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Q&A Summary of Mindray 1H2024 Earnings Call

Q: Over the past two years, many companies and investors in the medical sector have faced significant pressure regarding both financial performance and stock prices. Could you tell us the potential market space for medical equipment industry and in which direction you see it heading?

A: Over the past few decades of development, the Chinese medical equipment industry has grown from nothing to a market with a scale worth over CNY 600 billion, reflecting an astonishing pace of growth. Today, China is already the world's second-largest single medical equipment market, with its scale second only to the United States. However, unlike the U.S., the competitive landscape in China is highly fragmented, with hundreds or even thousands of competitors in some sub-sectors. Of course, this fragmented situation is closely related to the relatively extensive and rapid growth of China market in the past and its unique conditions. However, we believe this situation will gradually change in the future.

We firmly believe that the industry will continue to grow rapidly in the future because the fundamental logic driving its growth remains unchanged, that is, the advancement of technology. For example, the discovery of a new drug inevitably creates a demand for diagnostics, and the emergence of a new surgical method will drive demand for new treatments. What drives the demand behind this are factors such as population aging and people's pursuit of high-quality medical resources. Everyone hopes to achieve a better quality of life and longer life expectancy at a reasonable cost, which aligns perfectly with Mindray's mission. Therefore, for Mindray, the core factor for future growth is to increase R&D innovation, developing higher-performance reagents and imaging equipment with clearer resolution for early disease detection, using more precise and easy-to-use minimally invasive or interventional devices to cure diseases in the early stages, and helping hospitals improve quality and efficiency and control expenses and costs while improving the standardization of medical care through Intelli-Digital solutions, thus ultimately extend high-quality life care to everyone. However, manufacturers that have relied solely on price "rat race" and marketing channel expansions under homogenized competition will inevitably be phased out. Both the competition landscape and the concentration of procurement will inevitably improve in the future, guiding the industry towards high-quality development.

Although the Company's short-term performance has been affected by external environmental changes, this impact is common to most competitors. We have increased our market share by actively responding to environmental changes. Therefore, based on the current situation, we are still very confident in achieving our goal of being one of the Top 20 global Medtech companies by 2025 at the latest, according to the established plan.

Q: Based on the current assessment, what are the Company's growth expectations for the second half of the year and next year? Which business segments or regions are likely to stand out?

A: We expect overall stable growth to continue in the second half of the year, with international growth outpacing China’s growth. As for next year, whether from the perspective of external factors or the corporate fundamentals, we hold a more optimistic and positive outlook for next year:

1. External factors:

(1) China market: As the anti-corruption campaign of the medical industry becomes normalized, its impact on hospital bidding and procurement will gradually fade. A more transparent and regulated procurement environment is undoubtedly a significant advantage for us, as Mindray's true competitiveness can be fully revealed in such an environment. Although the procurement has been postponed for a relatively long time due to the short-term delay of the medical equipment renewal project, we expect that next year, the execution of processes such as project approval and funding allocation for equipment renewal will proceed more smoothly and will not cause lengthy postponements throughout the procurement process. Additionally, the bidding and procurement of many medical equipment have been postponed for more than a year since the third quarter of last year, and the demand for the procurement of some essential devices is urgent, so we expect the China’s medical equipment market to improve next year compared to this year. In terms of funding, the issuance of ultra-long-term government bonds is continuing as planned, and the recent trend of accelerated issuance of local government specialized bonds has also been observed, which will

directly and effectively ease the financial pressure on hospitals, thus leading to more bidding and purchasing.

(2) International market: The U.S. dollar has continued to strengthen since the Federal Reserve began raising interest rates in 2022, which has not only led to a decline in the purchasing power of some overseas customers but also left some customers without the U.S. dollars needed for payments, thereby affecting overseas business growth. However, this situation is expected to reverse as the U.S. dollar's interest rate hike cycle comes to an end.

2. Corporate fundamentals continue to strengthen: Various policies such as anti-corruption, volume-based procurement, and DRG revolution (Diagnosis Related Groups) are all guiding the medical device industry to develop toward increased concentration. Our Intelli-Digital transformation is accelerating this trend as well, and in the first half of the year, the market share of our various businesses has reached historic highs. We also have several businesses with large market capacity but relatively low market share. With this momentum, we are confident that we can achieve market share levels of No. 1 in China and Top 3 globally in these business areas in the future. Additionally, thanks to high-quality profitability and cash flow level, we are actively rewarding our shareholders by increasing dividends.

