substantially all of the hospitals in China, recent healthcare system reforms have resulted in a trend of greater operating autonomy at local levels. For example, hospitals in China today rely less and less on governmental funding and are generally expected to earn enough revenues on their own to cover 70% to 90% of their operating expenses. This has led to a greater focus on achieving efficiencies and improving services by regional hospital administrators, who now typically have the authority to make decisions regarding equipment purchases.

Increasing government focus on improving quality of care. The outbreak of SARS in 2003 heightened the government s awareness of the need to improve the country s healthcare infrastructure, and healthcare has become a priority for the PRC government.

Chinese Healthcare Institutions

According to the PRC Ministry of Health, there were approximately 18,700 hospitals and 41,700 healthcare clinics in China in 2005. The hospitals, which on average had approximately 130 beds, can be further divided into approximately 950 large-sized hospitals, 5,200 medium-sized hospitals and 12,500 small-sized hospitals, commonly referred to as Tier III, Tier II and Tier I and other hospitals, respectively, in China.

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Chinese Medical Device Manufacturers

According to Medistat, World Market Analysis 2004, published by Espicom Business Intelligence, an independent market research firm, there were approximately 2,900 medical device manufacturers in China at the end of 2003. However, most domestic manufacturers are state-owned small- and medium-sized companies producing basic medical supplies, such as bandages, patient aids and medical or surgical instruments. Therefore, imported medical equipment accounted for 85% to 90% of the China medical device market in 2002, the most recent year for which data is available. However, more advanced medical products are expected to be produced in China in the next few years. Those China-based companies that are able to develop and manufacture more advanced products at lower costs then their international competitors should be able to capitalize on the growing desire for better quality of care in China and emerge as leaders in domestic medical device manufacturing.

Medical Device Marketing and Distribution in China

Hospitals in China purchase a majority of their medical devices and supplies through distributors. Medical device distribution is highly specialized and localized in China. Most medical device distributors operate within relatively small territories. Few distributors are willing or able to cover the entire country. Most distributors focus on China s eastern coastal cities, where purchasing power is concentrated, while western China tends to have very limited coverage. In addition, different provinces in China often have their own medical and insurance practices, purchasing policies and regulatory requirements which further increases the complexity of medical device distribution. As a result, most manufacturers need to appoint multiple distributors to effectively cover all of the geographic areas in China. The ability to leverage local contacts and knowledge is vital in creating an effective distribution network in China, creating a significant barrier to entry for both smaller local companies and larger international competitors that lack a meaningful local presence.

The Patient Monitoring Devices Market

Patient monitoring devices measure patient vital signs and provide for patient safety and management of patient care. These devices have evolved from single vital sign monitoring devices, which measured and displayed a specific parameter, to mostly multiparameter monitoring devices. Multi-parameter monitoring devices evolved out of the need for faster set-up by healthcare staff, fewer wires and complex hookups, and the ability to concurrently examine several vital measurements. They take multiple input signals from biosensors, such as thermometers, blood pressure sensors and electrocardiograms and display the output measurements on a monitor, which can be located bedside, on transports, at central stations and other locations. These devices are used throughout hospitals, in particular, in operating rooms, emergency rooms, critical care units, post-anesthesia units and recovery rooms, intensive care units and labor and delivery rooms.

The Diagnostic Laboratory Instruments Market

Diagnostic laboratory instruments, commonly referred to as in-vitro diagnostics, or IVD, instruments test blood, urine, saliva or other bodily fluids, cells and other substances from patients to diagnose and analyze various diseases and disorders. The use of diagnostic laboratory instruments to conduct IVD tests is an integral part of overall patient care. Diagnostic testing is generally viewed as an effective method of reducing healthcare costs and improving the quality of healthcare by reducing the length of hospital stays and complications through accurate and early detection of health disorders.

The diagnostic laboratory market generally includes commercial manufacturing and sales of diagnostic laboratory instruments and reagent kits to hospitals, reference laboratories and physicians offices. The major diagnostic fields that comprise the IVD market are clinical chemistry/ biochemistry, immunochemistry, microbiology, hematology, point-of-care testing, diabetes, hemostasis/ coagulation, molecular diagnostics, urine and self-monitoring blood glucose systems.

According to Frost & Sullivan, the worldwide IVD market was estimated to be US$26.8 billion in 2003, and is projected to grow between 5% and 7% per year from 2003 through 2009. However, according to

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Frost & Sullivan, the Chinese IVD market had an estimated value of US$500 million in 2004 and is projected to grow at a compounded annual growth rate of 14.4% through 2010 to US$1.1 billion, the fastest projected IVD market growth rate globally.

Biochemistry Analyzers

Biochemistry analyzers use electrochemical detection or chemical reactions with patient samples to detect and quantify substances of diagnostic interest, referred to as analytes, in blood, urine and other bodily fluids. These analyzers are commonly used to test glucose, cholesterol, triglycerides, electrolytes, proteins and enzymes.

According to Frost & Sullivan, the global biochemistry analyzer market was estimated to be US$6.7 billion in 2004, the second largest segment within the IVD market. The biochemistry analyzer segment is overwhelmingly the largest segment in every country except the United States and Canada. In 2004, China s biochemistry analyzer market had an estimated value of US$160 million, and is projected to grow at a compounded annual growth rate of 10% through 2010 to US$290 million. China has the fastest projected biochemistry analyzer market growth rate globally.

Hematology Analyzers

Hematology analyzers use the principles of physics, optics, electronics and chemistry to separate cells of diagnostic interest and then quantify and characterize them. These systems allow clinicians to study formed elements in blood such as red and white blood cells and platelets. The most common diagnostic test is a complete blood count, which provides important information about the composition of a patient s blood and detects potential disorders or deficiencies.

The Ultrasound Imaging Systems Market

Ultrasound imaging systems use low power, high frequency sound waves to provide non-invasive, real-time images of the body s soft tissue, organs and blood flow. By eliminating the need for more time intensive, invasive and expensive procedures and allowing for earlier diagnosis of diseases and conditions, ultrasound technology offers a cost-effective solution for healthcare providers. Furthermore, ultrasound imaging does not expose the patient to the potentially harmful ionizing radiation present in X-ray and CT scans. To generate an ultrasound image, a clinician places the transducer on the skin or in a body cavity near or by the targeted area of interest. Tissues, organs and bodily fluids reflect the sound waves emitted by the transducer, which then receives these reflections. Based on these reflections, ultrasound technology measures and organizes the sound waves and produces an image for visual examination, using digital or analog signal processing, or a combination of the two.

Standard ultrasound imaging technology produces a grayscale or two-dimensional image, which physicians use to diagnose, stage and monitor disease states and conditions. Color Doppler technology expands standard ultrasound imaging by generating a color image showing the presence and direction of blood flow. Through the use of software in ultrasound imaging devices, clinicians can provide an assessment of anatomical structures and physiological functions, such as blood flow information and heart conditions. According to Global Industry Analysts, the global ultrasound equipment market had an estimated value of US$3.5 billion in 2004 and is projected to grow at a compounded annual growth rate of 5.3% through 2010 to US$4.7 billion. According to Frost & Sullivan, in 2004, China s ultrasound market had an estimated value of US$277 million, with the color ultrasound segment accounting for US$162 million, and the grayscale ultrasound segment accounting for US$115 million. The Chinese ultrasound market is projected to experience an increasing shift in consumer preference from grayscale systems to color systems. The main factors driving this shift are the availability of lower cost color ultrasound systems and increasing use of ultrasound imaging systems in cardiology applications within the large-sized hospitals. The grayscale ultrasound segment is projected to shrink by an average of 4.3% per year from 2004 through 2010, while the color ultrasound segment is projected to grow by an average of 7.6% per year during the same period.

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BUSINESS

Overview

We are a leading developer, manufacturer and marketer of medical devices in China. We also have a significant and growing presence outside of China, primarily in other regions of Asia and in Europe. We offer a broad range of more than 40 products across our three primary business segments: patient monitoring devices, diagnostic laboratory instruments and ultrasound imaging systems. According to Frost & Sullivan, we had the leading market share in China by units sold, and the second leading market share by revenue, for the sale of patient monitoring devices in 2003, and we believe that we continue to be a market leader in China today. In addition, we believe we hold a leading market share position in China in diagnostic laboratory instruments and grayscale ultrasound imaging systems. Due to our leading market position, we believe we have one of the most recognized brands in the medical device industry in China.

We sell our products primarily to distributors, and the balance directly to hospitals, clinics, government agencies, ODMs, and OEMs. With over 1,950 distributors and 500 direct sales and sales support personnel, we believe our nationwide distribution, sales and service network is the largest of any medical device manufacturer in China. This extensive platform allows us to be closer than our competitors to end-users and enables us to be more responsive to local market demand. In addition, we sell our products internationally through more than 660 distributors and 75 sales and sales support personnel. This established and expanding international sales and distribution network provides us with a platform from which to build and enhance our market position globally. To date, we have sold our products to approximately 25,000 hospitals, clinics and other healthcare facilities in China and sold over 170,000 devices worldwide.

We employ a vertically integrated operating model that enables us to efficiently develop, manufacture and market quality products at competitive prices. Our research and development team and our manufacturing department work closely together to optimize manufacturing processes and develop commercially viable products. In addition, they incorporate regular feedback from our sales and marketing personnel, enabling us to timely and cost-effectively introduce products tailored to end-user needs. Furthermore, our China-based research and development and manufacturing operations provide us with a distinct competitive advantage in international markets by enabling us to leverage low-cost technical expertise, labor, raw materials and facilities.

To enhance our leading market position, we have made and will continue to make significant investments in research and development. We increased our annual investment in research and development activities from 8.6% of net revenues in 2003 to 9.8% of net revenues in 2005 and to 9.9% in the six months ended June 30, 2006, establishing what we believe is the largest research and development team of any medical device manufacturer in China, with more than 570 engineers on our staff. We believe our current spending level, as a percentage of net revenues, is comparable to many of our international competitors and greater than most of our domestic competitors. We continually seek to broaden our market reach by introducing new and more advanced products and new product lines that address different end-user segments. Since 2003, we have introduced more than 25 new products.

Our net revenues increased from RMB460.3 million in 2003 to RMB1,078.6 million (US$134.9 million) in 2005, representing a compounded annual revenue growth rate of 53.1%, and our net income increased from RMB104.8 million in 2003 to RMB191.1 million (US$23.9 million) in 2005. Our net revenues grew from RMB436.8 million in the six months ended June 30, 2005 to RMB676.8 million (US$84.7 million) for the same period in 2006, a 54.9% increase. In the six months ended June 30, 2006, our three primary business segments, patient monitoring devices, diagnostic laboratory instruments and ultrasound imaging systems, accounted for 40.5%, 28.4% and 29.9% of our net segment revenues, respectively.

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Our Competitive Strengths

We believe we have the following principal competitive strengths:

Strong brand and leading market position in China s medical device market

We believe we have one of the most recognized brands in the medical device industry in China, with the leading position in the patient monitoring device market and a leading position in the diagnostic laboratory instruments and grayscale ultrasound imaging systems markets. Since 1992, our products have been used by approximately 25,000 hospitals, clinics and other healthcare facilities. Our co-chief executive officers each have over 15 years of medical device industry experience in China, and over this time have developed a strong understanding of local markets and customer needs. Our market leadership position and strong brand recognition have allowed us to develop a broad customer base in China, which in turn facilitates more rapid acceptance of our new products. We are also able to generate economies of scale across our business segments, thereby realizing better pricing terms from suppliers and gaining access to a broader base of distributors. This enables us to offer quality products at competitive prices. Our domestic net revenues grew from RMB346.8 million in 2003 to RMB627.0 million (US$78.4 million) in 2005, representing a compounded annual growth rate of 34.5%. In the six months ended June 30, 2006, our domestic net revenue reached RMB380.9 million (US$47.7 million).

Extensive distribution, sales and service network for medical devices in China

Through our extensive distribution, sales and service network for medical devices in China, we have established a strong platform of business contacts and local knowledge which enables us to develop products and provide services tailored to our customers local needs. This nationwide network consists of more than 1,950 distributors and approximately 500 sales and sales support personnel located in 29 offices. We actively manage our distribution network to maximize our local market penetration and sales opportunities, and we regularly review performance and terminate distributors who underperform. We augment our distribution network with sales and sales support personnel who undergo intensive training to allow them to answer product-specific questions and proactively educate potential customers about the features and benefits of our products. Our customer support and sales support personnel provide training to our distributors and end-users. In addition, our customer service center, located in Shenzhen, China, is currently staffed with more than 50 representatives who assist our customers with technical support and repair. Each local sales office is also staffed with engineers whose primary responsibility is to provide prompt and reliable maintenance and repair services. Our strong after-sale customer support enables us to develop and maintain customer trust and loyalty.

Established and expanding international distribution and sales network

Our international sales and distribution network consists of more than 660 distributors and 75 sales and sales support personnel, which enables us to efficiently penetrate new markets with relatively low up-front costs. We also have international sales and service offices located in Boston, Istanbul, London and Vancouver. This international network differentiates us from our domestic competitors, who have not expanded into international markets to the extent that we have. Through our international distribution network, we are increasing market share and establishing brand awareness in several international markets in Europe and Asia, with sales in more than 120 countries. We also have established ODM relationships with selected international medical device companies, leveraging their existing market presence by designing and selling systems that they resell under their brands. Our international net revenue grew from RMB113.5 million in 2003 to RMB451.6 million (US$56.5 million) in 2005, representing a compounded annual growth rate of 99.5%. In the six months ended June 30, 2006, our international net revenue reached RMB295.9 million (US$37.0 million).

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Proven research and development capabilities

Our leading medical device research and development infrastructure in China includes a research and development team of more than 570 engineers. We increased our annual investment in research and development activities from RMB39.8 million in 2003 to RMB61.6 million in 2004 and to RMB106.1 million (US$13.2 million) in 2005. In the six months ended June 30, 2006, our research and development expenses totalled RMB66.7 million (US$8.3 million). We believe our current research and development spending, as a percentage of net revenues, is comparable to many of our larger global competitors and greater than many of our China-based competitors. In the past three years, we have launched more than 25 new products across our three primary business segments, most of which have a CE mark and eight of which have received FDA clearance. For example, in 2003, we launched our BS-300 biochemistry analyzer, the first product in the field whose intellectual property in China is owned entirely by a Chinese company. Also, we launched our portable grayscale ultrasound imaging system, which expanded our offerings into a higher growth product category and contributed significantly to our revenues in 2005. We plan to launch at least five new products in 2006. In addition to developing new products, our research and development efforts focus on improving our manufacturing processes, allowing us to more quickly develop and introduce new products.

Efficient vertically integrated operating model

We employ a vertically integrated operating model that enables us to efficiently develop, manufacture and market quality products at competitive prices. Our research and development team and our manufacturing department work closely together to optimize manufacturing processes and develop commercially viable products. In addition, they incorporate regular feedback from our sales and marketing personnel, enabling us to timely and cost-effectively introduce products tailored to end-user needs. We believe our integrated approach allows us to:

lower material and component costs through the use of common components and materials within and across business segments;

lower production costs and dependency on key suppliers through the use of in-house manufactured components; and

reduce capital expenditures, create a more efficient workflow and improve our quality control through the use of common manufacturing and assembly practices within and across business segments.

Our Strategies

Our objective is to strengthen our position as a leader in developing, manufacturing and marketing medical devices in China and to become a leader in selected international markets. We intend to achieve our objective by implementing the following strategies:

Increase our market share in China s medical device market

We continually seek to expand our share of the rapidly growing medical device market in China. We plan to capitalize on the anticipated market growth by leveraging our significant local industry expertise, strong brand recognition, broad customer base, and established distribution network. Furthermore, we are developing and will be introducing more advanced products in China across our business segments. We also intend to add direct sales personnel, expand our distribution network and increase our marketing activities. For example, through each of our 29 offices in China, we are actively seeking to increase the number of distributors carrying our products. In addition, we intend to continue to actively manage our distribution network, annually reviewing the performance of each of our distributors for potential improvement. Also, we plan to increase our participation at industry exhibitions.

Enhance our market position and brand recognition in existing and new international markets

We plan to grow our international business by further penetrating our existing international markets and entering into new international markets. In some of the markets where we currently sell our products through

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distributors, which are primarily located in other regions of Asia and in Europe, we will enhance our presence by opening local sales and service offices. For example, we intend to open sales and service offices in Brazil, India and Russia in the next twelve months. We believe these offices will enable to us to more easily and effectively increase our penetration and brand recognition in these markets. We also intend to enter new international markets by cultivating new distributor relationships in selected regions. Moreover, we expect to continue seeking additional regulatory approvals to facilitate the sale of our products in particular international markets, such as our patient monitors and ultrasound imaging systems in the United States. In addition, we expect to expand the line of reagents that we offer internationally.

