

ANGELALIGN TECHNOLOGY INC.
時代天使科技有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6699



GLOBAL OFFERING

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

**Goldman
Sachs**



IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

ANGELALIGN TECHNOLOGY INC.

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Global Offering

Total number of Offer Shares under the Global Offering	: 16,829,600 Shares (subject to the Over-allotment Option)
Number of Hong Kong Public Offer Shares	: 1,683,000 Shares (subject to adjustment)
Number of International Offer Shares	: 15,146,600 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$173.00 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund)
Nominal value	: US\$0.0001 per Share
Stock code	: 6699

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Sachs**



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators, for themselves and on behalf of the Underwriters, and our Company on or before Tuesday, June 8, 2021 or such later time as may be agreed between the parties, but in any event, no later than Thursday, June 10, 2021. Applicants for Hong Kong Public Offer Shares are required to pay, on application, the maximum Offer Price of HK\$173.00 for each Hong Kong Public Offer Share together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$173.00. If, for any reason, the Joint Global Coordinators, on behalf of the Underwriters, and our Company are unable to reach an agreement on the Offer Price by Thursday, June 10, 2021, the Global Offering will not become unconditional and will lapse immediately. The Offer Price will be not more than HK\$173.00 per Share and is expected to be not less than HK\$147.00 per Share.

The Joint Global Coordinators, for themselves and on behalf of the Underwriters, may, with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last date for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Public Offer Shares and/or the indicative Offer Price range will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.angelalign.com as soon as practicable but in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for the Hong Kong Public Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, and in particular, the risk factors set out in the section headed "Risk Factors."

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Public Offer Shares, are subject to termination by the Joint Global Coordinators, for themselves and on behalf of the Hong Kong Underwriters, if certain grounds arise prior to 8:00 a.m. on the Listing Date. Further details of such grounds are set out in the section headed "Underwriting — Underwriting Arrangement and Expenses — Hong Kong Public Offering — Grounds for Termination." It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of US persons (as defined in Regulation S), except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold (1) solely to QIBs in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act and (2) outside of the United States in offshore transactions in reliance on Regulation S.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.angelalign.com.

If you require a printed copy of this prospectus, you may download and print from the website addresses above.

Thursday, June 3, 2021

IMPORTANT

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the “HKEXnews > New Listings > New Listing Information” section, and our website at www.angelalign.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

To apply for the Hong Kong Public Offer Shares, you may:

- (1) apply online via the **HK eIPO White Form** service in the **IPO App** (which can be downloaded by searching “IPO App” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp) or at www.hkeipo.hk; or
- (2) electronically cause HKSCC Nominees to apply on your behalf, including by:
 - i. instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf; or
 - ii. (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request.

If you have any question about the application online via the **HK eIPO White Form Service** for the Hong Kong Public Offer Shares, you may call the enquiry hotline of our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at +852 3907 7333 on the following dates:

Thursday, June 3, 2021 — 9:00 a.m. to 9:00 p.m.
Friday, June 4, 2021 — 9:00 a.m. to 9:00 p.m.
Saturday, June 5, 2021 — 9:00 a.m. to 6:00 p.m.
Sunday, June 6, 2021 — 9:00 a.m. to 6:00 p.m.
Monday, June 7, 2021 — 9:00 a.m. to 9:00 p.m.
Tuesday, June 8, 2021 — 9:00 a.m. to 12:00 noon

We will not provide any physical channels to accept any application for the Hong Kong Public Offer Shares by the public. The contents of the electronic version of this prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an **intermediary, broker** or **agent**, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

Please refer to the section headed “How to Apply for the Hong Kong Public Offer Shares” in this prospectus for further details of the procedures through which you can apply for the Hong Kong Public Offer Shares electronically.

Your application must be for a minimum of 200 Hong Kong Public Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Public Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Public Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Public Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Public Offer Shares applied for	Amount payable on application HK\$
200	34,948.66	8,000	1,397,946.57	60,000	10,484,599.26	450,000	78,634,494.45
400	69,897.33	9,000	1,572,689.89	70,000	12,232,032.47	500,000	87,371,660.50
600	104,845.99	10,000	1,747,433.21	80,000	13,979,465.68	600,000	104,845,992.60
800	139,794.66	15,000	2,621,149.82	90,000	15,726,898.89	700,000	122,320,324.70
1,000	174,743.32	20,000	3,494,866.42	100,000	17,474,332.10	800,000	139,794,656.80
2,000	349,486.64	25,000	4,368,583.03	150,000	26,211,498.15	841,400*	147,029,030.29
3,000	524,229.96	30,000	5,242,299.63	200,000	34,948,664.20		
4,000	698,973.28	35,000	6,116,016.24	250,000	43,685,830.25		
5,000	873,716.61	40,000	6,989,732.84	300,000	52,422,996.30		
6,000	1,048,459.93	45,000	7,863,449.45	350,000	61,160,162.35		
7,000	1,223,203.25	50,000	8,737,166.05	400,000	69,897,328.40		

* Maximum number of Hong Kong Public Offer Shares you may apply for.

No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

EXPECTED TIMETABLE⁽¹⁾

Hong Kong Public Offering commences 9:00 a.m. on
Thursday, June 3, 2021

Latest time for completing electronic applications under the
HK eIPO White Form service through one of the below ways:⁽²⁾ 11:30 a.m. on
Tuesday, June 8, 2021

(1) the **IPO App**, which can be downloaded by searching
“**IPO App**” in App Store or Google Play or downloaded at
www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp

(2) the designated website www.hkeipo.hk

Application lists for the Hong Kong Public Offering open⁽³⁾ 11:45 a.m. on
Tuesday, June 8, 2021

Latest time for (a) completing payment for the **HK eIPO White Form**
applications by effecting internet banking transfer(s) or
PPS payment transfer(s) and (b) giving **electronic application**
instructions to HKSCC⁽⁴⁾ 12:00 noon on
Tuesday, June 8, 2021

Application lists close⁽³⁾ 12:00 noon on
Tuesday, June 8, 2021

Expected Price Determination Date⁽⁵⁾ Tuesday, June 8, 2021

(1) Announcement of:

- the Offer Price;
- an indications of the level of interest in the International Placing,
the level of applications in the Hong Kong Public Offering; and
- the basis of allocations of the Hong Kong Public Offer Shares

to be published on our website at www.angelalign.com and the
website of the Stock Exchange at www.hkexnews.hk on or before⁽⁹⁾ Tuesday, June 15, 2021

(2) Announcement of results of allocations in the Hong Kong
Public Offering to be available through a variety of channels as
described in “How to apply for the Hong Kong
Public Offer Shares – Publication of Results” from⁽⁹⁾ Tuesday, June 15, 2021

(3) Announcement of the Hong Kong Public Offering containing
(1) and (2) above to be published on the websites of the
Company and the Stock Exchange at www.angelalign.com⁽⁶⁾ and
www.hkexnews.hk from⁽⁹⁾ Tuesday, June 15, 2021

EXPECTED TIMETABLE⁽¹⁾

Results of allocation for the Hong Kong Public Offering

will be available at “IPO Results” function in the

IPO App or www.hkeipo.hk/IPOResult (or www.tricor.com.hk/ipo/result)

with a “search by ID” function from⁽⁹⁾ Tuesday, June 15, 2021

Dispatch of Share certificates in respect of wholly or partially successful

applications pursuant to the Hong Kong Public Offering on or before⁽⁷⁾⁽⁹⁾ . . . Tuesday, June 15, 2021

Dispatch of **HK eIPO White Form** e-Auto Refund payment

instructions/refund checks on or before⁽⁸⁾⁽⁹⁾ Tuesday, June 15, 2021

Dealings in the Shares on the Stock Exchange expected to commence at⁽⁹⁾ 9:00 a.m. on
Wednesday, June 16, 2021

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- (1) All dates and times refer to Hong Kong local times and dates, except as otherwise stated.
- (2) You will not be permitted to submit your application under the **HK eIPO White Form** service through the **IPO App** or the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the **IPO App** or the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 8, 2021, the application lists will not open and close on that day. See section headed “How to Apply for the Hong Kong Public Offer Shares — C. Effect of bad weather and/or Extreme Conditions on the opening and closing of the application lists.”
- (4) Applicants who apply for the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to section headed “How to Apply for the Hong Kong Public Offer Shares — A. Applications for Hong Kong Public Offer Shares — 6. Applying By Giving Electronic Application Instructions To HKSCC Via CCASS.”
- (5) The Price Determination Date is expected to be on or about Tuesday, June 8, 2021 and, in any event, not later than Thursday, June 10, 2021, or such other date as agreed among the parties. If, for any reason, the Offer Price is not agreed by Thursday, June 10, 2021, or such other date as agreed among the parties, between the Joint Global Coordinators (for themselves and on behalf of and the Underwriters) and our Company, the Global Offering will not proceed and will lapse.
- (6) None of the websites or any of the information contained on the website forms part of this prospectus.
- (7) The Share certificates will only become valid at 8:00 a.m. on the Listing Date, which is expected to be Wednesday, June 16, 2021, **provided that** the Global Offering has become unconditional in all respects and none of the Underwriting Agreements have been terminated in accordance with its terms at or before that time. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of the Share certificates and prior to the Share certificates becoming valid do so entirely at their own risk.
- (8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications, and also in respect of wholly or partially successful applications if the Offer Price is less than the price per Offer Share payable on application.
- (9) In case a typhoon warning signal no. 8 or above, a black rainstorm warning signal and/or Extreme Conditions is/are in force in any days between Thursday, June 3, 2021 to Wednesday, June 16, 2021, then the day of (i) announcement of results of allocations in the Hong Kong Public Offering; (ii) dispatch of Share certificates and refund cheques/**HK eIPO White Form** e-Auto Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

The above expected timetable is a summary only. You should read carefully the sections headed “Underwriting” and “Structure and Conditions of the Global Offering” and “How to Apply for the Hong Kong Public Offer Shares” for details relating to the structure and conditions of the Global Offering, procedures on the applications for Hong Kong Public Offer Shares, and expected timetable, including conditions, effect of bad weather and the dispatch of refund cheques and Share Certificates.

CONTENTS

IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Public Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, any of the Underwriters, any of our or their respective directors, officers, representatives, or affiliates, or any other person or party involved in the Global Offering. Information contained in our website, located at www.angelalign.com, does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks of investing in the Offer Shares are set forth in the section headed "Risk Factors." You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading clear aligner treatment solution provider in China. China's clear aligner treatment solution market is highly concentrated, with the top two market players accounting for an aggregate market share of 82.4% in 2020 in terms of case shipments, according to the CIC Report. We had a market share of approximately 41.0% in the same year, according to the same source.

We play an important role in China's clear aligner market, which is a subset of the overall orthodontics market. We facilitate dental professionals throughout the entire clear aligner treatment process with Angelalign clear aligner system, which comprises a trio of interrelated components:

- ***Digitally-assisted case assessment support and treatment planning services.*** We provide all dental professionals, including orthodontists and GP dentists, with digitally-assisted case assessment support and treatment planning services. Leveraging intraoral scanners and our digitally-assisted case assessment support, dental professionals may help patients visualize how their teeth may look at the end of the treatment within a few minutes after intraoral scanning. After dental professionals place orders and initiate treatment cases through *iOrtho*, our cloud-based service platform, our medical design team will help dental professionals design, review and modify treatment plans.
- ***Clear aligners.*** Clear aligner is a removable, transparent, plastic form of dental braces used to treat malocclusion. Upon the dental professional's approval of the treatment plan, we manufacture tailor-made clear aligners according to the specific treatment plan. By applying calculated forces to teeth and moving them into an optimal position, our clear aligners help treat malocclusion with more comfort and reduced treatment time and clinic visits.
- ***Cloud-based service platform.*** Our *iOrtho*, a cloud-based service platform, allows dental professionals to perform multiple tasks in the entire treatment process, including (1) placing orders with us; (2) reviewing, modifying and finalizing their treatment plans online with the help from our medical designers, and (3) reviewing, editing and managing medical records of their patients. We primarily communicate and interact with dental professionals regarding delivery of our digitally-assisted case assessment support and treatment planning services through *iOrtho*.

SUMMARY

We currently market four lines of clear aligners, including *Angelalign*, *Angelalign Pro*, *Angelalign Kid* and *COMFOS*. Our diversified clear aligners, in synergy with our medical and technological services, allow dental professionals to deliver effective treatment for a growing number of malocclusion cases with varying complexities and for an enlarging patient base of a broad spectrum of ages and different spending powers. Our case shipments increased from approximately 77,700 in 2018 to approximately 120,100 in 2019, and further to approximately 137,600 in 2020. The following table sets forth a breakdown of our sales volume, as measured by case shipments, and the average selling price by product line for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price
	(number of case shipments ⁽¹⁾)	(RMB)	(number of case shipments ⁽¹⁾)	(RMB)	(number of case shipments ⁽¹⁾)	(RMB)
<i>Angelalign</i>	60,700	8,200	78,800	7,500	73,200	7,600
<i>Angelalign Pro</i>	15,800	9,700	24,700	9,300	32,000	9,600
<i>Angelalign Kid</i>	—	—	2,200	5,600	5,000	8,700
<i>COMFOS</i>	1,200	4,300	14,400	4,000	27,400	5,500
Total	<u>77,700</u>	<u>8,400</u>	<u>120,100</u>	<u>7,500</u>	<u>137,600</u>	<u>7,700</u>

With profound understanding of the medical principles and practice of digital orthodontics which refers to the application of computer science and technology in malocclusion treatment, we are able to fully address disparate demands of China’s dental professionals with varying levels of sophistication, in particular a multitude of GP dentists. See “Business — Our Angelalign Clear Aligner System” for details and “Business — Our Technology and Data Platforms” for details, and “Business — Research and Development” for our R&D efforts in this regard. During the Track Record Period, the number of dental professionals we served increased from approximately 11,500 in 2018 to approximately 15,800 in 2019, and further to approximately 19,900 in 2020.

We are well positioned to capture the enormous market opportunities in China. As the second largest in the world, China’s overall clear aligner market, in terms of retail sales revenue, is expected to increase from US\$1.5 billion in 2020 to US\$11.9 billion in 2030 at a CAGR of 23.1%, according to the CIC Report. Moreover, the market share of China’s clear aligner market in the overall orthodontics market, in terms of retail sales revenue, increased from 6.9% in 2015 to 19.0% in 2020, and is expected to reach 40.3% by 2030. As an increasing number of traditional orthodontic cases will become addressable by clear aligners, we expect to seize the overall potential of China’s orthodontics market, which is expected to reach US\$29.6 billion in terms of retail sales revenue in 2030 at a CAGR of 14.2% from 2020 to 2030, according to the same source. On the other hand, China’s clear aligner market is still at a nascent stage. In 2020, China had approximately 1,040 million malocclusion cases; however, among the 3.1 million treated malocclusion cases in China in 2020, only 11.0% were addressed with clear aligners, which indicates a huge underpenetrated clear aligner market in China. Leveraging our market leadership and our intimate understanding of China’s digital orthodontics market, we believe that we are well positioned to capture the upside potential of the enormous market. Furthermore, we are poised to explore opportunities of expanding into the global clear aligner market, which is expected to reach US\$46.2 billion in terms of retail sales revenue by 2030.

(1) Case shipments refer to the number of newly submitted clear aligner treatment cases for which we have shipped the first batch of clear aligners during a given period; while the treatment process may last for more than one year and the clear aligners may be shipped in multiple batches across the treatment process, all cases will not be double-counted in any subsequent periods for the delivery of the remaining clear aligners.

SUMMARY

We attribute our capability in digital orthodontics to the integrated application of our dedicated scientific research efforts on a range of relevant subjects, including clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies, including 3D printing and manufacturing automation. As the nucleus of our Angelalign clear aligner system, our self-developed and solid technology and data platforms, nicknamed *masterForce*, *masterControl* and *masterEngine*, play a vital role in our capability to continuously make breakthroughs in digital orthodontics, which has created entry barriers and underpinned our long-term growth. Furthermore, we manufacture all the clear aligners pertinent to specific treatment plans through a “mass customization” model, leveraging our intelligent manufacturing technologies, including 3D printing and automated production lines.

We experienced significant growth during the Track Record Period. We generate revenue primarily from the provision of clear aligner treatment solutions. We recognize revenue for our clear aligner solutions based on the promises comprising (1) digitally-assisted support and treatment planning services, and (2) clear aligners, which we contract for with customers. We do not charge customers for the use of *iOrtho* alone. Our revenue increased from RMB488.5 million in 2018 to RMB645.9 million in 2019, and further to RMB816.5 million in 2020. Our net profit increased from RMB58.2 million in 2018 to RMB67.7 million in 2019, and further to RMB150.9 million in 2020. Our adjusted EBITDA (non-IFRS measure) was RMB129.1 million, RMB174.6 million and RMB296.6 million in 2018, 2019 and 2020, respectively. Our adjusted net profit (non-IFRS measure) was RMB92.1 million, RMB130.0 million and RMB227.2 million in 2018, 2019 and 2020, respectively. See “Financial Information — Non-IFRS Measures” for a reconciliation of our net profit to adjusted EBITDA and adjusted net profit, respectively.

COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our success and differentiated us from our competitors: (1) pioneer and leading clear aligner treatment solution provider in China well positioned to capture the enormous market opportunities; (2) comprehensive product portfolio addressing diverse user needs; (3) premium medical and technological services; (4) self-developed technology and data platforms underpinned by industry-leading R&D capabilities; (5) strong brand recognition and profound academic influence; (6) solid intelligent manufacturing capabilities with stringent quality assurance system; and (7) visionary and seasoned management team with strong shareholder support.

GROWTH STRATEGIES

User satisfaction is our top priority. We aim to serve dental professionals and their patients with more customized products and services, refined manufacturing capability and flexible supply chain. To this end, we intend to pursue the following key strategies to grow our business sustainably and maintain our market leadership: (1) strengthen R&D capabilities and continue orthodontic solution innovations; (2) further intelligentize and digitalize our systems to improve operational efficiency; (3) optimize medical services to enhance user experience; (4) increase production capacity and improve production efficiency; and (5) solidify our market leading position by expanding sales network and enhancing brand awareness and academic influence.

OUR CUSTOMERS AND SALES CHANNELS

We directly sell a substantial portion of our services and products to hospitals and dental clinics through our wholly-owned subsidiary which holds the record-filing proof for operation of Class II medical devices (第二類醫療器械經營備案憑證). In addition to direct sales, we have engaged distributors who possess such record-filing proofs to increase sales and market share by leveraging their channel resources and, as a result, reduce our marketing cost. By doing so, we are able to scale our operations and replicate our success into unexplored regions, in particular certain lower-tier cities where we may not fully penetrate solely with our in-house sales team, quickly and cost-effectively with minimal incremental costs.

SUMMARY

Our relationship with our distributors is that of seller and buyer and not principal and agent. Our distributors extend sales to public hospitals and private clinics which are not covered by our in-house sales team. We recognize revenue generated from sales to distributors with the wholesale prices entered into with our distributors. As such, our customers include public hospitals, private dental clinics and distributors. We require a lump sum payment from all customers with or without a credit period. Any customer drop-off in the middle of a treatment cycle would not have a material and adverse impact on our business, results of operations and financial condition, considering that (1) we require full-payout from customers while manufacturing and delivering our clear aligners by batches, and (2) we generally would not refund such drop-off customers. During the Track Record Period and up to the Latest Practicable Date, we had not received any material requests for drop-off or product return and refund, or any other material complaints in this regard from our customers. In 2018, 2019 and 2020, we had 76, 73 and 77 cases involving customer drop-off in the middle of a treatment cycle, respectively, of which the relevant loss of revenue was approximately RMB0.3 million, RMB0.3 million and RMB0.4 million, respectively. In addition, we processed return and exchange requests for approximately 1,900, 3,600 and 5,900 units of clear aligners in 2018, 2019 and 2020, respectively, which accounted for approximately 0.03%, 0.03% and 0.04% of all clear aligners we delivered in the corresponding year, respectively. We generally did not incur any additional refund for these returned and exchanged clear aligners.

Revenue generated from our top five customers accounted for 11.7%, 13.5% and 13.3% of our total revenue in 2018, 2019 and 2020, respectively, and revenue generated from our largest customer accounted for 4.1%, 3.8% and 3.3% of our total revenue in the same periods, respectively. Sales to distributors increased during the Track Record Period, as we engaged an increasing number of distributors to utilize sales channels of distributors to expand our business in a more cost-effective manner and increase our sales efficiency. Going forward, we will continue to focus on expanding our direct sales network and supplement our sales coverage with qualified distributors with considerable sales channels, which we believe is more suitable for our business model. See “Business — Sales and Distribution — Sales to Distributors” and “Business — Our Customers” for details. The following table sets forth a breakdown of our sales volume, as measured by case shipments, and the average selling price by sales channel and customer type for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price
	(number of case shipments)	(RMB)	(number of case shipments)	(RMB)	(number of case shipments)	(RMB)
Direct Sales						
Public hospitals	4,300	10,200	1,500	11,100	1,200	11,200
Private clinics	58,100	8,500	70,000	8,200	82,200	8,000
Sales to Distributors . . .	15,300	7,500	48,600	6,300	54,200	7,000
Total	<u>77,700</u>	<u>8,400</u>	<u>120,100</u>	<u>7,500</u>	<u>137,600</u>	<u>7,700</u>

OUR SUPPLIERS

Our suppliers primarily include suppliers of clear aligner raw materials, vendors of our manufacturing equipment and consumables, logistics service providers, and marketing service and event planning service providers. We select our suppliers based on the quality and prices of their supplies and our business needs. Purchase from our top five suppliers accounted for 70.9%, 79.0% and 74.2% of our total purchases of such products and services in 2018, 2019 and 2020, respectively, and purchase from our largest supplier accounted for 32.6%, 35.4% and 35.4% of our total purchases in the same periods, respectively. We have generally maintained stable and long-term relationships with our suppliers,

SUMMARY

including our major raw material suppliers. We have identified readily available alternative suppliers that can offer services and products, in particular raw materials, at comparable terms, price and quality, in case of any material disruption of the supply of our current major suppliers. As such, we believe that we will be able to procure products and services we require from alternative suppliers without any significant difficulty. Based on the above, our Directors are of the view that we are capable of sustaining our business in the future in the unlikely event that the business relationship between us and our major suppliers are interrupted or terminated for any reasons. See “Business — Our Suppliers” for details.

MANUFACTURING

We produce customized clear aligners through a “mass customization” model based on intelligent manufacturing technologies, including complex software solutions, 3D printing, rapid prototyping methods and automated production lines. Our principal manufacturing facilities are located in the Wuxi (Huishan) Life Science and Technology Industrial Park in Jiangsu Province, China, with an aggregate area of approximately 9,000 square meters. The following table sets forth our production capacity, production volume and utilization rate of our clear aligners for the periods indicated.

	Year ended December 31,		
	2018 ⁽⁴⁾	2019	2020
	(unit in thousands, except for the percentages)		
Production capacity ⁽¹⁾	6,800	15,800	21,900
Production volume ⁽²⁾	6,770	12,150	16,200
Utilization rate ⁽³⁾	99.6%	76.9%	74.0%

(1) Production capacity is calculated based on the assumption that our manufacturing facilities operate 520 hours per month.

(2) Production volume refers to the number of units produced in a given period.

(3) Utility rate is calculated by dividing the production volume of a given period by the production capacity of the same period.

(4) We had commenced the mass production utilizing our automated production lines since July 2018.

Our production capacity generally increased during the Track Record Period, primarily due to the commencement of production on our newly established automated production lines. The utilization rate of our production facilities decreased from 2018 to 2019, primarily due to the under-utilization of our newly established automated production line during the trial stage. The utilization rate of our production facilities decreased from 2019 to 2020, primarily due to the impact of COVID-19 pandemic. See “Business — Our Intelligent Manufacturing.”

QUALITY CONTROL

We are committed to developing and producing high quality products in compliance with international and applicable domestic standards, regulations and directives. We have established what we believe to be a stringent quality management system. We have a quality and regulatory affairs department and devote significant resources to quality management of our products. During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaints about product quality and our products had not been subject to any material claim, litigation or investigation. In addition, during the Track Record Period and up to the Latest Practicable Date, there were no product recalls or fatal accidents related to our products. See “Business — Quality Control.”

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LICENSES, PERMITS AND APPROVALS

All of our clear aligners are classified as Class II medical devices, which represents medium level of risks to the human body and requires relatively high level of supervision to ensure safety and effectiveness. According to the relevant laws and regulations, our clear aligners are examined by the provincial branches of the NMPA, and we are required to apply for registration certificates from competent authorities for commercialization of our clear aligners. To obtain such registration certificates, we are required to conduct product registration testing and clinical trials for our clear aligners. In addition, any substantial change of the designs, raw materials, production technologies, scopes of application and application methods of our registered clear aligners, such as the fundamental change of appearance and raw materials of clear aligners, increased indications of clear aligners, and principle changes in key production process, may affect the safety and effectiveness of such medical devices; accordingly, we shall apply to the original registration department for registration modification. For example, in connection with our launch of *Angelalign Kid*, we had successfully applied for registration modification for increased indications of our clear aligners. In case of any non-substantial change thereof, which does not affect the safety and effectiveness of such medical devices, we shall report the information on the change to the original registration department for filings. The registration certificate for our clear aligners is valid for five years, and we shall apply to the relevant departments for renewal six months prior to the expiration date. We also need to apply for a production permit in connection with our manufacture of clear aligners. Renewal of such certificates and permits requires substantive review similar to that of the initial application. See “Regulatory Overview — Laws and Regulations Relating to Medical Devices” for details. As advised by our PRC legal advisors, we had obtained all licenses, permits, and approvals necessary to conduct our operations in all material respects from the relevant government authorities in China, including a registration certificate for medical device which suffices for all of our current product lines, and such licenses, permits, approvals and certificates remained in effect as of the Latest Practicable Date. The following table sets out a list of material licenses, permits, and approvals relating to our operations.