From the perspective of the Company's growth, I believe there are two areas where growth certainty will remain strong next year: one is the China’s consumable business, and the other is the international market. As population aging continues to deepen, the number of outpatient visits, surgeries, tests, and other diagnostic and therapeutic activities in China will continue to grow, which is the strongest foundation for the long-term stable growth of consumable business. The implementation of DRG will not alter this long-term growth trend. What we need to do is to provide high-quality, reliable products and services while helping hospitals improve quality and efficiency, control costs, and reduce expenses. Although the international market may face risks from de-globalization in the long term, this happens to be the core purpose of our deployment of 12 production facilities based overseas, and more will be laid in the future to provide a solid foundation for successfully penetrating public hospitals and medium and large-sized sample volume laboratories in various overseas countries.

Q: As the segment that accounts for the largest proportion of the Company's revenue, the decline in the Patient Monitoring & Life Support (PMLS) segment in the first half of the year has significantly held back the Company's overall performance. What are the reasons behind this? If this segment's growth rate continues to slow, will it impact the Company's overall growth?

A: The main factor behind the decline in PMLS in the first half of the year lies in the China market. Internationally, PMLS has returned to double-digit growth in the first half of the year, while in China, it experienced a double-digit decline. The primary reason for this is that the bidding and procurement have continued to be postponed due to factors such as medical equipment renewal projects and medical industry anti-corruption campaign in the first half of this year, which has put great pressure on China's PMLS's growth. Unlike Medical Imaging System (MIS), the Company's Patient Monitoring & Life Support equipment already holds a relatively high market share in China. Any fluctuations in the overall industry growth will inevitably have a direct impact on the Company's business. In response to this, the Company has already set out two strategic directions:

(1) Keep increasing the proportion of consumable business in our revenue. The commercial nature of consumables means that their growth is far more predictable and stable than that of equipment. In the first half of this year, revenue from the IVD segment accounted for nearly 40% of the Group's total revenue, with the domestic IVD share reaching 45%. With the anticipated rapid growth of IVD this year, it is expected that annual revenue from IVD will match or even exceed that of PMLS for the first time, making IVD our No.1 revenue contributor in the long term. The driving force behind the rapid development of IVD is our unremitting investment. The installation speed of the self-developed TLA MT 8000 is continuing to accelerate. Over the next three years, including this year, more than 15 new projects will be added annually for CLIA. The R&D of next-generation high-speed CLIA and biochemical analyzers is progressing smoothly. The high-end breakthrough of the IVD business is just beginning. In addition, as the highly competitive ultrasonic scalpel and stapler products have begun to be recognized by clinical users, coupled with the renewal of volume-based procurement contracts, we expect that the consumable business of minimally invasive surgery will gradually expand in the coming years.

(2) Equipment businesses are accelerating their transformation into Intelli-Digital solution providers, especially the PMLS segment. As the technological innovation capability of PMLS segment has reached a global leading level and already has a large-scale installation on the hospital end. From a clinical perspective, a new parameter or technology in a monitor or anesthesia machine is no longer attractive enough to incentivize the replacement of existing equipment. However, with the support of IT and AI, more precise diagnostic solutions, higher work efficiency, and more focused patient care will attract clinical users and decision-makers more effectively. By the end of this year, we will launch the industry's first critical care decision support system based on AI large language model, aiming to become an intelligent assistant for critical care, which will have subsequent self-learning, upgrading, and optimizing through continuous data accumulation. It is gratifying that the M-Connect IT solutions and the equipment sales it has driven have generated over CNY 4 billion in cumulative sales over the past three years. This figure is expected to maintain a rapid growth trend, eventually becoming a core contributor to our equipment revenue in the long run.

Q: Could you update us on the current progress of China's medical equipment renewal projects? How much do you expect these projects to contribute to the Company's performance this year? What are your expectations for the Company's China market performance in the second half of the year?