Broaden our market reach by introducing more advanced products and new product lines

We intend to broaden our market reach by introducing more advanced products and new product lines that address different end-user segments. Historically, the primary end-users of a majority of our products have been small- and medium-sized hospitals in China, although a significant portion of our patient monitoring devices have been sold to large-sized hospitals in China. By leveraging our strong brand and vertically integrated operating model, we are now well positioned to commercialize more advanced products that are typically used by large-sized hospitals in China and internationally. For example, we expect to introduce our first five-part hematology analyzer and our first color Doppler ultrasound imaging system by the end of 2006. Producing more advanced products also positions us to meet the future needs and demands of small- and medium-sized hospitals, which are our primary customers, as they increase their procurement budgets and purchase more advanced medical devices. We are also broadening our market reach by expanding our development efforts to new product lines, such as developing an anesthesia machine that we expect to launch by the end of 2006 and a ventilator that we expect to launch in 2007. We believe that introducing more advanced products and new product lines positions us to better compete internationally. Furthermore, to increase recurring revenues, we intend to expand our line of disposable reagents that we offer for use with our diagnostic laboratory instruments. In addition, we are enhancing our research and development team by adding research personnel based in the United States to focus on more advanced technologies.

Maintain our disciplined cost focus

We plan to maintain our disciplined cost focus and will seek to further improve our cost structure. In particular, our research and development team will continue to work with our manufacturing team to optimize our design and manufacturing processes to improve our margins and competitive cost advantages. We also intend to continue to increase our use of common components and materials within and across business segments to lower material and component costs. As our sales volumes increase, thereby increasing raw material and component purchases, we intend to leverage our purchasing power to reduce purchasing costs. Moreover, as we build economies of scale in manufacturing, we anticipate moving in-house additional product components that we currently strategically outsource, which could further increase our operational efficiencies.

Our Products

We have three primary business segments patient monitoring devices, diagnostic laboratory instruments and ultrasound imaging systems and produce a range of more than 40 medical devices across these business segments. Sales of patient monitoring devices, diagnostic laboratory instruments and ultrasounds imaging systems accounted for 40.5%, 28.4%, and 29.9%, respectively, of our net segment revenues in the six months ended June 30, 2006.

Over the past three years, we have significantly expanded our geographic scope and increased the percentage of our revenues generated by international sales. Our products are currently sold in more than 120 countries, and international sales grew from 24.7% of our net revenues in 2003 to 43.7% of our net revenues during the six months ended June 30, 2006.

To facilitate international sales, the majority of our products have a CE mark, which certifies full compliance with the Medical Device Directives of the European Union, thus enabling our products to be

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marketed in any member state of the European Union. Most of our products also have a TUV mark, which is widely recognized in the European Union. The TUV mark demonstrates that not only has a representative sample of the product been evaluated, tested and approved for safety, but also that the production line has been inspected on an annual basis. In addition, we applied for and received 510(K) clearance from the FDA for our PM-8000 patient monitoring devices and our DP-9900 and DP-6600 ultrasound imaging systems. We began selling these products in the United States in July 2005 and September 2005, respectively. We have also received 510(K) clearance from the FDA for four of our patient monitors. 510(K) clearance from the FDA is required to market any of the medical devices in our current product portfolio in the United States.

The chart below provides selected summary information about our key products under each business segment:

Business Segment	Key Products	Description	Clearances/ Marks
Patient Monitoring Devices		8.4 color display with 8 waveforms; arrhythmia analysis; pacemaker detection;	
	PM-8000 Series	built-in recorder; networkable, 96-hour graphic and tabular parameter trends; portable	CE, TUV, FDA
	PM-9000 Series	Same as above, but uses a 10.4 or 12.1 color display	CE, TUV, FDA (PM-9000 Express only)
Diagnostic Laboratory Instruments		Hematology analyzer; 3-part differential; 19 parameters; fully-automated; automatic diluting, lyzing, mixing, rinsing and clog clearing of samples; storage for 10,000 samples; built-in thermal recorder; up	
	BC-2800	to 30 samples per hour; color monitor	CE, TUV
	BC-3000 Series	Same as above, except storage for 20,000 samples; up to 60 samples per hour	CE, TUV
	BS-300	Biochemistry analyzer; fully-automated; automatic probe cleaning, liquid level detection, collision protection and dilution; up to 50 on-board chemistries; three independent probes; refrigerated reagent compartment	CE, TUV
Ultrasound Imaging Systems		Stationary (with roll-cart); multi-purpose abdomen, urology, gynecology, obstetrics,	
	DP-8800 Series	small parts, orthopedics; 14 monitor, multi-language interface; digital imaging	CE, TUV
	DP-9900 Series	Same as DP-8800, plus tissue harmonic imaging and tissue specialty imaging	FDA, CE, TUV (DP-9900 only)
	DP-6600	Portable; multi-purpose; 10 monitor; digital imaging	FDA, CE, TUV

Patient Monitoring Devices

Our patient monitoring devices track the physiological parameters of patients, such as heart rate, blood pressure, respiration and temperature. We offer more than 15 different patient monitoring devices that are suitable for adult, pediatric and neonatal patients and are used principally in hospital intensive care units, operating rooms and emergency rooms. Our product line offers customers a broad range of functionality, such as single-parameter monitors, stationary and portable multifunction monitors, central stations that can collect and display multiple patient

data on a single screen, and an electro-cardiogram monitoring device. In the six months ended June 30, 2006, our PM-9000 series and PM-8000 series multi-parameter patient monitor accounted for 45.1% of our patient monitoring device segment revenues. Our multi-parameter monitoring devices can be networked, allowing hospitals to remotely gather patient data from patient rooms and

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centralize that data in a single location. Our patient monitoring devices also have built-in recorders and have batteries for portability in most models, as well as power backup in the event of power failure in stationary models. We also offer a line of veterinary monitoring devices.

Sales of our patient monitoring devices accounted for 63.5%, 54.9%, 47.8% and 40.5% of our net segment revenues in 2003, 2004, 2005 and in the six months ended June 30, 2006, respectively. According to Frost & Sullivan, in 2003, the most recent year for which data is available, we had the leading market share by units sold, and the second leading market share by revenue, for the sale of patient monitoring devices in China. Since 1992, we have sold patient monitors to more than 14,800 hospitals, clinics and other healthcare facilities in China.

To maintain and expand our domestic market leadership position and international revenue growth for our patient monitoring devices, we are developing more advanced patient monitoring devices capable of tracking between 16 and 20 physiological parameters. In addition, we expect to introduce our first anesthesia monitor in 2006. We have received 510(K) clearance for our PM-8000 and PM-9000 Express. We have also received 510(K) clearance from the FDA for several of our patient monitoring devices that we believe have significant market potential in the United States.

Diagnostic Laboratory Instruments

Our diagnostic laboratory instruments provide data and analysis on blood, urine and other bodily fluid samples for clinical diagnosis and treatment. We offer a range of semi-automated and fully-automated diagnostic laboratory instruments for laboratories, clinics and hospitals to perform analysis to detect and quantify various substances in the patient samples. Our current product portfolio consists of more than ten diagnostic laboratory instruments in two primary product categories: hematology analyzers and biochemistry analyzers. We also offer reagents for use with our diagnostic laboratory instruments, and a microplate reader and microplate washer. A microplate is a plastic consumable used in diagnostic testing; it contains 96 wells where reagents are dispensed to react with patient samples. Sales of our diagnostic laboratory instruments, including sales of reagents, accounted for 26.4%, 26.0%, 25.3% and 28.4% of our net segment revenues in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively.

A reagent is a substance used in the chemical reactions analyzed by our diagnostic laboratory instruments. This ongoing consumption and resulting need to order additional reagents creates a recurring revenue stream for us. In particular, our customers are generally required under the terms of our product warranties to use our reagents. Our hematology analyzers are compatible only with our reagents. Our biochemistry analyzers are compatible with other companies reagents, but use of other companies reagents voids our product warranty. We also offer reagents that can be used in diagnostic laboratory instruments produced by other international and China-based manufacturers. Sales of reagents accounted for 13.0%, 11.1%, 11.2% and 10.2% of our diagnostic laboratory segment revenues in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively.

Hematology analyzers. Our hematology analyzers test blood samples to detect abnormalities or foreign substances. For example, our hematology analyzers can be used to detect blood diseases, such as anemia, and to screen to differentiate between illness caused by viruses from those caused by bacteria. In 1998, we became the first manufacturer of semi-automated hematology analyzers in China. We currently offer semi-automated and fully-automated three-part differential analyzers (analyzers of three different types of white blood cells) with the ability to analyze a broad range of parameters through the use of reagents. We also offer 26 reagents for use with our hematology analyzers. Our two top-selling hematology analyzers in terms of revenues in 2005, the BC-2800 and BC-3000, utilize color LCD screens, can process 30 to 60 samples per hour and can store 10,000 to 20,000 patient results.

Consistent with our strategy of expanding our product line to include more advanced products and broaden our market reach, we plan to offer our first five-part differential analyzer in 2006 capable of analyzing more parameters in a shorter amount of time than our current three-part differential analyzer models. We believe this product has the potential to substantially broaden our market reach. We also plan on expanding our line of reagents for use with our hematology analyzers.

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Biochemistry analyzers. Our biochemistry analyzers measure the concentration or activity of substances such as enzymes, proteins and substrates. These analyzers may also be used as therapeutic drug monitors or to check for drug abuse. We also offer 35 reagents for use with our biochemistry analyzer. Our leading biochemistry analyzer, the BS-300 automated analyzer, which accounted for 25.3% of our diagnostic laboratory instruments segment revenues in 2005, can hold up to 60 samples at a time with up to 50 reagents, allowing for up to 300 tests per hour.

We have introduced our BS-200 fully-automated biochemistry analyzer earlier in 2006. The BS-200 analyzer fills a gap between our introductory level biochemistry analyzer and our top-end BS-300 biochemistry analyzer. In the first half of 2007, we also plan on introducing BS-400, a fully-automated biochemistry analyzer, which help us further expands our potential customer base and expanding our line of reagents for use with our biochemistry analyzers.

Ultrasound Imaging Systems

Our ultrasound imaging systems use computer-managed sound waves to produce real time images of anatomical movement and blood flow. Ultrasound imaging systems are commonly employed in medical fields such as urology, gynecology, obstetrics and cardiology. We currently sell more than ten portable and stationary grayscale ultrasound imaging systems, and offer a broad range of transducers to enhance the adaptability of these systems for a variety of applications. The ultrasound imaging system produced for our ODM customer was the leading ultrasound imaging system by revenues in both 2004 and 2005. We believe this variety and adaptability increases customer appeal and broadens our potential client base. In 2005, our leading ultrasound imaging system under our own brand name by revenues was the stationary DP-9900, an advanced ultrasound imaging system that has received FDA 510(K) clearance that accounted for 19.8% of our 2005 ultrasound imaging system segment revenues. Sales of our ultrasound imaging systems accounted for 8.2%, 17.0%, 25.5% and 29.9% of our net revenues in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively.

In the fourth quarter of 2006, we expect to offer new ultrasound imaging systems, including our first color Doppler ultrasound imaging system. With color ultrasound systems estimated by Frost & Sullivan to have accounted for 58.3% of the ultrasound imaging market in China in 2004 by revenues, we believe this product has the potential to substantially broaden our market reach to large-sized hospitals in China and make us more competitive in international markets. We have submitted 510(K) clearance applications to the FDA for some of our ultrasound imaging systems and anticipate seeking FDA 510(K) clearance for our ultrasound imaging systems that we believe have significant market potential in the United States.

Distribution, Direct Sales and Marketing

Our nationwide distribution and sales network in China consists of more than 1,950 distributors and approximately 500 sales and sales support personnel located in 29 offices in almost every province in China. Our international distribution and sales network consists of more than 660 distributors and 75 sales and sales support personnel covering more than 120 countries and more than 60 sales and sales support personnel located in Shenzhen and in our overseas sales and service offices in Boston, Istanbul, London, and Vancouver. Our distribution network broadens our customer reach and enhances our ability to further penetrate the market in China and internationally within a short period of time. We grant the majority of our distributors in China and a significant percentage of our international distributors an exclusive right to sell a particular product or set of products within a specified territory or country. We actively manage our distribution network, regularly reviewing distributor performance and terminating distributors due to underperformance. Our distribution agreements are typically negotiated and renewed on an annual basis. Sales generated by our largest distributor in China and in overseas markets accounted for 1.1% and 1.2% of our net revenues in 2005, respectively. None of our distributors accounted for more than 2.0% of our net revenues in each of the past three years or in the six months ended June 30, 2006.

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Distribution

Exclusive distributors. We have more than 600 exclusive distributors in China and more than 60 exclusive distributors internationally. Exclusive distributors have the exclusive right to sell one or more of our products in a defined territory. In a given territory we may have several exclusive distributors selling different products on an exclusive basis. We often select exclusive distributors from our pool of non-exclusive distributors based on their prior sales performance for us. We also make selections based on factors such as sales experience, knowledge of medical equipment, contacts in the medical community, reputation and market coverage. Our exclusive distribution agreements typically have one-year terms with specified revenue and unit sales targets. If a distributor does not reach specified targets during the year, we typically have the right to terminate the agreement early.

Prior to shipment, our exclusive domestic distributors pay between 70% and 100% of the purchase price, while our international distributors pay the entire purchase price or provide a letter of credit for the products they order. Any balance due is generally payable in full within 30 days of product acceptance. We do not allow any distributor to accumulate more than 5% of their annual target sales in receivables due. To those distributors who both meet their sales targets and pay their receivables within the 30 day terms, we provide a predetermined number of free products. Over the last three years, we have not recognized any significant losses relating to payment terms provided to our distributors.

Non-exclusive distributors. We have more than 1,400 non-exclusive distributors in China and more than 600 non-exclusive distributors internationally. Typically when we want to introduce a new product or enter a new territory with an exclusive distributor, the competition between non-exclusive distributors allows us to identify the most successful distributors over a limited period of time. We will then grant exclusive distribution rights based on their competitive performance.

Performance review. We actively manage our distribution networks, regularly reviewing distributor performance and terminating distributors due to underperformance to maximize our penetration of target markets and our sales opportunities. For distributors who meet or exceed our sales targets, we provide incentives in the form of free products. We believe we have established a relatively stable domestic distributor network, with more than 80% of our top 50 distributors based on sales in 2003 remaining with us. Moreover, we believe that, due to our strong brand and product offerings, distributorships for our products are highly sought after in China. In most cases, if we decide not to renew a distributor s contract, we seek to replace that distributor with a new distributor. In some cases, we redefine the exclusive territory and product or products that the non-renewed distributor had in place if we believe doing so will increase our market penetration or sales.

Direct Sales

We retain the right to sell directly to major hospitals in China, which we typically specify by name in the relevant distribution agreements for a given territory. In addition, we sell directly to provincial level government health bureaus by participating in competitive bidding and tenders run by state-owned bidding agents to procure large volume purchase contracts. We also retain the right to sell directly in several of our international markets.

When we make direct sales to hospitals or provincial level medical equipment purchasing agents, we enter into a binding contract for each sale. The payment terms for these contracts vary widely and are dictated by non-negotiable, standard government bidding contracts, which often provide for a smaller percentage of the total purchase price paid at the time of delivery. For example, under some direct sales contracts, we receive 30% of the total purchase price at the time of delivery, 60% of the purchase price over the next six months and the final 10% on the anniversary of the sale. Domestic direct sales to hospitals and government agency customers accounted for 14.1%, 14.9%, 18.4% and 18.9% of our net domestic revenues, in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively. In addition, domestic direct sales to OEM customers accounted for 10.4%, 8.9%, 5.4% and 1.8% of our net domestic revenues in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively.

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Marketing

Since we sell our products primarily to distributors, we generally do not conduct broad-based marketing. Instead, we focus our marketing on establishing business relationships and growing our brand recognition, which primarily involves attending and sponsoring exhibitions and seminars pertaining to our product offerings. In the six months ended June 30, 2006, we attended or sponsored more than 200 medical exhibitions and seminars. Furthermore, we conduct on-site demonstrations of our products at hospitals on a regular basis, and often offer new customers one of our products at a discounted rate. We also advertise in industry publications that cater to distributors of medical devices, industry experts or doctors.

Customers

We have three categories of customers: distributors, ODM and OEM customers, and hospitals and government agencies to whom we sell directly. Our customer base is widely dispersed on both a geographic and revenues basis. Our largest customer in each of the past three years and the six months ended June 30, 2006 was an ODM customer that accounted for 4.0%, 7.3%, 6.2%, and 2.7% of our net revenues in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively. Our ten largest customers based on net revenues collectively accounted for 17.7%, 23.4%, 18.0%, and 13.1% of our net revenues in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively.