<u>License/Permit</u>	<u>Holder</u>	<u>Latest Validity Period</u>	<u>Issuing Authority</u>
Medical Device Production Permit (醫療器械生產許可證) .	Wuxi EA	October 2020- October 2025	Jiangsu Medical Products Administration (江蘇省藥品監督管理局)
Registration Certificate for Medical Device (醫療器械註冊證)	Wuxi EA	January 2021- January 2026	Jiangsu Medical Products Administration (江蘇省藥品監督管理局)
Record-filling Proof for Operation of Class II Medical Devices (第二類醫療器械經營備案憑證)	Shanghai EA	June 2017-Present	Shanghai Yangpu District Market Supervision Administration (上海市楊浦區市場監督管理局)

OUR RISKS AND CHALLENGES

Our business and operations involve certain risks and uncertainties including those set out in the “Risk Factors” section in this prospectus. We may fail to achieve and further promote brand recognition and acceptance of our Angelalign clear aligner system among dental professionals, or grow or retain the number of dental professionals who utilize our solutions. Demand for clear aligner treatment may not increase as rapidly as we anticipate due to a variety of factors, including weakness in general economic conditions. In addition, we face competition in the clear aligner industry with domestic and international competitors. Our historical business growth, revenue and profitability may not be indicative of future performance, and our success depends in large part on our ability to execute our business strategy. We also may fail to execute our expansion plan as planned. As different investors may have different interpretations and criteria when determining the significance of a risk, you should carefully read the “Risk Factors” section in its entirety before you decide to invest in our Shares.

SUMMARY

SUMMARY OF FINANCIAL INFORMATION

The following tables present the summary of our financial information for the Track Record Period and should be read in conjunction with our financial information included in the Accountant's Report in Appendix I to this prospectus, including the notes thereto.

Summary of Consolidated Statements of Comprehensive Income

The following table sets forth a summary of our consolidated statements of comprehensive income for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Revenue	488,483	100.0	645,898	100.0	816,528	100.0
Cost of revenue	(176,765)	(36.2)	(228,756)	(35.4)	(241,479)	(29.6)
Gross profit	311,718	63.8	417,142	64.6	575,049	70.4
Selling and marketing expenses . .	(81,439)	(16.7)	(122,645)	(19.0)	(148,835)	(18.2)
Administrative expenses	(107,702)	(22.0)	(136,544)	(21.1)	(154,423)	(18.9)
Research and development expenses	(50,163)	(10.3)	(80,905)	(12.5)	(93,479)	(11.4)
Net impairment losses on financial assets	(3,684)	(0.8)	(2,512)	(0.4)	(10,148)	(1.2)
Other income	4,608	0.9	8,804	1.4	22,625	2.8
Other expenses	—	—	(2,000)	(0.3)	(6,000)	(0.7)
Other gains — net	1,933	0.4	2,851	0.4	3,096	0.4
Finance (costs)/income net	(131)	(0.0)	649	0.1	2,999	0.4
Share of results of investments accounted for using the equity method	(363)	(0.1)	(348)	(0.1)	347	0.0
Profit before income tax	74,777	15.3	84,492	13.1	191,231	23.4
Income tax expense	(16,591)	(3.4)	(16,827)	(2.6)	(40,299)	(4.9)
Profit for the year	58,186	11.9	67,665	10.5	150,932	18.5
Total comprehensive income for the year attributable to						
– Owners of the Company	59,823	12.2	69,231	10.7	149,681	18.3
– Non-controlling interests	(1,548)	(0.3)	(1,170)	(0.2)	10	0.0
	<u>58,275</u>	<u>11.9</u>	<u>68,061</u>	<u>10.5</u>	<u>149,691</u>	<u>18.3</u>
Non-IFRS Measures⁽¹⁾:						
Adjusted EBITDA	129,107	26.4	174,557	27.0	296,632	36.3
Adjusted net profit	92,134	18.9	130,006	20.1	227,209	27.8

(1) See “— Non-IFRS Measures.”

SUMMARY

Non-IFRS measures

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted EBITDA and adjusted net profit as additional financial measures, which is not required by, or presented in accordance with IFRS. We define adjusted EBITDA as EBITDA (which is profit before income tax plus interest expenses recorded as finance costs, depreciation of property, plant and equipment, depreciation of right-of-use assets, and amortization of intangible assets, less interest income recorded as finance income) for the year with adjustments of non-recurring or non-operating items, including share-based payments and listing expenses. We define adjusted net profit as profit for the year adjusted by non-recurring or non-operating items, including share-based payments and listing expenses. Share-based payments are non-operational expenses arising from granting restricted share units and options to directors, senior management and employees. The decision to make grants is discretionary and does not form a sustained pattern of recurrence, and the amount of grants may not directly correlate with the underlying performance of our business operations. We believe that these non-IFRS measures facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management do not consider indicative of our operating performance. The following table reconciles our adjusted EBITDA and adjusted net profit for the year presented to the most directly comparable financial measure calculated and presented under IFRS.

	Year ended December 31,		
	2018	2019	2020
	(RMB in thousands)		
Profit for the year	58,186	67,665	150,932
<i>Add:</i>			
Income tax expenses	16,591	16,827	40,299
Profit before income tax	<u>74,777</u>	<u>84,492</u>	<u>191,231</u>
<i>Add:</i>			
Finance cost/(income) – net	131	(649)	(2,999)
Depreciation of property, plant and equipment . .	9,595	13,402	17,521
Depreciation of right-of-use assets	8,338	10,367	11,077
Amortization of intangible assets	2,318	4,604	3,525
EBITDA	<u>95,159</u>	<u>112,216</u>	<u>220,355</u>
<i>Add:</i>			
Share-based payments	23,438	61,677	66,319
Listing expenses	10,510	664	9,958
Adjusted EBITDA	<u><u>129,107</u></u>	<u><u>174,557</u></u>	<u><u>296,632</u></u>
Profit for the year	58,186	67,665	150,932
<i>Add:</i>			
Share-based payments	23,438	61,677	66,319
Listing expenses	10,510	664	9,958
Adjusted net profit	<u><u>92,134</u></u>	<u><u>130,006</u></u>	<u><u>227,209</u></u>

See “Financial Information — Non-IFRS Measures” for details.

SUMMARY

Revenue

During the Track Record Period, we generated revenue primarily from the provision of clear aligner treatment solutions, and to a much lesser extent, from the provision of orthodontics and cosmetic dentistry services and other dental services through our dental clinics. The following table sets forth a breakdown of our revenue by business line, both in absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Clear aligner treatment solutions . . .	464,949	95.2	628,059	97.2	799,005	97.9
Other services	23,534	4.8	17,839	2.8	17,523	2.1
Total	<u>488,483</u>	<u>100.0</u>	<u>645,898</u>	<u>100.0</u>	<u>816,528</u>	<u>100.0</u>

The following table sets forth a breakdown of our revenue generated from the provision of clear aligner treatment solutions by product line for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
<i>Angelalign</i>	362,895	78.0	439,144	69.9	446,072	55.8
<i>Angelalign Pro</i>	97,622	21.0	146,803	23.4	212,934	26.7
<i>Angelalign Kid</i>	-	-	7,296	1.2	35,958	4.5
<i>COMFOS</i>	4,432	1.0	34,816	5.5	104,041	13.0
Total	<u>464,949</u>	<u>100.0</u>	<u>628,059</u>	<u>100.0</u>	<u>799,005</u>	<u>100.0</u>

The following table sets forth a breakdown of our revenue generated from the provision of clear aligner treatment solutions by sales channel and customer type for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Direct Sales						
Public hospitals	39,466	8.5	15,318	2.5	12,009	1.5
Private clinics	374,219	80.5	424,701	67.6	518,928	64.9
Sales to Distributors	51,264	11.0	188,040	29.9	268,068	33.6
Total	<u>464,949</u>	<u>100.0</u>	<u>628,059</u>	<u>100.0</u>	<u>799,005</u>	<u>100.0</u>

SUMMARY

Cost of revenue

Our cost of revenue was RMB176.8 million, RMB228.8 million and RMB241.5 million in 2018, 2019 and 2020, respectively, representing 36.2%, 35.4% and 29.6% of our total revenue for the same periods, respectively. Our cost of revenue primarily consisted of raw materials and consumables used, staff costs, production costs, depreciation and amortization expenses and delivery costs. During the Track Record Period, our cost of revenue in absolute amount continuously increased, primarily due to the increased number of malocclusion cases we help addressed with our clear aligner treatment solutions. On the other hand, our cost of as a percentage of our total revenue continuously decreased during the Track Record Period, primarily due to (1) the decrease in production costs representing the significantly lowered unit lease cost of our 3D printers, and (2) the optimization of our cost structure in relation to clear aligner production, in particular the relative savings in our raw materials and consumables used and manufacturing-related staff costs compared to our production growth as a result of economies of scale and the adoption of automated production lines.

Gross profit and gross profit margin

Our gross profit was RMB311.7 million, RMB417.1 million and RMB575.0 million in 2018, 2019 and 2020, respectively, representing a gross profit margin of 63.8%, 64.6% and 70.4% for the same periods, respectively. The following table sets forth a breakdown of our gross profit and gross profit margin by business line for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB in thousands except for percentages)					
Clear aligner treatment solutions	304,214	65.4%	411,328	65.5%	569,877	71.3%
Other services	7,504	31.9%	5,814	32.6%	5,172	29.5%
Total	311,718	63.8%	417,142	64.6%	575,049	70.4%

Our gross profit margin continuously increased during the Track Record Period, primarily because we were able to optimize the cost structure of our clear aligner treatment solutions, partially offset by the decreased gross profit margin for the provision of other services as a result of the impact of COVID-19 pandemic in 2020.

SUMMARY

Summary of Consolidated Statements of Financial Position

The following table sets forth details of our summary consolidated financial position as of the dates indicated.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Property, plant and equipment	55,046	84,338	105,299
Right-of-use assets	16,432	80,795	70,759
Intangible assets	13,692	9,330	6,188
Investment accounted for using the equity method	3,438	13,681	13,848
Prepayments for non-current assets	6,578	1,691	764
Deferred income tax assets	4,501	7,379	9,573
Total non-current assets	99,687	197,214	206,431
Inventories	21,663	22,827	19,914
Trade and other receivables	107,423	97,816	101,693
Amounts due from related parties	27,712	30,235	4,523
Cash and cash equivalents	216,015	504,697	877,578
Total current assets	372,813	655,575	1,003,708
Trade and other payables	128,650	205,881	238,587
Amounts due to related parties	1,775	1,876	5,940
Contract liabilities	109,151	238,898	399,692
Current income tax liabilities	1,503	14,496	22,274
Lease liabilities	7,995	9,517	8,625
Deferred income	82	405	600
Total current liabilities	249,156	471,073	675,718
Net current assets	123,657	184,502	327,990
Total assets less current liabilities	223,344	381,716	534,421
Amounts due to related parties	4,415	4,415	—
Contract liabilities	45,856	65,445	18,924
Lease liabilities	8,838	13,353	5,543
Deferred income	683	5,124	6,280
Deferred income tax liabilities	—	—	6,000
Total non-current liabilities	59,792	88,337	36,747
Net assets	163,552	293,379	497,674
Equity attributable to owners of the Company			
Share capital and premium	—	—	486,669
Shares held for employee share scheme	(54,994)	(54,994)	(29,529)
Other reserves	240,034	307,823	(22,135)
(Accumulated losses)/retained earnings	(18,530)	44,589	66,698
Non-controlling interests	(2,958)	(4,039)	(4,029)
Total equity	163,552	293,379	497,674

We recorded accumulated losses of RMB18.5 million as of December 31, 2018, and retained earnings of RMB44.6 million and RMB66.7 million as of December 31, 2019 and 2020, respectively.

SUMMARY

From 2003 to 2015, we incurred significant expenses in relation to the development of our solutions, including our R&D initiatives in clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies, the development of *iOrtho* and other technology platforms, the building and development of our R&D, operational and management teams, and the launch of *A-Tech Forum*. On the other hand, China’s clear aligner industry was at a nascent stage during the same period, which translated into a relatively low market demand from dental professionals and patients and a resultant lack of revenue sources. As a result, we primarily recognized net losses in each year prior to 2015.

Starting from 2015, we began to capitalize on the advancement of China’s clear aligner industry with our well-established and continuously enhanced solutions. According to the CIC Report, China’s clear aligner market, in terms of retail sales revenue, increased from US\$0.2 billion in 2015 to US\$1.5 billion in 2020 at a CAGR of 44.4%. During the same period, we also expanded our product portfolio and enhanced our technological and manufacturing capabilities to embrace the market growth, which translated into the steady increase in the number of our case shipments. In addition, we were able to optimize our cost structure and operating efficiency in line with our business expansion. As a result, our profitability has gradually improved since 2015, which progressively offset our accumulated loss position until December 31, 2019 when we began to recognize retained earnings position of RMB44.6 million. We continued to recognize retained earnings as of December 31, 2020 in line with our continuous business growth. See “Financial Information — Discussion of Major Balance Sheet Items — Accumulated Losses/Retained Earnings” for details.

Summary of Consolidated Statements of Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended December 31,		
	2018	2019	2020
	(RMB in thousands)		
Net cash generated from operating activities . . .	144,585	402,332	408,279
Net cash used in investing activities	(2,062)	(103,035)	(7,276)
Net cash used in financing activities	(61,827)	(11,304)	(23,333)
Net increase in cash and cash equivalents	80,696	287,993	377,670
Cash and cash equivalents at beginning of the year	134,051	216,015	504,697
Exchange gains/(losses) on cash and cash equivalents	1,268	689	(4,789)
Cash and cash equivalents at end of the year . . .	216,015	504,697	877,578

SUMMARY

Key Financial Ratios

The following table sets forth certain of our key financial ratios as of the dates and for the periods indicated.

	As of/for the year ended December 31,		
	2018	2019	2020
Profitability ratios			
Gross profit margin ⁽¹⁾	63.8%	64.6%	70.4%
Net profit margin ⁽²⁾	11.9%	10.5%	18.5%
Adjusted net profit margin (non-IFRS measure) ⁽³⁾ . .	18.9%	20.1%	27.8%
Adjusted return on equity (non-IFRS measure) ⁽⁴⁾ . .	71.8%	56.9%	57.4%
Adjusted return on total assets (non-IFRS measure) ⁽⁵⁾	23.1%	19.6%	22.0%
Liquidity ratios			
Current ratio ⁽⁶⁾	1.50	1.39	1.49

-
- (1) The calculation of gross profit margin is based on gross profit for the year divided by revenue for the respective year and multiplied by 100.0%.
 - (2) The calculation of net profit margin is based on profit for the year divided by revenue for the respective year and multiplied by 100.0%.
 - (3) The calculation of adjusted net profit margin, a non-IFRS measure, is based on adjusted net profit for the year divided by revenue for the respective year and multiplied by 100.0%. See “Financial Information — Non-IFRS Measures.”
 - (4) The calculation of adjusted return on equity, a non-IFRS measure, is based on adjusted net profit for the year divided by average of opening and closing balance of total equity attributable to equity holders of our Company of the respective year and multiplied by 100.0%.
 - (5) The calculation of adjusted return on total assets, a non-IFRS measure, is based on adjusted net profit for the year divided by the average of opening and closing balance of total assets of the respective year and multiplied by 100.0%.
 - (6) The calculation of current ratio is based on current assets divided by current liabilities as of year end.

Our net profit margin decreased from 11.9% in 2018 to 10.5% in 2019, primarily due to the increases in our selling and marketing expenses as well as research and development expenses as percentages of our total revenue resulting from the increased headcount and compensation level of our sales and marketing as well as research and development personnel. Our net profit margin increased from 10.5% in 2019 to 18.5% in 2020, primarily due to the decreases in our costs and expenses as percentages of our total revenue resulting from economies of scale and the optimization of our cost and expense structure. See “Financial Information — Key Financial Ratios” for a detailed analysis of other key financial ratios.

SUMMARY

OUR SHAREHOLDING STRUCTURE

Our Controlling Shareholders

As of the Latest Practicable Date, CareCapital Orthotech held approximately 67.1242% of the total issued share capital and thus, is a Controlling Shareholder of our Company. CareCapital Orthotech is wholly-owned by CareCapital EA, Inc., which is in turn owned by CareCapital Holdings and CareCapital Moonstone Holdings Limited, a wholly-owned subsidiary of CareCapital Holdings. As part of the capital management arrangements between them, CareCapital Group and HH Investors contributed 3.03% and 96.97% of the funds to the CareCapital Investment, respectively, which resulted in 3.03% and 96.97% of the beneficial ownership in CareCapital Holdings, respectively. Pursuant to the articles of CareCapital Holdings and the shareholders agreement of CareCapital Holdings dated June 12, 2015, CareCapital Group controls all the voting power of CareCapital Holdings, the controlling shareholder of our Company, and has the sole right to appoint the director of CareCapital Holdings and is responsible for the management and operation of our Group, while HH Investors are passive financial investors with no voting power in CareCapital Holdings or our Company and no right to appoint director of CareCapital Holdings or our Company. See “Our History and Corporate Development — CareCapital Group and CareCapital Investment — CareCapital Group — Voting Arrangement” for details. Pursuant to the Listing Rules and HKEx-GL-89-16, CareCapital Group is our controlling shareholder, and HH Investors, being legal and beneficial shareholders of CareCapital Holdings, are collectively deemed as the Controlling Shareholders. Immediately after the completion of the Global Offering (assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes), CareCapital Orthotech will continue to control approximately 60.3110% of the voting rights at the general meetings of our Company, and thus continue to be the Controlling Shareholders of our Company upon Listing. See “Relationship with Our Controlling Shareholders” and “Our History and Corporate Development” for more information.

Pre-IPO Investments

We have completed certain pre-IPO equity financings to fund our rapid business expansion. See “Our History and Corporate Development — Pre-IPO Investments” for details of the identity and background of our Pre-IPO Investors.

Share Award Schemes

We value the contribution from our Directors, senior management and employees to the development and success of our Group. See “Our History and Corporate Development — Share Award Schemes” and “Statutory and General Information — D. Share Award Schemes” in Appendix IV to this prospectus for details of or share incentives.

SUMMARY

DIVIDEND

According to our dividend policy adopted on May 20, 2021, the Articles of Association and applicable laws and regulations, the determination to pay dividends will be made at the discretion of our Directors, subject to the Listing Rules, and will depend upon, among others, the financial results, cash flow, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, any restrictions on payment of dividends, and other factors that our Directors may consider relevant. Our Company in general meeting may from time to time by ordinary resolution declare dividends in any currency to be paid to the Shareholders but no dividend shall be declared in excess of the amount recommended by the Board, provided always that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. We do not have a pre-determined dividend payout ratio. We will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic environment.

As advised by our Cayman legal advisors, we are a holding company incorporated under the laws of the Cayman Islands, pursuant to which, the financial position of accumulated losses does not prohibit us from declaring and paying dividends to our Shareholders, as dividends may still be declared and paid out of our share premium account notwithstanding our profitability, provided that our Company satisfies the solvency test set out in the Cayman Companies Act.

During the Track Record Period and up to the date of this prospectus, we paid cash dividends of RMB61.0 million, RMB43.0 million and US\$15.2 million in October 2020, November 2020 and April 2021, respectively. For details, see Note 30 to the Accountant's Report in Appendix I to this prospectus.

COVID-19 OUTBREAK AND EFFECTS ON OUR BUSINESS

Since December 2019, a novel strain of coronavirus, later named COVID-19, has severely impacted China and many other countries. On March 11, 2020, amid the escalating situation, the World Health Organization further characterized COVID-19 as a pandemic. With quarantine measures taken by the PRC government, there has been a significant decrease in the number of existing confirmed COVID-19 cases in China since mid-February 2020. The Chinese government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal nationwide during the second quarter of 2020. Our Directors have carried out a holistic review of the impact of the COVID-19 on our operations and confirmed that as of the date of this prospectus, COVID-19 has not had any long-term material adverse impact on our operations based on the following grounds.

- *Impact on our business and financial conditions.* We believe that the impact of COVID-19 on our results of operations and financial condition has been minimal. Despite a temporary decrease in our case shipments in the first quarter of 2020, revenue generated from the provision of clear aligner treatment solutions increased by 27.2% from RMB628.1 million in 2019 to RMB799.0 million in 2020. In addition, while revenue generated from other services decreased by 1.8% from RMB17.8 million in 2019 to RMB17.5 million in 2020 as a result of the impact of COVID-19 outbreak in early 2020, which temporarily affected the business operations of the dental clinics, we only generated 2.8% and 2.1% of our total revenue from other services in 2019 and 2020, respectively. Moreover, our net profit margin increased from 10.5% in 2019 to 18.5% in 2020, primarily due to the decreases in our costs and expenses as percentages of our total revenue resulting from economies of scale and the optimization of our cost and expense structure.

SUMMARY

- *Impact on our operations.* All of our offices and manufacturing facilities have resumed operation since February 17, 2020 in accordance with the local government policies. As of the Latest Practicable Date, we had not experienced any significant delay in the delivery of our clear aligners to users, nor had we experienced any material delay or impediment of our research and development.
- *Impact on our employees.* As of the Latest Practicable Date, we were not aware of any suspected or confirmed case of COVID-19 among our staff.
- *Impact on our supply chain.* As of the Latest Practicable Date, we had not experienced any major supply chain disruption.

See “Financial Information — COVID-19 Outbreak and Effects on Our Business” for details of the impact of COVID-19 and our corresponding precautionary measures and social responsibility.

However, we cannot be entirely certain as to when the COVID-19 pandemic will be fully contained, and its impact will be completely alleviated. There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and occasional regional resurgence of COVID-19 cases in certain areas in China. We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any potential impact on our business, results of operations and financial condition. See “Risk Factors — Risks Relating to Our Business and Industry — Our business and operations have been and may continue to be materially and adversely affected by the COVID-19 pandemic.”

Sensitivity Analysis in View of the COVID-19 Outbreak

As of December 31, 2020, we had cash and cash equivalents of RMB877.6 million. Assuming the COVID-19 outbreak continues in China, and there has to be a complete suspension of our operations in the worst-case scenario, we expect that we would remain financially viable for a period of approximately 25 months from December 31, 2020 with (1) our cash reserves, (2) collection of a portion of our trade receivables as discussed below, and (3) approximately 4.7%, or HK\$118.9 million of the net proceeds from the Global Offering as allocated for working capital and other general corporate purposes (assuming an Offer Price of HK\$160.00, being the mid-point of the indicative Offer Price range between HK\$147.00 and HK\$173.00, and assuming that the Overallotment Option is not exercised). Our estimation is based on the following assumptions that: (1) we will not generate any income due to the suspension of our operations; (2) we will incur raw material costs and delivery costs to the extent that we will produce and deliver clear aligners for cases that had not been completed as of December 31, 2020; (3) we expect to settle all of our trade payables as of December 31, 2020 upon their due dates within three months; (4) we assume that we will progressively collect a very limited portion of our trade receivables as of December 31, 2020 by reference to the collection of our trade receivables during the most severe time of the COVID-19 outbreak in China for the purpose of the worst-case scenario analysis; (5) we will suspend our marketing and branding activities, including *A-Tech Forum* and other regional symposia; (6) our expansion plans will be postponed; (7) all of our employees as of December 31, 2020 will be retained at current level of costs, including salaries, bonuses, social insurance and other benefits; (8) other operating and administrative expenses will be kept at a minimum level, except that we will fulfill our payment obligations under executed contracts, including listing expenses in connection with the Global Offering; (9) we will not obtain any internal or external financing from our Shareholders or investors; and (10) no dividend will be declared and paid.

The above-mentioned analysis is for illustrative purpose only and our Directors currently consider that the likelihood of such situation is remote. The actual and ultimate impact of the COVID-19 pandemic will depend on its subsequent development which is uncertain for now, and may differ from our estimate and assessment due to reasons beyond our control.

SUMMARY

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Considering the demand for intraoral scanners in the clear aligner treatment process and leveraging our large customer base, we have expanded our business to sell intraoral scanners to our customers since 2021 in collaboration with intraoral scanner manufacturers, which we deem primarily as supplemental value-added services to our customers to enhance their experience in applying our clear aligner treatment solutions. Since the commencement of our sale of intraoral scanners and up to the Latest Practicable Date, we recorded sales amount of approximately RMB13.5 million.

Our business operation remained stable after the Track Record Period and up to the date of this prospectus. There was no material change to our general business model and, save as otherwise disclosed in “— COVID-19 Outbreak and Effects on Our Business” above, the economic environment remained generally stable up to the date of this prospectus. Our Directors confirmed that, up to the date of this prospectus, there had been no material adverse change in our financial, operating or trading conditions since December 31, 2020, being the end of the period reported in the Accountant’s Report in Appendix I to this prospectus. Our Directors further confirm that there has not been any material change in our indebtedness since April 30, 2021, being the latest practicable date for the purpose of the indebtedness statement in “Financial Information — Indebtedness.”

STATISTICS OF THE GLOBAL OFFERING

All statistics in the following table, unless otherwise indicated, are based on the assumptions that (1) the Global Offering has been completed and 16,829,600 Shares are issued pursuant to the Global Offering; (2) options granted under the Over-allotment Option are not exercised and no Shares may be issued under the Share Award Schemes; and (3) 165,807,100 Shares are issued and outstanding following the completion of the Global Offering.

	Based on an Offer Price of HK\$147.00 per Share	Based on an Offer Price of HK\$173.00 per Share
Market capitalization of our Shares	HK\$24,373.6 million	HK\$28,684.6 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share ⁽¹⁾	HK\$17.67	HK\$20.19

(1) The unaudited pro forma adjusted consolidated net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II to this prospectus. No adjustment has been made to reflect any trading results or other transactions we entered into subsequent to December 31, 2020. In particular, no adjustment has made to reflect the dividend of US\$15.2 million we declared and paid in April 2021. Had such dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets value per Share would be HK\$16.94 and HK\$19.46, assuming an Offer Price of HK\$147.00 and HK\$173.00 per Share, respectively.