A: In March of this year, the State Council issued a notice regarding the "Action Plan for Promoting Large-scale Equipment Renewal and the Replacement of Consumer Goods", which explicitly addressed the advancement of equipment and IT infrastructure upgrades in medical and health institutions. It encourages eligible medical institutions to expedite the renewal and transformation of medical equipment, enhance hospital wards, and rectify deficiencies in ward environments and facilities. Following this, the company has closely monitored the project's progress, with various departments such as marketing, R&D, and upply chain all prepared for related work. On 24 July, the National Development and Reform Commission and the Ministry of Finance issued a notice on several measures to support large-scale equipment renewal and the replacement of consumer goods, specifically mentioning the allocation of approximately CNY 300 billion in ultra-long-term special government bonds to bolster these efforts. Additionally, local development and reform commissions, finance departments, and health commissions have successively announced their plans for medical equipment renewal over the past few months.

Based on our knowledge, the National Development and Reform Commission has recently approved the first batch of medical equipment renewal projects. Once the supporting ultra-long-term government bond funds are in place, hospitals will gradually begin the bidding process. However, the final performance results will depend on the implementation pace of these projects. Beyond this, we are closely monitoring potential upcoming batches of equipment renewal projects and are prepared to respond promptly. Through the experiences of the past few years, the Company's understanding and ability to respond to various policies have strengthened. We will continue to proactively cooperate with the implementation of these policies and strive to uncover more development opportunities from them.

Although the bidding progress of medical equipment in China this year is inevitably delayed due to equipment renewal projects, the demand for medical equipment procurement still exists, and the volume of the procurement demand is still expanding with the growth of medical demand. We just need to wait for these procurement needs to be released. Thanks to the unique competitive advantage brought by our "Equipment + IT + AI" Intelli-Digital solutions, Mindray's competitive edge in the equipment market has long been not about competing with rivals in the performance and price of a single device. Unlike our competitors, we provide hospitals with complete solutions and supporting services. What we've already observed is that in the first half of this year, the market share of our various equipment reached historic highs in China, and with the solution, it has also made breakthroughs in top-tier teaching hospitals across Europe. Therefore, we are very confident that we can achieve market performance significantly faster than the industry average and superior to our main competitors, regardless of the market environment.

Q: Is the second quarter already a low point in the Company's short-term performance? How do you look forward to the performance in the second half of the year?

A: The performance pressure in the first half and the second quarter of the year primarily came from the China market. While the China’s consumable business grew rapidly, the equipment business declined by 12% in the first half of the year, mainly due to the impact of the medical industry anti-corruption and medical equipment renewal projects. Although the medical device renewal projects are intended to subsidize hospital procurement, they have inevitably led to a short-term wait-and-see approach by public hospitals, disrupting the hospitals' original bidding schedule. As a result, the bidding and procurement that should have been carried out in the first half of the year did not proceed as scheduled. Of course, these procurement demands have not disappeared or decreased but have merely been postponed. These procurement demands will gradually be released in the future, and Mindray's Intelli-Digital transformation will undoubtedly help us continue to increase our market share in the equipment business. Lastly, the gains from currency exchange caused by the sharp appreciation of the U.S. dollar in the second quarter of last year also exerted considerable pressure on the profit growth rate for the same period this year.

Looking ahead to the second half of this year, businesses not affected by the equipment renewal projects in China, such as IVD reagents and other consumables, as well as international businesses, are expected to continue their rapid growth trend. High-potential businesses like minimally invasive surgery grew by more than 90% in the first half of this year, and the rigid endoscopic systems even doubled in growth. Moreover, we launched new products such as the 4K 3D Endoscope System and endoscopic staplers in the first half of the year, and we expect these to maintain a rapid growth trend throughout the year. The only uncertainty in the second half lies in the China equipment business. The final performance of this type of business largely depends on the project approval, funding allocation, and bidding execution of the equipment renewal projects within the year, and all these factors are beyond our control. What we can do is to ensure that once the bid is opened, we will maximize our order-winning possibilities. This is also one of the core reasons why Mindray proposed transitioning to the consumable business a few years ago, because the growth of this type of business is mainly affected by the volume of diagnosis and treatment which presents steadiness and sustainability. The encouraging news is that in our current China revenue, the consumable business, led by IVD, now accounts for more than half, and this proportion will continue to increase every year in the future.

Q: It seems that the Company's growing expectations for the second half of the year still carry

some uncertainties, but investors typically seek certainty. How does the Company find certainty in an environment with uncertainties?