Our distributors. Sales to our distributors make up the substantial majority of our revenues, both on a segment by segment basis and in the aggregate. Our distributors accounted for 71.0%, 66.8%, 71.0%, and 78.6% of our net revenues in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively. We have more than 1,950 distributors in China and more than 660 additional distributors internationally, selling into more than 120 countries.

ODM and OEM customers. We manufacture patient monitors and ultrasound imaging systems for ODM clients based on our own designs and employing our own intellectual property. Our ODM customers sell these products to end-users under their own brand. Although ODM products gross margins tend to be lower than those of our own branded products, ODM products provide us with an additional source of income generally generated through bulk orders. Our ODM customers pay us a fee to help offset the research and development costs of developing the technologies associated with the ODM products they purchase from us. Furthermore, ODM customer demand for our products further validates their quality. In the six months ended June 30, 2006, approximately 95.8% of our ODM products were sold to end-users outside of China. ODM clients accounted for 6.3% 12.3%, 9.7% and 5.4% of our net revenues in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively. We do not intend to actively seek new ODM customers, as our growth strategy is focused on new products sold under our own brand. However, we may opportunitistically add additional ODM customers if we believe it provides a valuable strategic opportunity.

We also sell products on an OEM basis for domestic and international medical equipment companies based on their product designs. In 2003, we had several OEM customers whose total purchases accounted for 10.5% of our net revenues. Following our strategic decision to reduce our dependence on OEM customers, no single OEM customer accounted for more than 2% of our net revenues in 2005. OEM customers accounted for 10.5%, 9.0%, 7.7% and 5.3% of our net revenues in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively.

Hospital and government agency customers. Our hospital and government agency customers primarily include hospitals, as well as provincial level public health bureaus and population and family planning bureaus. These customers typically place large volume orders that are awarded based on bids submitted by competing medical equipment companies through a state-owned bidding agent. In some cases, they do not engage a bidding agent to solicit competitive bids from several vendors, and we are allowed to negotiate directly with these customers. Hospital and government agency customers accounted for 10.6%, 9.8%, 10.7% and 10.7% of our total net revenues in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively.

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Customer Support and Service

We believe that we have the largest customer support and service team for medical devices in China, with more than 120 employees located in our headquarters in Shenzhen and our 29 offices in China. This enables us to provide domestic training, technical support, and warranty, maintenance and repair services to end-users of our products, as well as distributor support and service.

End-user Support and Service. Our support and service staff includes more than 100 people with the capability to provide training to end-users of our products. In the six months ended June 30, 2006, we conducted more than 100 training sessions in hospitals throughout China and another 37 training sessions at our headquarters in Shenzhen and our 29 offices in China. We also maintain a 24-hour customer service center in Shenzhen for technical support and repair. We staff this customer service center primarily with senior technical support engineers to provide preliminary support. Our technical support engineers attempt to quickly identify whether the issue can be resolved over the telephone or if it will require a visit to the customer s premises. In some cases our senior technical engineers provide on-site operating guidance and repair. We periodically review customer calls to ensure that any issues raised by our customers are resolved to their satisfaction. For support issues that require a site visit or for maintenance and repair requests, we have maintenance and repair personnel as well as maintain a supply of parts and components at our 29 offices in China. We believe our ability to promptly deliver most commonly needed parts locally allows us to provide on-site customer service more efficiently than many of our competitors. We believe our domestic support and service capabilities give us a significant advantage over our competitors, as they enable us to respond timely to requests for support, maintenance, and repair. This creates and reinforces positive impressions of our brand.

Distributor Support and Service. In addition to ensuring that our brand is associated with high quality products and responsive service, our customer support and service employees work with our distributors in a wide range of areas to help them become more effective. In particular, we can assist our distributors in establishing a series of best practices in their approach to sales and marketing management, helping them identify market opportunities, and providing feedback on their sales performance and customer relations.

We also provide our distributors with technical support, including training in the basic technologies of the products they sell, participating in presentations to potential customers, and assisting in preparing bidding documents for large volume purchase contracts awarded through competitive bidding and tenders. By working closely with our domestic distributors, our customer support and service employees are able to provide us valuable insights into the operations of each local distributor, which helps us ensure that each distributor is able to operate effectively for us.

International Sales and Support. In our international markets, we rely on our distributors to provide after-sales services. We provide technical support and training to our international distributors on an ongoing basis. When we conduct our training and technical support trips to the locations of our international distributors, we also take the opportunity to meet with a sample of end-users in that market to gather feedback on our products as well as market information such as levels of satisfaction, price information and specific functions desired from end-users serviced by our distributors.

We currently have international sales and service offices located in Boston, Istanbul, London and Vancouver, and we plan on opening additional offices in Brazil, India and Russia in the next twelve months. As our international markets mature, we will consider adding additional offices to assist with sales and support.

Research and Development

Our success to date has in part resulted from our strong research and development capabilities, which allow us to regularly introduce new and more advanced products at competitive prices within a shorter period of time. We increased our annual investment in research and development activities as a percentage of net revenues from 8.6% in 2003 to 8.8% in 2004, to 9.8% in 2005. For the six months ended June 30, 2006, our investment in research and development activities was equal to 9.9% of our net revenue from the same

period. We believe our current spending level, as a percentage of net revenues, is comparable to many of our international competitors and greater than most of our domestic competitors. Our research and development team consists of more than 570 engineers, representing more than one-fourth of our employees worldwide.

As the average cost of a research and development engineer in China is significantly lower than in the United States or Western Europe, we have been able to build a research and development team that we believe is much larger, as a percentage of total employees, than most of our international competitors, and the largest of any domestic manufacturer of medical devices in China. Due to our strong brand reputation we have been able to recruit a strong research and development team.

We employ project selection procedures that focus on projects that we believe are commercially feasible, can generate significant revenue and can be introduced into the market in the near-term. We seek to develop only those products that we believe can provide us with an average gross margin of at least 50% over their life cycles. Prior to developing a product improvement or new product, we consult with our sales and service representatives and review end-user feedback to assist us in better identifying the changing needs and demands of medical service providers. We also engage outside consultants to assist us in identifying trends in the medical device market. We believe this increases the likelihood of developing commercially viable products. Once we identify a product opportunity, our sales and service, research and development, and manufacturing teams work closely together to determine potential market demand for a product and how it fits with our current design and manufacturing capabilities. We organize regular meetings in which our sales and service, research and development, and manufacturing teams review progress and, if necessary, adjust the emphases of our research and development projects.

If we deem a new product to be commercially feasible, our research and development team will work closely with our manufacturing team to move production forward. This integrated approach allows us to identify potential difficulties in commercializing our product or product improvement. Furthermore, it also enables us to make adjustments as necessary and develop cost-efficient manufacturing processes prior to mass production. We believe these abilities can significantly shorten the time it takes to launch a commercialized product. In the last three years, we have developed and brought to market more than 25 new products, which appeal to a wide range of end-users.

In addition to new product development and improvements to existing products, our research and development team focuses on manufacturing and assembly process improvements to control and improve costs. See Manufacturing and Assembly.

We maintain a research and development center in Beijing, which we operate through our subsidiary Beijing Mindray. The location of our research and development center in Beijing allows us to compete for skilled research and development technicians and managers who would otherwise be unavailable in our Shenzhen research and development facilities. In addition, we are enhancing our research and development team by adding research personnel based in the United States to focus on more advanced technologies.

Manufacturing and Assembly

We manufacture, assemble and test our products at our ISO 9001, EN46001 and ISO 13485 certified 280,000 square foot manufacturing and assembly facility in Shenzhen, China, located approximately three miles from our corporate headquarters. This facility includes a mechanical workshop, a transducer laboratory, an electronics workshop and a surface mount technology workshop where we assemble printed circuit boards for our products. We intend to expand our manufacturing capabilities, including the potential relocation into a new facility.

As part of our overall strategy to lower production costs through our vertically integrated operating model, we have made substantial investments in our in-house manufacturing infrastructure to complement our research and development and product design activities. In particular, we seek to achieve the following objectives:

Increase use of common resources within and across products. By identifying resources that can be commonly applied within and across products, we are able to purchase raw materials and components

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in greater quantities, which often results in reduced material and component costs. As we improve existing products and develop new products, we look to carry over common resources. The new or improved product can leverage the lower costs already in place because of our volume purchases. In addition, the resulting increased purchases of common resources could further reduce their costs, benefiting multiple products.

Increase use of in-house manufactured components. To better optimize the benefit of our use of common resources across business segments and increasing sales levels, we produce the majority of the components that go into our products. As we continue to refine our use of common resources and grow our revenues, we anticipate creating additional economies of scale, allowing us to move additional component production in-house, thereby lowering our production costs.

Increase use of common manufacturing and assembly practices within and across business segments. We continually seek to identify common manufacturing and assembly practices both within and across business segments. By identifying common manufacturing and assembly practices for new products, we seek to reduce capital outlays for new manufacturing equipment. This also allows us to spread our manufacturing team across fewer manufacturing and assembly stations, creating a streamlined manufacturing and assembly workflow. We believe this increases employee efficiency, with employees required to learn to manufacture or assemble fewer components, and reduces our training costs.

We believe that by increasingly using common resources, manufacturing components in-house and using common manufacturing and assembly practices, we will be able to maintain or improve our competitive cost structure.

Our manufacturing strategy also incorporates strategic outsourcing. In particular, we outsource components that we believe can more efficiently and cost-effectively be produced by third party providers. Major outsourced components include integrated circuits, electronic components, raw materials and chemicals for reagents, and valves. Other components outsourced in the manufacturing process include various types of other electrical and plastic parts that are generally readily available in sufficient quantities from our local suppliers.

To minimize our reliance on any one supplier, we seek to have at least two suppliers for each component when possible. We purchase components for our products from approximately 300 suppliers, most of whom have long-term business relationships with us. No single supplier accounted for more than 5% of our supply purchases in 2005 or in the six months ended June 30, 2006. Since we have multiple suppliers for most of our components, we believe it is beneficial not to have long-term supply contracts with our suppliers; accordingly we generally enter into annual contracts. In particular, having the ability to negotiate price reductions on a periodic basis has allowed us to reduce our component costs and to maintain our profit margins.

Our manufacturing and sales teams monitor a rolling four-month forecast of demand for specific products, which they use to estimate future orders. For our domestic market projections, each of our 29 sales and service offices monitors the inventory levels of distributors in their territory, the annual budget of hospitals within their territory, and anticipated government tenders for the upcoming four months. For our international market projections, our sales and service team monitors new orders placed and communicates regularly with our international distributors to survey their predictions of demand in their territories for the upcoming four months. Our forecasting team collects this data from our distributors on an ongoing basis and aggregates the data each week into preliminary forecast data. The rolling four-month forecast is updated every month based on the prior four weeks of preliminary forecast data.

Our procurement team uses the rolling four-month forecast to predict our requirements for raw materials components and to classify necessary purchases according to inventory risks and costs associated with the raw materials and components needed. For raw materials or components that are sourced from a single supplier, we typically maintain between four and twelve month s worth of inventory. For ordinary raw materials and components, we typically maintain 30 days of inventory. For high cost components with high rates of turnover we typically maintain 15 days of inventory. For components available on just-in-time basis,

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we typically maintain only a few days of inventory. Inventory data is supplied to our research and development team, which considers the degree to which a proposed new product would require sole source and high cost components and evaluates the associated inventory costs and backup strategy costs when evaluating proposed new products.

We have our own independent quality control system, and devote significant attention to quality control for the designing, manufacturing, assembly, and testing of our products. In particular, we have established a quality control system in accordance with SFDA regulations. In addition, we obtained ISO 9001 certification from TUV in 1995, becoming the first medical equipment manufacturer in China to obtain such certification. We have also received international certifications for various products including FDA approvals, Canadian Medical Device Licenses, CE marks, the ISO 13485 certification and the Beijing Hua Guang Certification. We inspect components prior to assembly, and inspect and test our products during and after their manufacture and assembly.

Each of our products is typically sold with a 12-month warranty against technical defects. If necessary, we will exchange a defective product. However, we do not accept any returns for a refund of the purchase price. During the last five years, we have experienced a limited number of warranty claims on our products. The costs associated with our warranty claims have historically been low though we do accrue a liability for potential warranty costs at the time of sale based on historical default rates and estimated associated costs.

Intellectual Property

We believe we have developed a substantial portfolio of intellectual property rights in China to protect the technologies, inventions and improvements that we believe are significant to our business in China. As of June 30 2006, we had received a total of over 60 issued patents in China, including four invention patents, 20 utility model patents and 38 design patents, and have over 190 patent applications pending in China and 20 patent applications pending in the United States. Moreover, we possess proprietary technology and know-how in manufacturing processes, design, and engineering. We plan to expand our portfolio of intellectual property rights in overseas markets as we increase our sales in those markets.

We have not filed for patent protection in Europe or Asian countries other than China based on our assessment of risks of third party infringement of our intellectual property in those markets and the costs of obtaining patent protection there. In general, while we seek patent protection for our proprietary technologies in major markets such as China and the United States, we do not rely solely on our patents to maintain our competitive position, and we believe that development of new products and improvements of existing products at competitive costs has been and will continue to be important to maintaining our competitive position. We plan to expand our patent portfolio to include European and Asian countries in addition to China, and will continue to evaluate our patent filing decisions on cost/benefit analysis. In order to protect our other types of intellectual property rights, we have filed for trademark protection for our brand name Mindray and associated logos in European and Asian countries in which we market our products, and will continue to follow our brand management policy to build brand name recognitions in Mindray and associated marks in these countries. See Risk Factors Unauthorized use of our brand name by third parties, and the expenses in developing and preserving the value of our brand name, may adversely affect our business.

Our success in the medical equipment industry depends in substantial part on effective management of both intellectual property assets and infringement risks. In particular, we must be able to protect our own intellectual property as well as minimize the risk that any of our products infringes on the intellectual property rights of others.

In 2000, we implemented and continue to follow a procedure under which product development teams are required to conduct a patent clearance search (i.e., freedom-to-operate search) for each product at the beginning of the product development process. The scope of the search includes patents in China, the United States and Europe. Typically, our research and development engineers conduct this search with guidance and oversight from our in-house patent team. The conclusion and analysis of the patent search is summarized in a patent search report, and the product development project is approved only if the conclusion is that the proposed product would not infringe any third party intellectual property uncovered in the search. We believe

that the risk of infringing third party intellectual properties can be effectively reduced by our vigorous adherence to these procedures. To date, we have not been sued on the basis of, nor have we received any notification from third parties that claim, our alleged infringement on their intellectual property. However, due to the complex nature of medical equipment technology patents and the uncertainty in construing the scope of these patents, as well as the limitations inherent in freedom-to-operate searches, the risk of infringing on third party intellectual properties cannot be eliminated. See Risk Factors Risks Relating to Our Business and Industry We may be exposed to intellectual property infringement and other claims by third parties which, if successful, could disrupt our business and have a material adverse effect on our consolidated financial condition and results of operations.

We enter into agreements with all our employees involved in research and development, under which all intellectual property during their employment belongs to us, and they waive all relevant rights or claims to such intellectual property. All our employees involved in research and development are also bound by a confidentiality obligation, and have agreed to disclose and assign to us all inventions conceived by them during their term of employment. Despite measures we take to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or our proprietary technology or to obtain and use information that we regard as proprietary. See Risk Factors Risks Relating to Our Business and Industry If we fail to protect our intellectual property rights, it could harm our business and competitive position.

We have no material license arrangements with any third party. We often purchase components that incorporate the supplier s intellectual property, especially with respect to components with advanced technologies that we are currently not capable of producing ourselves.

We believe that we have successfully established our brand in China. We have registered trademarks in China for the Mindray name and logo used on our own-brand products. As part of our overall strategy to protect and enhance the value of our brand, we actively enforce our registered trademarks against any unauthorized use by a third party. In a court case last year where we brought suit against another medical device company for its unauthorized use of the Mindray name, the court determined our Mindray trademark to be a well-known mark. Since well-known marks in China enjoy stronger protections than the other marks without such designation, this court ruling helps strengthen our ability to protect the value of our brand in China.

Competition

The medical equipment and healthcare industries are characterized by rapid product development, technological advances, intense competition and a strong emphasis on proprietary products. Across all product lines and product tiers, we face direct competition both domestically in China and internationally. We compete based on factors such as price, value, customer support, brand recognition, reputation, and product functionality, reliability and compatibility.