LISTING EXPENSES

We expect to incur a total of approximately RMB148.4 million of listing expenses in connection with the Global Offering, representing approximately 6.7% of the gross proceeds from the Global Offering (assuming an Offer Price of HK\$160.00, being the mid-point of the indicative Offer Price range between HK\$147.00 and HK\$173.00, and assuming that the Over-allotment Option is not exercised). During the Track Record Period, we incurred listing expenses of approximately RMB28.0 million, out of which approximately RMB21.1 million was charged to our consolidated statements of comprehensive income as administrative expenses, while the remaining amount of approximately RMB6.9 million was capitalized as prepayment and will be deducted from the share premium upon the completion of the Global Offering.

SUMMARY

We expect to further incur underwriting commission and other listing expenses of approximately RMB120.4 million upon the completion of the Global Offering, out of which approximately RMB28.4 million is expected to be charged to our consolidated statements of results of operations and approximately RMB92.0 million is expected to be deducted from the share premium. The listing expenses above are the best estimate as of the Latest Practicable Date and for reference only. The actual amount may differ from this estimate.

USE OF PROCEEDS

We estimate that the net proceeds from the Global Offering will be approximately HK\$2,513.0 million (after deducting the estimated underwriting commissions and other fees and expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$160.00 per Share, being the mid-point of the indicative range of the Offer Price of HK\$147.00 to HK\$173.00 per Share, and that the Over-allotment Option is not exercised. We currently intend to apply the net proceeds from the Global Offering for the purposes and in the amounts set out as follows:

- approximately 39.9%, or HK\$1,002.1 million, for funding the construction of our Chuangmei Center which comprises new manufacturing facilities and a research and development center;
- approximately 18.3%, or HK\$460.1 million, for strengthening our research and development capabilities and funding our in-house and collaborative R&D initiatives;
- approximately 10.8%, or HK\$271.5 million, for developing a flexible and scalable intelligent information technology system and deploying a data middle platform, and upgrading our existing platforms and systems;
- approximately 10.5%, or HK\$264.1 million, for expanding our in-house sales team and providing sales personnel with training sessions;
- approximately 9.6%, or HK\$240.8 million, for funding a variety of marketing and branding activities to expand customer base and promote brand image;
- approximately 6.2%, or HK\$155.5 million, for optimizing our medical services by establishing additional regional demonstration centers and cultivating qualified medical talent through joint programs; and
- approximately 4.7%, or HK\$118.9 million, for working capital and other general corporate purposes.

See “Future Plans and Use of Proceeds — Use of Proceeds.”

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this prospectus. Certain other terms are explained in the section headed “Glossary” in this prospectus.

“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Articles of Association” or “Articles”	our articles of association, as adopted on May 20, 2021, and as amended from time to time, a summary of which is contained in Appendix III to this prospectus
“associate”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of directors of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	British Virgin Islands
“CareCapital Group”	Mr. FENG Dai and the entities controlled by him directly or indirectly for holding interests in the Company under the trade name of CareCapital, including CareCapital Management Group LLC, CareCapital Dental Holdings Limited, CareCapital Moonstone Holdings Limited, CareCapital EA, Inc. and CareCapital Orthotech Limited
“CareCapital Holdings”	CareCapital Dental Holdings Limited, a limited liability company incorporated under the laws of Cayman Islands on April 15, 2015 and a Controlling Shareholder
“CareCapital Investment”	the investment by CareCapital Group in June 2015 to acquire all the shares of EA, our then offshore holding company, held by Series A, A1 and B investors, after which CareCapital Group became controlling shareholder of our Group
“CareCapital Orthotech”	CareCapital Orthotech Limited (松柏正畸技術有限公司) (formerly known as Rico Investments Limited (永康投資有限公司)), a limited liability company incorporated under the laws of Hong Kong on November 19, 2009 and a Controlling Shareholder
“Cayman Companies Act”	the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented, or otherwise modified from time to time

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“CIC”	China Insights Industry Consultancy Limited, the industry consultant of our Company
“CIC Report”	a commissioned report from CIC
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company,” “our Company,” “Group,” “our Group,” “we” or “us”	Angelalign Technology Inc. (時代天使科技有限公司), an exempted company incorporated under the laws of Cayman Islands with limited liability on November 29, 2018, and, except where the context indicated otherwise, all of its subsidiaries, or with respect to the period before our Company became the holding company of our current subsidiaries, the business operated by our present subsidiaries or their predecessors (as the case may be)

DEFINITIONS

“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Mr. FENG Dai, CareCapital Management Group LLC, Hillhouse CareCapital Dental Holdings Limited, Hillhouse Fund II, L.P., Hillhouse Capital Management, Ltd., Hillhouse Fund II GP, Ltd., CareCapital Dental Holdings Limited, CareCapital Moonstone Holdings Limited, CareCapital EA, Inc. and CareCapital Orthotech Limited; pursuant to the Listing Rules and HKEx-GL-89-16, CareCapital Group is our controlling shareholder, and HH Investors, being legal and beneficial shareholders of CareCapital Holdings, are collectively deemed as the Controlling Shareholders, despite that CareCapital Group owns all the voting shares of CareCapital Dental Holdings Limited and has been controlling the management and operation of our Group
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of the Company or any one of them
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
“General Lending Provision”	General Lending Provisions (貸款通則), which was promulgated by the People’s Bank of China on June 28, 1996 and became effective on August 1, 1996
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“HH Investors”	Hillhouse CareCapital Dental Holdings Limited, Hillhouse Fund II, L.P., Hillhouse Capital Management, Ltd., an institutional investment manager registered with the United States Securities and Exchange Commission, and Hillhouse Fund II GP, Ltd.
“HK eIPO White Form”	the application for Hong Kong Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form service provider, www.hkeipo.hk or the IPO App
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website www.hkeipo.hk or the IPO App
“HK\$” or “Hong Kong dollars”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong

DEFINITIONS

“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the branch share registrar and transfer office of our Company in Hong Kong
“Hong Kong Public Offer Shares”	the 1,683,000 Shares being initially offered for subscription in the Hong Kong Public Offering, subject to reallocation
“Hong Kong Public Offering”	the offer of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in “Underwriting — Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated June 2, 2021, relating to the Hong Kong Public Offering and entered into by, among others, the Joint Sponsors, the Joint Global Coordinators, the Hong Kong Underwriters, CareCapital Orthotech Limited and our Company, as further described in the section headed “Underwriting”
“IFRS”	International Financial Reporting Standards
“independent third party(ies)”	a party, who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, which is not connected (as defined in the Listing Rules) to our Company or our connected persons
“International Offer Shares”	the 15,146,600 Shares being initially offered by the Company at the offer Price in the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option, subject to any adjustment or reallocation
“International Offering”	the offer of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from registration under the U.S. Securities Act, as further described in “Structure and Conditions of the Global Offering”
“International Underwriters”	the group of underwriters that are expected to enter into the International Underwriting Agreement to underwrite the International Offering

DEFINITIONS

“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, the Joint Sponsors, the Joint Global Coordinators, the International Underwriters and our Company on or about the Price Determination Date, as further described in the section headed “Underwriting”
“IPO App”	the mobile application for HK eIPO White Form service which can be downloaded by searching “ IPO App ” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp
“Joint Bookrunners”	Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited
“Joint Global Coordinators” and “Joint Sponsors”	Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited
“Joint Lead Managers”	Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited
“Latest Practicable Date”	May 26, 2021, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about Wednesday, June 16, 2021 on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Memorandum”	our memorandum of association, conditionally approved and adopted on May 20, 2021 and to become effective on the Listing Date, as amended, supplemented or otherwise modified from time to time
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDRC”	National Development and Reform Commission the PRC (中華人民共和國國家發展和改革委員會)

DEFINITIONS

“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)
“Offer Shares”	the Hong Kong Public Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters), pursuant to which our Company may be required to allot and issue up to an aggregate of 2,524,400 Shares at the Offer Price to, among other things, cover over-allocations in the International Offering, if any
“Post-IPO Share Award Schemes”	collectively, the post-IPO RSU scheme and the post-IPO share option scheme as adopted by the Company on May 20, 2021, as amended, the principal terms of which are summarized in “Statutory and General Information — D. Share Award Schemes” in Appendix IV to the prospectus
“Pre-IPO Investors”	the pre-IPO investors of our Company, including OrbiMed Asia Partners, L.P., Gate Top Development Limited, Favor Sky Limited, LAU Ying Chun, Alpha Profit Holdings Limited, Moonstone Gem Holdings Limited and Wuxi Jinhe Venture Investment Co., Ltd. (無錫市金禾創業投資有限公司). See “Our History and Corporate Development — Pre-IPO Investment” for more information
“Pre-IPO Share Award Schemes”	collectively, the share award scheme I, the share award scheme II and the share award scheme III as adopted by the Company in December 2020, as amended, the principal terms of which are summarized in “Statutory and General Information — D. Share Award Schemes” in Appendix IV to the prospectus
“Price Determination Date”	the date, expected to be on or about Tuesday, June 8, 2021 (Hong Kong time), when the Offer Price is determined and, in any event, no later than Thursday, June 10, 2021
“Private Lending Cases Provisions”	Provisions of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定), which was promulgated on June 23, 2015, effective on September 1, 2015 and last amended on December 29, 2020
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAMR”	State Administration for Market Regulation of the PRC (國家市場監督管理總局)
“SAT”	State Administration of Taxation of the PRC (國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFDA”	State Food and Drug Administration (國家食品藥品監督管理局), which was later reformed as China Food and Drug Administration in 2013 and is now known as the National Medical Products Administration
“SFO”	the Securities and Futures Ordinance Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shanghai EA”	Shanghai EA Medical Instruments Co., Ltd. (上海時代天使醫療器械有限公司), a company incorporated under the laws of the PRC with limited liability on September 5, 2011 and a direct wholly-owned subsidiary of Wuxi EA
“Shareholder(s)”	holder(s) of Shares
“Shares”	ordinary shares in the share capital of the Company with a par value of US\$0.0001 each
“Share Award Schemes”	the Pre-IPO Share Award Schemes and the Post-IPO Share Award Schemes
“Share Subdivision”	the share subdivision on May 20, 2021, where each of our issued and unissued share with par value of US\$0.01 each was subdivided into 100 shares of our Company with a par value of US\$0.0001, such that the authorized share capital of our Company was US\$50,000 divided into 500,000,000 Shares with par value of US\$0.0001 each
“Stabilizing Manager”	Goldman Sachs (Asia) L.L.C.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the period consisting of the three years ended December 31, 2018, 2019 and 2020

DEFINITIONS

“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“VAT”	the PRC value-added tax
“Wuxi EA”	Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司), a company incorporated under the laws of the PRC with limited liability on February 10, 2010 and an wholly-owned subsidiary of the Company
“%”	per centum

Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

In this prospectus, the terms “associate,” “close associate,” “core connected person,” “connected person,” “connected transaction,” “controlling shareholder,” “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

GLOSSARY

This glossary contains certain technical terms used in this prospectus. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“3D”	three-dimensional
“3D printing”	the production process of generating a physical object from a 3D digital model, typically by laying down many successive thin layers of a material using a 3D printer
“AI”	artificial intelligence
“attachment(s)”	small tooth-colored dots or bumps of dental bonding material that are placed on certain teeth and specific locations to help ensure the right forces are placed in the right places to move the teeth
“average selling price”	calculated by dividing the aggregate amount of selling price of all case shipments in a given period, which is agreed in our contracts with the relevant customers, by the corresponding aggregate number of case shipments in the same period
“CAGR”	compound annual growth rate
“case shipments”	refers to the number of newly submitted clear aligner treatment cases for which we have shipped the first batch of clear aligners during a given period; while the treatment process may last for more than one year and the clear aligners may be shipped in multiple batches across the treatment process, all cases will not be double-counted in any subsequent periods for the delivery of the remaining clear aligners
“clear aligner”	a removable, transparent, plastic form of dental braces used to treat malocclusion
“dental professionals”	include both orthodontists and GP dentists for the purpose of this prospectus
“digital orthodontics”	refers to the use of computer software by a dental professional to move teeth virtually and to effect orthodontic tooth movements through the use of 3D printing of clear aligners of different thickness
“freedom-to-operate analysis”	conducting search in relevant patent database(s) to identify whether there is any valid patent(s) of third parties that may block the use of the technology of interest in one or more jurisdictions, i.e., whether the technology of interest can be used freely or not

GLOSSARY

“GP dentist(s)”	dental care providers who diagnose, treat, and manage patients’ overall oral health care needs, but are not specifically trained for orthodontics treatment
“intelligent manufacturing”	a category of manufacturing that employs computer-integrated manufacturing, high levels of adaptability and rapid design changes, and digital information technology; some of the key technologies in the intelligent manufacturing include big data processing capabilities, advanced robotics, industrial connectivity devices and services, and 3D printing
“malocclusion”	a misalignment or incorrect relation between the teeth of the two dental arches when they approach each other as the jaws close which can lead to serious oral health complications
“mass customization”	the use of flexible computer-aided manufacturing systems to produce custom output which combine the low unit costs of mass production processes with the flexibility of individual customization
“orthodontist(s)”	dental specialists who have received additional training in orthodontic treatment on top of their general dental degree
“R&D”	research and development
“stomatology”	a branch of medicine or dentistry concerned with the structures, functions, and diseases of the mouth

FORWARD-LOOKING STATEMENTS

We have included in this prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. Forward-looking statements can be identified by words such as “may,” “will,” “should,” “would,” “could,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “continue,” “seek,” “estimate” or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, statements we make regarding our projections, business strategy and development activities as well as other capital spending, financing sources, the effects of regulation, expectations concerning future operations, margins, profitability and competition. The foregoing is not an exclusive list of all forward-looking statements we make.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. We give no assurance that these expectations and assumptions will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. We caution you therefore against placing undue reliance on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political economic, business, competitive, market and regulatory conditions and the following:

- our business prospects;
- our business strategies and plans to achieve these strategies;
- future developments, trends and conditions in and competitive environment for the industries and markets in which we operate;
- general economic, political and business conditions in the PRC;
- our financial condition and performance;
- our capital expenditure plans;
- our dividend policy;
- changes to the regulatory environment, policies, operating conditions of and general outlook in the industries and markets in which we operate;
- our expectations with respect to our ability to acquire and maintain regulatory licenses or permits;
- the amount and nature of, and potential for, future development of our business;
- the actions of and developments affecting our competitors;
- the actions of and developments affecting our major customers and suppliers;

FORWARD-LOOKING STATEMENTS

- the length and severity of the recent COVID-19 outbreak and its impact on our business and industry; and
- certain statement in the sections headed “Risk Factors,” “Industry Overview,” “Regulatory Overview,” “Business,” “Financial Information,” “Relationship with Our Controlling Shareholders” and “Future Plans and Use of Proceeds” with respect to trends in interest rates, foreign exchange rates, prices, volumes, operations, margins, risk management and overall market trends.

Any forward-looking statement made by us in this prospectus speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

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Potential investors should read and consider carefully all the information set out in this prospectus, and, in particular, should evaluate the following risks and uncertainties before deciding to make any investment in our Shares. You should pay particular attention to the fact that we conduct our operations in China, the legal and regulatory environment of which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties listed below could have a material adverse effect on our business, results of operations, financial condition or on the trading price of our Shares, and could cause you to lose all or part of your investment.

Our business and operations involve certain risks and uncertainties, many of which are beyond our control. These risks can be broadly categorized into (1) risks relating to our business and industry, (2) risks relating to conducting business in China, and (3) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

If we fail to achieve and further promote brand recognition and acceptance of our Angelalign clear aligner system among dental professionals, or if we fail to grow or retain the number of dental professionals who utilize our solutions, our business, results of operations and financial condition may be materially and adversely affected.

We directly deliver our solutions to dental professionals. Our business has depended on, and will continue to significantly depend on, dental professionals and their demand for our solutions. If dental professionals no longer view our solutions as useful and attractive as compared to competing offerings or are not receptive to our solutions, our business, results of operations and financial condition may be materially and adversely affected.

A number of factors could negatively affect the growth, retention and engagement of dental professionals and their acceptance of our solutions, including that:

- we may be unable to identify or meet evolving demands of dental professionals;
- we may not be able to timely develop and provide new products or services in accordance with dental professionals' requests;
- we may fail to update existing technologies or develop new technologies in time to stay ahead or abreast of market advances;
- our competitors may develop or launch products and services similar to or better than ours, which may result in our loss of existing dental professionals or decline in the number of new dental professionals; and
- patients may not accept our solutions or may find the solutions of our competitors or other orthodontic treatment alternatives more desirable, which in turn affects our relationship with dental professionals.

In addition, we may not be able to uphold and further enhance our “Angelalign” brand and reputation, as well as the market recognition of our Angelalign clear aligner system among dental professionals. We believe that maintaining and enhancing our “Angelalign” brand in the orthodontic industry is critical to the success of our business. Our operational and financial performance is highly dependent on the strength of our brand, which is critical to increasing our customer and user base and forging long-term relationships with them. However, we cannot assure you that we will be able to maintain

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and enhance our brand, and remain our reputation and market leading position in China. Nor can we assure you that we will be able to attain a similar degree of brand recognition, reputation, and market position in the global markets as that of the Chinese market. In addition, if the brands of our competitors or other orthodontic solutions become more well-recognized or preferred among users, including dental professionals and patients, than ours, our customer and user base may shrink, and our business, results of operations and financial condition may be materially and adversely affected.

Demand for clear aligner treatment may not increase as rapidly as we anticipate due to a variety of factors, including weakness in general economic conditions, which would materially and adversely affect our business, results of operations and financial condition.

China's clear aligner market has developed rapidly according to the CIC Report. The future demand of clear aligner treatment may, however, be difficult to anticipate since it depends on a number of variables, most of which are beyond our control. Consumer spending habits are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, consumer confidence and consumer perception of economic conditions. A general slowdown in economy of China or other overseas markets or an uncertain economic outlook would adversely affect consumer spending habits which may, among other things, result in a decrease in the number of overall orthodontic treatment cases or a reduction in consumer spending on elective or higher value orthodontic solutions, each of which would have a material adverse effect on our results of operations.

The prospect of the clear aligner market is also uncertain and may develop slower than we expect. The market prospect depends on a number of factors, including, among others, the level of market recognition, competing technologies and the industry's own development. Moreover, if any manufacturers in the industry get involved in product liability disputes, then the prospect of the whole industry would be negatively affected, resulting in a decrease in our results of operations. If the demand for clear aligners fails to increase as rapidly as we anticipate, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We face competition in the clear aligner industry with domestic and international competitors. Our failure to compete successfully could materially and adversely affect our prospects, business, financial condition and results of operations.

We operate in a highly concentrated and competitive market. The demand of our solutions can be impacted by factors including effectiveness, safety, ease of use, reliability, aesthetics, and price compared to competing products. For example, in the near future, our competitors may develop some competing products, which can constitute perfect substitutes for clear aligners with lower cost and/or better effect. We face competition from both domestic and international competitors. In general, we face pricing competition from domestic competitors, and competition on product quality and brand recognition from international competitors.

We may be unable to offer products more desirable than those offered by our competitors, and we may not be able to 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 and services to their customers, and we 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.

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In addition, although our historical business growth, revenue and profitability have largely depended on our ability to penetrate the domestic market, we expect to establish our presence and increase our sales in the global market in the future. As a result, we may face intense and uncertain competition and may not localize and compete successfully or effectively in the overseas markets, which may materially and adversely affect our prospects, business, results of operations and financial condition.

We cannot assure you that our endeavors in developing new products, enhancing scientific and medical capabilities, increasing market recognition or expanding manufacturing capacity will enable us to improve our relative competitive position in the industry. If we fail to compete effectively with existing products or respond effectively to any products developed by new or existing competitors, our business could be harmed. Intensified competition may in the future result in increased pricing pressure, reduced gross margins, increased sales and marketing expenses, reduced profitability and loss of market share, any of which could have a material adverse effect on our prospects, business, financial condition and results of operations.

Our historical business growth, revenue and profitability may not be indicative of future performance, and our success depends in large part on our ability to execute our business strategy.

We experienced significant growth during the Track Record Period. Our revenue increased from RMB488.5 million in 2018 to RMB645.9 million in 2019, and further to RMB816.5 million in 2020. Our net profit increased from RMB58.2 million in 2018 to RMB67.7 million in 2019, and further to RMB150.9 million in 2020. Going forward, we may experience slower than expected growth rate, business stagnation, or even revenue decline. If we fail to increase our revenue at the rate we anticipate or if the increases in our costs and expenses outpace the increase in our revenue, we may fail to improve or achieve profitability. Accordingly, you should not rely on the results of any prior periods as indicative of our future growth or financial results.

Our ability to achieve profitability and positive cash flow will depend in large part on our ability to successfully execute our business strategies, which in turn depends on a number of factors, including our ability to:

- innovate and develop new technologies, services and products;
- develop functionality and features that address market demand and preferences;
- enhance our production capacity and efficiency;
- maintain adequate control of our costs and expenses;
- increase market acceptance of our services and products; and
- improve our brand recognition and reputation among dental professionals and their prospective patients.

We may also encounter unforeseen costs and expenses, difficulties, complications, delays and other unknown events. In addition, our ability to execute our business strategy is subject to various factors beyond our control, such as changes in the macroeconomic and regulatory environment and competitive dynamics. We cannot assure you that we will be able to respond to these changes in a timely and effective matter or at all, failure of which will adversely affect our business, results of operations and financial condition.

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If we fail to implement our expansion plan as planned, our business and prospects could be materially and adversely affected.

We are in the process of constructing our Chuangmei Center which comprises new manufacturing facilities and a research and development center with a gross floor area of approximately 126,000 square meters in Wuxi city. The new manufacturing facilities in our Chuangmei Center, once fully commissioned, are expected to have an annual designed production capacity of approximately 100 million units of clear aligners by 2026. We expect to incur costs primarily relating to construction and renovation of Chuangmei Center, and purchase of automated production machinery, research and development equipment and other equipment. In connection with our expansion plan, we plan to expand our sales team and R&D team. See “Business — Our Intelligent Manufacturing — Expansion Plan” and “Future Plans and Use of Proceeds” for details.

However, we cannot assure you that our expansion plan will be successfully implemented without delay or at all. Our ability to successfully implement our expansion plan is subject to a number of risks, including our ability to obtain the requisite permits, licenses and approvals for the construction and operation of the new manufacturing facilities, the risk of construction delays, and our ability to timely recruit sufficient qualified staff for our new facilities and our expanded sales team and R&D team. Any failure or delay in implementing any part of our expansion plan may result in insufficient production capacity to support our growth and market expansion, which in turn could materially and adversely affect our business, financial condition and results of operations. Moreover, our expansion plan requires significant capital investment, which could affect our liquidity if we are unable to generate sufficient cash flow from operations or from financing activities. In addition, the actual costs may exceed our original estimates, which could materially and adversely affect the realization of expected return on our investment. In enhancing our sales and R&D capabilities, we rely on the recruitment of sufficient qualified staff at an appropriate level of compensation, failure of which may delay our expansion plan or further increase our staff costs. Moreover, expanding our production capacity generally results in higher depreciation expenses in future periods. As a result, if we fail to fully utilize the additional production capacity due to any material and adverse changes to the market environment, technologies, relevant policies during the implementation of projects or estimation deviations, or otherwise fail to generate sufficient profit from the expanded production capacity to offset the increased depreciation expenses, our profitability would suffer from the expansion, and our business, financial condition and results of operations could be materially and adversely affected.

Our revenues depend significantly on the sales of our clear aligner treatment solutions and any decline in sales volume or average selling price of such would adversely affect our revenues, gross profit margin and net profit.

We generated substantially all of our revenues from the provision of our clear aligner treatment solutions during the Track Record Period. Revenues generated from the provision of clear aligner treatment solutions were RMB464.9 million, RMB628.1 million and RMB799.0 million in 2018, 2019 and 2020, respectively, representing 95.2%, 97.2% and 97.9% of our total revenues for the same periods, respectively. We expect that revenue contribution of our clear aligner treatment solutions will continue to remain significant for the foreseeable future. As a result, continued and widespread acceptance of our clear aligner treatment solutions by dental professionals and prospective patients is critical to our future success. If dental professionals experience a reduction in demand for orthodontic services, if dental professionals and/or their patients prove unwilling to adopt our clear aligner treatment solutions as rapidly or in the volumes we anticipate and at the prices offered, if dental professionals choose to use alternative solutions or competitive products rather than ours, or if the average selling price of our products and services decline for any reason, such as a shift in product mix towards lower-priced products, promotions, or competition, our operating results and financial prospects would be materially and adversely affected.

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Our robust technologies underpinned by strong research and development capacities are among our core competences. Any failure to retain research and development talent or otherwise refine and improve our research and development capabilities would materially and adversely affect our business, results of operations and financial condition.

Being one of the two largest clear aligner treatment solution providers in China, we expect to lead the industry standards. We must stay abreast of the constantly evolving industry trends and technical standards, and continue to enhance and improve the functionality of our technology platforms. Our success in the future is dependent on our ability to respond to technological advances in the clear aligner industry in a timely and cost-effective manner. We intend to continue to invest significant technical, financial, managerial, talent and other resources to enhance our technical capabilities and step up our research and development efforts. However, we cannot assure you that we will be successful in developing, enhancing or adapting to new technologies in a timely and effective manner, or at all.

Our research and development staff with high credentials in the industry are one of our core competencies, and we rely heavily on them for the success of our business operations. As of December 31, 2020, we had 123 research and development staff who are primarily responsible for maintaining and improving our existing products and technologies, as well as innovating new products based on industry trends and demands. We have adopted non-compete agreements and share incentive schemes to retain our research and development staff. However, as experienced specialists in the clear aligner industry are in high demand yet limited in number, our competitors may through various means solicit the core members of our research and development department to work for them, and we may experience a high turnover of our research and development staff. Finding equivalent and suitable replacements for our research and development staff can be hard and may take an exceptionally long time. During this process, our research and development capacity could be materially and adversely impaired, which would result in a serious loss to our business.