A: First, it's important to clarify that the impact of the medical equipment renewal projects is limited to China equipment business. The revenue of China equipment business accounted for about 27% of the Company's overall revenue in the second half of last year. This part of the revenue indeed carries some uncertainty in its growth expectations for the second half of this year, with the final outcome of its performance largely depending on the progress of the equipment renewal projects. However, this impact is something that exists for most equipment manufacturers. However, as we've emphasized repeatedly, these postponed procurement demands haven't vanished, but the procurement schedule has been delayed. If the demand isn't released this year, it will gradually be released in the future.

Looking at China market alone, approximately 32% of the Company's total revenue in the second half of last year was unaffected by the equipment renewal projects, with the majority of this revenue coming from the IVD business. For example, despite only single-digit growth in the overall China market in the first half of the year, the IVD business grew by over 25%, with reagents increasing by 30%. Reagents now account for more than 80% of China IVD revenue. Against the background of continued year-on-year growth in outpatient and surgical volume and other medical activities, coupled with our continuously increasing market share, we expect this segment of the business to maintain its growth trend in the second half of the year. With the implementation of volume-based procurement, the concentration and localization rate of the IVD industry will accelerate. China market share of our IVD business is still below 15%, and there is huge room for future growth.

Most importantly, international revenue accounted for approximately 41% of the Company's total revenue in the second half of last year. Over the past few years, even in the face of challenges in macroeconomics in some regions, the international market has consistently maintained steady and rapid growth. The core reason for this is our sufficiently dispersed business layout. As the saying goes, "When one door closes, another opens." Additionally, the breakthrough of our overseas high-end customers is still accelerating, which has strengthened our ability to withstand uncertainties in the international market. A major positive factor for the international markets in the future is the potential reversal of the U.S. Federal Reserve's interest rate hikes, which would lead to a weakening of the U.S. dollar. Over the past few years, the strengthening of the U.S. dollar has greatly affected the purchasing power of some overseas customers, hindering our business and operations. This influencing factor is expected to turn into a positive direction. At the same time, given our continued localization construction and high-end customer breakthroughs, we expect the international market to maintain its rapid growth trend in the second half of the year and for a considerable period into the future, particularly in developing countries and European markets. Developing markets will most likely grow faster compared to average growth of the Company while European markets growth may lower than average growth.

Q: How does the Company view the impact of the DRG policy on its business, especially the IVD business? Will the IVD segment continue to be the most important business line to drive the Company's growth in the future?

A: DRG is a commonplace topic. China started to pilot DRG policies many years ago. It's just that in recent years, the pace of reform has accelerated, with a broader scope and more detailed rules, which will inevitably have some impact on the reagent consumption of the entire market. First, let's review the actual situation of our IVD business. Excluding revenue from IVD instruments, the compound growth rate of IVD reagent revenue in China has exceeded 30% over the past three years, and the growth rate in the first half of this year has also exceeded 30%. The proportion of reagent revenue in the IVD segment in China increased from 67% in 2020 to over 80% now. With more and more breakthroughs in tertiary hospitals in China and the intelligent TLA installation, this proportion will continue to increase in the future.

We want to emphasize that the implementation of the DRG does not aim to restrict hospitals from conducting tests but rather to standardize testing practices. The core goal of DRG promotion is to ensure that hospitals can treat patients effectively in a single visit. Therefore, reagents with high specificity and high sensitivity are indispensable. Otherwise, the accuracy of hospital diagnosis and treatment cannot be guaranteed. At the same time, it also requires laboratories to improve quality and efficiency, control expenses, and reduce costs. This is precisely what Mindray hopes to do to enhance reagent performance by developing raw materials from the ground up while lowering costs and achieving the goal of creating an intelligent testing strategy for the entire laboratory. Our historical achievements prove that Mindray's strategy is still effective even in the environment of promoting DRG. The Company plans to complete the replacement of Hytest's raw materials by 2026, and CLIA's technical innovation capability will then reach a globally leading level. The rapid growth currently achieved by the IVD segment is just the beginning. Because the market share of IVD in China is still relatively low, the IVD segment will continue to be the most crucial segment to drive our rapid growth in the long run.

It's worth noting that the progress of the IVD segment has been very rapid this year, both in China and international markets. In the China market, the brand new intelligent TLA MT-8000 has installed over 100 units since its launch one year ago, with more than 90% being in the tertiary hospitals. The installation speed will continue to accelerate in the future, gradually breaking into the top tier hospitals. In the international market, the Company currently has nine IVD localization production projects launched, some of which have even been put into production. Additionally, the integration of DiaSys is progressing smoothly, laying a solid foundation for the future accelerating penetration into medium to large volume customers in international IVD markets.