For domestic sales, our competitors include publicly traded and privately held multinational companies and domestic Chinese companies. We believe that we can continue to compete successfully in China because our established domestic distribution network and customer support and service network allows us significantly better access to China s small- and medium-sized hospitals. In addition, our strong investment in research and development, coupled with our low-cost operating model, allows us to compete effectively for our sales to large-sized hospitals.

In international markets, our competitors include publicly traded and privately held multinational companies. These companies typically focus on the premium segments of the market. We believe we can successfully penetrate certain international markets by offering products of comparable quality at substantially lower prices. We also face competition in international sales from companies that have local operations in the markets in which we sell our products. We believe that we can compete successfully with these companies by offering products of substantially better quality at comparable prices.

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Set forth below is a summary of our primary competitors by business segment. We expect to increasingly compete against multinational companies, both domestically and internationally, as we continue to manufacture more advanced products.

Patient monitoring devices. For domestic sales of patient monitoring devices, our primary competitors are Draeger Medical, GE Healthcare, Goldway Industrial, Koninklijke Philips Electronics, Nihon Kohden and Shenzhen Creative Industry Co.. For international sales of patient monitoring devices, our primary competitors are Datascope, Draeger Medical, GE Healthcare, Koninklijke Philips Electronics and Nihon Kohden.

Diagnostic laboratory instruments. For domestic sales of hematology analyzers, our primary competitors are Abbott Laboratories, Beckman Coulter, Horiba, MEKICS Co., Nihon Kohden, and Sysmex Corporation. For international sales of hematology analyzers, our primary competitors are Abbott Laboratories, Bayer Healthcare, Beckman Coulter, Horiba and Sysmex Corporation.

For domestic sales of biochemistry analyzers, our primary competitors are Biotecnica Instruments, Hitachi, Sysmex Corporation and UV-Vis Metrolab. For international sales of biochemistry analyzers, our primary competitors are Beckman Coulter, Erber-Transasia, Furuno Electrics Co., Olympus Medical Systems, Roche Diagnostics, Tokyo Bokei and UV-Via Metrolab.

Ultrasound imaging systems. For domestic sales of ultrasound imaging systems, our primary competitors are Aloka and Medison. For international sales of ultrasound imaging systems, our primary competitors are Draeger Medical, GE Healthcare, Koninklijke Philips Electronics, Teknova and Toshiba America Medical Systems.

These and other of our existing and potential competitors may have substantially greater financial, research and development, sales and marketing, personnel and other resources than we do and may have more experience in developing, manufacturing, marketing and supporting new products. See Risk Factors Risks Relating to Our Business and Industry Our business is subject to intense competition, which may reduce demand for our products and materially and adversely affect our business, financial conditions, results of operations and prospects.

We must also compete for distributors, particularly international distributors, with other medical equipment companies. Our competitors will often prohibit their distributors from selling products that compete with their own. These and other potential competitors may have higher visibility, greater name recognition and greater financial resources than we do. See Risk Factors Risks Relating to Our Business and Industry We depend on distributors for a significant majority of our revenues; we do not have long-term distribution agreements, and competition for suitable distributors is intense. Failure to maintain relationships with our distributors or to otherwise expand our distribution network would materially and adversely affect our business.

Employees

We had approximately 880, 1,450, 2,200 and 2,438 employees worldwide as of December 31, 2003, 2004, 2005 and June 30, 2006, respectively. The following table sets forth the number of employees categorized by function as of June 30, 2006:

	As of June 30, 2006
Manufacturing	694
Research and development	707
General and administration	118
Marketing and sales	607
Customer support and service	162
Procurement and supply management	150
Total	2,438

As required by PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including pension, work-related injury benefits, maternity insurance,

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medical and unemployment benefit plans. We are required under PRC law to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses, housing funds and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at the member s retirement date. The total amount of contributions we made to employee benefit plans in 2003, 2004, 2005 and the six months ended June 30, 2006, was RMB3.7 million, RMB6.9 million, RMB11.0 million (US$1.4 million) and RMB7.2 million (US$0.9 million), respectively.

Generally, we enter into a three-year standard employment contract with our officers and managers and a one-year standard employment contract with other employees. According to these contracts, all of our employees are prohibited from engaging in any activities that compete with our business during the period of their employment with us. Furthermore, the employment contracts with officers or managers generally include a covenant that prohibits officers or managers from engaging in any activities that compete with our business for two years after the period of their employment with us. It may be difficult or expensive for us to seek to enforce the provisions of these agreements.

Insurance

We maintain liability insurance coverage to cover product liability claims arising from the use of our products. We also maintain property insurance to cover certain of our fixed assets. Our insurance coverage, however, may not be sufficient to cover any claim for product liability or damage to our fixed assets.

Insurance companies in China offer limited business insurance products and do not, to our knowledge, offer business liability insurance. While business disruption insurance is available to a limited extent in China, we have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, except for fire insurance, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. See Risk Factors Risks Related to Our Business and Industry We are subject to product liability exposure and have limited insurance coverage. Any product liability claims or potential safety-related regulatory actions could damage our reputation and materially and adversely affect our business, financial condition and results of operations.

Facilities

We currently maintain our headquarters at Mindray Building, Keji 12th Road South, Hi-tech Industrial Park, Nanshan, Shenzhen, 518057, People s Republic of China. Our headquarters occupies approximately 193,000 square feet. We also have 29 local sales and services offices in China, and we have international sales and service offices in Boston, Istanbul, London and Vancouver.

We also maintain a research and development center in Beijing at 5-5 (3rd Floor West), Building 5, No. 8 Chuang Ye Road, Hai Dian District, Beijing, which we operate through our subsidiary Beijing Mindray. Our research and development facility occupies approximately 10,697 square feet.

We have an existing production site for research and development and manufacturing in Shenzhen with an area of approximately 280,000 square feet. We intend to expand our current manufacturing, assembly and warehouse facility or move to a new facility. In addition, we intend to build a new facility which will become our new company headquarters, and we will move our primary management and administrative functions to that facility. See Risk Factors Risks Related to Our Business and Industry We rely on one principal manufacturing, assembly and storage facility for our products and intend to expand or move into a new facility within the next two years. Any disruption to our current manufacturing facility or in the build out of the new or expanded capacity could reduce our sales and harm our reputation.

Legal Proceedings

We are not currently a party to any material legal proceeding. From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business.

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REGULATION

Our patient monitoring devices, diagnostic laboratory instruments and ultrasound imaging systems are medical devices and are subject to regulatory controls governing medical devices. Reagents used with our diagnostic laboratory instruments are divided into the categories of biological reagents and chemical and bio-chemical reagents. Biological reagents are subject to regulatory controls similar to those governing pharmaceutical products, while chemical and bio-chemical reagents are subject to regulatory controls similar to those governing medical devices. As a manufacturer of medical equipment and supplies we are subject to regulation and oversight by different levels of the food and drug administration in China, in particular the SFDA. We are also subject to other PRC government laws and regulations which are applicable to manufacturers in general. SFDA requirements include obtaining production certifications, production permits, compliance with clinical testing standards, manufacturing practices, quality standards, applicable industry standards and adverse event reporting, and advertising and packaging standards.

China

Classification of Medical Devices

In China, medical devices are classified into three different categories, Class I, Class II and Class III, depending on the degree of risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. Classification of a medical device is important because the class to which a medical device is assigned determines, among other things, whether a manufacturer needs to obtain a production permit and the level of regulatory authority involved in obtaining such permit. Classification of a device also determines the types of registration required and the level of regulatory authority involved in effecting the product registration.

Class I devices require product certification and are those with low risk to the human body and are subject to general controls. Class I devices are regulated by the city level food and drug administration where the manufacturer is located. Class II devices are those with medium risk to the human body and are subject to special controls. Class II devices require product certification, usually through a quality system assessment, and are regulated by the provincial level food and drug administration where the manufacturer is located. Class III devices are those with high risk to the human body, such as life-sustaining, life-supporting or implantable devices. Class III devices also require product certification and are regulated by the SFDA under the strictest regulatory control.

The majority of our products are classified as Class II or Class III devices. Our Transcranial Doppler MT-1010, DC-5, DC-5B, and DP-9900 ultrasound imaging systems are classified as Class III medical devices, while the remainder of our ultrasound imaging systems are classified as Class II medical devices. Our MEC-1000, MEC-2000, PM-5000, PM-6000, PM-7000, PM-8000, PM-8000 Express, PM-9000 and PM-9000 Express patient monitors, and our digital remote patient monitors are classified as Class III medical devices, while the remainder of our patient monitors are classified as Class II medical devices. Our various reagents are classified as either Class II or Class III devices. We produce a small number of Class I products, such as cables for cardiographs.

Production Permit

A manufacturer must obtain a production permit from the provincial level food and drug administration before commencing the manufacture of Class II and Class III medical devices. No production permit is required for the manufacture of Class I devices, but the manufacturer must notify the provincial level food and drug administration where the manufacturer is located and file for record with it. A production permit, once obtained, is valid for five years and is renewable upon expiration.

Our production permit for the manufacture of our patient monitoring devices, diagnostic laboratory instruments and ultrasound imaging systems will expire on February 28, 2011. To renew a production permit, a manufacturer needs to submit to the provincial level food and drug administration an application to renew the permit, along with required information six months before the expiration date of the permit.

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Distribution License

A manufacturer or distributor must obtain a distribution license in order to engage in sales and distribution of Class II and Class III medical devices in China. A distribution license is valid for five years and is renewable upon expiration. Our distribution license will expire on April 6, 2011.

Registration Requirement

Before a medical device can be manufactured for commercial distribution, a manufacturer must effect medical device registration by proving the safety and effectiveness of the medical device to the satisfaction of respective levels of the food and drug administration. In order to conduct a clinical trial on a Class II or Class III medical device, the SFDA requires manufacturers to apply for and obtain in advance a favorable inspection result for the device from an inspection center jointly recognized by the SFDA and the Administration of Quality Supervision, Inspection and Quarantine. The application to the inspection center must be supported by appropriate data, such as animal and laboratory testing results. If the inspection center approves the application for clinical trial, and the respective levels of the food and drug administration approve the institutions which will conduct the clinical trials, the manufacturer may begin the clinical trial. A registration application for a Class II or Class III device must provide required pre-clinical and clinical trial data and information about the device and its components regarding, among other things, device design, manufacturing and labeling. The provincial level food and drug administration, within 60 days of receiving an application for the registration of a Class II device, and the SFDA, within 90 days of receiving an application for the registration of a Class III device, will notify the applicant whether the application for registration is approved. If approved, a registration certificate will be issued within ten days a written approval. If the food and drug administration requires supplemental information, the approval process may take much longer. The registration is valid for four years.

The SFDA may change its policies, adopt additional regulations, revise existing regulations or tighten enforcement, each of which could block or delay the approval process for a medical device.

Regulation of Reagents

Under a regulation enacted by the SFDA in September 2002, the IVD reagents are divided into the categories of IVD biological reagents and IVD chemical and bio-chemical reagents IVD. Biological reagents are subject to regulatory controls similar to those governing pharmaceutical products, while IVD chemical and bio-chemical reagents are subject to regulatory controls similar to those governing medical devices.

To date, 95 IVD reagents which are manufactured and sold by Shenzhen Mindray have obtained medical device registration certificates as required from respective levels of food and drug administration.

We have initiated the registration process for nine new reagents, and we have submitted registration dossiers for six of these nine new reagents. We have obtained notices of acceptance for registration for all registration dossiers submitted.

Continuing SFDA Regulation

We are subject to continuing regulation by the SFDA. In the event of significant modification to an approved medical device, its labeling or its manufacturing process, a new premarket approval or premarket approval supplement may be required. Our products are subject to, among others, the following regulations:

SFDA s quality system regulations which require manufacturers to create, implement and follow certain design, testing, control, documentation and other quality assurance procedures;

medical device reporting regulations, which require that manufacturers report to the SFDA certain types of adverse reaction and other events involving their products; and

SFDA s general prohibition against promoting products for unapproved uses.

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Class II and III devices may also be subject to special controls applicable to them, such as supply purchase information, performance standards, quality inspection procedures and product testing devices which may not be required for Class I devices. We believe we are in compliance with the applicable SFDA guidelines, but we could be required to change our compliance activities or be subject to other special controls if the SFDA changes or modifies its existing regulations or adopts new requirements.

We are also subject to inspection and market surveillance by the SFDA to determine compliance with regulatory requirements. If the SFDA decides to enforce its regulations and rules, the agency can institute a wide variety of enforcement actions such as:

fines, injunctions and civil penalties;

recall or seizure of our products;

the imposition of operating restrictions, partial suspension or complete shutdown of production; and

criminal prosecution.

Radio Transmission Equipment Type Approval Certificate

As we produce multi-parameter monitoring devices that can share data remotely through network connections, we are required to obtain a Radio Transmission Equipment Type Approval Certificate issued by the PRC Ministry of Information Industry. Our certificate will expire on November 6, 2010.

China Compulsory Certification Requirements

China Compulsory Certification, or CCC, inclusive of a certificate and a mark, serves as evidence that the covered products can be imported, marketed or used in China. The CCC mark is administered by the China National Certification and Accreditation Administration, which designates the China Quality Certification Center to process CCC mark applications. Some medical devices are required to have a CCC mark. We have received a certificate and a mark for each of our products for which a CCC mark is required.

Software Enterprise Designation

Due to the software we develop for our products, we are also recognized as a software enterprise. The PRC government encourages the development and production of software products in China. Until 2010, value-added tax will be levied at the statutory rate of 17% on sales of software products developed and produced by us. The portion of the tax burden in excess of 3% shall be refunded upon collection and used by the enterprise to research and develop software products and to expand reproduction. In 2005, we received refunds in amount totaling more than RMB32.1 million (US$4.0 million). Beginning in 2006, our embedded software is no longer eligible for this value-added tax refund, due to changes in the types of software that are eligible for this tax refund.

United States

For any of our products that we distribute in the United States, the labeling, distribution and marketing are subject to regulation by the FDA and other regulatory bodies. The FDA regulates our currently marketed products as medical devices and we are required to obtain review and clearance or approval from the FDA prior to commercial sales of our devices.

FDA s premarket clearance and approval requirements

Unless an exemption applies, each medical device we wish to commercially distribute in the United States will require either prior 510(K) clearance or prior premarket approval from the FDA. The FDA classifies medical devices into one of three classes depending on the degree of risk posed to patients by the medical device. Devices deemed to pose lower risk are placed in either Class I or II, which requires the manufacturer to obtain 510(K) clearance from the FDA prior to marketing such devices. Some low-risk Class I devices are exempt from the 510(K) requirement altogether. Devices deemed by the FDA to pose

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greater risk, or devices deemed not substantially equivalent to a previously cleared 510(K) device are placed in Class III, most of which require premarket approval. Both premarket clearance and premarket approval applications are subject to the payment of user fees, to be paid at the time of submission for FDA review. Our PM-50, PM-8000 and PM-9000 Express patient monitoring devices and our DP-6600 and DP-9900 ultrasound imaging systems, marketed in the United States, are Class I and II products and we have obtained 510(K) clearance prior to their marketing.

510(K) clearance pathway

To obtain 510(K) clearance, a premarket notification must be submitted, demonstrating that the proposed device is substantially equivalent to a previously cleared 510(K) device or a device that was in commercial distribution before May 28, 1976 for which the FDA has not yet called for the submission of premarket approval applications. The FDA s 510(K) clearance process usually takes from three to six months from the date the application is submitted, but it can take significantly longer.

After a device receives 510(K) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, will require a new 510(K) clearance or could require premarket approval. The FDA requires each manufacturer to make this determination initially, but the FDA can review any such decision and can disagree with a manufacturer s determination. If the FDA disagrees with a manufacturer s determination, the FDA can require the manufacturer to cease marketing and/or recall the modified device until 510(K) clearance or premarket approval is obtained. If the FDA requires us to seek 510(K) clearance or premarket approval for any modifications to a previously cleared product, we may be required to cease marketing or recall the modified device until we obtain this clearance or approval. Also, in these circumstances, we may be subject to significant regulatory fines or penalties.

Premarket approval pathway

All of the products that we currently distribute in the United States have been cleared through the 510(K) clearance pathway, though in the future, we may distribute products that would have to be cleared through the premarket approval pathway. A premarket approval application must be submitted if the device cannot be cleared through the 510(K) process, and is usually utilized for Class III medical devices, or devices that pose a significant safety risk, including unknown risks related to the novelty of the device.

A premarket approval application must be supported by extensive data including, but not limited to, technical, preclinical, clinical trials, manufacturing and labeling to demonstrate to the FDA s satisfaction the safety and effectiveness of the device for its intended use. Technical performance data required for diagnostic laboratory instrument premarket approval applications may include validation of the performance of hardware and software under repeat testing, calibration of mechanical components and stability of reagents and other products used in specimen collection, storage and testing. Preclinical trials may include tests to determine product stability and biocompatibility, among other features.