The maintenance and improvement of the competitive edge of our current technology platforms are also subject to several other factors, many of which are beyond our control, such as emergence of new industry standards and practices, amendment of laws and regulations, as well as introduction of new orthodontics solutions embodying new technologies. As a result, we cannot assure you that we will remain successful as our competitors may create or adopt technologies similar to ours and develop these technologies to achieve capabilities that are superior to ours. We may also fail to achieve or maintain the competitive edge of our technology platforms in the overseas markets and/or may incur additional costs and expenses to step up our research and development efforts in support of our overseas expansion. If we are unable to adapt and retain our technical competitive edge in a cost-effective and timely manner, our results of operations and overall business prospects may be materially and adversely affected.

Any failure or underperformance of our treatment planning services would hamper the performance of our clear aligners and materially and adversely affect our business, results of operations and financial condition.

Treatment planning is a key step leading to our manufacturing process. Our ability to attract dental professionals and achieve wide market acceptance of our solutions significantly depends on our ability to help formulate customized and highly-effective clear aligner treatment plans, which in turn depends on our ability to maintain an experienced and professional team of medical designers and well-functioning intelligent planning and optimization systems.

We have made substantial investments to recruit, train and retain our medical designers. We cannot assure you that we will be able to maintain a team of medical designers of high quality, since experienced and professional medical designers specialized in orthodontics in the clear aligner industry are in high demand. We may also encounter difficulties in finding equivalent and suitable replacements for our

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medical designers and maintaining a sufficient number of qualified medical designers in line with our business expansion. In addition, some of our medical designers may conduct errors or get involved in malpractice during treatment planning process unintentionally or negligently, which could impair the effectiveness of our clear aligners and may even subject us to product liability claims.

We have also invested heavily in the development, maintenance, optimization and upgrade of our intelligent planning and optimization systems. We cannot assure you that the technologies and mechanisms embedded in our system will be as effective as expected and continue to generate accurate modeling of our clear aligners. Nor can we assure you that our systems will perform as smoothly or efficiently as we expect or attain satisfying operability and compatibility. Moreover, we cannot assure you that the functionality of our system will not be compromised due to technical errors, security breaches or hacking incidents. Any errors, defects or malfunctions with respect to our intelligent planning and optimization system could greatly reduce the effectiveness of our clear aligners, and our reputation and revenue would be adversely affected. In addition, as we may expand into overseas markets, we may need to further modify, test and enhance our intelligent planning and optimization systems to accommodate the needs and requirements of dental professionals. If we fail to help formulate customized and highly-effective clear aligner treatment plans, our prospects, business, financial condition and results of operations would be materially and adversely affected.

Our business and operations have been and may continue to be materially and adversely affected by the COVID-19 pandemic.

Since December 2019, a novel strain of coronavirus, later named COVID-19, has severely impacted China and many other countries. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Many businesses and social activities in China and other countries and regions have been severely disrupted, particularly in the first quarter of 2020, including us. Government efforts to contain the spread of COVID-19, including city lockdowns or “stay-at-home” orders, suspension of non-emergent dental care services and temporary closures of dental hospitals and clinics, restrictions on travel and other emergency quarantines, have caused significant and unprecedented disruptions to the global economy and normal business operations across sectors and countries. As a result, China’s clear aligner market had been negatively impacted, which in turn materially and adversely affected our business, results of operations and financial condition. For example, we experienced a temporary decrease in the case shipments to approximately 10,900 in the three months ended March 31, 2020, as compared to approximately 24,100 in the three months ended March 31, 2019. The utilization rate of our production facilities also decreased from 2019 to 2020 due to the impact of COVID-19 pandemic. For details of the impact of COVID-19 on our business, results of operations and financial condition, see “Financial Information — COVID-19 Outbreak and Effects on Our Business.”

Although we have experienced a strong rebound of our business volume since April 2020, as the Chinese government has gradually lifted restrictions and quarantine measures in China, we cannot assure you that our business volume and growth rate will fully recover in the near future due to the uncertainties associated with the development of COVID-19. There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and the recent regional resurgence of COVID-19 cases in certain areas in China. Should there be an escalation of the spread, China may again take strict emergency measures to combat the spread of the virus, including travel restrictions, mandatory cessations of business operations including dental hospitals and clinics, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions, which may impact our business. As a result, the extent of the disruption to our business and the related impact on our financial results and outlook cannot be precisely estimated at this time. We are continuously evaluating its impact on our business, results of operations and financial condition, which we believe will depend on the duration of the pandemic and the government’s responsive measures. The potential downturn brought by

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and the duration of the COVID-19 outbreak may be difficult to assess or predict as the actual effects will depend on many factors beyond our control. If the outbreak persists or escalates, we may be subject to further negative impact on our business operations, results of operations and financial condition.

We have conducted, and will continue to conduct, measures to control the risk of virus spread in our business operations, including purchasing disinfection products, distributing masks for employees, and requiring all employees to declare their recent travel history. However, if any of our employees, especially our manufacturing staff, has contracted or is suspected of having contracted any contagious disease or condition, local governments may require them to be quarantined and the related offices, manufacturing facilities and other premises to be closed and disinfected. As a result, our business operations would be materially and adversely affected.

We are subject to various risks relating to third-party payments.

During the Track Record Period, certain of our customers (the “Relevant Customer(s)”) settled their payments with us through third-party payors (the “Third-party Payment Arrangement(s)”). In 2018, 2019 and the ten months ended October 31, 2020, the aggregate amount of third-party payments accounted for approximately 10.8%, 2.0% and 0.7% of the total payments we received from all customers, respectively. We have implemented various internal control measures to reduce the proportion of payments received from third-party payors and to mitigate the relevant risks. Since November 2020, we have ceased all Third-party Payment Arrangements. See “Business — Third-Party Payment Arrangements.”

We are subject to various risks relating to such Third-party Payment Arrangements during the Track Record Period, including possible claims from third-party payors for return of funds as they were not contractually indebted to us and possible claims from liquidators of third-party payors. In the event of any claims from third-party payors or their liquidators, or legal proceedings (whether civil or criminal) instituted or brought against us in respect of third-party payments, we will have to spend significant financial and managerial resources to defend against such claims and legal proceedings, and our financial condition and results of operations may as a result be adversely affected.

If we are unable to obtain and maintain intellectual property rights protection for our technologies and products, our business, reputation and competitive edge may be materially and adversely affected.

Our success relies largely on our proprietary technologies and products. Therefore, effective protection of our intellectual property, including patents and proprietary know-how, is critical to maintaining our competitive position. Unauthorized use of our intellectual property may adversely affect our business and reputation.

As of the Latest Practicable Date, we had 220 trademarks, 93 patents and 16 software copyrights in China. See “Statutory and General Information — B. Further Information about Our Business — 2. Our Material Intellectual Property Rights” in Appendix IV to this prospectus for details. We rely on a combination of contractual restrictions, confidentiality procedures and intellectual property registrations to establish and protect our intellectual property rights. Despite our efforts to protect our intellectual property rights, third parties may still attempt to acquire or otherwise misappropriate our intellectual property without authorization, including seeking court declarations that they do not infringe upon our intellectual property rights. Substantial costs and efforts are typically required to implement a mechanism monitoring and detecting unauthorized use of our intellectual property, and this mechanism may be inadequate to fully detect all intellectual property misappropriation. Furthermore, defending ourselves against intellectual property infringements through litigations can be costly, time-consuming and may involve intensive work. The practice of intellectual property rights enforcement actions by the governmental authorities in China is at its early stage of development and is subject to significant

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uncertainty, and we may fail to obtain favorable judgments from these authorities. Even if we manage to obtain such favorable judgments, there is no guarantee that our intellectual property rights will be enforced effectively to prevent any unauthorized use by others.

Moreover, for those proprietary rights not yet protected by intellectual property rights registered with the relevant competent governmental authorities in China and other jurisdictions, third parties may obtain and use these rights, which may harm our business and adversely affect the results of our operations. In addition, we may experience delays in obtaining intellectual property rights, or encounter challenges in filing applications for our intellectual properties for reasons beyond our control. Any failure to protect our intellectual property rights could result in such rights being manipulated by others to develop competing products, and may delay the development, launch and sales process of our products, which will materially and adversely affect our business, reputation and competitive edge.

We may not be able to maintain or renew all the permits, licenses, certificates and other regulatory filings required for the production and commercialization of our products.

We are subject to extensive government regulations for all material aspects of our operations in China and globally. The regulatory approval processes involving the clear aligners industry are generally lengthy and time-consuming and the results of such process may be unpredictable. Any failure by us to obtain the necessary permits, licenses and certificates, or to renew or otherwise maintain all the licenses, permits and certificates required for our business at any time could disrupt our productions and business operations and have a material adverse effect on our business, financial condition and operating results. Moreover, the interpretation or implementation of existing laws and regulations are subject to changes from time to time and the implementation of new laws and regulations is subject to uncertainties. We may be required to obtain additional or different licenses, permits or certificates for our productions and business operations. We cannot assure you that we will be successful in obtaining such licenses, permits or certificates in a timely manner or at all.

For example, companies manufacturing medical devices in China are required to obtain permits and licenses issued by various government authorities, including but not limited to the medical device production permit (醫療器械生產許可證) and the record-filing for operation of Class II medical device (第二類醫療器械經營許可備案) if such manufacturing companies store and sell medical devices in places other than their domiciles and the places of production of medical devices. Such permits, licenses and certificates are subject to periodic reviews and renewals by the relevant government authorities, the standard of which may change from time to time. There can be no assurance that the relevant authorities will approve our applications or renewals in the future.

In addition, we are also required to obtain and renew registrations with the Jiangsu Medical Products Administration (江蘇省藥品監督管理局) for our production and sale of Class II medical devices. To obtain and/or renew such registrations, we must conduct, at our own expense, adequate and well-controlled clinical trials to demonstrate the efficacy and safety of our products if the relevant conditions demanding clinical trials are triggered. Clinical testing can take years and has an uncertain outcome. Our clinical trials may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical and/or non-clinical testing. Our failure to adequately demonstrate the efficacy and safety of any of our products would prevent receipt of regulatory approval and, ultimately, the timely commercialization of such product. Our failure to manufacture and market Class II medical devices with adequate registrations may subject us to fines and further penalties such as confiscating illegal gains and manufacturing materials, or denying our application for medical device registration in the future. We cannot guarantee that the National Medical Products Administration (the “NMPA”) and/or its local counterpart will grant or renew our registration certificates, which would prevent us from producing and marketing our clear aligners and materially and adversely affect our business, financial conditions and results of operations.

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In addition, if we expand into overseas markets, we are required to comply with regulations of other foreign governmental agencies. For example, FDA regulations are wide ranging and govern, among other things, product design, development, manufacture and testing, product labeling, product storage, premarket clearance or approval, advertising and promotion, as well as product sales and distribution. Non-compliance with applicable regulatory requirements can result in enforcement actions which may include recalling products, ceasing product marketing, and paying significant fines and penalties, which could deter market expansion, limit product sales, delay product shipment and adversely affect our profitability.

We have experienced significant increase in the size and capabilities of our organization, and we may experience difficulties in managing our growth.

We experienced increased demand for our products and services as well as rapid growth in the industry over the Track Record Period, which has posed a serious challenge on our management and administrative abilities. We have recruited and may need to continue to recruit additional managerial, operational, manufacturing, sales and marketing, financial, research and development and other personnel, as well as enhance the productivity and capacities of our employees. We also have to manage an increasingly larger and more complex array of internal systems and processes to scale with all aspects of our rapidly growing business. Our growth has imposed, and may continue to impose, significant added responsibilities on our management and administrative personnel, including:

- identifying, recruiting, integrating, maintaining and motivating additional employees;
- managing our internal research and development efforts effectively; and
- improving our operational, financial and management controls, reporting systems and procedures.

Our future results of operations will depend in part on our ability to effectively manage our growth. In addition, in line with our plan to pursue overseas expansion, we may face difficulties in managing our international operations in the future and become subject to foreign operational, organizational and other risks. We cannot assure you that our administrative and management abilities to recruit, train and manage new employees will meet with the requirements of our business growth and our management may have to divert significant amount of attention away from day-to-day activities to managing these growth activities.

We will also need to continue to improve our corporate governance in accordance with our growth, such as our internal control, risk management, financial reporting and employee evaluation systems. We may not be able to successfully implement and maintain these or other improvements to our systems and processes in an efficient or timely manner, and we may discover deficiencies in their capabilities or effectiveness. Furthermore, our systems and processes may not be a perfect guardian against all administrative and management problems. As a result, our resources would not be utilized effectively and efficiently, and potential chaos may occur to adversely impact our ordinary operations.

Failure to effectively expand our sales and marketing capabilities could harm our ability to increase the sales of our products and achieve broader market acceptance.

We directly sell a substantial portion of our products to hospitals and dental clinics. In 2018, 2019 and 2020, we generated 89.0%, 70.1% and 66.4% of our total revenue generated from the provision of clear aligner treatment solutions by direct sales to public hospitals and private clinics. As such, our ability to increase the sales of our products and achieve broader market acceptance will depend to a significant extent on our ability to expand and enhance our in-house sales and marketing operations. In addition, we rely on our sales and marketing team to communicate with our past, current and potential customers, and

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to understand their needs and preferences in order to improve our existing products and introduce new products or enhancements to better address their demands. If we are unable to hire, develop and retain qualified sales and marketing personnel, or if our new sales and marketing personnel are unable to achieve desired performance levels in a reasonable period of time, we may not be able to increase the sales of our products and achieve broader market acceptance, and our business operations and financial results may be adversely affected.

We have limited control over the operations and actions of our distributors, and our efforts to manage them may not be effective. Our distributors may take actions that could have a material adverse effect on our business, prospects and reputation.

During the Track Record Period, we engaged distributors to increase sales and market share by leveraging their channel resources and, as a result, reduce our marketing cost. In 2018, 2019 and 2020, we generated 11.0%, 29.9% and 33.6% of our total revenue generated from the provision of clear aligner treatment solutions by sales to distributors, respectively. We enter into distribution agreements with our distributors, most of which are independent third parties, and mainly rely on these distribution agreements to govern our relationships with them, including their compliance with laws, rules, regulations and our policies. Therefore, our ability to manage the activities of our distributors or sub-distributors, if any, may be limited. Our distributors and sub-distributors, if any, may take one or more of the following actions, any of which could have a material adverse effect on our business, prospects and reputation:

- breaching our agreements with them, including by selling our services and products to hospitals and clinics outside their designated territories;
- failing to adequately promote our services and products;
- failing to maintain the requisite licenses or otherwise failing to comply with applicable regulatory requirements when selling our services and products; or
- violating laws and regulations of China or other countries where we sell our services and products.

Any violation or alleged violation by distributors of our distribution agreements or any applicable laws and regulations could result in the erosion of our reputation, a decrease in the market value of our brand and an unfavorable public perception about the quality of our services and products, resulting in a material adverse effect on our business, financial condition, results of operations and prospects.

We have engaged a limited number of suppliers for raw materials and manufacturing equipment of our clear aligners, which may render us vulnerable to supply shortages, quality issues and price fluctuations and could materially and adversely affect our business, results of operations, financial condition and prospects.

Our suppliers primarily include suppliers of clear aligner raw materials, vendors of our manufacturing equipment and consumables, logistics service providers, and marketing service and event planning service providers. Purchase from our top five suppliers accounted for 70.9%, 79.0% and 74.2% of our total purchases of such products and services in 2018, 2019 and 2020, respectively, and purchase from our largest supplier accounted for 32.6%, 35.4% and 35.4% of our total purchases in the same periods, respectively. As we have engaged a limited number of suppliers for key raw materials and production equipment, any interruptions or changes in such supply, or our inability to obtain substitute suppliers meeting our quality standards at acceptable prices in a timely manner, may impair our ability to meet the demands of our customers, which could have a material adverse effect on our business, results of operations, financial condition and prospects. Moreover, we expect our demand for such raw materials

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and manufacturing equipment to increase as we continuously expand our business scale, and we cannot guarantee that our current suppliers have the capacity to meet our increasing demand going forward. On the other hand, we enter into minimum purchase commitments with certain suppliers, which could impact our ability to adjust our inventories of raw materials to reflect temporarily declining market demands. If demand for our clear aligners is less than we expect for reasons beyond our control, such as a slowdown in the global or Chinese economy, we may experience additional excess and obsolete inventories and our profitability may suffer.

Although we have entered strategic framework cooperation agreements with certain major suppliers, we cannot assure you that our suppliers will continue their business relationship with us on commercially reasonable terms or at all. Nor can we assure you that we will be able to secure a stable supply of qualified raw materials at all times going forward. In the event that our major suppliers terminate their business relationships with us, or fail to provide us with adequate supply to meet our needs, we may not be able to find suitable alternative suppliers within a short period of time. Therefore, if we cannot retain business relationships with our existing suppliers, or if these suppliers increase prices, delay in delivery, provide unqualified equipment or raw materials, or encounter financial, operating or other difficulties, we may experience manufacturing disruptions, which could materially and adversely affect our business, financial condition and results of operations.

Moreover, prices of certain principal raw materials may increase significantly, in which case we may not be able to increase the prices of our clear aligners to offset the impacts. Therefore, if our suppliers increase prices of or reduce discounts on the raw materials and we fail to secure replacement for such materials at a better price, we may experience a decline of our profits.

In addition, some of our major suppliers are located outside China. As a result, delayed custom clearance procedures, trade tensions or regulatory embargoes imposed by foreign countries or China could result in delays or shortages of our raw materials. If we are unable to identify alternative materials or suppliers in a timely manner to obtain raw materials in the quantities or at the quality or price that we require, our business could be harmed.

If our employees, distributors or sub-distributors, customers, suppliers or other business partners engage in bribery or corrupt practices or other illegal or unethical conduct, we may be subject to liability and our reputation and business could be harmed. Additionally, any challenges to or investigations into our practices under these laws could generate negative publicity and could be costly to respond to, and thus could harm our business.

We could be liable for actions taken by our employees, distributors or sub-distributors, customers, suppliers or other business partners that violate anti-bribery, anti-corruption and other related laws and regulations in China or other countries, over which we may not have full control. The government authorities may seize the products involved in any illegal or improper conduct engaged in by our employees and other third parties. We may be subject to claims, fines or suspension of our operations. Our brand and reputation, our sales activities or the price of our Shares could be adversely affected if our Company is associated with any negative publicity as a result of illegal or improper actions, or allegations of illegal or improper actions, taken by our employees and other third parties.

It is also possible that the Chinese government or other government authorities in countries where we sell our products could adopt new or different regulations affecting the way in which medical devices are sold to address bribery, corruption or other concerns. Although we are not aware of any such new or different regulations in this regard being adopted in China or any other markets where we have operations, any such new or different regulations could possibly increase the costs incurred by us, our distributors and their sub-distributors in selling our products or impose restrictions on sales and marketing activities, which could in turn increase our compliance costs. Any of the circumstances could have a material adverse impact on our business, financial condition and results of operations.

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We are subject to credit risk arising from some of our customers, and our failure to collect on trade receivables from our customers may have a material adverse effect on our business operations and financial condition.

We directly sell a substantial portion of our products to hospitals and dental clinics. In line with market practice, we may grant certain hospital and clinic customers a credit period ranging from 30 to 60 days. We also engage distributors to expand our distribution network, and we may grant certain distributors a credit period of 30 to 60 days. As of December 31, 2018, 2019 and 2020, we had trade receivables of RMB73.7 million, RMB65.5 million and RMB70.4 million, respectively. As a result, we may be exposed to credit risk. We recorded allowance for impairment of trade receivables of RMB5.7 million, RMB8.2 million and RMB18.3 million as of December 31, 2018, 2019 and 2020, respectively. Our sales and marketing employees monitor and manage our distributors to make sure they comply with our distribution agreements, including payment terms, and take efforts to collect the amounts due from our direct sale customers. We cannot assure you that we can properly assess and respond in a timely manner to changes in their credit profile. Our direct sale customers and distributors may experience financial difficulties, which could negatively impact our ability to collect the amount due to us. Such adverse financial conditions may negatively affect the length of time that it will take us to collect associated trade receivables or impact the likelihood of ultimate collection, and the effect on us could be material and have an adverse effect on our business, financial condition and results of operations.

Litigation or third-party claims of intellectual property infringement or challenges to the validity of our patents or other intellectual properties could be expensive, time-consuming and unsuccessful, and may prevent or delay the development, regulatory approval or commercialization of our products and product candidates.

We have been, and may continue to be, involved in litigations or administrative proceedings regarding infringements and invalidation of intellectual property rights, some of which may be raised by other market players as a way of malicious competition. In addition, we may be subject to legal proceedings because of intellectual property infringement committed by our collaborators, or otherwise in connection with our collaborative research and development results. For example, intellectual property rights we obtained through our collaboration with individual dental professionals may be challenged by their employers under a service invention claim.

Defending against intellectual property claims is time-consuming and costly and can impose a significant burden on our ability to develop, launch and sell our products and services. Such claims, even without merits, may still harm our reputation in the industry. If we are the target of claims by third parties asserting that our potential products or intellectual property infringe upon the rights of others, we may be forced to incur substantial expenses or divert substantial managerial resources from our business. An adverse determination in an intellectual property claim to which we may become a party could subject us to significant liabilities, resulting in payments of substantial damages and/or an injunction on us that prevents us from developing relevant potential product candidates or technologies. Further, if a patent infringement claim is brought against us or our collaborators, we or they could be forced to stop or delay research, development, manufacturing or sales of the product or product candidate that is the subject of the suit.

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As of the Latest Practicable Date, we were not involved in any intellectual property infringement actions that would have a material and adverse effect on our business, results of operations and financial condition. However, we were involved in several patent invalidation requests regarding certain patents of our products, which resulted in partial invalidation of our two patents and full invalidation of our three patents, among which four patents were irrelevant to our core products and services. As for the remaining one patent in relation to one type of attachment to our clear aligners, we modified the patent claims in response to the relevant patent invalidation request to the extent that (1) the independent claims of such patent would remain the same, and (2) certain dependent claims would be modified to substitute for the original dependent claims. Independent claims are the most important claims, as one cannot infringe a dependent claim without infringing the independent claim. The relevant governmental authority, while partially invalidating the original claims of the concerned patent, sustained all of our modified claims. The claimant making the relevant patent invalidation request initiated an administrative proceeding against the governmental authority's decision, with the outcome pending as of the Latest Practicable Date. If the claimant were to prevail on the administrative proceeding, the relevant patent invalidation request may be re-examined, which may result in invalidity and/or unenforceability of the relevant patent; as a result, while we are able to continue to use such attachment, we may no longer enjoy an exclusive right over it. We also cannot assure you that we will not experience any IP-related disputes in the future which may adversely affect our business and prospects.

Our existing measures to protect our intellectual property rights, such as confidentiality agreements with employees and other third parties, may not adequately prevent disclosure of trade secrets and other proprietary information.

We consider proprietary information such as patents, copyrights, trade secrets and other operating data to be important to our business and competitive position. However, to maintain the confidentiality of such information can be difficult. To protect such information against unauthorized disclosure or misappropriation by competitors and other parties, we have entered into confidentiality agreements with and/or included confidentiality clauses in our agreements with substantially all of our employees, executives, directors, research and development partners, suppliers and distributors, and we also generally specify in relevant agreements the assignment of ownership of intellectual property rights where applicable. In addition, we have implemented measures to manage and control the data, codes, documents and other confidential information in the ordinary course of our business. Despite such agreements and measures, we cannot assure you that our proprietary information will not be exposed to the risk of leakage, since some of our current or former employees, executives, directors, research and development partners, suppliers and distributors may unintentionally, negligently, or knowingly disclose our confidential information to competitors, and our agreements with them may not provide an adequate remedy in the event of such unauthorized disclosure or misappropriation. Furthermore, our core research and development staff possess the essential information of our technologies and products. If they terminate their employment contracts with us and work for our competitors instead, our core technologies may be exposed to the risk of leakage. Enforcing a claim that a third party illegally obtains and misappropriates confidential information can be expensive, time consuming and unpredictable. If any of our trade secrets were lawfully obtained or independently developed by a competitor, we would have no right to prevent them from using that technology or information to compete with us and our competitive position would be harmed.

Leakage and other security risks of confidential information may materially and adversely affect our reputation and business.

During the course of our business, we have access to an extensive volume of data of malocclusion cases to provide customized treatment plans and clear aligners. Therefore, it is critical that our facilities and infrastructure remain secure and are also perceived by the marketplace and our customers to be secure. Despite the implementation of security measures, we may nevertheless be vulnerable to security problems

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as a result of third-party actions, employee errors or malfeasances, stolen or fraudulently obtained log-in credentials or otherwise. Furthermore, our business requires the secure transmission of confidential information, and security breaches such as hacking or any other attempt to harm our systems could expose us to a risk of regulatory action, litigation, possible liability and loss, and our reputation and business would be adversely affected by, among other things, loss of customers and potential criminal and civil sanctions. Affected parties could initiate legal or regulatory actions against us, which could cause us to incur significant expense and liability or result in orders forcing us to modify our business practices and alleviate problems caused. Concerns over our privacy practices could adversely affect others' perception of us and dental professionals from adopting our services and products.

We are exposed to potential product liability claims and our insurance coverage may be inadequate to protect us from all the liabilities we may incur.

We may be exposed to product liability claims for the clear aligners we manufacture and market. In China, medical devices are classified by the NMPA as Class I, Class II or Class III based on the risk to the human body. All of our clear aligners are classified as Class II, which represents medium level of risks to the human body and requires relatively high level of supervision to ensure safety and effectiveness.

We may be subject to product liability claims if our clear aligners have latent quality issues. We may be held liable if any clear aligners we develop causes injury or is otherwise found unsuitable. As some of our product lines were developed relatively recently, latent defects or risks may not have been identified at the current stage. We cannot assure you that our clear aligners have no latent quality issues or disadvantages that are not discernible or foreseeable as of the Latest Practicable Date. Our products might prove to be less effective than they currently appear to be or even prove to be defective to a certain extent at a later stage. In addition, even if our products do not have latent defects, claims may arise from different stages of treatment which are beyond our control. Dental professionals using our clear aligners may adopt inappropriate procedures unintentionally or negligently, and their patients may not follow the dental professionals' advice during treatment. In addition, patients may consider that the expected treatment results have not been achieved. In such cases, the patients may initiate legal proceedings against us, and the dental professionals may claim, with or without merit, that our clear aligners have latent defects. We cannot rule out the possibility of incurring liabilities or suffering losses due to similar product liability claims. These proceedings could be time-consuming and expensive to defend and may have a material adverse impact on our business, reputation, financial condition and results of operations.