Q: Recently, we've seen a lot of actions by the National Healthcare Security Administration (NHSA). In addition to DRG 2.0 and regular volume-based procurement, the Company must have also noticed the NHSA's public inquiry letter to a listed medical consumables company. How does the Company assess the possibility of facing similar risks in the future?

A: We must acknowledge that the external environment is constantly changing. The ability to adapt to changes in the external environment and even take the opportunity to develop stronger and healthier is the proper performance of a mature company. Since the establishment of the National Healthcare Security Administration in 2018, how to deal with policies has become an unavoidable issue for most pharmaceutical and medical consumables companies, and Mindray is no exception. For the In-vitro Diagnostics (IVD) segment, which accounts for the largest portion of our revenue in China, consumables like reagents are at its core. Since the pilot volume-based procurement of CLIA reagents in Anhui province in 2021, followed by the Jiangxi biochemical reagents and the Anhui CLIA reagents alliance volume-based procurement, nearly every volume-based procurement has presented us with more opportunities than challenges.

For example, the relatively faster-executing volume-based procurement alliance of liver function biochemical reagents facilitated by Jiangxi Province led to the installation of over 330 units of the new generation BS-2800M high-speed biochemical analyzer in the procurement provinces last year, a 72% year-over-year increase. Of these, nearly 200 installations were in tertiary hospitals, and the revenue growth rate from liver function reagents significantly outpaced the average growth rate of the biochemical business. More importantly, the concentration of the biochemical market in China is accelerating. Although we've long been the brand with the largest market share, our share has not been high. By the end of last year, the Company's share of the biochemical business had risen to 15%. In the first half of this year, despite poor performance or even decline from many competitors in the biochemical sector, we still achieved double-digit growth, further increasing our market share to 17%. There remains significant room for future growth. As a business with greater investment in all aspects than the biochemical segment, we have reason to believe that with the gradual implementation of the CLIA reagents alliance volume-based procurement in the second half of this year, coupled with dozens of new tests to be launched in the next three years, the certainties of rapid growth in Mindray's CLIA business and breakthroughs in high-end hospitals will be further enhanced due to the volume-based procurement.

The success of these volume-based procurement cases represents the market's recognition of our comprehensive competitiveness across various dimensions, such as R&D, marketing, and supply chain. With the experience of the past few years, the Company's understanding and adaptability to various healthcare policies, such as volume-based procurement and DRG, have been strengthened, successfully ensuring our timeliness in policy interpretation, initiative in policy cooperation, and strong execution in policy implementation. Meanwhile, the NHSA is continuously optimizing volume-based procurement rules. The current volume-based procurement has ensured reasonable profit levels for companies and took into account the needs of clinical use. Looking ahead, the China market will need to embrace changes in healthcare policies over the long term. We will continue to proactively adapt to the changes brought about by these policies, striving to seize better development opportunities.

Q: Given the temporary difficulties in the China market, the growth rate of the international market in the second quarter has slowed down compared to the first quarter. What are the reasons for this? Can the international market return to a strong growth trend in the second half of the year?

A: The international revenue in the first quarter of last year accounted for only 21% of the international annual total, but the proportion of revenue in the second quarter of last year surged to 28%, which was the quarter with the highest base in the international market last year. If we look at this year's second quarter compared to the first quarter, international revenue grew by about 15%, which is basically in line with our expectations. As I've explained before, Mindray's steady and rapid growth in international markets over the years is due to our sufficiently dispersed business layout. Individual markets or products might experience performance fluctuations due to various macro factors, but not all markets or products face challenges simultaneously.

A typical example is the European market. Over the past two years, due to well-known reasons, European governments have reduced their medical investment to varying degrees. Since our business in Europe is primarily focused on equipment business, such as Patient Monitoring & Life Support, the IVD business accounts for a very low proportion. Therefore, it is more susceptible to the government's medical investment level, which has put great pressure on the growth of the business. Since the beginning of this year, the European market has begun to bottom out and rebound. More importantly, our Intelli-Digital solutions have begun to make breakthroughs into the top hospitals in Europe on a large scale and in batches, including institutions like St. Thomas Hospital, ranked first in the UK; Charité-Berlin University Medicine, ranked first in Germany; Pitié-Salpêtrière Hospital, ranked first in France; and La Paz University Hospital, ranked first in Spain. Driven by these unprecedented high-end breakthroughs, we expect the growth rate in Europe this year to exceed the Company's overall average growth rate, maintaining steady and rapid growth in the long term.