Continuing FDA regulation

After a device is placed on the market, numerous regulatory requirements apply. These include:

- quality system regulation, or QSR, which requires manufacturers to follow design, testing, control, documentation and other quality assurance procedures during the manufacturing process, otherwise known as Good Manufacturing Practices, or GMPs;

- labeling regulations, which prohibit the promotion of products for unapproved or off-label uses and impose other restrictions on labeling; and

- medical device reporting regulations, which require that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur.

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Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include any of the following sanctions:

fines, injunctions, and civil penalties;

recall or seizure of our products;

operating restrictions, partial suspension or total shutdown of production;

refusing our request for 510(K) clearance or premarket approval of new products;

withdrawing 510(K) clearance or premarket approvals that are already granted; and

criminal prosecution.

European Union

The European Union has promulgated rules that require commercial medical products to bear the CE mark. The CE mark is recognized by the European Union as a symbol of adherence to strict quality systems requirements set forth in the ISO 9001, EN 46001 and ISO 13485 quality standards, as well as compliance with 93/42/EEC, the Medical Device Directives of the European Union. The CE mark allows us to market our products throughout the European Economic Area. Our manufacturing facilities received ISO 9001 (EN 46001) Quality Systems certification in September 2005. These certifications and repeated inspections are required in order to continue to affix the CE Mark to our approved products in Europe.

We have received regulatory approval to affix the CE mark to the substantial majority of our products. Failure to receive regulatory approval to affix the CE mark would prohibit us from selling these products in member countries of the European Union.

Other National and Provincial Level Laws and Regulations in China

We are subject to evolving regulations under many other laws and regulations administered by governmental authorities at the national, provincial and city levels, some of which are, or may be, applicable to our business. Our hospital customers are also subject to a wide variety of laws and regulations that could affect the nature and scope of their relationships with us.

Laws regulating medical device manufacturers and hospitals cover a broad array of subjects. We must comply with numerous additional state and local laws relating to matters such as safe working conditions, manufacturing practices, environmental protection and fire hazard control. We believe we are currently in compliance with these laws and regulations in all material respects. We may be required to incur significant costs to comply with these laws and regulations in the future. Unanticipated changes in existing regulatory requirements or adoption of new requirements could have a material adverse effect on our business, financial condition and results of operations.

Foreign Exchange Control and Administration

Foreign exchange in China is primarily regulated by:

The Foreign Currency Administration Rules (1996), as amended; and

The Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules.

Under the Foreign Currency Administration Rules, the Renminbi is convertible for current account items, including the distribution of dividends, interest payments, and trade and service-related foreign exchange transactions. Conversion of Renminbi into foreign currency for capital account items, such as direct investment, loans, investment in securities and repatriation of funds, however, is still subject to the approval of SAFE. Under the Administration Rules, foreign-invested enterprises may only buy, sell and remit foreign currencies at banks authorized to conduct foreign exchange transactions after providing valid commercial documents and, in the case of capital account item transactions, only after obtaining approval from SAFE.

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Capital investments directed outside of China by foreign-invested enterprises are also subject to restrictions, which include approvals by the PRC Ministry of Commerce, SAFE and the PRC National Reform and Development Commission. We receive a portion of our revenues in Renminbi, which is currently not a freely convertible currency. Under our current structure, our income will be primarily derived from dividend payments from our subsidiaries in China.

The value of the Renminbi against the US dollar and other currencies may fluctuate and is affected by, among other things, changes in China s political and economic conditions. The conversion of Renminbi into foreign currencies, including US dollars, has been based on rates set by the People s Bank of China. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi will be permitted to fluctuate within a band against a basket of certain foreign currencies. This change in policy resulted initially in an approximately 2% appreciation in the value of the Renminbi against the US dollar. There remains significant international pressure on the PRC government to adopt a substantial liberalization of its currency policy, which could result in a further and more significant appreciation in the value of the Renminbi against the US dollar.

Regulation of Foreign Exchange in Certain Onshore and Offshore Transactions

In January and April 2005, SAFE issued two rules that require PRC residents to register with and receive approvals from SAFE in connection with their offshore investment activities. SAFE has announced that the purpose of these regulations is to achieve the proper balance of foreign exchange administration and the standardization of the cross-border flow of funds. On October 21, 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted through Offshore Special Purpose Companies, or Notice 75, which became effective as of November 1, 2005. Notice 75 superceded the two rules issued by SAFE in January and April 2005 mentioned above. According to Notice 75:

prior to establishing or assuming control of an offshore company for the purpose of financing that offshore company with assets or equity interests in an onshore enterprise in the PRC, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch;

an amendment to the registration with the local SAFE branch is required to be filed by any PRC resident that directly or indirectly holds interests in that offshore company upon either (1) the injection of equity interests or assets of an onshore enterprise to the offshore company or (2) the completion of any overseas fund raising by such offshore company; and

an amendment to the registration with the local SAFE branch is also required to be filed by such PRC resident when there is any material change in the capital of the offshore company and not related to inbound investment, such as (1) an increase or decrease in its capital, (2) a transfer or swap of shares, (3) a merger or divesture, (4) a long-term equity or debt investment or (5) the creation of any security interests over the relevant assets located in China.

Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant overseas investment foreign exchange registration procedures by March 31, 2006. Under the relevant rules, failure to comply with the registration procedures set forth in Notice 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

As a Cayman Islands company, and therefore a foreign entity, if we purchase the assets or equity interest of a PRC company owned by PRC residents in exchange for our equity interests, such PRC residents will be subject to the registration procedures described in Notice 75. Moreover, PRC residents who are beneficial holders of our shares are required to register with SAFE in connection with their investment in us.

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As a result of the lack of implementing rules and other uncertainties relating to the interpretation and implementation of Notice 75, we cannot predict how these regulations will affect our business, operations or strategies. For example, our present or future PRC subsidiaries ability to conduct foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, may be subject to compliance with such SAFE registration requirements by relevant PRC residents over whom we have no control. In addition, we cannot assure you that any such PRC residents will be able to complete the necessary approval and registration procedures required by the SAFE regulations. We require all our shareholders who are PRC residents to comply with any SAFE registration requirements, but we have no control over either our shareholders or the outcome of such registration procedures. Such uncertainties may restrict our ability to implement our acquisition strategy and materially and adversely affect our business and prospects.

We believe that these foreign exchange restrictions may reduce the amount of funds that would be otherwise available to us to capitalize overseas subsidiaries or expand our international operations. However, we anticipate that we will require relatively small amounts of funds to capitalize overseas subsidiaries, and such funds should be readily available from us. Similarly, we anticipate that the startup capital and working capital costs for our international expansion will be borne largely by our international distributors with limited, if any, investment coming from us. We therefore do not anticipate that the restrictions set forth in the SAFE regulations will have a material adverse effect on our ability to capitalize foreign subsidiaries or expand our international operations.

Regulation of Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the PRC Ministry of Commerce, or MOFCOM, the State Assets Supervision and Administration Commission, or SASAC, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC, and the SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the New M&A Rule, which will become effective on September 8, 2006. This New M&A Rule, among other things, purports to require offshore SPVs formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, such as our company, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. The New M&A Rule specifically requires that an SPV, when using its offshore company shares to acquire shares of domestic companies (i.e., a share swap), obtain the approval of the CSRC. However, the New M&A Rule:

- is unclear as to whether an SPV using its cash to acquire the domestic companies needs to obtain approval from the CSRC we acquired the shares of our subsidiary, Shenzhen Mindray, through cash payment and not a share swap; and

- silent on if and how the New M&A Rule is applicable to overseas listings such as ours which is already in process prior to the September 8, 2006 effective date.

In our case, prior to September 8, 2006, we already received all necessary approvals required for the acquisition of interests in Shenzhen Mindray, such as MOFCOM and SAFE approvals, and our ADSs have been approved for listing on the New York Stock Exchange, subject to official notice of listing. Our PRC counsel, King & Wood, have advised us that based on their understanding of current PRC laws, regulations and the new regulation, listing and trading of our ADSs do not require approval of the CSRC because we have completed our restructuring through which we acquired the shares of our subsidiary, Shenzhen Mindray in exchange for cash (and not by share swap) and have received all the relevant approvals for such restructuring, unless (i) other laws, regulations and rules are adopted before the closing of this offering or (ii) the CSRC clearly requires on or after the September 8, 2006 effective date of the new regulation the listing of all SPVs on an overseas stock exchange require the approval of the CSRC. See Risk Factors Risks Related to Doing Business in China The approval of China Securities Regulatory Commission or the CSRC, may be required in connection with this offering under a recently adopted PRC regulation; any requirement to obtain prior CBRC approval could delay this offering and failure to obtain this approval, if required, could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs, and may also create uncertainties for this offering.

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Dividend Distributions

Pursuant to the Foreign Currency Administration Rules promulgated in 1996 and amended in 1997 and various regulations issued by SAFE, and other relevant PRC government authorities, the PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China.

Shenzhen Mindray and Beijing Mindray are regulated under the newly revised PRC Company Law which took effect on January 1, 2006. Accordingly they shall allocate 10% of after-tax profits to statutory common reserve fund. Where the accumulated amount of the statutory common reserve fund has exceeded 50% of the registered capital of the subsidiaries no further allocation is required to be made. These funds, however, may not be distributed to equity owners except in accordance with PRC laws and regulations.

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MANAGEMENT

Directors and Executive Officers

The following table sets forth certain information relating to our directors and executive officers as of September 1, 2006.

Name	Age	Position
Xu Hang	44	Chairman and Co-Chief Executive Officer
Li Xiting	55	Director, President and Co-Chief Executive Officer
Joyce I-Yin Hsu	31	Director and Chief Financial Officer
Cheng Minghe	44	Executive Vice President of Sales and Marketing
Yan Baiping	43	Executive Vice President of Research and Development
Mu Lemin	52	Executive Vice President of Administration
Chen Qingtai[1]	69	Director
Ronald Ede[1][2][3]	47	Director
Andrew Wolff [2][3]	37	Director
Wu Qiyao[1][2][3]	70	Director

(1) Member, audit committee

(2) Member, compensation committee

(3) Member, nomination committee

Xu Hang has served as the chairman of our board of directors and co-chief executive officer since 1991. Mr. Xu is one of our founders and the core managerial personnel of our company. Mr. Xu is responsible for strategic planning and business development. Mr. Xu received a bachelor s degree from Tsinghua University Department of Computer Science and Technology, a master s degree in biomedical engineering from Tsinghua University Department of Electrical Engineering and an EMBA degree from China-Europe International Business School.

Li Xiting has served as our director, president and co-chief executive officer since 1991. Mr. Li is one of our founders and the core managerial personnel of our business. Mr. Li is responsible for our business operations and management. Mr. Li received a bachelor s degree from University of Science and Technology of China.

Joyce I-Yin Hsu has served as our chief financial officer since February 2006 and as our director since 2006. From 2000 to February 2006, Ms. Hsu was an executive director at Goldman Sachs (Asia) L.L.C. with its Principal Investment Area. From 1998 to 2000, Ms. Hsu worked as an investment banker at Goldman Sachs where she divided her responsibilities between the equity capital markets group and corporate finance. Ms. Hsu has also served on the boards of Focus Media Holding Limited, China Yurun Food Group Limited, and China Haisheng Juice Holdings Company Limited. Ms. Hsu received her B.S. degree in business administration from the University of California at Berkeley.

Cheng Minghe has served as our executive vice president of sales and marketing since 2004. Mr. Cheng is served as our vice president of sales and marketing from 2000 to 2003. Prior to that, from 1998 to 2000 and has served as a vice president for Rayto Life and Analytical Sciences, Ltd. From 1991 to 1998, Mr. Cheng served as a vice president of our sales department. Mr. Cheng received his bachelor s degree and master s degree in biomedical engineering from Shanghai University of Communications.

Yan Baiping has served as our executive vice president of research and development since 2004. From 2000 to 2004, Mr. Yan held various managerial positions in our research and development department including deputy manager of the division of research and development of general technology, manager of the division of research and

development of hardware technology, research and development deputy director and research and development director. From 1998 to 2000, he worked for us as a systems engineer and a senior

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development engineer. Mr. Yan received his bachelor s degree from Lanzhou University, and he received his master s degree from Xi an Jiaotong University and doctoral degree in electricity and electronics from Xi an University of Technology.

Mu Lemin has served as our executive vice president of administration since 2004. Mr. Mu s main responsibilities include public relations and human resource management. Mr. Mu joined us as a development engineer in 1996, and since then has held various managerial positions in our research and development department including the head of our research and development division. Mr. Mu received his bachelor s degree and master s degree from Huazhong University of Science and Technology.

Chen Qingtai has served as our director since 2006. He served concurrently as chairman and chief executive officer of Dongfeng Peugeot Citroen Automobile Limited from 1985 until 1992. From 1992 to 1993, he served as deputy director of the State Council Economic and Trade Office. From 1993 to 1998, Mr. Chen served as the deputy director of the State Economic and Trade Commission. In 1997, he served as a member of First session of the Monetary Policy Committee of the People s Bank of China. From 1998 to 2004, Mr. Chen served as deputy director of the Development Research Center of the State Council. From 2000 to 2006, he served as an independent director of Sinopec Corp. Mr. Chen received his bachelor of science degree in power and dynamics engineering from Tsinghua University. He currently serves as a standing member of National Committee of the Chinese People s Political Consultative Conference. Mr. Chen also serves as an independent director of Bank of Communications Co., Ltd. and the dean of the School of Public Policy and Management at Tsinghua University.

Ronald Ede has served as our director since 2006. From 2004, he has served as the chief financial officer, Asia Pacific for JDSU Corp. From 2003 to 2004 he served as director of Grandfield Consultancy Ltd. From 2002 to 2003 he served as a director and consultant to Ernst & Young. From 1998 to 2002 he served as the managing director, Asia for SonoSite Inc. From 1992 to 1998 he was the director of international finance for ATL Ultrasound Inc. Mr. Ede received his bachelor of business administration degree from University of Hawaii and a master of business administration degree from the University of Washington. He currently serves as independent director for Mitsumaru East Kit (Holdings) Limited a Hong Kong listed entity.

Andrew Wolff has served as our director since 2006. Mr. Wolff is a managing director of Goldman Sachs (Asia) L.L.C. s Principal Investment Area. Mr. Wolff joined Goldman, Sachs & Co. in 1998, and was made a managing director in 2006. He has served on the boards of directors of Japan Telecom, C&M, Ltd., Geodex Communications and W2N, Inc. Mr. Wolff received his B.A. from Yale University, and he received his M.B.A. and J.D. degrees both from Harvard University.

Wu Qiyao has served as our director since 2006. Mr. Wu has been a professor in Beijing Institute of Technology since 1983. Mr. Wu has served as an evaluation committee member of medical device registration of the SFDA since 1996. From 1996 to 2002, he served as a deputy director of State Medical Equipment Evaluation Expert Committee. Mr. Wu currently serves as a committee member of science and technology department of National Population and Family Planning Commission of China. He also serves as a director of Chinese Institute of Electronics, and a director of the China Instrument and Control Society. Mr. Wu received his bachelor s degree in wireless electricity from Beijing Institute of Technology.

The business address of our directors and executive officers is Mindray Building, Keji 12th Road South, Hi-tech Industrial Park, Nanshan, Shenzhen, 518057, People s Republic of China.

Duties of Directors

Under Cayman Islands law, our directors have a duty of loyalty to act honestly in good faith with a view to our best interest. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our amended and restated memorandum and articles of association. A shareholder has the right to seek damages if a duty owed by our directors is breached.

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The functions and powers of our board of directors include, among others:

convening shareholders annual general meetings and reporting its work to shareholders at such meetings;

issuing authorized but unissued shares and redeem or purchase outstanding shares of our company;

declaring dividends and distributions;

appointing officers and determining the term of office and compensation of officers;

exercising the borrowing powers of our company and mortgaging the property of our company; and

approving the transfer of shares of our company, including the registering of such shares in our share register.

Terms of Directors and Executive Officers

Upon the closing of this offering, we will have a classified board, which means our directors are divided into three classes and the terms of office of a portion of our board will expire every year, upon which the directors whose terms have expired will be subject to reelection. The terms of office of Ms. Hsu and Mr. Wolff will expire at the first annual meeting of our shareholders after the completion of this offering, the terms of office of Messrs. Wu and Li will expire at the second annual meeting of our shareholders after the completion of this offering, and the terms of office of Messrs. Chen, Ede and Xu will expire at the third annual meeting of our shareholders after the completion of this offering.