We have not purchased product liability insurance. Historically, we have not experienced any material product liability claims brought against us. However, if a product liability claim or a series of claims is brought against us and we are ultimately held liable for such claim or series of claims, our reputation, business, results of operations or financial condition will be materially and adversely affected.

In addition, our lack of insurance in aspects other than product liability could expose us to additional costs and business disruption. In line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain keyman life insurance or insurance policies covering damages to our technical infrastructure. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured occurrence of business disruption, natural disasters, or significant damages to our uninsured equipment or technology infrastructure could result in substantial costs and diversion of resources for us and adversely affect our financial condition and results of operations.

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Our results of operations are subject to seasonal fluctuations.

We have experienced, and expect to continue to experience, seasonality in our business due to the consumption preferences of patients with a need for clear aligner treatment. We typically experienced the highest sales during the summer vacation. As clear aligner treatment involves consultation with dental professionals and regular check-ups along the treatment process, it can be easier for potential patients, especially children and teenage, to make time for starting this new routine during the summer vacation when schedules tend to be a bit more relaxed. We had our second highest sales during winter vacations before and after the Chinese New Year for similar reasons. Other seasonal trends that affect us or China's clear aligner market may develop, and current seasonal trends may become more extreme, all of which would contribute to fluctuations in our results of operations. As a result, historical patterns of our results of operations may not be indicative of our future performance, and period-to-period comparisons of our results of operations may not be meaningful. Our results of operations in future quarters or years may fluctuate and deviate from the expectations of securities analysts and investors, and any occurrence that disrupts our business during any particular quarter could have a disproportionately material adverse effect on our liquidity and results of operations.

If we fail to perform our contract obligations, our business, results of operations and financial condition may be materially and adversely affected.

As of December 31, 2018, 2019 and 2020, we recorded contract liabilities of RMB155.0 million, RMB304.3 million and RMB418.6 million, respectively, which was generally in line with our business growth. Our contract liabilities primarily arose from the advance payments made by customers before the delivery of underlying services and products. See "Financial Information — Discussion of Major Balance Sheet Items — Contract Liabilities."

Our contract liabilities are generally not refundable. However, if we fail to fulfill our obligations with respect to our contract liabilities, we may not be able to convert such contract liabilities into revenue as expected, and our customers may even request to cancel their agreements with us or ask for a partial or full refund, which may lead to customer dissatisfaction or even customers' disputes with us and, accordingly, our potential refund obligation. Furthermore, if we fail to fulfill our obligations with respect to our contract liabilities, customers may request not to prepay us in the future. Any of the circumstances could materially and adversely affect our business, results of operations, cash flow and liquidity condition.

We have incurred and may continue to incur substantial share-based payments.

We have adopted the Pre-IPO Share Award Schemes that permit the grant of share options as equity-based awards to our Directors, officers and employees. We believe the granting of share-based compensation is important to our ability to attract, retain and motivate our management team and qualified employees. We are required to recognize share-based payments based on the fair value of such granted share options, taking into consideration of the impact of market performance conditions and non-vesting conditions. We recorded share-based payments of RMB23.4 million, RMB61.7 million and RMB66.3 million in 2018, 2019 and 2020, respectively. In addition, we have conditionally approved and adopted the Post-IPO Share Award Schemes, which will become effective upon the Listing. As a result, any additional grant of share-based awards, including options under the Post-IPO Share Option Scheme and share awards under the Post-IPO Share Award Scheme by us, will further increase our share-based compensation expenses and dilute existing shareholders' shareholding.

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We are exposed to risks associated with the fair value change in financial assets at fair value through profit or loss and valuation uncertainty regarding the use of unobservable inputs.

Our financial assets at fair value through profit or loss primarily represented our investments in wealth management products issued by major and reputable commercial banks. We purchased financial assets at fair value through profit or loss of RMB350.0 million, RMB588.0 million and RMB1,310.0 million in 2018, 2019 and 2020, respectively. We typically redeemed our investments in wealth management products upon their maturities before the year end and thus did not record any asset for such as of December 31, 2018, 2019 and 2020, respectively. See “Financial Information — Discussion of Major Balance Sheet Items — Financial Assets at Fair Value through Profit or Loss.”

Going forward, if we record such financial asset at the end of a reporting period, we will need to measure our financial assets at fair value through profit or loss using unobservable inputs, which are expected rate of return rate and discount rate. See “Financial Information — Discussion of Major Balance Sheet Items — Financial Assets at Fair Value through Profit or Loss — Fair value measurements” and Note 3.3 to the Accountant’s Report in Appendix I to this prospectus. Changes in any of the unobservable inputs could result in changes of the fair value of our equity investment. For example, the banks that issued wealth management products may not perform their contractual obligations. Furthermore, the fair value of wealth management products is subject to the general economic and the overall market conditions, including the capital markets. Any volatility in the market conditions or fluctuations in interest rates may result in changes in any of the unobservable inputs, which could in turn materially and adversely impact our financial position.

Negative publicity about us, our services, operations and our management may adversely affect our reputation and business.

We may from time to time receive negative publicity about our Company, our business, our management or our services. Certain of such negative publicity may be the result of malicious harassment or unfair competition acts by third parties. Such negative coverage in the media of our Company may threaten the perception of our brand, and we cannot assure you that we will be able to defuse negative press coverage about our Company to the satisfaction of our investors, customers and business partners. We may even be subject to government or regulatory investigation as a result of such third-party conduct and may be required to spend significant time and incur substantial costs to defend ourselves against such third-party conduct, and we may not be able to conclusively refute each of the allegations within a reasonable period of time, or at all. If we are unable to defuse negative press coverage about our Company, our brand may suffer and our reputation may be materially and adversely affected, which in turn may cause us to lose market share, customers and business partners.

Any product recall would damage our brand name and could have a material adverse effect on our reputation, business, financial condition and results of operations.

Complex medical devices, such as our clear aligners, sometimes experience problems resulting from the performance of the products, and the way dental professionals apply such products and patients use such products, which in both cases require review and possible corrective action by the manufacturer. Component failures, manufacturing errors or design defects could result in danger or injuries to patients. Any serious failures or defects could cause us to withdraw or recall products, which could result in significant costs. Although historically we have not experienced any product recall, we cannot assure you that there would be no market withdrawals or product recalls of our clear aligners. The occurrence of such market withdrawals or product recalls would damage our brand name and would have a material adverse effect on our business, financial condition and results of operations.

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Our information technology systems are critical to our business. System integration and implementation issues and system security risks could disrupt our operations, which could have a material adverse impact on our business and operating results.

We rely on the efficient and uninterrupted operation of complex information technology systems, such as *iOrtho*, *A-Treat* and the manufacturing execution system, which we use to, among others, provide one-stop service to dental professionals, conduct our treatment planning services, and manufacture our clear aligners. All information technology systems are vulnerable to damage or interruption from a variety of sources. As our business has grown in size and complexity, the growth has placed, and will continue to place, significant demands on our information technology systems. To effectively manage this growth, our information systems and applications require an ongoing commitment of significant resources to maintain, protect and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards and changing customer preferences. We expect to continue to make significant investments to our technology infrastructure.

If the information technology systems we rely upon to run our businesses were to be found to be inaccurate or unreliable, if we fail to properly maintain our information technology systems and data integrity, or if we fail to develop new capabilities to meet our business needs in a timely manner, we could have operational disruptions, have customer disputes, lose our ability to produce timely and accurate reports, have regulatory or other legal problems, have increases in operating and administrative expenses, lose existing customers, have difficulty in attracting new customers or in implementing our growth strategies, or suffer other adverse consequences. In addition, experienced computer programmers and hackers may be able to penetrate our network security or our cloud-based software servers and misappropriate our confidential information or that of third parties, create system disruptions or cause shutdowns. Furthermore, sophisticated hardware and operating system software and applications that we either internally develop or procure from third parties which we depend upon may contain defects in design and manufacture, including “bugs” and other problems that can unexpectedly interfere with the operation of the system. The costs to eliminate or alleviate security problems, viruses and bugs could be significant, and the efforts to address these problems could result in interruptions that may have a material adverse impact on our business, financial condition and results of operations.

System upgrades and enhancements require significant expenditures and allocation of valuable employee resources. Delays in integration or disruptions to our business from implementation of these new or upgraded systems could have a material adverse impact on our financial condition and operating results.

Additionally, we continuously upgrade *iOrtho*, our technology and data platforms, and other operational systems. Every new version could contain errors or defects. The discovery of a defect or error or the incompatibility with the computer operating system and hardware configurations of customers in a new upgraded version or the failure of our primary information systems may result in the following consequences, among others: loss of revenue or delay in market acceptance, damage to our reputation or increased service costs, any of which could have a material adverse effect on our business, financial condition or results of operations.

We cannot assure you that our process of improving existing systems, developing new systems to support our expanding operations, integrating new systems, protecting confidential information, and improving service levels will not be delayed or that additional system issues will not arise in the future. Failure to adequately protect and maintain the integrity of our information systems and data may result in a material adverse effect on our business, financial position and results of operations.

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Delivery delays and poor handling by third-party logistics service providers may adversely affect our business, financial condition and results of operations.

We rely on our third-party logistics service providers for the transportation of our clear aligners to dental professionals. The logistics services provided by these providers may be suspended, in which case the supply of our clear aligners could be interrupted. Delayed or even lost deliveries may occur for various reasons beyond our control, including poor handling by our logistics service providers, labor disputes or strikes, acts of war or terrorism, health epidemics, earthquakes and other natural disasters. In addition, poor handling of our products could also result in product contamination or damage, which may in turn lead to product exchanges, product liability, increased costs and damage to our reputation. Any of the circumstances would materially and adversely affect our business, financial condition and results of operations.

Failure to make adequate social insurances and housing reserve fund contributions for our employees may subject us to fines and other legal or administrative sanctions.

During the Track Record Period, we did not make adequate social insurances and housing reserve fund contributions for certain employees with the relevant social insurance or housing reserve fund authorities. As advised by our PRC legal advisors, if any of the relevant social insurance authorities is of the view that we failed to make full social insurance contributions for our employees in accordance with the relevant laws and regulations, it may order us to pay outstanding amounts within a prescribed time limit, and we may be subject to a late charge at the daily rate of 0.05% on the outstanding amounts from the date on which such amounts are payable. If such payment is not made within the prescribed period, the competent authority may further impose a fine from one to three times the amount of any overdue payment. In addition, if any of the relevant housing reserve fund authorities is of the view that we failed to make full housing reserve fund contributions for our employees in accordance with the relevant laws and regulations, it may order us to make the outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to PRC courts for compulsory enforcement.

As of the Latest Practicable Date, no material administrative action, fine or penalty had been imposed by relevant regulatory authorities with respect to our social insurance or housing reserve fund contributions. As advised by our PRC legal advisors, based on the on-site consultations with, and confirmations obtained from, the competent authorities supervising our principal subsidiaries in Wuxi city, Jiangsu province and Shanghai, the likelihood that we would be required by relevant authorities to pay the late charges for the shortfall of social insurance contributions or subject to material administrative penalties due to failure to make full contributions is relatively low. However, we cannot assure you that the relevant government authorities will not require us to pay outstanding amounts and impose late fees or fines on us, in which case our business, results of operations and financial condition could be adversely affected. See “Business — Legal Proceedings and Compliance — Compliance — Non-compliance with social insurance and housing reserve fund contributions.”

We may be unable to attract and retain our Directors, senior management and qualified employees. Failing to do so would adversely affect our operations and growth.

Our success and future growth depend largely upon the continued services of our Directors, senior management and other qualified employees, such as experienced and skilled research and development, medical design, sales and marketing and production personnel. We cannot assure you that these key personnel will not voluntarily terminate employment with us. The loss of any of our key personnel could be detrimental to our operations. Experienced personnel in the clear aligner industry is in high demand, and competition for relevant talents is intense. Many of the companies with which we compete for experienced personnel have greater resources than we have. In particular, in connection with our

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expansion plan and the implementation of our business strategies, we intend to recruit additional R&D personnel, expand our in-house sales team and attract additional medical talent. See “Future Plans and Use of Proceeds” for details. We cannot assure you that we will be able to attract and maintain an adequate skilled labor force necessary for us to execute our expansion plans and growth strategies, nor can we guarantee that staff costs will not increase as a result of a shortage in the supply of skilled personnel. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth could be adversely affected.

If we fail to maintain effective internal controls, we may not be able to accurately report our financial results or prevent fraud, and our business, financial condition, results of operation and reputation could be materially and adversely affected.

We will become a public company upon completion of the Global Offering, and our internal controls will be essential to the integrity of our business and financial results. Our public reporting obligations are expected to place a strain on our management, operational and financial resources and systems in the foreseeable future. In preparation for the Global Offering, we have implemented various measures to further enhance our internal controls, and plan to take steps to further improve our internal controls. If we encounter difficulties in improving our internal controls and management information systems, we may incur additional costs and management time in meeting our improvement goals. We cannot assure you that the measures taken to improve our financial controls will be effective. If we fail to maintain effective internal controls in the future, our business, financial condition, results of operation and reputation may be materially and adversely affected.

Non-compliance with law on the part of any third parties with which we conduct business could disrupt our business and adversely affect our results of operations and financial condition.

Third parties with which we conduct business, such as dental professionals, distributors and suppliers, may be subject to regulatory penalties or punishments because of their regulatory compliance failures, which may, directly or indirectly, disrupt our business. Although we conduct review of legal formalities and certifications before entering into contractual relationships with third parties, and take measures to reduce the risks that we may be exposed to in case of any non-compliance by third parties, we cannot be certain whether such third parties have violated any regulatory requirements. For example, dental professionals and/or hospitals and clinics may cause certain injuries to patients as a result of malpractice. In such events, even though we have related disclaimers, we may be involved in legal proceedings regarding malpractice and may even be held liable and have to pay damages to compensate such patients. Even though we have the contractual right to seek indemnification from the relevant hospitals and clinics, there can be no assurance that we will be able to enforce such right. As a result, our business, results of operations and financial condition could be materially and adversely affected. Similarly, suppliers may also not be in full compliance with applicable laws and regulations, which may have an adverse effect on our business, results of operations and financial condition.

We cannot assure you that we will be able to identify irregularities or non-compliance in the business practices of third parties we conduct business with, or that such irregularities or non-compliance will be corrected in a prompt and proper manner. Any legal liabilities and regulatory actions affecting third parties involved in our business may affect our business activities and reputation, and may in turn affect our results of operations and financial condition.

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If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could have a material adverse effect on the success of our business.

We are subject to various environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of waste. Although we do not operate in a highly polluting industry, the manufacturing process of our clear aligners may generate noise, solid waste, exhaust gas and waste water. We have established an environmental protection department and adopted specific environmental protection policies to make our operations more energy efficient and environmentally friendly and to ensure effective compliance with applicable PRC environmental laws and regulations. However, we may not be able to eliminate the risks of contamination or personal injury from these waste. We maintain workers' statutory compensation insurance to cover costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials. This insurance may not provide adequate coverage against potential liabilities. We engage professional third-party qualified companies for hazardous waste reclamation and disposal. In the event of contamination or personal injury resulting from our exposure to or third parties' disposal of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage, use or disposal of biological or hazardous materials. We may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research and development and production activities. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

The discontinuation of any of the preferential tax treatments currently available to us could reduce our profitability.

The modified Enterprise Income Tax Law, effective on December 29, 2018, or the EIT Law, and its implementation rules generally impose a uniform income tax rate of 25% on all enterprises, but grant preferential treatment to "High and New Technology Enterprises" (高新技術企業) ("HNTEs") to enjoy a reduced enterprise tax rate of 15%. Our subsidiary, Wuxi EA, was recognized as a HNTE in 2017, and successfully renewed the HNTE status in 2020. As a result, Wuxi EA was subject to a preferential tax rate of 15% during the Track Record Period. In addition, our subsidiary, Shanghai EA, was recognized as an HNTE in 2019 and enjoyed a preferential tax rate of 15% in 2019 and 2020. As a result, we recorded an effective tax rate of 22.2%, 19.9% and 21.1% in 2018, 2019 and 2020, respectively, which was below the 25% statutory rate. According to the relevant administrative measures, to qualify as an HNTE, Wuxi EA and Shanghai EA must meet certain financial and non-financial criteria and complete verification procedures with the administrative authorities. Continued qualification as an HNTE is subject to a three-year review by the relevant government authorities in China, and in practice certain local tax authorities also require annual evaluation of the qualification. In the event the preferential tax treatment for Wuxi EA and Shanghai EA is discontinued or is not verified by the local tax authorities, and the affected entity fails to obtain preferential income tax treatment based on other qualifications such as Advanced Technology Service Enterprise (技術先進型服務企業), it will become subject to the standard PRC enterprise income tax rate of 25%. There is no assurance that we will continue to be qualified to enjoy such HNTE preferential tax treatments, or such treatments will not change in the future, which may have a negative impact on our business, financial condition and results of operations.

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Future acquisitions of businesses, technologies or know-how could materially and adversely affect our business, financial condition and results of operation if we fail to integrate the acquired businesses or technologies successfully into our existing operations or if we discover previously undisclosed liabilities.

To enhance our growth, we may acquire businesses, technologies or know-how that we believe would benefit us in terms of product development, technology advancement or distribution network. Our ability to grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing. Even if we complete acquisitions, as we have limited experience with significant acquisitions, we may experience:

- difficulties in integrating any acquired companies, technologies, or personnel into our existing business, particularly integrating different quality management, customer service and other business functions;
- delays or failure in realizing the benefits of the acquired company, technologies or know-how;
- diversion of our management's time and attention from other business concerns;
- higher costs of integration than we anticipated; or
- difficulties in retaining key employees of the acquired business who are necessary to manage these acquisitions.

If we invest in businesses that operate outside of China, these risks may increase because of our limited experience in operating overseas.

An acquisition could also materially impair our results of operation by causing us to incur debt or requiring us to amortize acquired intangible assets. We may also discover deficiencies in internal controls, data adequacy and integrity, product quality and regulatory compliance, and product liabilities in businesses we acquire which we did not uncover prior to such acquisition. Therefore, we may become subject to penalties, lawsuits or other liabilities. Any difficulties in the integration of acquired businesses or technologies or unexpected penalties, lawsuits or liabilities in connection with such businesses or technologies could have a material adverse effect on our business, financial condition and results of operations.

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

We may require additional capital beyond those generated by the Global Offering from time to time to grow our business, to better serve our customers, develop and enhance our products, and improve our operating infrastructure. Accordingly, we may need to sell additional equity or debt securities or obtain a credit facility. Future issuances of equity or equity-linked securities could significantly dilute our existing shareholders, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our ordinary shares. The incurrence of debt financing would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our shareholders.

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Our ability to obtain additional capital is subject to a variety of uncertainties, including:

- our market position and competitiveness in the clear aligner industry;
- our future profitability, overall financial condition, results of operations;
- general market conditions for capital raising activities by companies in the clear aligner industry in China, which in turn depends on the prospect of this industry; and
- economic, political and other conditions in China and globally.

We may be unable to obtain additional capital in a timely manner or on acceptable terms, or at all. If we are unable to obtain adequate financing on terms satisfactory to us when we require it, our ability to continue to support our business growth could be significantly impaired, and our business and prospects could be adversely affected.

Our Controlling Shareholders have substantial influence over our Company and their interests may not be aligned with the interests of our other Shareholders.

Our Controlling Shareholders have substantial influence over our business, including matters relating to our management, policies and decisions regarding mergers, expansion plans, consolidations, sales of all or substantially all of our assets, election of directors and other significant corporate actions. Immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised and without taking into account of any Shares that may be issued under the Share Award Schemes, our ultimate Controlling Shareholders will hold 100,000,000 Shares representing 60.3110% of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our Controlling Shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

Any catastrophe, including outbreaks of health pandemics and other extraordinary events, could have a negative impact on our business operations.

We are vulnerable to natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, wars, riots, terrorist attacks or similar events may give rise to server interruptions, breakdowns, system failures or Internet failures, which could cause the loss or corruption of customer data, malfunctions of software, hardware and equipment as well as adversely affect our ability to manufacture our products and provide our services.

Our business could also be adversely affected by the effects of COVID-19, Ebola virus diseases, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome (SARS), or other epidemics. Our business operation could be disrupted if any of our employees is suspected of having any of the aforementioned epidemics or another contagious disease or condition, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our business, results of operations and financial condition could be adversely affected to the extent that any of these epidemics harms the economy of China and other overseas markets in general.

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There may be corrupt practices in the healthcare and medical device industry in China, which may place us at a competitive disadvantage if our competitors engage in such practices.

There may be corrupt practices in the healthcare and medical device industry in China. For example, in order to secure more orders, our competitors or their respective agents or distributors may influence dental professionals, hospital personnel or other decision-makers in ways that violate anti-corruption laws of China. As competition persists and intensifies in our industry, we may lose potential customers or sales if our competitors engage in such practices or other illegal activities.

Failure to complete property leasing registrations for our lease properties may subject us to penalties.

Pursuant to the applicable PRC laws and regulations, property lease agreements must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, we had not completed the relevant property leasing registrations for our 16 leased properties in China. While the failure to complete the registration process may not affect the validity of the property lease agreements, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease. We cannot assure you that in such cases we will be able to complete the registration on a timely basis or at all, which could expose us to penalties and disputes, cause us to incur significant expenses and have a material adverse effect on our business and results of operations.

Our rights to use certain leased properties could be challenged by property owners or other third parties, which may disrupt our operations and cause us to incur relocation costs.

As of the Latest Practicable Date, the lessor of one of our leased properties in China had not provided us with the valid property ownership certificate or other documents evidencing the authorization from the property owner to sublease the property to us. If the lessor had not been duly authorized by the legal owner, the relevant lease agreement may be deemed invalid and, as a result, we may be challenged by the legal owner of the property or other third parties and may be forced to vacate the relevant property, which could interrupt our business operations and cause us to incur relocation costs. See “Business — Properties — Title Defects.”

A severe or prolonged downturn in the global or Chinese economy could materially and adversely affect our business, financial condition, results of operations and prospects.

The global macroeconomic environment is facing challenges, including the end of quantitative easing by the U.S. Federal Reserve, the economic slowdown in the Eurozone since 2014 and uncertainties over the impact of Brexit. The Chinese economy has shown slower growth compared to the previous decade since 2012 and the trend may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa, which have resulted in market volatility. There have also been concerns over the relationship between China and other countries, including the surrounding Asian countries. Recent international trade disputes, including tariff actions announced by the United States, China and certain other countries, and the uncertainties created by such disputes may cause disruptions in the international flow of goods and services and may adversely affect the Chinese economy as well as global markets and economic conditions. In addition, the recent market panics over the global outbreak of COVID-19 and the drop of oil price materially and negatively affected the global financial markets in March 2020, which may cause slowdown of the world’s economy. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic

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economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations, financial condition and prospects.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

The economic, political and social conditions of China could affect our business, financial condition and results of operations.

As part of our business strategy, we are now targeting China's clear aligner industry by devoting a large amount of resources. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to the economic, political and social conditions in China. The Chinese economy differs from the economies of developed countries in many respects, including the degree of government involvement, control of capital investment, as well as the overall level of development. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial number of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. We cannot predict future changes in China's economic, political and social condition and the effect that new government policies will have on our business and prospects. Any actions and policies adopted by the PRC government or any prolonged slowdown in China's economy, in particular the clear aligner industry or more broadly the medical devices industry, could have a negative impact on our business, results of operations and financial condition in a number of ways.

Uncertainties with respect to the Chinese legal system could have a material adverse effect on our business and operations.

Our business and operations are primarily conducted in China and are governed by applicable Chinese laws, rules and regulations. China's legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference, but they have limited weight as precedents. Since the late 1970s, the Chinese government has significantly enhanced China's legislation and regulations to provide protection to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us.

Even if we endeavor to comply with relevant laws and regulations, we may not always be able to do so due to a lack of detailed implementation rules by relevant government authorities. In addition, some government authorities (including local government authorities) may not consistently apply regulatory requirements issued by themselves or other Chinese government authorities, making strict compliance with all regulatory requirements impractical, or in some circumstances, impossible. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since Chinese 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 impede our ability to enforce the contracts we have entered into with our distributors, business partners, customers and suppliers. In addition, such

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uncertainties, including the inability to enforce our contracts, together with any development or interpretation of PRC law adverse to us, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and the diversion of resources and management attention, which in turn could have a material adverse effect on our financial condition and results of operations.

The Chinese government extensively regulates the clear aligner industry. These laws and regulations are relatively new and rapidly evolving. The interpretation and application of existing PRC laws, regulations and policies and possible new laws relating to the clear aligner industry have created substantial uncertainties regarding the legality of the businesses and activities of related businesses in China, including our business operations. There is no assurance that we have obtained all the licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain any new licenses required under any new laws or regulations. There is also no assurance that the Chinese government will not require us to obtain additional licenses in the future. If new regulations require us to obtain additional licenses, we may be prevented from operating in China if we are unable to obtain the required licenses. Any change in the Chinese laws and regulations may therefore significantly disrupt our operations in China and materially and adversely affect our business, results of operations and financial conditions in China.

Government control of currency conversion and future fluctuations in Renminbi exchange rates could have a material adverse effect on our business, results of operations, financial condition and prospects, and may reduce the value of, and dividends payable on, our Shares in foreign currency terms.