Developing countries are undoubtedly another key growth engine, with one of the core driving forces being the breakthrough of medium to large volume customer segments in the international IVD business. Unlike in the European market, more than one-third of revenue in developing countries comes from IVD. Currently, the Company has initiated or even put into production overseas localization production in a total of 12 countries, spread across major markets on all continents. Of these, 9 are related to IVD, which is crucial for the upcoming rapid development of overseas IVD. On this basis, we expect the annual growth rate in developing countries to exceed the Group's average growth rate, and that it will continue to outpace the Group's average growth rate in the long term.

Q: The Company's operating cash flow performance in the first half of the year was impressive. Has the pressure on channel payments significantly improved?

A: The net operating cash flow in the first half of this year was approximately CNY 8.53 billion, a year-on-year increase of 90.3%. In the second quarter alone, the net operating cash flow was about CNY 5.67 billion, an 80.0% increase year-over-year. Whether it is the first half of the year or the second quarter of the year, the net operating cash flow is significantly higher than the corresponding net profit scale. The rapid growth in net operating cash flow is mainly due to the Company's proactive strategy adjustments in response to short-term business fluctuations, focusing on improving operational quality and optimizing cash turnover days. This approach has elevated the net operating cash flow level, laying a solid foundation for long-term development. Additionally, contract liabilities in the same period last year also declined due to the early receipt of advance payments for emergency procurement at the end of 2022, which resulted in a relatively low base for net operating cash flow. As for the AR days of the channels, as the international business has returned to the track of rapid development since the second half of last year, the previously extended AR days for international distributors with good credit has improved. Therefore, the increase in accounts receivable in the first half of this year is smaller than that of the same period last year.

Healthy cash flow is a fundamental condition for the Company to expand shareholder returns continuously and is also a core metric for evaluating the performance of the Management. Based on this, the Company has announced its interim dividend plan, distributing approximately CNY 4.92 billion (before tax) in cash dividends to all shareholders, which accounts for more than 65% of the net profit attributable to shareholders in the first half of the year. The dividend ratio continues to increase compared to the past two years.

Q: According to the Interim Report, the profit growth rate, excluding the impact of exchange gains and losses, was 22.13% for the first half of the year and 24.02% for the second quarter. How was this calculated?

A: First, the Company's main exposure to foreign currencies is in U.S. dollars, with a smaller portion in Euros. Here, we'll primarily use U.S. dollars as an example. There are two main types of U.S. dollar exposure: one is U.S. dollar monetary funds, and the other is U.S. dollar accounts receivable. Changes in the USD-CNY exchange rate during each reporting period will lead to changes in the CNY amounts corresponding to these exposures, resulting in exchange gains or losses. Although the U.S. dollar continued to strengthen in the first half of this year, the extent of its strengthening was much smaller than in the same period last year. For example, in the first half of the year, the U.S. dollar exchange rate appreciated by 0.62% at the end of the period compared with the beginning of the period, generating about CNY 42 million in exchange gains for the Company. However, in the same period last year, the U.S. dollar exchange rate appreciated by 3.75%, bringing the Company nearly CNY 330 million in exchange gains. The same applies to the second quarter of this year. The exchange gains in the second quarter of this year were approximately CNY 62 million, but the exchange gains in the same period last year reached nearly CNY 430 million. After excluding the impact of a 15% tax rate, it can be calculated that the profit growth rate, excluding the impact of exchange gains and losses, was 22.13% for the first half of the year and 24.02% for the second quarter.

Q: R&D expenses fell by 4 percentage points in the first half of this year. Has the Company's future R&D investment plan changed?

A: This is mainly due to the relatively high R&D investment base in the same period last year. R&D expenses increased by nearly 40% in the first half of last year and by over 50% in the second quarter of last year due to R&D bonus accruals. Including R&D capitalization, R&D investment accounted for approximately 9.4% of revenue in the first half of this year, which is within the normal range of fluctuations. To ensure that the technical level and market position in all business areas reach world-class levels in the future, the Company will continue to invest 10% of its operating revenue in R&D over the long term. There will be no changes to this plan.