Our directors are subject to a three year term of office and hold office until their term of office expires or until such time as they are removed from office by resolution of our shareholders. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditor, (ii) dies, or (iii) is found by our company to be or becomes of unsound mind. Our executive officers are elected by and serve at the discretion of our board of directors.

Appointment of the GS Funds Director

Andrew Wolff was appointed to our board pursuant to the shareholders agreement entered into on September 26, 2005. Under the terms of that agreement, GS Capital Partners V Fund, L.P., GS Capital Partners V Offshore Fund, L.P., GS Capital Partners V GmbH & Co. KG, and GS Capital Partners V Institutional, L.P., or collectively the GS Funds, are entitled to appoint one member of our board of directors so long as the shares held by the GS Funds are equal to or greater than the lower of 50% of the percentage of our equity they held, collectively, on September 26, 2005 (the date of their investment in our shares), or 5% of our total outstanding equity.

Qualification

There is no shareholding qualification for directors.

Board Committees

Our board of directors will establish an audit committee, a compensation committee and a nominations committee prior to the date of this offering.

Audit Committee

Our audit committee will consist of Messrs. Ede, Chen and Wu, each of whom satisfies the requirements of New York Stock Exchange Listed Company Manual, or NYSE Manual, Section 303A. Mr. Ede will be the chairman of our audit committee and meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Our board of directors has determined that each member will be an independent director within the meaning of NYSE Manual Section 303A(2) and will meet the criteria for

independence set forth in Section 10A(m)(3) of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act.

Our audit committee will be responsible for, among other things:

- recommending to our shareholders, if appropriate, the annual re-appointment of our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- annually reviewing an independent auditors report describing the auditing firm s internal quality control procedures, any material issues raised by the most recent internal quality control review, or peer review of the independent auditors and all relationships between the independent auditors and our company;
- setting clear hiring policies for employees or former employees of the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management s response;
- reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K promulgated by the SEC;
- discussing the annual audited financial statements with management and the independent auditors;
- discussing with management and the independent auditors major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;
- reviewing with management and the independent auditors the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on our financial statements;
- discussing policies with respect to risk assessment and risk management;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- timely reviewing reports from the independent auditors regarding all critical accounting policies and practices to be used by our company, all alternative treatments of financial information within US GAAP that have been discussed with management and all other material written communications between the independent auditors and management;
- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately and periodically with management, the internal auditors and the independent auditors; and

reporting regularly to the full board of directors.

Compensation Committee

Our compensation committee will consist of Messrs. Ede, Wolff and Wu. Mr. Wolff will be the chairman of our compensation committee. Our board of directors has determined that all of our compensation committee members will be independent directors within the meaning of NYSE Manual Section 302A(2).

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Our compensation committee will be responsible for:

- reviewing and approving corporate goals and objectives relevant to the compensation of our co-chief executive officers, evaluating the performance of our co-chief executive officers in light of those goals and objectives, and setting the compensation level of our co-chief executive officers based on this evaluation;
- reviewing and making recommendations to our board of directors regarding our compensation policies and forms of compensation provided to our directors and officers;
- reviewing and determining bonuses for our officers;
- reviewing and determining share-based compensation for our directors and officers;
- administering our equity incentive plans in accordance with the terms thereof; and
- such other matters that are specifically delegated to the compensation committee by our board of directors from time to time.

Nominations Committee

Our nominations committee will consist of Messrs. Ede, Wolff and Wu. Mr. Wu will be the chairman of our nominations committee. Our board of directors has determined that all of our nominations committee members will be independent directors within the meaning of NYSE Manual Section 302A(2).

Our nominations committee will be responsible for, among other things, selecting and recommending the appointment of new directors to our board of directors.

Corporate Governance

Our board of directors will adopt a code of ethics, which will be applicable to our senior executive and financial officers. In addition, our board of directors will adopt a code of conduct, which is applicable to all of our directors, officers and employees. We will make our code of ethics and our code of conduct publicly available on our website.

In addition, our board of directors will adopt a set of corporate governance guidelines. The guidelines will reflect certain guiding principles with respect to the structure of our board of directors, procedures and committees. These guidelines are not intended to change or interpret any law, or our amended and restated memorandum and articles of association.

Interested Transactions

A director may vote with respect to any contract or transaction in which he or she is interested, provided that the nature of the interest of any director in such contract or transaction is disclosed by him or her at or prior to its consideration and any vote in that matter.

Remuneration and Borrowing

The directors may determine remuneration to be paid to the directors. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors. The directors may exercise all the powers of our company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whether outright or as security for any debt obligations of our company or of any third party.

Compensation of Directors and Executive Officers

In 2005, we paid aggregate cash compensation of approximately RMB4.2 million (US$0.5 million) to our directors and executive officers as a group. In January 2005, we granted ordinary shares to selected directors and officers valued at RMB14.4 million (US$1.8 million). In September 2005, we granted

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convertible redeemable preferred shares to selected directors and officers valued at RMB44.6 million (US$5.5 million). We do not pay or set aside any amounts for pension, retirement or other benefits for our officers and directors.

2006 Employee Share Incentive Plan

Our 2006 Employee Share Incentive Plan was adopted by our board of directors at a meeting in February 2006 and was subsequently amended by our Amended and Restated 2006 Share Incentive Plan by shareholders resolution on September 1, 2006. The Amended and Restated 2006 Employee Share Incentive Plan is intended to promote our success and to increase shareholder value by providing an additional means to attract, motivate, retain and reward selected directors, officers, employees and third party consultants and advisors.

Under the Amended and Restated 2006 Employee Share Incentive Plan, we are limited to issuing options exchangeable for no more than 15,000,000 Class A ordinary shares.

Options generally do not vest unless the grantee remains under our employment or in service with us on the given vesting date. However, in circumstances where there is a death or disability of the grantee, or, for certain option holders, a change in the control of our company, the vesting of options will be accelerated to permit immediate exercise of all options granted to a grantee.

Our compensation committee, which administers our option plan, has wide discretion to award options. Subject to the provisions of our option plan, our compensation committee determines who will be granted options, the type and timing of options to be granted, vesting schedules and other terms and conditions of options, including the exercise price. Any of our employees may be granted options. The number of options awarded to a person, if any, is based on the person s potential ability to contribute to our success, the person s position with us and other factors chosen by our board of directors. The number of options that vest for an employee in any given year is subject to performance requirements and evaluated by our human resources department.

Generally, to the extent an outstanding option granted under our option plan has not vested on the date the grantee s employment by or service with us terminates, the unvested portion of the option will terminate and become unexercisable.

Our board of directors may amend, alter, suspend, or terminate our option plan at any time, provided, however, that in order to increase the limit on issuable options from the current limit of options exchangeable for 15,000,000 Class A ordinary shares, our board of directors must first seek the approval of our shareholders and, if such amendment, alteration, suspension or termination would adversely affect the rights of an optionee under any option granted prior to that date, the approval of such optionee. Without further action by our board of directors, the Amended and Restated 2006 Employee Share Incentive Plan will terminate in 2016.

Our board of directors authorized the issuance of up to 15,000,000 Class A ordinary shares upon exercise of awards granted under our Amended and Restated 2006 Employee Share Incentive Plan. As of September 1, 2006, options to purchase 6,824,000 ordinary shares (which will be redesignated as Class A ordinary shares upon completion of this offering) are outstanding. The table below sets forth the option grants

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made to our directors and executive officers pursuant to the 2006 Employee Share Incentive Plan as of June 30, 2006.

Name	Number of Ordinary Shares to be Issued upon Exercise of Options	Exercise Price per Ordinary Share (in US Dollars)	Date of Grant	Date of Expiration
Cheng Minghe	200,000	5.00	February 22, 2006	February 22, 2014
Joyce I-Yin Hsu	*	5.00	February 22, 2006	February 22, 2014
Yan Baiping	*	5.00	February 22, 2006	February 22, 2014
Mu Lemin	*	5.00	February 22, 2006	February 22, 2014

* Upon exercise of all options granted, would beneficially own less than 1% of our outstanding ordinary shares.

Employment Agreements

We have entered into three-year employment agreements with some of our executive officers. We may terminate their employment for cause at any time, without notice or remuneration, for certain acts by an executive officer, including but not limited acts of personal dishonesty in connection with an executive officer s employment by us which are intended to result in the executive officer s substantial personal enrichment or reasonably likely to materially harm us, any conviction of a crime which our board of directors reasonably believes has had or will have a material detrimental effect on our reputation or business, willful misconduct that is materially injurious to us, or continued violations of an executive officer s obligations to us after we have delivered a written demand for performance. An executive officer may terminate employment upon the occurrence of certain events, including but not limited to a material reduction of or removal from his or her duties, position or responsibilities without the executive officer s express written consent and a material reduction of the executive officer s compensation or benefits and if we fail to cure these issues within reasonable time. Upon the occurrence of any of these events, or in the case of termination without cause, the departing executive officer will be entitled to receive a severance payment equal to one year of his or her annualized base salary. An executive officer may also terminate his or her employment for other reasons or no reason at all after providing prior written notice of at least 30 days, in which case the departing executive officer will not be entitled to receive any severance payments. We may terminate the employment of any of our executive officers without cause by giving him or her a prior written notice of at least 30 days.

Each executive officer that has executed an employment agreement with us has agreed to hold, both during and after his employment agreement expires or is terminated, in strict confidence and not to use, except for our benefit (including our affiliated entities and our subsidiaries), any proprietary or confidential information, including technical data and trade secrets of our company or the confidential information of any third party, including our affiliated entities and our subsidiaries, that we receive. Each executive officer that has executed an employment agreement with us has also agreed to disclose to us and hold in trust for us all of the inventions, ideas, designs and trade secrets conceived of by him or her during the period that he or she is employed by us, and to assign all of his or her interests in them to us, and agreed that, while employed by us and for a period of two years after termination of his or her employment, he or she will not:

serve, invest or assist in any business that competes with any significant aspect of the business of us or our affiliated entities; or

solicit, induce, recruit or encourage any person to terminate his or her employment or consulting relationship with us or our affiliated entities.

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PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our ordinary shares, as of September 1, 2006, and assuming the conversion of all outstanding preferred shares into ordinary shares and as adjusted to reflect the sale of the ADSs offered in this offering for:

- each of our directors and executive officers who beneficially own our ordinary shares;
- each person known to us to own beneficially more than 5% of our ordinary shares; and
- each selling shareholder participating in this offering.

Beneficial ownership includes voting or investment power with respect to the securities. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. Percentage of beneficial ownership is based on ordinary shares outstanding prior to this offering, including options exercisable by such person within 60 days after the date of this prospectus, and which includes ordinary shares outstanding after completion of this offering, including options exercisable by such person within 60 days after the date of this prospectus.

The table below does not reflect the exercise of the underwriters option to purchase up to an additional shares.

	Ordinary Shares Beneficially Owned Prior to This Offering		Ordinary Shares to Be Sold by Selling Shareholders in This Offering		Ordinary Shares Beneficially Owned After This Offering		Percentage of Votes Held After This Offering
Name	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**	**Percent**
Directors and Executive Officers							
Xu Hang[1]**	23,016,758	24.73%					
Li Xiting[2]**	20,080,214	21.57%					
Cheng Minghe[3]**	3,540,938	3.80%					
Joyce I-Yin Hsu	*	*					
Yan Baiping	*	*					
Mu Lemin	*	*					
Chen Qingtai							
Ronald Ede							
Andrew Wolff[4]	8,975,105	9.64%					
Wu Qiyao							
5% Shareholders							
The GS Funds[5]	8,975,105	9.64%					
Tai Wai Tung[6]	8,657,000	9.30%					
Nie Tong[7]	5,728,274	6.15%					

Other Selling Shareholders		
Huang Shaokang[8]	3,869,322	4.16%

* Upon exercise of all options currently exercisable or vesting within 60 days of the date of this prospectus, would beneficially own less than 1% of our ordinary shares.

** Mr. Xu Hang, Mr. Li Xiting, and Mr. Cheng Minghe hold Class B ordinary shares except for the ordinary shares underlying the ADSs sold in this offering, which convert into Class A ordinary shares immediately prior to this offering.

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(1) Includes 23,016,758 Class B ordinary shares and nil Class A ordinary shares underlying ADSs sold in this offering. Mr. Xu is the sole shareholder and exercises investment and voting power over the shares held by New Dragon (No. 12) Investments Limited, or New Dragon. New Dragon is a Cayman Islands company and its address is Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands.

(2) Includes 20,080,214 Class B ordinary shares and nil Class A ordinary shares underlying ADSs sold in this offering. Mr. Li is the sole shareholder and exercises investment and voting power over the shares held by Quiet Well Limited. Quiet Well Limited is a BVI company and its address is Tropic Isle Building P.O. Box 438, Road Town, Tortola, BVI.

(3) Includes 3,340,938 Class B ordinary shares and 200,000 Class A ordinary shares underlying ADSs sold in this offering. Mr. Cheng is the controlling shareholder and exercises investment and voting power over the shares held by Able Choice Investments Limited, or Able Choice, respectively. Able Choice is a BVI company and its address is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI.

(4) Represents shares owned by the GS Funds. Mr. Wolff, one of our directors and a managing director in the Principal Investment Area of Goldman Sachs (Asia) L.L.C., a wholly-owned subsidiary of The Goldman Sachs Group, Inc., disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein, if any. The mailing address for Mr. Wolff is c/o Goldman Sachs & Co., 85 Broad Street, 10th Floor, New York, NY 10004.

(5) Includes a total of 8,975,105 shares owned by GS Capital Partners V Fund, L.P., a Delaware limited partnership; GS Capital Partners V Offshore Fund, L.P., a Cayman Islands exempted limited partnership; GS Capital Partners V Institutional, L.P., a Delaware limited partnership and GS Capital Partners V GmbH & Co. KG, a German KG. Each of the GS Funds has a mailing address of c/o Goldman, Sachs & Co., 85 Broad Street, 10th Floor, New York, NY 10004. Affiliates of The Goldman Sachs Group, Inc. are the general partner, managing general partner or investment manager of each of the GS Funds, and each of the GS Funds shares voting and investment power with certain of its respective affiliates.

Each of the GS Funds is affiliated with or managed by Goldman, Sachs & Co., a wholly-owned subsidiary of The Goldman Sachs Group, Inc. Each of The Goldman Sachs Group, Inc., and Goldman, Sachs & Co. disclaims beneficial ownership of the shares owned by each of the GS Funds, except to the extent of their pecuniary interest therein.

(6) Tai Wai Tung exercises investment and voting power over the shares held by Well Elite Group Limited, or Well Elite, which holds 8,657,000 Class A ordinary Shares. Well Elite is a BVI company and its address is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI.

(7) Nie Tong is the sole shareholder and exercises investment and voting power over the shares held by Scien-Ray (BVI) Incorporated, or Scien-Ray, which holds 5,728,274 Class A ordinary shares. Scien-Ray is a BVI company and its address is P. O. Box 3140, Road Town, Tortola, BVI.

(8) Huang Shaokang exercises investment and voting power over the shares held by Dragon City International Investment Limited, or Dragon City, which holds 3,869,322 Class A ordinary shares. Dragon City is a BVI company and its address is P.O. Box 3152, Road Town, Tortola, BVI.

History of Share Capital

Our holding company, Mindray International, was established in June 2005. In September 2005, we issued a total of 75,350,054 ordinary shares, par value HK$0.001 per share, to Able Choice, Asiawell Holdings Limited, Dragon City International Investment Limited, Hung Yue Finance Limited, Ideaport Technology Limited, Med-Tech Consulting Co. Ltd., MEG Holding Corp., New Dragon, Quiet Well Limited and Well Elite Group Limited, and a total of 3,000,000 convertible redeemable preferred shares to Able Choice, Dragon City International Investment Limited, New Dragon and Quiet Well Limited in exchange for their respective ownership interests in Shenzhen

Mindray.

In September 2005 we entered into a subscription and share purchase agreement with the GS Funds pursuant to which we issued 7,074,977 convertible redeemable preferred shares convertible into ordinary shares to the GS Funds at a cash purchase price of approximately US$3.93 per share.

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On February 22, 2006, we granted options to purchase 7,033,000 ordinary shares to employees. Each of these options has an exercise price of US$5.00 per share. These options vest generally over four years subject to performance conditions.

On June 15, 2006, we issued a total of 7,649,646 ordinary shares to Able Choice to be owned by shareholders of Mingrui Venture Capital and Investment Co. Ltd. and Legend New-Tech Investments Ltd. in exchange for consideration of 7,649,646 shares of Shenzhen Mindray acquired by Mindray International.