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. Our revenue and expenses are substantially denominated in Renminbi, which is currently not a freely convertible currency, and the net proceeds from the Global Offering and any dividends we pay on our Shares will be in Hong Kong dollars. Fluctuations in the exchange rate between the Renminbi and the Hong Kong dollar or U.S. dollar may affect the relative purchasing power in Renminbi terms of the proceeds from the Global Offering. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our PRC subsidiaries. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar may affect our financial results in Hong Kong dollar or U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

Under China's existing foreign exchange regulations, following the completion of the Global Offering, we will be able to make current account foreign exchange transactions, including paying dividends in foreign currencies without prior approval from SAFE. However, in the future, the Chinese government may take measures, at its discretion, to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. If such measures are implemented, we may not be able to pay dividends in foreign currencies to holders of our Shares. Foreign exchange transactions under our capital account are subject to significant foreign exchange controls and require the SAFE's approval. These limitations could affect our ability to obtain foreign exchange through offshore financing.

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The value of the Renminbi against the Hong Kong dollar and the U.S. dollar and other currencies fluctuates. It is subject to changes resulting from government policies (including those of the Chinese government) and depends to a large extent on domestic and international economic and political development as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the Renminbi and the Hong Kong dollar, the U.S. dollar or other currencies in the future.

Our proceeds from the Global Offering will be denominated in Hong Kong dollars. As a result, any appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets and our proceeds from the Global Offering. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on our Shares in foreign currencies. There are limited instruments available for us to reduce our foreign currency risk exposure at reasonable cost in China, and we have not utilized, and may not in the future utilize, any such instrument. All of these factors could materially and adversely affect our business, results of operations, financial condition and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

We may rely on dividends and other distributions from our PRC subsidiaries to fund our cash and meet financing requirements, and any limitation on the ability of our subsidiaries to make payments to us could materially and adversely affect our ability to conduct our business.

As an offshore holding company, we may rely in part on dividends from our PRC subsidiaries for our cash requirements, dividends payments and other distributions to our Shareholders, and to service any debt that we may incur and pay our operating expenses. The payment of dividends by entities organized in China is subject to limitations. In particular, PRC regulations permit our subsidiaries to pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiaries are required each year to set aside at least 10.0% of its annual after-tax profits (as determined under PRC accounting standards) into its statutory reserve fund until the aggregate amount of that reserve reaches 50.0% of such entity's registered capital. These reserves are not distributable as cash dividends.

If our PRC subsidiaries incur debt on their own behalf, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitation on the ability of our subsidiaries to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions, pay dividends and otherwise fund and conduct our business.

PRC regulations over loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises, capital contributions by an offshore holding company to its wholly-owned subsidiary in China shall obtain approvals from or make record filings with the Ministry of Commerce of the PRC ("MOFCOM") or its local counterpart and register with the SAMR or its local counterpart to make capital contributions to the foreign-invested enterprises. In addition, any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE or its local branches, and our PRC subsidiaries may not procure loans exceeding the difference between its registered capital and its total investment amount as approved by or registered with MOFCOM

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or its local branches. We may not obtain these government approvals or complete such registrations on a timely basis, or at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries. If we fail to receive such approvals or complete such registration, our ability to use the proceeds of the Global Offering to fund our operations in China may be negatively affected, which in turn could adversely affect our ability to finance and expand our business.

SAFE issued the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (the “Circular 19”) which took effect on June 1, 2015 and was amended on June 9, 2016 and December 30, 2019. The Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC, provided that such usage shall fall into the scope of business of the foreign invested enterprise, which will be regarded as the reinvestment of foreign-invested enterprise. In addition, SAFE promulgated the Circular Regarding Further Promotion of the Facilitation of Cross-Border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知) (“SAFE Circular 28”) on October 23, 2019, pursuant to which all foreign invested enterprises can make equity investments in the PRC with their capital funds in accordance with the law. As SAFE Circular 28 is new and the relevant government authorities have broad discretion in interpreting the regulation, it is unclear whether SAFE will permit such capital funds to be used for equity investments in the PRC in practice. The Circular 19 and SAFE Circular 28 may significantly limit our ability to transfer to and use in China the net proceeds from the Global Offering, which may adversely affect our business, results of operations and financial condition.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident Shareholders to personal liability, may limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, may limit the ability of our PRC subsidiaries to distribute profits to us or may otherwise materially and adversely affect us.

SAFE issued the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicle (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “Circular 37”) on July 4, 2014, which became effective on July 4, 2014. Circular 37 supersedes the Circular on Foreign Exchange Administration of Overseas Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles on (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the “Circular 75”), promulgated by SAFE on October 21, 2005 and effective on November 1, 2005. Circular 37 requires that (1) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, or an Overseas SPV, that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (2) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change in the Overseas SPV’s PRC resident shareholder, name of the Overseas SPV, term of operation, or any increase or reduction of the contributions by the PRC resident, share transfer or swap, and merger or division. Additionally, pursuant to the Circular of SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “Circular 13”), which was promulgated on February 13, 2015 and became effective on June 1, 2015, and was amended on December 30, 2019, the aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with the Circular 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

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As confirmed by our PRC legal advisors, Ms. LI Huamin (李華敏) and other eighty-one individual shareholders who indirectly hold shares in the Company, being PRC residents as defined under the Circular 37 and Circular 75 have completed the foreign exchange registration under Circular 37 and Circular 75. It remains unclear how Circular 37 and Circular 13 will be interpreted and implemented, and how or whether the relevant Chinese government authorities will apply them to us. Therefore, we cannot predict how they will affect our business operations or future strategies. For example, the ability of our present and prospective PRC subsidiaries to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with Circular 37 and Circular 13 by our PRC resident beneficial holders. In addition, as we have little control over either our present or prospective, direct or indirect Shareholders or the outcome of such registration procedures, we cannot assure you that these Shareholders who are PRC residents will amend or update their registration as required under Circular 37 and Circular 13 in a timely manner or at all. Failure of our present or future Shareholders who are PRC residents to comply with Circular 37 and Circular 13 could subject these Shareholders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit the ability of our PRC subsidiaries to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

We may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulations.

On August 8, 2006, six PRC regulatory authorities, including MOFCOM, the State Assets Supervision and Administration Commission, SAT, the State Administration for Industry and Commerce, the CSRC and SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”), which became effective on September 8, 2006 and was amended in June 22, 2009. The M&A Rules, governing the approval process by which a PRC company may participate in an acquisition of assets or equity interests by foreign investors, requires the PRC parties to make a series of applications and supplemental applications to the government agencies, depending on the structure of the transaction. In some instances, the application process may require presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Accordingly, due to the M&A Rules, our ability to engage in business combination transactions has become significantly more complicated, time-consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our Shareholders or sufficiently protect their interests in a transaction.

The M&A Rules allow Chinese government agencies to assess the economic terms of a business combination transaction. Parties to a business combination transaction may have to submit to MOFCOM and other relevant government agencies an appraisal report, an evaluation report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The M&A Rules also prohibit a transaction at an acquisition price obviously lower than the appraised value of the PRC business or assets and in certain transaction structures, require that consideration must be paid within defined periods, generally not in excess of a year. In addition, the M&A Rules also limit our ability to negotiate various terms of the acquisition, including aspects of the initial consideration, contingent consideration, holdback provisions, indemnification provisions and provisions relating to the assumption and allocation of assets and liabilities. Transaction structures involving trusts, nominees and similar entities are prohibited. Therefore, such regulation may impede our ability to negotiate and complete a business combination transaction on legal and/or financial terms that satisfy our investors and protect our Shareholders’ economic interests.

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We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

Pursuant to the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the “Bulletin 7”), an “indirect transfer” of PRC taxable assets, including a transfer of equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, factors to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly hold PRC taxable assets have real commercial nature, which is evidenced by their actual function and risk exposure; the duration of shareholders, existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be reported on with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements. Late payment of applicable tax will subject the transferor to default interest. Gains derived from the sale of shares by investors through a public stock exchange will not be subject to PRC enterprise income tax pursuant to Bulletin 7 where such shares were acquired in a transaction through a public stock exchange.

There are uncertainties as to the application of Bulletin 7. Bulletin 7 may be determined by the tax authorities to be applicable to sale of the shares of our offshore subsidiaries or investments where PRC taxable assets are involved. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, or the sale of the shares in our offshore subsidiaries or investments. Our Company may be subject to filing obligations or taxes if our Company is the transferor in such transactions, and may be subject to withholding obligations if our Company is the transferee in such transactions, under Bulletin 7. For transfers of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiary may be requested to assist with the filing under Bulletin 7. As a result, we may be required to expend valuable resources to comply with Bulletin 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our Company should not be taxed under Bulletin 7, for our previous and future restructuring or disposal of shares of our offshore subsidiaries or investments, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Bulletin 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under Bulletin 7, or under Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source (關於非居民企業所得稅源泉扣繳有關問題的公告), our income tax costs associated with such potential acquisitions or disposals will increase, which may have an adverse effect on our financial condition and results of operations.

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We may be deemed to be a PRC tax resident under the EIT Law, and as a result, our global income could be subject to PRC withholding tax and enterprise income tax.

We are a holding company incorporated under the laws of the Cayman Islands and hold interests in our PRC subsidiaries. Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”), effective in January 2008, as amended on February 24, 2017 and December 29, 2018, and its implementation rules, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed a PRC resident enterprise are subject to a 10.0% withholding tax, unless such foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement.

The EIT Law and EIT implementation rules also provide that if an enterprise incorporated outside China has its “de facto management bodies” within China, such enterprise may be deemed a “PRC resident enterprise” for tax purposes and be subject to an enterprise income tax rate of 25.0% on its global incomes. “De facto management body” is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, SAT promulgated a circular, known as Circular 82, and partially amended by Circular 9 promulgated in January 2014, to clarify the certain criteria for the determination of the “de facto management bodies” for foreign enterprises controlled by PRC enterprises or PRC enterprise groups. Under Circular 82, a foreign enterprise is considered a PRC resident enterprise if all of the following apply: (1) the senior management and core management departments in charge of daily operations are located mainly within China; (2) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organizations or personnel in China; (3) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in China; and (4) 50.0% or more of voting board members or senior executives of the enterprise habitually reside in China. Further to Circular 82, SAT issued a bulletin, known as Bulletin 45, effective in September 2011 and last amended on June 15, 2018 to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of such “Chinese-controlled offshore incorporated resident enterprises.” Bulletin 45 provides for, among other matters, procedures for the determination of resident status and administration of post-determination matters. Although Circular 82 and Bulletin 45 explicitly provide that the above standards apply to enterprises that are registered outside China and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT’s criteria for determining the tax residence of foreign enterprises in general.

However, there have been no official implementation rules regarding the determination of the “de facto management bodies” for foreign enterprises not controlled by PRC enterprises (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat a case such as ours. However, if the PRC authorities were to subsequently determine, or any future regulation provides, that we should be treated as a PRC resident enterprise, we will be subject to the uniform 25.0% enterprise income tax on our global incomes. In addition, although the EIT Law provides that dividend payments between qualified PRC-resident enterprises are exempt from enterprise income tax, due to the relatively short history of the EIT Law, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our PRC subsidiaries to us will meet such qualification requirements even if we are considered a PRC resident enterprise for tax purposes.

There remains significant uncertainty as to the interpretation and application of applicable PRC tax laws and rules by the PRC tax authorities, and the PRC tax laws, rules and regulations may also change. If there is any change to applicable tax laws and rules and interpretation or application with respect to such laws and rules, the value of your investment in our shares may be materially affected.

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Investors of our Shares may become subject to PRC income tax.

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realized upon the sale or other disposition of our Shares. In general, non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under the PRC Individual Income Tax Law. We are required to withhold such tax from dividend payments, unless applicable tax treaties between the PRC and the jurisdictions in which the foreign individuals reside reduce or provide an exemption for the relevant tax obligations.

For non-PRC resident enterprises that do not have establishments or premises in China, or have establishments or premises in China but their income is not related to such establishments or premises, under the EIT Law, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of Shares are ordinarily subject to PRC enterprise income tax at a 10% rate subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the residence of the relevant non-PRC resident enterprise.

There remains uncertainty as to the interpretation and application of the relevant PRC tax laws by the PRC tax authorities, including the taxation of capital gains by non-PRC resident enterprises, and individual income tax on gains realized on the sale or other disposition of Shares. The PRC tax laws, rules and regulations may also change. If there is any change to applicable tax laws and interpretation or application with respect to such laws, the value of your investment in our Shares may be materially affected.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits is defined as our profits after taxes as determined under PRC GAAP less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient, if any, distributable profits to enable our company to make dividend distributions to its shareholders in the future, including periods for which our company's financial statements indicate that our operations have been profitable. Any distributable profits not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our company may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice-versa. Accordingly, we may not receive sufficient distributions from our PRC subsidiaries. Failure by our operating subsidiaries in the PRC to pay dividends to us could have a negative impact on our cash flow and ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

It may be difficult to enforce a judgment obtained from non-PRC courts against our company or our Directors or senior executive officers residing in China.

Substantially all of our Directors and senior management members reside within China, and substantially all of our assets and the assets of our Directors and senior management members are located within China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon us or these persons, or to bring an action in Hong Kong against us or these individuals. Moreover, China does not have treaties with most of the other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards.

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On July 14, 2006, the Supreme People’s Court of China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the “2006 Arrangement”). Pursuant to such arrangement, a party with a final judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China, and vice versa. However, it is subject to the parties in the dispute agreeing to enter into a choice of court agreement in writing under the 2006 Arrangement.

On January 18, 2019, the Supreme People’s Court of China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the “2019 Arrangement”), the commencement date of which shall be announced after the Supreme People’s Court promulgates judicial interpretations and relevant procedures are completed in Hong Kong. The 2019 Arrangement will supersede the 2006 Arrangement and afford greater clarity and certainty for reciprocal recognition and enforcement of judgments in civil and commercial matters. The 2006 Arrangement will remain applicable to a “choice of court agreement in writing” entered into before the 2019 Arrangement taking effect. However, there remains uncertainties as to the outcome of any applications to recognize and enforce such judgments and arbitral awards in China.

Furthermore, an original action may only be brought in China against us or our Directors and senior management if the actions are not required to be arbitrated by PRC law and upon satisfaction of the conditions for commencing a cause of action pursuant to the PRC civil procedure law. As a result of the conditions set forth in the PRC civil procedure law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, it is uncertain whether investors will be able to bring an original action in China in this manner.

The performance and reliability of the Internet infrastructure and wireless and landline telecommunications networks in China will affect our operations and growth, including our ability to accommodate prospective customers in the future.

With our principal executive offices located in China, we conduct central management and regulate and monitor our overall manufacturing operations relying on wireless and landline telecommunications networks in China. The national networks in China are connected to the Internet through international gateways controlled by the Chinese government, which are the only channels through which a domestic user can connect to the Internet in China. These international gateways may not support the demand necessary for the continued growth in internet traffic by users in China. We cannot assure you that the development of China’s information infrastructure will be adequate to support our operations and growth. In addition, in the event of any infrastructure disruption or failure, we would have no access to alternative networks and services on a timely basis, if at all, which could have a material adverse effect on our business, results of operations and prospects.

Failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines or other legal or administrative sanctions.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Company (關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) (the “Stock Option Rules”), which replaced the earlier rules promulgated by SAFE in March 2007. Under the Stock

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Option Rules, PRC residents who participate in stock incentive plans in an overseas publicly listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly listed company, to register with SAFE and complete certain other procedures. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes.

We and our PRC resident employees who have been granted stock options will be subject to the Stock Option Rules upon completion of the Global Offering. Failure by the PRC resident holders of our share options to complete their SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries and our PRC subsidiaries' ability to distribute dividends to us, or otherwise materially and adversely affect our business.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares, and the liquidity and market price of our Shares may be volatile.

Prior to the Global Offering, there has been no public market for our Shares. The Offer Price range for our Shares was the result of negotiations between us and the Joint Global Coordinators on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for listing of, and permission to deal in, our Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for our Shares will develop, or if it does develop, that it will be sustained following the Global Offering or that the market price of our Shares will not decline following the Global Offering. Furthermore, the market price and trading volume of our Shares may be volatile. The following factors may affect the trading volume and market price of our Shares:

- actual or anticipated fluctuations in our operating performance and revenue;
- news regarding recruitment or departure of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies and industries, and other events or factors beyond our control; and
- the release of lock-up or other transfer restrictions on our outstanding Shares or sales or perceived sales of Shares by us or other Shareholders.

Moreover, the capital market has from time to time experienced significant price and trading volume fluctuations that were unrelated or not directly related to the operating performance of the underlying companies in the market. These broad market and industry fluctuations may have a material and adverse effect on the market price and trading volume of our Shares.

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An active and liquid trading market for our Shares may not develop.

Prior to the Global Offering, our Shares were not traded on any other market. We cannot assure you that an active and liquid trading market for our Shares will be developed or be maintained after the Global Offering. Liquid and active trading markets usually result in less price volatility and more efficiency in carrying out investors' purchase and sale orders. The market price of our Shares could vary significantly as a result of a number of factors, some of which are beyond our control. In the event of a drop in the market price of our Shares, you could lose a substantial part or all of your investment in our Shares.

Since there will be a gap of several days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins, as a result of unfavorable market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

Because the initial public offering price of our Shares is substantially higher than the consolidated net tangible assets book value per share, purchasers of our Shares in the Global Offering may experience immediate dilution upon such purchases.

As the Offer Price of our Shares is higher than the consolidated net tangible assets per share immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma adjusted consolidated net tangible assets. Our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their shares. In addition, holders of our Shares may experience further dilution of their interest if the Underwriters exercise the Over-allotment Option or if we issue additional shares in the future to raise additional capital.

The market price and trading volume of our Shares may be volatile, which could result in rapid and substantial losses for our Shareholders.

The market price of our Shares may be highly volatile and could be subject to significant fluctuations. In addition, the trading volume of our Shares may fluctuate, which may cause significant price variations. Some of the factors that could negatively affect the price of our Shares, or result in fluctuations in the price or trading volume of our Shares following the Global Offering include:

- variations in our operating and financial results, such as turnovers, earnings and cash flow;
- our failure to execute our strategies;
- an unexpected business interruptions resulting from operational breakdowns, natural disasters, or major changes in our key personnel or senior management;
- adverse market reaction to any indebtedness that we may incur or securities that we may issue in the future;
- changes in market valuations of similar companies;

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- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our ability to obtain or maintain regulatory approval for our products;
- inadequate protection of our intellectual property rights or legal proceedings brought against us for infringement of third parties' intellectual property rights;
- unexpected costs of litigations and unfavorable outcomes of claims arising out of defective products and safety related governmental investigations and actions; and
- general political, financial, social and economic conditions.

We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return. For details of our intended use of proceeds, see “Future Plans and Use of Proceeds.” However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific use we will make of the net proceeds from this Global Offering.

Future sales or perceived sales of substantial amounts of our securities in the public market could have a material and adverse effect on the prevailing market price of our Shares and our ability to raise additional capital in the future, or may result in dilution of your shareholdings.

Future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, or the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur could all cause a decline in the market price of our Shares. Future sales, or perceived sales, of substantial amounts of our securities or other securities relating to our Shares, including part of any future offerings, could also materially and adversely affect the prevailing market price of our Shares and our ability to raise capital in the future at a time and at a price which we deem appropriate.

We may not be able to pay any dividends on our Shares.

We cannot guarantee when and in what form dividends will be paid on our Shares following the Global Offering. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, including without limitation, our business and financial performance, capital and regulatory requirements, and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable. For details, see “Financial Information — Dividend.”

If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our Shares, the market price and trading volume of our Shares may decline.

The trading market of our Shares may be influenced by research reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our Shares or publish negative opinions about us, the market price of our Shares would likely decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume of our Shares to decline.

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Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, and growth opportunities for existing operations, plans and objectives of management, certain pro forma information and other matters.

The words “anticipate,” “believe,” “could,” “potential,” “continue,” “expect,” “intend,” “may,” “plan,” “seek,” “will,” “would,” “should” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements, including, among others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessary estimates reflecting the best judgment of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a result, these forward-looking statements should be considered in light of various important factors, including those set out in “Risk Factors” in this prospectus. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

The industry data and forecasts in this prospectus obtained from various government publications and the industry report have not been independently verified.

This prospectus includes industry data and forecasts that we obtained from various government publications and the industry report that we believe are reliable. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot assure you of the accuracy or completeness of information obtained from these sources. We have not independently verified any of the data, forecasts and other statistics from such sources, nor have we ascertained that the underlying economic assumptions relied upon in those sources. Also, these facts, forecasts and other statistics have not been independently verified by the Underwriters, their respective directors and advisors or any other parties involved in the Global Offering and none of them make any representation as to the accuracy or completeness of such information in respect of the CIC Report and the information therein. Moreover, such facts, forecasts and other statistics may not be prepared on a comparable basis or may not be consistent with other information compiled within or outside China. For these reasons, you should not place undue reliance on such information as a basis for making your investment in our Shares.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles and other media regarding us and the Global Offering.

Prior to the publication of this prospectus, there has been and there may also be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us, our business, our industries and the Global Offering, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of such projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

WAIVER IN RESPECT OF MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The business operations of the Group are located in China. Due to the business requirements of the Group, none of the executive Directors has been, is or will be based in Hong Kong. Our Company considers that it would be impracticable and commercially infeasible to appoint two Hong Kong residents as executive Directors or to relocate the existing executive Directors to Hong Kong considering that the operations of our Group are based outside of Hong Kong. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement of Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will adopt, among others, the following measures:

- (a) Our Company has appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that we comply with the Listing Rules at all times. These two authorized representatives appointed are Mr. HUANG Kun, a non-executive Director who is ordinarily resident in Hong Kong, and Mr. ZHU Lingbo, the senior vice president, board secretary and a joint company secretary of our Company. Each of the authorized representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail. Each of the two authorized representatives has been duly authorized to communicate on our Company's behalf with the Stock Exchange. The Company will inform the Stock Exchange promptly in respect of any change in its authorized representatives;
- (b) Both authorized representatives have means to contact all Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. Our Company will implement a policy whereby (1) the executive Directors will provide valid phone numbers or other means of communication to the authorized representatives when they are traveling or out of office; and (2) each Director will provide his mobile phone number, office phone number, e-mail address and, where available, fax number to the Stock Exchange and will inform the Stock Exchange promptly if there are any changes to the contact details of the Directors;
- (c) All our Directors who are not ordinarily resident in Hong Kong have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with relevant members of the Stock Exchange in Hong Kong upon reasonable notice, when required; and
- (d) Our Company has appointed Somerley Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules, who will act as our additional communication channel with the Stock Exchange and will be available to respond to enquiries from the Stock Exchange.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary must be an individual who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable: (1) a member of The Hong Kong Institute of Chartered Secretaries; (2) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and (3) a certified public accountant (as defined in the Professional Accountants Ordinance).

In assessing “relevant experience,” the Stock Exchange will consider the individual’s: (1) length of employment with the issuer and other listed companies and the roles he/she played, (2) familiarity with the Listing Rules and other relevant law and regulations including SFO, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code, (3) relevant training taken and/or to be taken in addition to the minimum requirement of taking not less than fifteen hours of relevant professional training in each financial year under Rule 3.29 of the Listing Rules, and (4) professional qualifications in other jurisdictions.

We have appointed Mr. ZHU Lingbo and Ms. CHU Cheuk Ting as our joint company secretaries. Biographical information of Mr. ZHU Lingbo and Ms. CHU Cheuk Ting is set out in the section headed “Directors and Senior Management” in this prospectus. Mr. ZHU Lingbo is currently our senior vice president, board secretary and a joint company secretary of our Company. We have appointed him due to his past management experience within our company and his thorough understanding of our internal administration, business operations and corporate culture. Since Mr. ZHU Lingbo does not possess a qualification stipulated in Rule 3.28 of the Listing Rules, he is not able to solely fulfill the requirements as a company secretary of a listed issuer stipulated under Rules 3.28 and 8.17 of the Listing Rules. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules in relation to the appointment of Mr. ZHU Lingbo as our joint company secretary.

Although Mr. ZHU Lingbo does not possess the specified qualification required by Rule 3.28 of the Listing Rules, the Directors believe that considering Mr. ZHU Lingbo’s past experience in the capital market-related affairs and corporate governance matters, he is capable of discharging the functions of a joint company secretary with the assistance of Ms. CHU Cheuk Ting, the other joint company secretary of our Company who fully complies with the requirements under Rule 3.28 and 8.17 of the Listing Rules. In addition, the principal business activities of the Group are conducted in China. Mr. ZHU Lingbo, who resides in China, is familiar with and has a thorough understanding of the operations of our internal business and finance. Therefore, we believe that the appointment of Mr. ZHU Lingbo as a joint company secretary is in our Company’s and the Shareholders’ best interests and beneficial to our corporate governance.

Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting with the listed issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, we have made the following arrangements for the waiver:

- (1) Mr. ZHU Lingbo will endeavor to attend relevant training courses, including briefing on the latest changes to the applicable Hong Kong laws and regulations as well as the Listing Rules organized by our legal advisor as to the laws of Hong Kong on an invitation basis, and seminars organized by the Stock Exchange or other professional bodies from time to time, in addition to the 15-hour minimum requirement under Rule 3.29 of the Listing Rules;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (2) We have appointed Ms. CHU Cheuk Ting, an associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute, who fully complies with the requirements under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary. Ms. CHU Cheuk Ting will work closely with and to provide assistance to Mr. ZHU Lingbo in the discharge of her duties as a company secretary for an initial period of three years commencing from the Listing Date so as to enable Mr. ZHU Lingbo to acquire the relevant experience (as required under Rule 3.28(2) of the Listing Rules) to discharge the duties and responsibilities as a company secretary; and
- (3) Mr. ZHU Lingbo will also be assisted by the Company's compliance advisor and legal advisor as to the laws of Hong Kong on matters in relation to the Company's continuing compliance obligations under the Listing Rules and the applicable laws and regulations.

Such waiver will be revoked immediately if and when Ms. CHU Cheuk Ting ceases to provide such assistance or if there are material breaches of the Listing Rules by us. We will liaise with the Stock Exchange before the end of the three-year period to enable it to assess whether Mr. ZHU Lingbo, having had the benefit of Ms. CHU Cheuk Ting's assistance for three years, will have acquired relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

See the section headed "Directors and Senior Management" in this prospectus for further information of Mr. ZHU Lingbo and Ms. CHU Cheuk Ting.