Upon completion of this offering and under the terms of our convertible redeemable preferred shares, all of the outstanding convertible redeemable preferred shares mandatorily convert into ordinary shares if this offering meets the conditions for a qualified initial public offering as set forth in our amended and restated memorandum of association. We do not intend to proceed with this offering unless all conditions necessary for the conversion of our convertible redeemable preferred shares into ordinary shares have been satisfied.

Assuming the offering meets the requirements described above, each Class A ordinary share shall be entitled to one vote on all matters subject to shareholder vote, and each Class B ordinary share shall be entitled to five votes on all matters subject to shareholder vote.

Other than an aggregate 8,975,105 of our outstanding shares held by the GS Funds, none of our outstanding ordinary shares is held in the United States, and we do not have any record holders of our voting securities in the United States. None of the selling shareholders is a broker-dealer or an affiliate of a broker-dealer.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

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RELATED PARTY TRANSACTIONS

Shareholders Agreement

In connection with the September 26, 2005 sale of 3,000,000 convertible redeemable preferred shares to the GS Funds, three of our employee shareholders entered into an agreement with the GS Funds which is subject to adjustment based on our results for the year ended December 31, 2005. This performance adjustment provision specifies that in the event our results are less than or greater than certain predefined amounts, the GS Funds would either receive additional preferred shares if our earnings are less than the pre-defined amount or return to the employee shareholders a certain number of shares (or cash) in the event the performance adjustment is met or exceeded. The GS Funds and the employee shareholders have placed in escrow 1,369,422 preferred shares and 1,800,425 ordinary shares, respectively, which represents the maximum number of shares subject to exchange pursuant to this provision. Upon exchange, the shares received by the GS Funds pursuant to the performance adjustment formula will remain as preferred shares and the shares received by the employee shareholders pursuant to the performance adjustment formula will be converted into ordinary shares. We recorded a share-based compensation charge of RMB11.6 million (US$1.4 million) in connection with the issuance of preferred shares to the employees in September 2005 and RMB33.0 million (US$4.1 million) in relation to the performance adjustment provision based on our best estimate of this performance type adjustment, utilizing the consolidated financial statements as of December 31, 2005. The performance adjustment provision was settled on June 15, 2006, as a result of which approximately 1.1 million preferred shares, recorded as outstanding as of December 31, 2005, were transferred by GS Funds to the three employee shareholders and converted into ordinary shares. For such compensation charge, a corresponding amount has been recorded as a capital contribution from the GS Funds.

Registration Rights Agreement

Pursuant to the terms of the registration rights agreement between the GS Funds and us, the GS Funds are entitled to demand registration on a form other than Form F-3 of registrable securities then outstanding, or registration on a Form F-3, Form S-3 or any successor or comparable forms for a registration in a jurisdiction other than the United States, under certain circumstances. Registrable securities are ordinary shares not previously sold to the public and issued or issuable to holders of our preferred shares, including Class A ordinary shares issued upon conversion of our preferred shares. These holders are also entitled to piggyback registration rights, whereby they may require us to register all or any part of the registrable securities that they hold at the time when we register any of our ordinary shares. We are generally required to bear all of the registration expenses incurred in connection with one demand registration on a form other than Form F-3, and unlimited Form F-3, Form S-3 and piggyback registrations.

Acquisition of Minority Interest

In connection with the acquisition of the minority interest, whereby we exchanged 6.1% of the equity of Mindray International for approximately 8.9% of the equity of Shenzhen Mindray, in April 2006, Greatest Elite first acquired approximately 8.9% of the equity of Shenzhen Mindray in exchange for consideration consisting of cash of RMB10.0 million and an obligation of the minority interest holders to subscribe for Class A ordinary shares equivalent to an 6.1% interest in Mindray International for the same cash amount. In June 2006, we issued shares of Mindray International in connection with this acquisition and in July 2006 we received the cash payment in settlement of the obligation to subscribe. The net cash transferred in these transactions amounted to zero, and the net exchange of shares amounted to the issuance of 7,649,646 shares of Mindray International in exchange for 7,649,646 shares of Shenzhen Mindray acquired by Greatest Elite. The shareholders involved in this transfer included some of our executive officers, including our co-CEO Li Xiting and Executive Vice Presidents Yan Baiping and Mu Lemin.

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DESCRIPTION OF SHARE CAPITAL

Upon completion of this offering, our authorized share capital will consist of 4,000,000,000 Class A ordinary shares, par value of HK$0.001 per share, 1,000,000,000 Class B ordinary shares, par value of HK$0.001 per share, and 1,000,000 shares of such class or designation as the board may determine. There will be shares of Class A ordinary shares issued and outstanding and Class B ordinary shares issued and outstanding.

We were incorporated as Mindray International Holdings Limited in the Cayman Islands on June 10, 2005, an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, or the Companies Law. In March 2006, we changed our name to Mindray Medical International Limited. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares. A Cayman Islands exempted company:

- is a company that conducts its business outside of the Cayman Islands;
- is exempted from certain requirements of the Companies Law, including a filing of an annual return of its shareholders with the Registrar of Companies;
- does not have to make its register of shareholders open to inspection; and
- may obtain an undertaking against the imposition of any future taxation.

Our amended and restated memorandum and articles of association, which will become effective upon the completion of this offering, provides that, upon the closing of this offering, we will have two classes of ordinary shares: Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights, as described in the following paragraphs. All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

The following discussion primarily concerns ordinary shares and the rights of holders of ordinary shares. The holders of ADSs will not be treated as our shareholders and will be required to surrender their ADSs for cancellation and withdrawal from the depositary facility in which the ordinary shares are held in order to exercise shareholders rights in respect of the ordinary shares. The depositary will agree, so far as it is practical, to vote or cause to be voted the amount of ordinary shares represented by ADSs in accordance with the non-discretionary written instructions of the holders of such ADSs.

Meetings

Subject to our regulatory requirements, an annual general meeting and any extraordinary general meeting shall be called by not less than 10 days notice in writing. Notice of every general meeting will be given to all of our shareholders other than those that, under the provisions of our amended and restated articles of association or the terms of issue of the ordinary shares they hold, are not entitled to receive such notices from us, and also to our principal external auditors. Extraordinary general meetings may be called only by the chairman of our board of directors or a majority of our board of directors, and may not be called by any other person. All business shall be deemed extraordinary that is transacted at an extraordinary general meeting, and also all business that is transacted at an annual general meeting other than with respect to (1) declarations of dividends, (2) the adoption of our financial statements and reports of directors and auditors thereon, (3) our authority to grant options not in excess of 20% of the nominal value of our existing issued share capital, (4) our ability to repurchase our securities, (5) the election of directors, (6) the appointment of auditors and other officers, and (7) the fixing of the remuneration of the auditors and the voting of remuneration or extra remuneration to the directors.

Notwithstanding that a meeting is called by shorter notice than that mentioned above, but, subject to applicable regulatory requirements, it will be deemed to have been duly called, if it is so agreed (1) in the case of a meeting called as an annual general meeting by not less than 75% of our shareholders entitled to attend and vote at the meeting or (2) in the case of any other meeting, by a majority in number of our

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shareholders having a right to attend and vote at the meeting, being a majority together holding not less than 75% in nominal value of the ordinary shares giving that right.

At any general meeting, two shareholders entitled to vote and present in person or by proxy that represent not less than one-third of our issued and outstanding voting shares will constitute a quorum. No business other than the appointment of a chairman may be transacted at any general meeting unless a quorum is present at the commencement of business. However, the absence of a quorum will not preclude the appointment of a chairman. If present, the chairman of our board of directors shall be the chairman presiding at any shareholders meetings.

A corporation being a shareholder shall be deemed for the purpose of our amended and restated articles of association to be present in person if represented by its duly authorized representative at the relevant general meeting or at any relevant general meeting of any class of our shareholders. Such duly authorized representative shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were our individual shareholder.

The quorum for a separate general meeting of the holders of a separate class of shares is described in Modification of Rights.

Voting Rights Attaching to the Shares

All of our shareholders have the right to receive notice of shareholder meetings and to attend, speak and vote at such meetings. In respect of matters requiring shareholder vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to five votes. A shareholder may participate at a shareholders meeting in person, by proxy or by telephone conference or other communications equipment by means of which all the shareholders participating in the meeting can communicate with each other. A resolution put to the vote of a meeting shall be decided on a poll.

No shareholder shall be entitled to vote or be counted in a quorum, in respect of any share, unless such shareholder is registered as our shareholder at the applicable record date for that meeting and all calls or installments due by such shareholder to us have been paid.

If a clearing house or depositary (or its nominee(s)) is our shareholder, it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting or at any meeting of any class of shareholders, provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision is entitled to exercise the same powers on behalf of the clearing house or depositary (or its nominee(s)) as if such person was the registered holder of our shares held by that clearing house or depositary (or its nominee(s)).

While there is nothing under the laws of the Cayman Islands which specifically prohibits or restricts the creation of cumulative voting rights for the election of our directors, unlike the requirement under Delaware General Corporation Law where cumulative voting for the election of directors is permitted only if expressly authorized in the certificate of incorporation, it is not a concept that is accepted as a common practice in the Cayman Islands, and we have made no provisions in our amended and restated memorandum and articles of association to allow cumulative voting for such elections.

Protection of Minority Shareholders

The Grand Court of the Cayman Islands may, on the application of shareholders holding not less than one fifth of our shares in issue, appoint an inspector to examine our affairs and report thereon in a manner as the Grand Court shall direct.

Any shareholder may petition the Grand Court of the Cayman Islands which may make a winding up order, if the court is of the opinion that it is just and equitable that we should be wound up.

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Claims against us by our shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by our amended and restated memorandum and articles of association.

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against, or derivative actions in our name to challenge (1) an act which is ultra vires or illegal, (2) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of us, and (3) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

Pre-emption Rights

There are no pre-emption rights applicable to the issue of new shares under either Cayman Islands law or our amended and restated memorandum and articles of association.

Liquidation Rights

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (1) if we are wound up and the assets available for distribution among our shareholders are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* among those shareholders in proportion to the amount paid up at the commencement of the winding up on the shares held by them, respectively, and (2) if we are wound up and the assets available for distribution among the shareholders as such are insufficient to repay the whole of the paid-up capital, those assets shall be distributed so that, as nearly as may be, the losses shall be borne by the shareholders in proportion to the capital paid up at the commencement of the liquidation.

If we are wound up, the liquidator may with the sanction of our special resolution and any other sanction required by the Companies Law, divide among our shareholders in specie or kind the whole or any part of our assets (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may also vest any part of these assets in trustees upon such trusts for the benefit of the shareholders as the liquidator shall think fit, but so that no shareholder will be compelled to accept any assets, shares or other securities upon which there is a liability.

Modification of Rights

Except with respect to share capital (as described below), alterations to our amended and restated memorandum and articles of association may only be made by special resolution of no less than two-thirds of votes cast at a meeting of the shareholders.

Subject to the Companies Law of the Cayman Islands, all or any of the special rights attached to shares of any class (unless otherwise provided for by the terms of issue of the shares of that class) may be varied, modified or abrogated with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of our amended and restated articles of association relating to general meetings shall apply similarly to every such separate general meeting, but so that the quorum for the purposes of any such separate general meeting or at its adjourned meeting shall be a person or persons together holding (or represented by proxy) not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by such holder and any holder of shares of that class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

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Alteration of Capital

We may from time to time by ordinary resolution:

increase our capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;

consolidate and divide all or any of our share capital into shares of larger amount than our existing shares;

cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of our share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law;

sub-divide our shares or any of them into shares of smaller amount than is fixed by our amended and restated memorandum and articles of association, subject nevertheless to the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the share resulting from such subdivision, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as we have power to attach to unissued or new shares; and

divide shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares, attach to the shares respectively as preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination in general meeting may be determined by our directors.

We may, by special resolution, subject to any confirmation or consent required by the Companies Law, reduce our share capital or any capital redemption reserve in any manner authorized by law.

Conversion

Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder (as defined in our amended and restated articles of association), such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares. In addition, if the aggregate number of Class B ordinary shares is less than 20% of the total number of our issued and outstanding ordinary shares, each issued and outstanding Class B ordinary share shall automatically and immediately convert into one Class A ordinary share, and we shall not issue any Class B ordinary shares thereafter.

Transfer of Shares

Subject to any applicable restrictions set forth in our amended and restated memorandum and articles of association, any of our shareholders may transfer all or any of his or her shares by an instrument of transfer in the usual or common form or in a form prescribed by the New York Stock Exchange or in any other form which our directors may approve.

Our directors may decline to register any transfer of any share which is not paid up or on which we have a lien. Our directors may also decline to register any transfer of any share unless:

the instrument of transfer is lodged with us accompanied by the certificate for the shares to which it relates and such other evidence as our directors may reasonably require to show the right of the transferor to make the transfer;

the instrument of transfer is in respect of only one class of share;

the instrument of transfer is properly stamped (in circumstances where stamping is required);

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in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; and

a fee of such maximum sum as the New York Stock Exchange may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer, they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on notice being given by advertisement in such one or more newspapers or by any other means in accordance with the requirements of the New York Stock Exchange, be suspended and the register closed at such times and for such periods as our directors may from time to time determine; provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our directors may determine.

Share Repurchase

We are empowered by the Companies Law and our amended and restated memorandum and articles of association to purchase our own shares only when our board of directors determines that there is sufficient profit and surplus capital in our share premium account to fund a repurchase. Our directors may only exercise this power on our behalf, subject to the Companies Law, our amended and restated memorandum and articles of association and to any applicable requirements imposed from time to time by the US Securities and Exchange Commission, or SEC, the New York Stock Exchange, or by any recognized stock exchange on which our securities are listed. Our ability to repurchase shares will be subject to our ability to receive dividends from our PRC subsidiaries.

Dividends

Subject to the Companies Law, we may declare dividends in any currency to be paid to our shareholders but no dividend shall be declared in excess of the amount recommended by our directors. Dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our directors determine is no longer needed. Our board of directors may also declare and pay dividends out of the share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provides (1) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on that share and (2) all dividends shall be apportioned and paid *pro rata* according to the amounts paid upon the shares during any portion or portions of the period in respect of which the dividend is paid.

Our directors may also pay any fixed dividend that is payable on any shares semi-annually or on any other dates, whenever our financial position, in the opinion of our directors, justifies such payment.

Our directors may deduct from any dividend or other moneys payable to any shareholder all sums of money (if any) presently payable by such shareholder to us on account of calls or otherwise.

No dividend or other moneys payable by us on or in respect of any share shall bear interest against us.

In respect of any dividend proposed to be paid or declared on our share capital, our directors may resolve and direct that (1) such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that our members entitled thereto will be entitled to elect to receive such dividend (or part thereof if our directors so determine) in cash in lieu of such allotment or (2) the shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as our directors may think fit. We may also, on the recommendation of our directors, resolve in respect of any particular dividend that, notwithstanding the foregoing, it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right of shareholders to elect to receive such dividend in cash in lieu of such allotment.

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Any dividend, interest or other sum payable in cash to the holder of shares may be paid by check or warrant sent by mail addressed to the holder at his registered address, or addressed to such person and at such addresses as the holder may direct. Every check or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the check or warrant by the bank on which it is drawn shall constitute a good discharge to us.

All dividends unclaimed for one year after having been declared may be invested or otherwise made use of by our board of directors for the benefit of our company until claimed. Any dividend unclaimed after a period of six years from the date of declaration of such dividend may be forfeited and, if so forfeited, shall revert to us.

Whenever our directors or our members in general meeting have resolved that a dividend be paid or declared, our directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe for our securities or securities of any other company. Where any difficulty arises with regard to such distribution, our directors may settle it as they think expedient. In particular, our directors may issue fractional certificates, ignore fractions altogether or round the same up or down, fix the value for distribution purposes of any such specific assets, determine that cash payments shall be made to any of our shareholders upon the footing of the value so fixed in order to adjust the rights of the parties, vest any such specific assets in trustees as may seem expedient to our directors, and appoint any person to sign any requisite instruments of transfer and other documents on behalf of a person entitled to the dividend, which appointment shall be effective and binding on our shareholders.

Untraceable Shareholders

We are entitled to sell any shares of a shareholder who is untraceable, provided that:

(1) all checks or warrants in respect of dividends of such shares, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of twelve years prior to the publication of the advertisement and during the three months referred to in paragraph (3) below;

(2) we have not during that time received any indication of the whereabouts or existence of the shareholder or person entitled to such shares by death, bankruptcy or operation of law; and

(3) we have caused an advertisement to be published in newspapers in the manner stipulated by our amended and restated memorandum and articles of association, giving notice of our intention to sell these shares, and a period of three months has elapsed since such advertisement and the New York Stock Exchange has been notified of such intention.

The net proceeds of any such sale shall belong to us, and when we receive these net proceeds we shall become indebted to the former shareholder for an amount equal to such net proceeds.