WAIVER FROM PRINTED PROSPECTUS

Pursuant to Rules 12.04(3), 12.07 and 12.11 of the Listing Rules, we are required to make available copies of this prospectus in printed form.

It is noted that the recent amendments to the Listing Rules relating to environmental, social and governance ("ESG") matters, including where the Stock Exchange noted on page 1 of its Consultation Conclusions on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules dated December 2019 that such amendments relating to ESG matters "*echo the increasing international focus on climate change and its impact on business.*" Electronic, in lieu of printed, prospectuses and application forms will help mitigate the environmental impact of printing, including the exploitation of precious natural resources such as trees and water, the handling and disposal of hazardous materials, air pollution, among others.

Given the high and extensive use of internet gadgets (e.g. smartphones, tablet devices and computers) and easy access to internet services nowadays, it is noted that almost all applications in Hong Kong public offerings of recent IPOs (both in terms of the number of applications and the number of shares applied) were submitted electronically, instead of in paper format.

It is also noted that in light of the severity of the ongoing COVID-19 pandemic, the provision of printed prospectuses and printed application forms will elevate the risk of contagion of the virus through printed materials. As of the Latest Practicable Date, the government of Hong Kong has put in place social distancing measures to restrict public gatherings. While the government of Hong Kong may relax such restrictions as the local COVID-19 situation improves, it is possible that stricter social distancing measures may be necessary later if the number of cases of infection in the territory dramatically increases. In any event, it is impossible to accurately predict the development of the COVID-19 pandemic as of the Latest Practicable Date. In this uncertain environment, an electronic application process with a paperless prospectus will reduce the need for prospective investors to gather in public, including branches of the receiving banks and other designated points of collection, in connection with the Hong Kong Public Offering.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Accordingly, we have applied for, and the Stock Exchange has granted a waiver from strict compliance with the requirements under Rule 12.04(3), Rule 12.07 and Rule 12.11 of the Listing Rules in respect of the availability of printed prospectus.

We have adopted a fully electronic application process for the Hong Kong Public Offering and we will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

Our Hong Kong Branch Share Registrar has implemented enhanced measures to support the **HK eIPO White Form** service, including increasing its server capacity and making available a telephone hotline to answer investors' queries in connection with the fully electronic application process. Our Hong Kong Branch Share Registrar will also provide a step-by-step guide setting out the steps for payment and completion of application for the retail investors as well as FAQs to address potential questions from the retail investors in relation to the **HK eIPO White Form** service. Both the guide and the FAQs will be available in both English and Chinese and will be displayed on the designated website and in the IPO App, the mobile application platform under the **HK eIPO White Form** service. For details of the telephone hotline and the application process, please see "How to Apply for the Hong Kong Public Offer Shares."

We will adopt additional communication measures to inform the potential investors that they can only subscribe for the Hong Kong Public Offer Shares electronically, including (i) publishing a formal notice of the Global Offering on our website and in selected English and Chinese local newspapers describing the fully electronic application process, including the available channels for share subscription of the Hong Kong Public Offer Shares; (ii) advertising through the **HK eIPO White Form** service in the **IPO App** or at www.hkeipo.hk the electronic methods for subscription of the Hong Kong Public Offer Shares; and (iii) the enhanced support provided by our Hong Kong Branch Share Registrar and the **HK eIPO White Form** Service Provider in relation to the Hong Kong Public Offering (including additional enquiry hotlines for questions about the application for the Hong Kong Public Offer Shares and increasing its server capacity).

WAIVER IN RESPECT OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into or will enter into, and expects to continue after the Listing, as applicable, certain transaction which will constitute non-exempt continuing connected transaction under Chapter 14A of the Listing Rules. We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the announcement and independent shareholders' approval requirement as applicable, as set out in Chapter 14A of the Listing Rules in respect of such non-exempt continuing connected transaction. See "Connected Transactions" in this prospectus for further information of such non-exempt continuing connected transaction and corresponding waiver.

WAIVER IN RELATION TO PUBLIC FLOAT REQUIREMENTS

The Company has applied to the Stock Exchange to request the Stock Exchange to exercise its discretion under 8.08(1)(d), and the Stock Exchange has granted the Company a waiver from strict compliance with the requirements of Rule 8.08(1)(a) of the Listing Rules.

Rule 8.08(1)(a) of the Listing Rules requires that there shall be an open market for the securities for which listing is sought, and that a sufficient public float of an issuer's listed securities shall be maintained. This normally means that at least 25% of the issuer's total issued share capital must at all times be held by the public. Pursuant to Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange may, subject to certain conditions and at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalization at the time of listing of over HK\$10 billion.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Based on the minimum Offer Price of HK\$147.00 and assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes, we expect that our market capitalization will be no less than approximately HK\$24.3 billion at the time of Listing.

Accordingly, our minimum public float shall be the highest of:

- (i) 18.13% of the Company's total issued share capital;
- (ii) such percentage of Shares to be held by the public immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account of any Shares that may be issued under the Share Award Schemes); and
- (iii) such percentage of Shares to be held by the public immediately after the completion of the Global Offering (as increased by the Shares to be issued upon any exercise of the Over-allotment Option),

provided that the highest of (i), (ii) and (iii) above is below the minimum public requirement of 25% under Rule 8.08(1) of the Listing Rules.

In order to support the application of this waiver, we have confirmed to the Stock Exchange that:

- (i) we will have an expected market capitalization at the time of Listing of over HK\$10 billion;
- (ii) the quantity and scale of the Shares would enable the market to operate properly with a lower percentage of public float;
- (iii) we will make appropriate disclosure of the lower percentage of public float as approved by the Stock Exchange in this Prospectus;
- (iv) we will confirm sufficiency of public float in our successive annual reports after the Listing; and
- (v) we will implement appropriate measures and mechanisms to ensure continuous maintenance of the minimum percentage of public float.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY STATEMENT

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

UNDERTAKING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Public Offer Shares are offered solely on the basis of the information contained in this prospectus and on the terms and subject to conditions set out herein and wherein. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) agreeing on the Offer Price. An International Underwriting Agreement relating to the International Offering is expected to be entered into on or around Price Determination Date, subject to the Offer Price being agreed.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or around Tuesday, June 8, 2021 or such other date as agreed between parties, and in any event no later than Thursday, June 10, 2021.

If, for any reason, the Offer Price is not agreed among us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Thursday, June 10, 2021, the Global Offering will not proceed and will lapse.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure and conditions of the Global Offering, are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The procedures for applying for our Shares are set out in the section headed "How to Apply for the Hong Kong Public Offer Shares" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

COMMENCEMENT OF DEALING IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Wednesday, June 16, 2021. The Shares will be traded in board lots of 200 Shares each. The stock code of the Shares will be 6699.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Public Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and all the Shares that may be issued under the Share Award Schemes).

No part of our Company’s share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought on the Stock Exchange or any other stock exchange as of the date of this prospectus. All the Offer Shares will be registered on the Hong Kong Branch Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional advisor for details of those settlement arrangements and how such arrangements will affect their rights and interests.

SHARE REGISTRAR AND HONG KONG STAMP DUTY

Our principal register of members will be maintained by its principal share registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands, and our Hong Kong branch register of members will be maintained by Tricor Investor Services Limited. All Offer Shares will be registered on the Company's branch register of members in Hong Kong.

Dealings in the Shares will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

EXCHANGE RATE CONVERSION

Unless otherwise specified, this prospectus contains certain translations for the convenience purposes at the following rates:

RMB6.4099: US\$1.00
RMB0.8258: HK\$1.00

No representation is made that any amounts in HK\$, RMB and US\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail unless otherwise stated. However, the translated English names of the PRC and foreign national, entities, departments, facilities, certificates, titles, laws, regulations (including certain of our subsidiaries) and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the names in their original languages shall prevail.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Ms. LI Huamin (李華敏)	No. 110, Branch Lane 2, Lane 1699 Hanghe Road, Hangtoun Town Pudong New Area Shanghai, PRC	Chinese
Mr. SONG Xin (宋鑫)	Room 102, No. 44, Lane 566 Shenbei Road Minhang District Shanghai, PRC	Chinese
<i>Non-Executive Directors</i>		
Mr. FENG Dai (馮岱)	Room 4C, 4/F, Excelsior Building No. 364 Nathan Road Yau Ma Tei Hong Kong	Chinese (Hong Kong)
Mr. HUANG Kun (黃琨)	Flat D, 28/F, Tower 5 Grand Austin, 9 Austin Road West Kowloon Hong Kong	Chinese
Mr. HU Jiezhong (胡杰章)	Room 903, Heng Kang Building 3 Lijiang Garden, Panyu District Guangzhou, Guangdong Province, PRC	Chinese
<i>Independent Non-Executive Directors</i>		
Mr. HAN Xiaojing (韓小京)	Room 207, QingCuiYuan Garden No. 8 Jinzhan North Road Chaoyang District Beijing, PRC	Chinese (Hong Kong)
Ms. DONG Li (董莉)	Room 602, No. 309, Lane 1983 Huamu Road, Pudong New Area Shanghai, PRC	Chinese
Mr. SHI Zi (石子)	Room 701, 7/F, Building 6 China Resources City Runfu Phase III Nanshan District, Shenzhen Guangdong Province, PRC	Chinese

Further information about our Directors and other senior management members are set out in “Directors and Senior Management.”

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

**China International Capital Corporation
Hong Kong Securities Limited**
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

**China International Capital Corporation
Hong Kong Securities Limited**
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Legal Advisors to Our Company

As to Hong Kong and United States laws:
Wilson Sonsini Goodrich & Rosati
Suite 1509, 15/F, Jardine House
1 Connaught Place
Central
Hong Kong

As to PRC laws:
Han Kun Law Offices
33/F, HKRI Centre Two, HKRI Taikoo Hui
288 Shimen Road (No.1)
Shanghai, PRC

As to Cayman Islands laws:
Maples and Calder (Hong Kong) LLP
26th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Legal Advisors to the Joint Sponsors and
the Underwriters**

As to Hong Kong and United States laws:
Clifford Chance
27th Floor Jardine House
One Connaught Place
Central
Hong Kong

As to PRC laws:
Tian Yuan Law Firm
10/F, Tower B
China Pacific Insurance Plaza
28 Fengsheng Hutong
Xicheng District
Beijing, PRC

**Independent Auditor and Reporting
Accountant**

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central
Hong Kong

Industry Consultant

China Insights Industry Consultancy Limited
10/F, Block B, Jing'an International Center
88 Puji Road
Jing'an District
Shanghai, PRC

Receiving Banks

Standard Chartered Bank (Hong Kong) Limited
18/F Standard Chartered Tower
388 Kwun Tong Road, Kowloon
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

CORPORATE INFORMATION

Registered Office	Maples Corporate Services Limited, PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands
Headquarters	7/F, Building No. 7, KIC Business Center No. 500 Zhengli Road Yangpu District Shanghai, PRC
Principal Place of Business in Hong Kong	Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Company's Website	www.angelalign.com <i>(Note: the information contained on this website does not form part of this document)</i>
Joint Company Secretaries	Mr. ZHU Lingbo (朱凌波) 7/F, Building No. 7, KIC Business Center No. 500 Zhengli Road Yangpu District Shanghai, PRC Ms. CHU Cheuk Ting (朱卓婷) (ACG, ACS) Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Authorized Representatives	Mr. HUANG Kun (黃琨) Flat D, 28/F, Tower 5 Grand Austin, 9 Austin Road West Kowloon Hong Kong Mr. ZHU Lingbo (朱凌波) 7/F, Building No. 7, KIC Business Center No. 500 Zhengli Road Yangpu District Shanghai, PRC
Audit Committee	Ms. DONG Li (董莉) (<i>Chairwoman</i>) Mr. HAN Xiaojing (韓小京) Mr. SHI Zi (石子)

CORPORATE INFORMATION

Remuneration Committee	Mr. HAN Xiaojing (韓小京) (<i>Chairman</i>) Ms. LI Huamin (李華敏) Mr. HUANG Kun (黃琨) Ms. DONG Li (董莉) Mr. SHI Zi (石子)
Nomination Committee	Mr. FENG Dai (馮岱) (<i>Chairman</i>) Mr. SONG Xin (宋鑫) Mr. HAN Xiaojing (韓小京) Ms. DONG Li (董莉) Mr. SHI Zi (石子)
The Cayman Islands Principal Share Registrar	Maples Fund Services (Cayman) Limited Boundary Hall, Cricket Square PO Box 1093, Grand Cayman, KY1-1102 Cayman Islands
Hong Kong Branch Share Registrar	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Compliance Advisor	Somerley Capital Limited 20/F, China Building 29 Queen's Road Central Hong Kong
Principal Banks	China Minsheng Bank, Shanghai Branch Minsheng Bank No. 100 Pudong South Road Pudong New Area Shanghai, PRC China CITIC Bank, Wuxi Huishan Sub-Branch Xiangshuwandi No. 110-111 Huishan District Wuxi City, PRC Bank of China, Shanghai KIC Science Park Sub-Branch Bank of China, 2/F, Building No. 9 Songhu Road No. 308 Yangpu District Shanghai, PRC

INDUSTRY OVERVIEW

Unless otherwise indicated, the information and statistics contained in this section have been derived from various official and government publications, publicly available market research sources and from the market research report prepared by CIC, which was commissioned by us. We believe that the sources of such information are appropriate, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. We, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering or any of our or their respective directors, officers, representatives, affiliates or advisors (excluding CIC in respect of the CIC Report and the information therein) have no independently verified the information and have made no representation as to the accuracy and completeness thereof. The relevant information and statistics may not be consistent with other information and statistics compiled within or outside the PRC by third parties. As a result, you are advised not to place undue reliance on such information.

SOURCE OF INFORMATION

This section includes information from the CIC Report, a report commissioned by us, as we believe such information imparts a greater understanding of the industry in which we operate to potential investors. CIC is a consulting firm founded in Hong Kong, and has an industry expert network database and provides professional industry consulting across multiple industries. We have agreed to pay a total of RMB886,000 in fees to CIC for the preparation of the report, which we believe to be consistent with market rates. We are of the view that the payment of such fee does not impair the fairness of the conclusions drawn in the CIC Report. Figures and statistics provided in this prospectus and attributed to CIC or the CIC Report have been extracted from the CIC Report and published with the consent of CIC.

In preparing the CIC Report, CIC conducted both primary and secondary research through various resources. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources. CIC also assumed that (1) China's overall social, economic and political environment are expected to remain stable during the forecast period, (2) China's economic and industrial development is likely to maintain a steady growth trend over the next decade, (3) relevant market drivers are expected to continue to drive the growth of the relevant markets in the forecast period, such as the raising consciousness of improving personal appearance, changes in lifestyles and consumption habits, and (4) there is no extreme force majeure event or new industry regulation which would affect the market dramatically or fundamentally.

DIRECTORS' CONFIRMATION

After making reasonable inquiries, our Directors confirm that to the best of their knowledge, there has been no adverse change in the market information presented in the CIC Report since the date of the report which may disqualify, contradict or have an impact on the information in this prospectus.

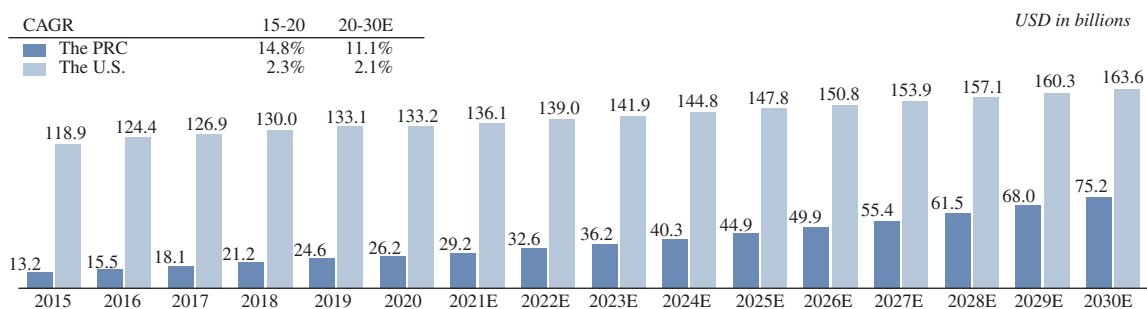
THE DENTAL CARE SERVICES MARKETS IN CHINA AND THE U.S.

Overview

The U.S. dental care services market, in terms of service revenue, increased from US\$118.9 billion in 2015 to US\$133.2 billion in 2020 at a CAGR of 2.3%, and is expected reach US\$163.6 billion in 2030 at a CAGR of 2.1% from 2020 to 2030, according to the CIC Report. By comparison, China's dental care services market, in terms of service revenue, increased from US\$13.2 billion in 2015 to US\$26.2 billion in 2020 at a CAGR of 14.8%, and is expected to reach US\$75.2 billion in 2030 at a CAGR of 11.1% from 2020 to 2030, according to the same source.

INDUSTRY OVERVIEW

The U.S. and China's dental care services market size, 2015-2030E



Sources: the American Dental Association; annual reports of listed companies; China Health Statistics Yearbook; the CIC Report

China's dental care services market comprises dental prosthetics and aesthetics market, orthodontics market, and other dental services market (including dental preventive and other general dental diagnosis and treatment services). Among which, the dental prosthetics and aesthetics market and the orthodontics market are the two driving subsets that are expected to account for 45.7% and 39.4% of China's dental care services market in 2030, respectively. As the growth rates of China's orthodontics market and dental prosthetics and aesthetics market are expected to gradually stabilize between 2020 and 2030 following a rapid growth between 2015 and 2020, China's overall dental care services market is expected to grow at a relatively lower CAGR from 2020 to 2030 accordingly.

Comparative Analysis of Dental Care Services Markets in China and the U.S.

According to the CIC Report, the gap between the U.S. and China's dental care services markets is expected to narrow in the future. While the U.S. dental care services market was 9.0 times larger than China's dental care services market in 2015 in terms of service revenue, the gap narrowed to 5.1 times in 2020 and is expected to further narrow to 2.2 times in 2030. In terms of per visit expense for dental care services, in 2015, U.S. citizens spent US\$695.9 per visit, which was about 7.4 times more than the per visit expense by Chinese citizens. The gap narrowed to 5.0 times in 2020, and is expected to narrow to 2.8 times in 2030, which indicates a great potential for customer value and China's dental care services market.

OVERVIEW OF THE ORTHODONTICS MARKET

Introduction of Malocclusion and Orthodontics

According to the World Health Organization, malocclusion refers to a set of dental deviations, including crowding, spacing, and protrusion, which may adversely affect the quality of life. There are three main categories of malocclusion. Class I malocclusion usually comes with problems like spacing, crowding, and over or under eruption. Class II malocclusion includes retrognathism, overjet and overbite. Class III malocclusion includes prognathism, anterior crossbite, negative overjet and underbite. Class II and III malocclusion are more complicated and harder to treat than Class I malocclusion.

Orthodontics is a specialty of dentistry that deals with the diagnosis, prevention and correction of malocclusion. Orthodontic treatment applies constant, gentle force in a specific direction on the teeth to move them into better positions.

Comparative Analysis of Major Orthodontic Treatment Methods

There are two major methods of orthodontic treatment, namely the traditional orthodontics treatment method and the clear aligner treatment method. The traditional method uses metal braces, lingual braces, ceramic braces, and other visible aligners. The clear aligner treatment method, as the advanced treatment method, uses custom manufactured, removable, clear aligners. After conducting dental diagnosis, dental professionals usually determine the appropriate type of orthodontic treatment for a specific patient based on the patient's malocclusion condition, the severity of the issue, the expected treatment results, and the patient's preferences.

The traditional orthodontic treatment method has long been the major therapy for malocclusion. However, it has various limitations, including (1) unattractive appearance due to noticeable braces, (2) oral discomfort due to the design and material of traditional braces, (3) poor oral hygiene due to non-removable braces, (4) high technique requirements for dental professionals which generally require post-graduate professional training in orthodontics, and (5) frequent and lengthy subsequent visits due to the necessity of adjusting, repairing or replacing the arch wires.

INDUSTRY OVERVIEW

First launched in the U.S. in 1998, the development of the clear aligner treatment method has broken through the limitations of the traditional orthodontic treatment method with various benefits, including (1) excellent aesthetics due to transparent clear aligners, (2) high oral comfort level due to the custom design and advanced material of clear aligners, (3) improved oral hygiene due to removable clear aligners, (4) comprehensive support for treatment planning from clear aligner solution providers, (5) reduced frequency and time of subsequent visits, and (6) relatively moderate requirements for, and easy adoption by, GP dentists.

1 Traditional Orthodontic Treatment Methods				2 Clear Aligners
	1a Metal Braces	1b Lingual Braces	1c Ceramic Braces	2a Clear Aligners
Orthodontic treatments				
Indications	<ul style="list-style-type: none"> Severe, moderate, and mild malocclusion 	<ul style="list-style-type: none"> Mild to moderate malocclusion 	<ul style="list-style-type: none"> Mild to moderate malocclusion 	<ul style="list-style-type: none"> Mild to moderate malocclusion
Aesthetics	<ul style="list-style-type: none"> The braces are noticeable as metal brackets and wires are fixed on the surface of the teeth 	<ul style="list-style-type: none"> The braces are placed on the lingual side of the teeth, making them partially invisible 	<ul style="list-style-type: none"> The braces are half-transparent and not obvious 	<ul style="list-style-type: none"> The clear aligners are transparent and hard to notice, commonly worn in pairs over the upper and lower dental arches
Sanitary conditions	<ul style="list-style-type: none"> The braces are fixed and non-removable, which makes it hard to maintain dental hygiene and induces complications such as gingivitis 	<ul style="list-style-type: none"> The braces can trap food particles easily, increasing the potential of tooth decay 	<ul style="list-style-type: none"> The braces provide more places for food debris and bacteria to hide and breed 	<ul style="list-style-type: none"> The aligners are removable and easy to clean
Comfort levels	<ul style="list-style-type: none"> Metal braces exhibit a strong presence in the mouth and can irritate mouth tissues or rub against the gums and lips 	<ul style="list-style-type: none"> The braces can cause some degree of tongue impairment 	<ul style="list-style-type: none"> Archwires and braces can rub sore spots inside of the mouth 	<ul style="list-style-type: none"> Clear aligners are not made of archwire, hence cause little discomfort
Treatment cycles	<ul style="list-style-type: none"> 1.5 - 2 years 	<ul style="list-style-type: none"> 1.5 - 2 years 	<ul style="list-style-type: none"> 1.5 - 2 years 	<ul style="list-style-type: none"> 0.8 - 2 years
Frequency of subsequent visits				
Time spent on each subsequent visit				
Retail price (RMB)				
Professional requirements for orthodontists /GP dentists	<ul style="list-style-type: none"> High requirements post-graduate level of professional training in orthodontics 	<ul style="list-style-type: none"> Extremely high requirements Extra training to learn how to apply and adjust the braces inside of the teeth 	<ul style="list-style-type: none"> High requirements post-graduate level of professional training in orthodontics 	<ul style="list-style-type: none"> Relatively moderate requirements Specific training for the clear aligner treatment method; additional support from medical services teams of clear aligner treatment solution providers

Less beneficial to users/ dental professionals More beneficial to users/ dental professionals

Sources: Chinese Journal of Orthodontics; Shanghai Ninth People's Hospital; the CIC Report

As a result, an increasing number of patients, after weighing their options, have been inclined to choose the clear aligner treatment method considering its benefits and advantages. Moreover, clear aligner treatment appeals to a large number of people who otherwise would not take orthodontic treatment due to the limitations of traditional orthodontic treatment.

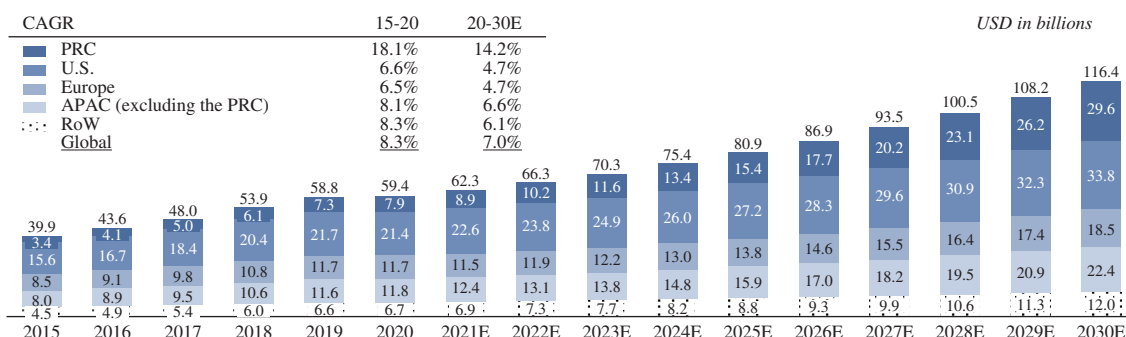
INDUSTRY OVERVIEW

The Global Orthodontics Market and China's Orthodontics Market

The global orthodontics market, in terms of retail sales revenue, grew from US\$39.9 billion in 2015 to US\$59.4 billion in 2020 at a CAGR of 8.3%, primarily driven by the rapid growth of orthodontics markets in China, the United States, European countries, and other Asia Pacific (“APAC”) regions, according to the CIC Report. Furthermore, it is expected that China's orthodontics market will continue to lead the growth of the global orthodontics market in the foreseeable future, and the global orthodontics market is expected to reach US\$116.4 billion in 2030 at a CAGR of 7.0% from 2020 to 2030, according to the same source. In addition, the number of global orthodontics cases increased from 11.8 million in 2015 to 17.0 million in 2020 at a CAGR of 7.7%, and is expected to reach 32.0 million in 2030 at a CAGR of 6.5%.