Differences in Corporate Law

The Companies Law is modeled after similar laws in the United Kingdom but does not follow recent changes in English law. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the State of Delaware.

Mergers and Similar Arrangements. Cayman Islands law does not provide for mergers as that expression is understood under Delaware General Corporation Law. However, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement in question is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is

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to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder would have the right to express to the court the view that the transaction should not be approved, the court can be expected to approve the arrangement if it satisfies itself that:

company is not proposing to act illegally or ultra vires and the statutory provisions as to majority vote have been complied with;

the shareholders have been fairly represented at the meeting in question;

the arrangement is such as a businessman would reasonably approve; and

the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law or that would amount to a fraud on the minority.

When a takeover offer is made and accepted by holders of 90% of the shares within four months, the offerer may, within a two-month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection may be made to the Grand Court of the Cayman Islands but is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction are thus approved, any dissenting shareholders would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders Suits. We are not aware of any reported class action or derivative action having been brought in a Cayman Islands court. In principle, we will normally be the proper plaintiff and a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

a company is acting or proposing to act illegally or beyond the scope of its authority;

the act complained of, although not beyond the scope of its authority, could be effected duly if authorized by more than a simple majority vote which has not been obtained; and

those who control our company are perpetrating a fraud on the minority.

Corporate Governance. Cayman Islands laws do not restrict transactions with directors, requiring only that directors exercise a duty of care and owe a fiduciary duty to the companies for which they serve. Under our amended and restated memorandum and articles of association, subject to any separate requirement for audit committee approval under the applicable rules of the New York Stock Exchange or unless disqualified by the chairman of the relevant board meeting, so long as a director discloses the nature of his interest in any contract or arrangement which he is interested in, such a director may vote in respect of any contract or proposed contract or arrangement in which such director is interested and may be counted in the quorum at such meeting.

Inspection of Corporate Records. Shareholders of a Cayman Islands company have no general right under the Companies Law to inspect or obtain copies of a list of shareholders or other corporate records of the company. In comparison, under Delaware law, shareholders have the right to inspect for any proper purpose, and to obtain copies of list(s) of shareholders and other books and records of the corporation and any subsidiaries to the extent the books and records of such subsidiaries are available to the corporation.

Calling of Special Shareholders Meetings. The Companies Law does not provide shareholders with any right to requisition a general meeting and does not have provisions governing the proceedings of shareholders meetings. In comparison, under Delaware law a special meeting may be called by the board of directors or

any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

Bringing Business Before a Meeting. The Companies Law does not provide shareholders with any right to bring business before a meeting or requisition a general meeting. In comparison, under Delaware law a shareholder has the right to put any proposal before the annual meeting of shareholders, provided that it complies with the notice provisions in the governing documents.

Board of Directors

We are managed by our board of directors. Our amended and restated memorandum and articles of association provide that the number of our directors will be fixed from time to time exclusively pursuant to resolution passed by our directors, but must consist of not less than five directors. Initially we have set our board of directors to have not less than five directors and not more than seven directors. Any director on our board may be removed by way of an ordinary resolution of shareholders. Any vacancies on our board of directors or additions to the existing board of directors can be filled by way of an ordinary resolution of shareholders or by the affirmative vote of a simple majority of the remaining directors, although this may be less than a quorum where the number of remaining directors falls below the minimum number fixed by our board of directors. The directors may at any time appoint any person as a director to fill a vacancy or as an addition to the existing board, but any director so appointed by the board of directors shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Our directors shall serve a three year term from their appointment date and shall retire from office (unless he vacates his office sooner) at the expiry of such term provided their successors are elected or appointed. Such directors who retire at the expiry of their term are eligible for re-election. Our directors are not required to hold any of our shares to be qualified to serve on our board of directors.

Meetings of our board of directors may be convened at any time deemed necessary by our secretary on request of a director or by any director. Advance notice of a meeting is not required if each director entitled to attend consents to the holding of such meeting.

A meeting of our board of directors shall be competent to make lawful and binding decisions if at least two of the members of our board of directors are present or represented unless the board has fixed any other number. At any meeting of our directors, each director is entitled to one vote.

Questions arising at a meeting of our board of directors are required to be decided by simple majority votes of the members of our board of directors present or represented at the meeting. In the case of a tie vote, the chairman of the meeting shall have a second or deciding vote. Our board of directors may also pass resolutions without a meeting by unanimous written consent.

Our board of directors is divided into different classes, namely Class A Directors, Class B Directors and Class C Directors. At the first annual general meeting after this offering, all Class A Directors shall retire from office and be eligible for re-election. At the second annual general meeting after this offering all Class B Directors shall retire from office and be eligible for re-election. At the third annual general meeting after this offering, all Class C Directors shall retire from office and be eligible for re-election. At each subsequent annual general meeting after the third annual general meeting after this offering, one-third of our directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation. A retiring director shall be eligible for re-election. The directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any director who wishes to retire and not to offer himself for re-election. Any further directors so to retire shall be those of the other directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

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Certain actions require the approval of a supermajority of at least two-thirds of our board of directors, including:

- the appointment or removal of either of our co-chief executive officers, chief financial officer and other executive officers of our company;
- any anti-takeover action in response to a takeover attempt;
- any merger resulting in our shareholders immediately prior to such merger holding less than a majority of the voting power of the outstanding share capital of the surviving business entity;
- the sale or transfer of all or substantially all of our assets; and
- any change in the number of our board of directors.

Committees of Board of Directors

Pursuant to our amended and restated articles of association, our board of directors has established an audit committee, a compensation committee and a nominations committee.

Issuance of Additional Ordinary Shares or Preferred Shares

Our amended and restated memorandum of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our amended and restated memorandum of association authorizes our board of directors to establish from time to time one or more series of preferred shares and to determine, with respect to any series of preferred shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue series of preferred shares without action by our shareholders to the extent authorized but unissued. Accordingly, the issuance of preferred shares may adversely affect the rights of the holders of the ordinary shares. In addition, the issuance of preferred shares may be used as an anti-takeover device without further action on the part of the shareholders. Issuance of preferred shares may dilute the voting power of holders of ordinary shares.

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DESCRIPTION OF AMERICAN DEPOSITARY SHARES

American Depositary Shares

The Bank of New York, as depositary, will register and deliver American Depositary Shares, or ADSs. Each ADS will represent one Class A ordinary share (or a right to receive shares) deposited with the principal Hong Kong office of The Hongkong and Shanghai Banking Corporation, as custodian for the depositary. Each ADS will also represent any other securities, cash or other property which may be held by the depositary. The depositary s corporate trust office at which the ADSs will be administered is located at 101 Barclay Street, New York, New York 10286. The Bank of New York s principal executive office is located at One Wall Street, New York, New York 10286.

You may hold ADSs either (A) directly (i) by having an American Depositary Receipt, which is a certificate evidencing a specific number of ADSs, registered in your name, or (ii) by holding ADSs in the Direct Registration System, or (B) indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

The Direct Registration System, or DRS, is a system administered by DTC pursuant to which the depositary may register the ownership of uncertificated American Depositary Shares, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto.

As an ADS holder, we will not treat you as one of our shareholders and you will not have shareholder rights. Cayman Islands law governs shareholder rights. The depositary will be the holder of the shares underlying your ADSs. As a holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary and you, as an ADS holder, and the beneficial owners of ADSs set out ADS holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of American Depositary Receipt. For directions on how to obtain copies of those documents see Where You Can Find Additional Information.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of Shares your ADSs represent.

Cash. The depositary will convert any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and can not be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADR holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

Before making a distribution, any withholding taxes, or other governmental charges that must be paid will be deducted. See Taxation . It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.*

Shares. The depositary may distribute additional ADSs representing any shares we distribute as a dividend or free distribution. The depositary will only distribute whole ADSs. It will sell shares which

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would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new shares. The depositary may sell a portion of the distributed shares sufficient to pay its fees and expenses in connection with that distribution.

Rights to purchase additional shares. If we offer holders of our securities any rights to subscribe for additional shares or any other rights, the depositary may make these rights available to you. If the depositary decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the depositary will use reasonable efforts to sell the rights and distribute the proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. *In that case, you will receive no value for them.*

If the depositary makes rights available to you, it will exercise the rights and purchase the shares on your behalf. The depositary will then deposit the shares and deliver ADSs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADRs described in this section except for changes needed to put the necessary restrictions in place.

Other Distributions. The depositary will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ADSs) to you unless it receives satisfactory evidence from us that it is legal to make that distribution. The depositary may sell a portion of the distributed shares sufficient to pay its fees and expenses in connection with that distribution.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. *This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.*

Deposit, Withdrawal and Cancellation

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposit shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons entitled thereto.

How do ADS holders cancel an American Depositary Share?

You may turn in your ADSs at the depositary s corporate trust office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the shares and any other deposited securities underlying the ADSs to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its corporate trust office, if feasible.

How do ADS holders interchange between Certificated ADSs and Uncertificated ADSs?

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you

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are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to you an ADR evidencing those ADSs.

Voting Rights

How do you vote?

You may instruct the depositary to vote the Deposited Securities, but only if we ask the depositary to ask for your instructions. *Otherwise, you will not be able to exercise your right to vote unless you withdraw the shares. However, you may receive notice of the meeting without sufficient time to effect withdrawal of your shares.*

If we ask for your instructions, the depositary will notify you of the upcoming vote and arrange to deliver our voting materials to you. The materials will (1) describe the matters to be voted on and (2) explain how you may instruct the depositary to vote the shares or other deposited securities underlying your ADSs as you direct. For instructions to be valid, the depositary must receive them on or before the date specified. The depositary will try, as far as practical, subject to the laws of the Cayman Islands and of the Memorandum and Articles of Association, to vote or to have its agents vote the shares or other deposited securities as you instruct. If the depositary does not receive voting instructions from you by the specified date, it will consider you to have authorized and directed it to give a discretionary proxy to a person designated by us to vote the number of deposited securities represented by your ADSs. The depositary will give a discretionary proxy in those circumstances to vote on all questions at to be voted upon unless we notify the depositary that (i) we do not wish to receive a discretionary proxy (ii) we think there is substantial shareholder opposition to the particular question, or (iii) we think the particular question would have an adverse impact on our shareholders. The depositary will only vote or attempt to vote as you instruct or as described in the preceding sentence.

We can not assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.*

In order to give you a reasonable opportunity to instruct the Depositary as to the exercise of voting rights relating to Deposited Securities, if we request the Depositary to act, we will try to give the Depositary notice of any such meeting and details concerning the matters to be voted upon sufficiently in advance of the meeting date.

Fees and Expenses

Persons depositing or withdrawing shares must pay:	For:
US$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
	Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
US$0.02 (or less) per ADS	Any cash distribution to you
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders
US$0.02 (or less) per ADSs per calendar year	Depositary services

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Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement) converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

The Bank of New York, as depositary, has agreed to reimburse us for expenses we incur that are related to the establishment and maintenance of the ADR program, including investor relations expenses and the New York Stock Exchange application and listing fees. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depositary collects from investors under the ADR program.

The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing ordinary shares or surrendering ADSs or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deducting from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your American Depositary Shares to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

Reclassifications, Recapitalizations and Mergers

If we:

Change the nominal or par value of our shares

Reclassify, split up or consolidate any of the deposited securities

Distribute securities on the shares that are not distributed to you

Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action

Then:

The cash, shares or other securities received by the depositary will become deposited securities. Each ADS will automatically represent its equal share of the new deposited securities,

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The depositary may, and will if we ask it to, distribute some or all of the cash, shares or other securities it received. It may also deliver new ADSs or ask you to surrender your outstanding ADSs in exchange for new ADSs identifying the new deposited securities

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the form of ADR without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. *At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.*

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement at our direction by mailing notice of termination to the ADS holders then outstanding at least 60 days prior to the date fixed in such notice for such termination. The depositary may also terminate the deposit agreement by mailing notice of termination to us and the ADS holders then outstanding if at any time 30 days shall have expired after the depositary shall have delivered to the Company a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property, and deliver shares and other deposited securities upon cancellation of ADSs. Four months after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. The depositary s only obligations will be to account for the money and other cash. After termination our only obligations will be to indemnify the depositary and to pay fees and expenses of the depositary that we agreed to pay.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depositary; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;

are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement;

are not liable if either of us exercises discretion permitted under the deposit agreement;

have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other person;

may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper person.

In the deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

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Requirements for Depositary Actions

Before the depositary will deliver or register a transfer of an ADS, make a distribution on an ADS, or permit withdrawal of shares, the depositary may require:

payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;

satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and

compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver ADSs or register transfers of ADSs generally when the transfer books of the depositary or our transfer books are closed or at any time if the depositary or we think it advisable to do so.

Your Right to Receive the Shares Underlying your ADRs

You have the right to cancel your ADSs and withdraw the underlying shares at any time except:

When temporary delays arise because: (i) the depositary has closed its transfer books or we have closed our transfer books; (ii) the transfer of shares is blocked to permit voting at a shareholders meeting; or (iii) we are paying a dividend on our shares.

When you or other ADS holders seeking to withdraw shares owe money to pay fees, taxes and similar charges.

When it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-release of ADSs

The deposit agreement permits the depositary to deliver ADSs before deposit of the underlying shares. This is called a pre-release of the American Depositary Shares. The depositary may also deliver shares upon cancellation of pre-released ADSs (even if the ADSs are canceled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying shares are delivered to the depositary. The depositary may receive ADSs instead of shares to close out a pre-release. The depositary may pre-release ADSs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the depositary in writing that it or its customer owns the shares or ADSs to be deposited; (2) the pre-release is fully collateralized with cash or other collateral that the the depositary considers appropriate; and (3) the depositary must be able to close out the pre-release on not more than five business days notice. In addition, the depositary will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the depositary may disregard the limit from time to time, if it thinks it is appropriate to do so.

Direct Registration System

In the Deposit Agreement, all parties to the Deposit Agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by the Depository Trust Company. DRS is the system administered by DTC pursuant to which the depositary may register the ownership of uncertificated American Depositary Shares, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an ADS holder, to direct the depositary to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of

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that DTC participant without receipt by the depositary of prior authorization from the ADS holder to register such transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/ Profile, the parties to the Deposit Agreement understand that the depositary will not verify, determine or otherwise ascertain that the DTC participant which is claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the Deposit Agreement, the parties agree that the depositary s reliance on and compliance with instructions received by the depositary through the DRS/ Profile System and in accordance with the Deposit Agreement, shall not constitute negligence or bad faith on the part of the Depositary.

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SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, we will have outstanding ADSs representing of our ordinary shares. All of the ADSs sold in this offering and the ordinary shares they represent will be freely transferable by persons other than our affiliates without restriction or further registration under the Securities Act. Sales of substantial amounts of our ADSs in the public market could adversely affect prevailing market prices of our ADSs. Prior to this offering, there has been no public market for our ordinary shares or ADSs, and while we have applied to have the ADSs approved for listing on the New York Stock Exchange, we cannot assure you that a regular trading market will develop in the ADSs. We do not expect that a trading market will develop for our ordinary shares not represented by ADSs.

Lock-up Agreements

We have agreed for a period of 180 days after the date of this prospectus not to sell, transfer or otherwise dispose of, and not to announce an intention to sell, transfer or otherwise dispose of, without the prior written consent of the underwriters:

- any of our ordinary shares or depositary shares representing our ordinary shares;
- any shares of our subsidiaries or controlled affiliates or depositary shares representing those shares; or
- any securities that are substantially similar to the ordinary shares or depositary shares referred to above, including any securities that are convertible into, exchangeable for or otherwise represent the right to receive ordinary shares, other shares or depositary shares referred to above;

other than pursuant to (1) the 2006 Employee Share Incentive Plan, and (2) a transfer by us to our affiliate, provided that such transfer is not a disposition for value and that such affiliate agrees to be bound in writing by the restrictions set forth in the lock-up agreement to which we are subject.

In addition, we have agreed to cause each of our subsidiaries and controlled affiliates not to sell, transfer or otherwise dispose of, and not to announce an intention to sell, transfer or otherwise dispose of, for a period of 180 days after the date of this prospectus without the prior written consent of the underwriters, any of the securities referred to above, except for a transfer by it to its affiliate, provided that such transfer is not a disposition for value and that such affiliate agrees to be bound in writing by the restriction set forth in the lock-up agreement to which we are subject.

Furthermore, each of our directors and executive officers and substantially all of our shareholders, including each of the selling shareholders, have also entered into a similar 180-day lock-up agreement, subject to certain exceptions, with respect to our ordinary shares, depositary shares representing our ordinary shares and securities that are substantially similar to our ordinary shares or depositar