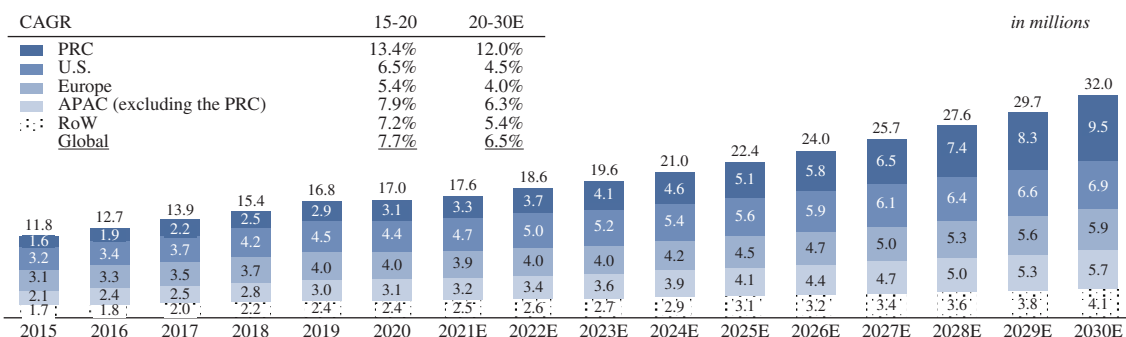
China's orthodontics market, in terms of retail sales revenue, increased from US\$3.4 billion in 2015 to US\$7.9 billion in 2020 at a CAGR of 18.1%, and is expected to reach US\$29.6 billion in 2030 at a CAGR of 14.2% from 2020 to 2030, according to the CIC Report. In addition, the number of China's orthodontics cases increased from 1.6 million in 2015 to 3.1 million in 2020 at a CAGR of 13.4%, and is expected to reach 9.5 million in 2030 at a CAGR of 12.0%.

Global orthodontics market size, by region, 2015-2030E



Sources: annual reports of listed companies; the World Health Organization; the American Dental Association; the CIC Report

Global orthodontics cases, by region, 2015-2030E



Sources: annual reports of listed companies; the CIC Report

China's orthodontics market comprises the traditional orthodontics market and the clear aligner market. While the traditional orthodontics market has been on a steady increase primarily driven by increased awareness of oral health and aesthetics and affordability, the introduction of clear aligner treatment since around 2010 greatly stimulated the overall orthodontics market, especially in the past five years. Following a decade's rapid development of China's clear aligner market, the growth rate of China's orthodontics market is expected to gradually stabilize between 2020 and 2030, as compared to that between 2015 and 2020.

INDUSTRY OVERVIEW

Key Drivers of China's Orthodontics Market

The development of China's orthodontics market is primarily driven by the following factors.

- *Growing affluence.* With the increase in disposable income, an increasing number of Chinese consumers are able to afford the out-of-pocket bills relating to orthodontics treatment. Moreover, as a result of the increase in spending power, Chinese consumers are willing to spend more on dental care services, including orthodontics treatment.
- *Heightened awareness of dental health and aesthetics.* Chinese consumers are more conscious of the importance of dental health and aesthetics, as they increasingly relate such to their self-confidence and social status. As a result, they are motivated to seek orthodontic treatment to improve their appearances.
- *Increasing number of orthodontic treatment providers.* The number of medical institutions providing orthodontic treatment in China, including general hospitals, dental hospitals and clinics, has increased in recent years, primarily driven by favorable government policies. In addition, the vibrant orthodontic market and lowering difficulty of orthodontic treatment practice have attracted a number of GP dentists to obtain orthodontist certificates. As a result, the number of orthodontic treatment providers increases in China, which improves the accessibility of orthodontic treatment services.

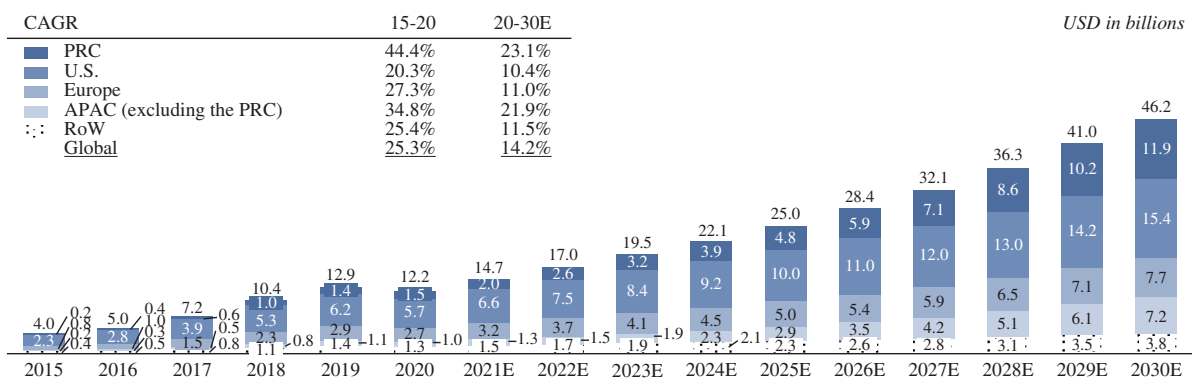
CHINA'S CLEAR ALIGNER MARKET

Overview of China's Clear Aligner Market

The global clear aligner market, in terms of retail sales revenue, increased from US\$4.0 billion in 2015 to US\$12.2 billion in 2020 at a CAGR of 25.3%, and is expected to reach US\$46.2 billion in 2030 at a CAGR of 14.2% from 2020 to 2030. The growth of the global clear aligner market is mainly driven by the development of the clear aligner market in developing countries, such as China. In addition, the number of global orthodontics cases addressed by clear aligners increased from 0.8 million in 2015 to 2.9 million in 2020 at a CAGR of 28.7%, and is expected to reach 11.8 million in 2030 at a CAGR of 15.1%.

China's clear aligner market has become the second largest market in the world in 2019. The market size, in terms of retail sales revenue, increased from US\$0.2 billion in 2015 to US\$1.5 billion in 2020 at a CAGR of 44.4%, and is expected to reach US\$11.9 billion by 2030 at a CAGR of 23.1% from 2020 to 2030. By contrast, the growth of the clear aligner markets in the U.S. and Europe is expected to decelerate to a CAGR of 10.4% and 11.0% from 2020 to 2030, respectively. In addition, the number of China's orthodontics cases addressed by clear aligners increased from 47,800 in 2015 to 335,500 in 2020 at a CAGR of 47.7%, and is expected to reach 3.8 million in 2030 at a CAGR of 27.6%.

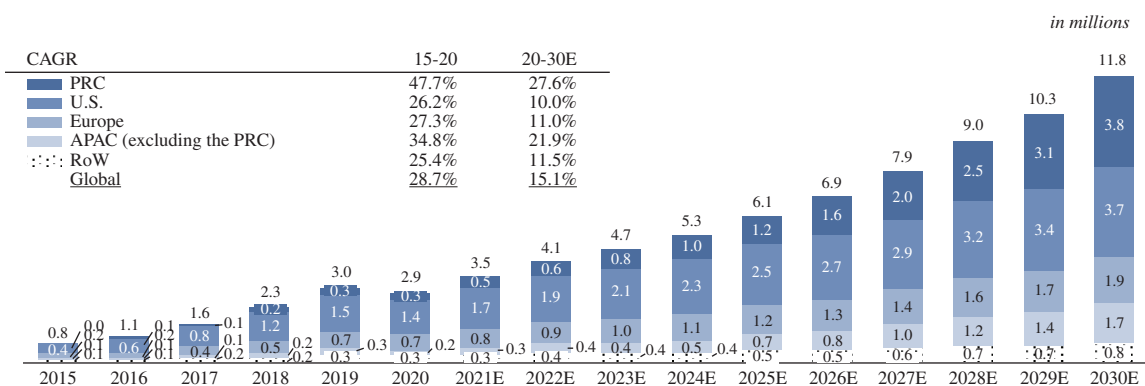
Global clear aligner market, by region, 2015-2030E



Sources: annual reports of listed companies; the World Health Organization; the American Dental Association; the CIC Report

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Global clear aligner treatment cases, by region, 2015-2030E

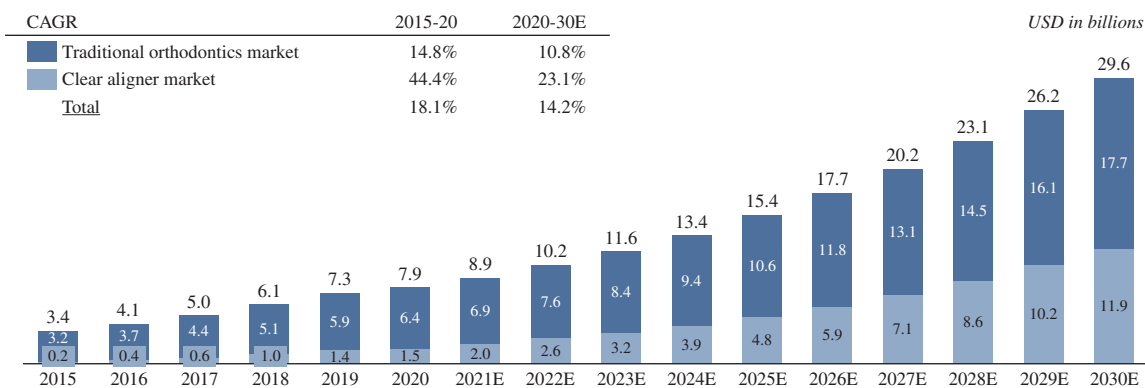


Sources: annual reports of listed companies; the CIC Report

China's clear aligner market surged as a new submarket in China's orthodontics market around 2010. With an increasing number of clear aligner solution providers entering the market, China's clear aligner market experienced rapid growth in the past five years. Following a decade's rapid development, the growth rate of China's clear aligner market is expected to gradually stabilize between 2020 and 2030, as compared to that between 2015 and 2020.

Moreover, China's clear aligner market is a subset of the overall orthodontics market, and its market share in the overall orthodontics market, in terms of retail sales revenue, increased from 6.9% in 2015 to 19.0% in 2020, and is expected to reach 40.3% by 2030.

The PRC's orthodontics market size, 2015-2030E



Sources: annual reports of listed companies; the CIC Report

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Comparative Analysis of Clear Aligner Markets in China and the U.S.

China has a higher prevalence rate of complicated malocclusion cases than the U.S.

Class II and III malocclusion cases are considered as complicated malocclusion cases. As a result of the differences in facial types, China has a higher prevalence rate of complicated malocclusion cases than the U.S. According to the CIC Report, in 2020, the overall prevalence rate of malocclusion in China and the U.S. reached approximately 74.0% and 73.0%, respectively, whereas the prevalence rate of Class II and III malocclusion cases in China reached approximately 49.0%, compared to that of 23.0% in the U.S.

China has a smaller population receiving clear aligner treatment compared to that of the U.S., with a high growth potential in user base in the future

China's clear aligner market is still at a nascent stage. In 2020, China had approximately 1,040 million malocclusion cases, much higher than that of approximately 245 million in the United States. However, among the 3.1 million treated malocclusion cases in China in 2020, only 11.0% were addressed with clear aligners, whereas 31.9% of the 4.4 million treated malocclusion cases in the United States were addressed with clear aligners. Such significant disparities indicate a huge underpenetrated clear aligner market in China.

In particular, in China, approximately 4.5% and 38.9% of the treated malocclusion cases of children and teenagers and adults, respectively, were addressed by clear aligners. In comparison, in the U.S., approximately 16.0% and 64.0% of the treated orthodontics cases of children and teenagers and adults, respectively, were addressed by clear aligners.

China has a huge, unmet demand for both GP dentists and orthodontists compared with the U.S., which directly affects the supply of clear aligners treatment services

According to the CIC Report, in 2020, there were approximately 158,400 GP dentists and 10,800 orthodontists in the U.S., which translated to 47.8 GP dentists and 3.3 orthodontists per 100,000 population. In comparison, there were approximately 277,500 GP dentists and 6,100 orthodontists in China in 2020, which translated to 19.5 GP dentists and 0.4 orthodontists per 100,000 population. Therefore, there is a great potential for increase in both the absolute and relative number of GP dentists and orthodontists in China, which will in turn increase the amount of clear aligners treatment services that can be delivered.

The relative shortage of orthodontists in China is primarily due to the stringent requirements for orthodontist candidates in China, including an orthodontics graduate degree and recognition as members of existing orthodontics authorities such as the Chinese Orthodontics Society or the World Federation of Orthodontists. Driven by increasing investments in dental care education and growing public awareness of dental health, it is expected that the number of GP dentists and orthodontists in China will further increase in the future to address the unmet demand.

While self-payment is currently the only payment option for clear aligner treatment in China, it may be partially covered under certain medical insurance plans in the U.S.

As the medical insurance system is less developed in China, neither traditional orthodontics treatment nor clear aligner treatment is currently covered under public or private insurance plans, which suggests that orthodontics is still regarded as discretionary consumption rather than necessities in China. By contrast, in the U.S. where the medical insurance system is developed and clear aligner treatment enjoys both longer history and greater acceptance, a growing number of dental plans and other medical insurances have begun to cover clear aligners as well, which in return supports the adoption of clear aligner treatment.

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Key Drivers for China's Clear Aligner Market

The increased popularity of clear aligner treatment in China among potential patients is primarily driven by the following factors.

- *Increased willingness to receive treatment.* The treatment rate of malocclusion among adults was low in the past, primarily due to their concerns about appearance over the course of traditional orthodontic treatment with visible braces. In contrast, more adults are willing to treat malocclusion with clear aligners as a result of improved aesthetics during treatment. In addition, clear aligners provide more comfortable treatment experience compared with traditional treatment, which relieves another concern for potential patients.
- *Expanding addressable indications.* Equipped with greater control of teeth movement, clear aligner treatment has been able to address approximately half of all malocclusion indications, according to the CIC Report. Moreover, further technological advancement is likely to promote the adoption of clear aligner treatment to more complicated indications that are more common in China, which provides a continuously expanding pool of new target patients.
- *Visualization of treatment results through intraoral scanners.* As an emerging oral digital technology, intraoral scanners bring immediate visualization of the therapeutic effect, which allows patients to preview the image of their treatment effect before deciding whether to proceed with orthodontic treatment. As a result, patients who are uncertain about their treatment effects are more likely to join. Moreover, the penetration rate of intraoral scanners in China in 2020 was approximately 10.0%, compared to that of approximately 40.0% in the U.S. As the cost of intraoral scanners decreases and more brands become available, the penetration rate of intraoral scanners is likely to increase, which in turn will promote the development of China's clear aligner market.

The increased adoption of clear aligner treatment in China among dental professionals is primarily driven by the following factors.

- *Growing dental professionals base.* Traditional orthodontic treatment is generally delivered by qualified orthodontists with a master's degree in orthodontics or having received post-graduate professional training in orthodontics. On the contrary, clear aligner treatment, which requires relatively moderate training and features comprehensive medical and technological support by clear aligner solution providers, can be more easily delivered by both orthodontists and GP dentists.
- *Stronger incentive to provide clear aligner treatment services.* Unlike traditional orthodontics, clear aligner treatment does not require the dentist to bond the bracket or correct arch wires, which reduces the treatment time spent on each visit and increases the number of cases delivered by a dental professional. In addition, clear aligner solution providers continuously introduce new technologies to facilitate the diagnosis and treatment process and new products with easier and more time-saving procedures. As a result of the improved efficiency and productivity, more dental professionals are incentivized to recommend clear aligners over traditional orthodontics.

Key Development Trends of China's Clear Aligner Market

According to the CIC Report, the future development of China's clear aligner market is characterized by the following market trends.

- *Increasing involvement of private medical institutions.* Private medical institutions account for more than half of the cases treated with clear aligners serviced by medical institutions in China, primarily because (1) mandatory medical insurance in China does not cover malocclusion treatment, which reduces patients' incentives to seek orthodontic treatment in public hospitals; (2) compared with public hospitals in China, private medical service providers are more

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accessible in terms of the flexibility in scheduling appointments; and (3) malocclusion is generally not considered as a serious illness and patients have fewer concerns with seeking malocclusion treatment from private medical service providers. As such, the penetration rate of private medical institutions is expected to continue to increase in the near future.

- *Rapid development of domestic clear aligner solution providers and high market concentration.* According to the CIC Report, domestic clear aligner solution providers will develop rapidly and further penetrate China’s clear aligner market in the foreseeable future, benefiting from local governmental support. In addition, China’s clear aligner market, as currently dominated by two major players, is expected to remain highly concentrated primarily due to the high entry barriers to China’s clear aligner industry.

Competitive Landscape for China’s Clear Aligner Treatment Solution Providers

China’s clear aligner treatment solution market is highly concentrated. In 2020, the top two market players, including us, accounted for an aggregate market share of approximately 82.4% in terms of case shipments. Among the two largest, we accounted for a market share of approximately 41.0% in China in terms of case shipments in the same period. In addition, we ranked first amongst our domestic competitors. Furthermore, we have the most comprehensive product lines among all market players, according to the CIC Report.

Major clear aligner treatment solution providers in China

Background	Shipped cases in thousands, 2020	Market share %, 2020
Competitor A Competitor A, primarily engaged in the clear aligner treatment solution business, was founded in 1997 in the U.S. and went public on NASDAQ in 2001. Competitor A entered into China’s clear aligner market in 2011.	138.9	41.4%
Our Company Our Company is a clear aligner treatment solution provider founded in 2003 in China.	137.6	41.0%
Competitor B Competitor B is a clear aligner treatment solution provider founded in 2004 in China.	29.0	8.6%
Other competitors in aggregate	30.1	9.0%

Sources: annual reports of listed companies; the National Medical Products Administration; the CIC Report

Entry Barriers for China’s Clear Aligner Treatment Solution Providers

- *Strong interdisciplinary capability.* While traditional orthodontics requires orthodontists to design the treatment plans by themselves, dental professionals providing clear aligner treatment anticipate comprehensive medical and technological support from clear aligner solution providers throughout the treatment process. As a result, clear aligner solution providers must have strong interdisciplinary capability, including stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies, all of which are time-consuming and costly to develop by new entrants.
- *Brand recognition among dental professionals and patients.* As the treatment for malocclusion cases typically takes around two years and alteration of treatment method midway is difficult, dental professionals are generally inclined to be highly prudent while selecting clear aligner solutions for their patients. China’s clear aligner treatment solution market is currently dominated by two major players with proven quality and long-lasting relationships with dental professionals. They cooperated with top universities and institutions in research and training activities, and have established strong word-of-mouth reputation among dental professionals and patients, making it difficult for new entrants to foster their brand awareness. The significant amount of time and efforts needed to cultivate brand recognition and customer loyalty pose obstacles for new entrants.

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- *Mass customization capability.* Each clear aligner treatment plan generally requires 40 to 60 pairs of clear aligners towards completion, depending on the complexity of the malocclusion situation. Each clear aligner is customized for a specific treatment stage of a specific patient. As a result, clear aligner solution providers must have mass customization capability, such as top-tier clear aligner design personnel, comprehensive digital customization design systems, sufficient number of 3D printers and other clear aligners manufacturing equipment and infrastructure, which is difficult to assemble for new entrants.
- *Diversified product lines.* Product diversification for different customer groups is a key success factor for clear aligner solution providers to satisfy diversified user needs and generate sales from multiple product lines. Both of the two major market players have developed comprehensive product lines that establish a barrier to other players.

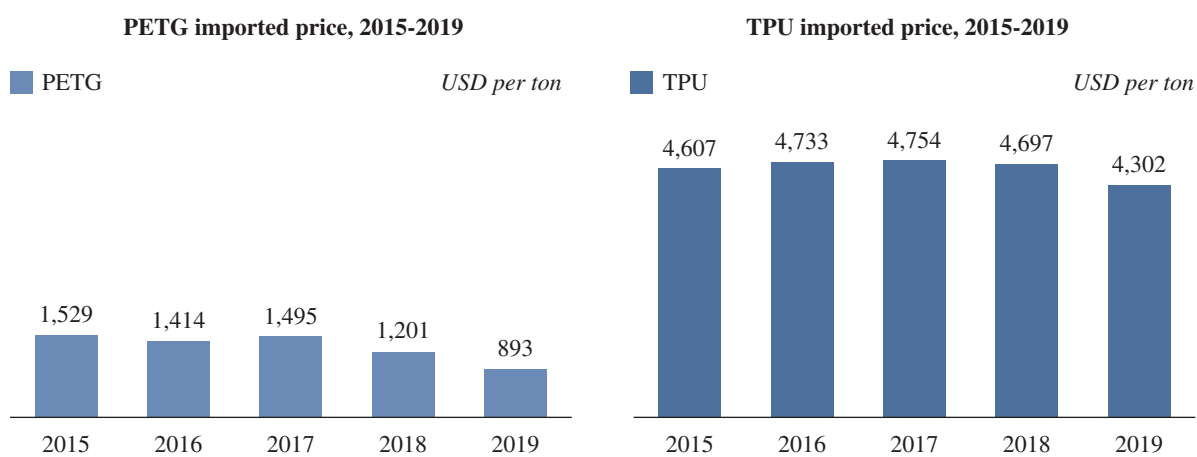
Payment Methods by Consumers to Medical Institutions

According to the CIC Report, individual consumers receiving clear aligner treatment usually make the payment to their hospitals or clinics in a lump sum or make installment payments of varying amount at varying frequency. There are two main kinds of installment payment plans: one is set up by the medical service providers (i.e., the hospitals or clinics) in accordance with the treatment cycles, and the other is in essence a collaborative consumption loan provided by a cooperating financial service institution.

HISTORICAL PRICES OF MAJOR RAW MATERIALS

The principal raw materials for our clear aligners include composite polymer materials (in splint/sheet form). Fluctuations in prices of raw materials may affect our cost structure, product pricing and profitability. At present, clear aligner treatment solution providers in China generally import various types of composite polymer material from foreign countries for the manufacturing of clear aligners. According to the CIC Report, the average import price of composite polymer materials fluctuated slightly in the past few years but generally remained stable, and is expected to gradually decrease going forward due to the enhanced availability of qualified domestic supply.

The following diagrams set forth the import price of glycol-modified polyethylene terephthalate (“PETG”) and thermoplastic polyurethanes (“TPU”), which are two major composite polymer materials, from 2015 to 2019.



Sources: the General Administration of Customs; West China Journal of Stomatology (華西口腔醫學雜誌); Korean Journal of Orthodontics; the CIC Report

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Medical device industry of PRC is subject to a large number of laws and regulations and extensive government supervision. Such laws and regulations encompass the areas including manufacturing, sales and trading of medical devices, labor and intellectual property. Principal regulatory authorities of the industry are National Medical Products Administration (the “NMPA”) and its local regulatory branches. In March 2018, the State Council Institutional Reform Proposal passed by the First Session of the Thirteenth National People’s Congress decided the China Food and Drug Administration (“CFDA”) shall cease to exist, and the NMPA was established to undertake the duties of the former CFDA. The National Development and Reform Commission (the “NDRC”) and National Health Commission (the “NHC”) also issue regulations and implementation rules with respect to the pricing and tender process of medical devices.

LAWS AND REGULATIONS RELATING TO MEDICAL DEVICES

Regulation and Classification of Medical Devices

Pursuant to the Regulations on the Supervision and Administration of Medical Devices (醫療器械監督管理條例), which is lastly amended by the State Council on December 21, 2020 and has become effective on June 1, 2021, the Medical Products Administration of the State Council shall be responsible for the supervision of medical devices of the PRC. All relevant departments of the State Council shall be responsible for the supervision of medical devices within their respective scope of duties. The medical products administration departments of the local people’s governments at the county level and above are responsible for the supervision of medical devices within their own administrative jurisdictions. The relevant departments of the local people’s governments at the county level and above are responsible for the supervision of medical devices within their respective scope of duties.

In the PRC, medical devices have been classified into three categories based on the degree of risk. Class I medical devices shall refer to those devices with low risk and whose safety and effectiveness can be ensured through routine administration. Class II medical devices shall refer to those devices with medium risk and whose safety and effectiveness should be strictly controlled. Class III medical devices shall refer to those devices with high risk and whose safety and effectiveness must be strictly controlled with special measures.

Registration and Filings of Medical Device Products

Pursuant to the Regulations on the Supervision and Administration of Medical Devices (醫療器械監督管理條例) and the Administrative Measures for the Registration of Medical Devices (醫療器械註冊管理辦法) amended by the CFDA on July 30, 2014 and coming into effect on October 1, 2014, for the filings of the medical device products of Class I, the parties undergoing the filings of medical devices shall submit the filing materials to the food and drug supervision and administration departments of the local people’s government at the districted city level. In case of any amendment to matters stated in the filings, such amendment shall be filed with the original filing department. The medical devices of Class II and Class III shall be subject to the product registration administration. Medical devices of Class II shall be examined by the food and drug supervision and administration departments of the people’s governments of the provinces, autonomous regions or municipality where such applicants are located. A registration certificate for such medical device shall be issued upon approval. Medical devices of Class III shall be examined by the Food and Drug Administration of the State Council. A registration certificate for such medical device shall be issued upon approval. In case of any substantial change of the designs, raw materials, production technologies, scopes of application and application methods, *etc.*, of the registered medical device products of Class II or Class III, which may affect the safety and effectiveness of such medical devices, the registrants shall apply to the original registration departments for undergoing the formalities for registration modification. In case of any non-substantial change thereof, which do not affect the safety and effectiveness of such medical devices, the information on the change shall be reported to the original registration departments for filings.

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The registration certificate for a medical device is valid for five years and the registrant shall apply to the food and drug supervision and administration departments for renewal six months prior to its expiration date.

Pursuant to the Administrative Measures for the Registration of Medical Devices (醫療器械註冊管理辦法), clinical trials are not necessary for the record-filing of Class I medical devices, but are required for applications for the registration of Class II and Class III medical devices. However, medical devices may be exempt from clinical trials under any of the following circumstances:

- (1) The same categories of the marketed medical devices with clear and definite working mechanisms, finalized designs and mature production technologies have been put into clinical application for years, with no record of severely adverse event and with their general purposes unchanged;
- (2) The safety and effectiveness of such medical devices can be proved through non-clinical evaluation;
- (3) The safety and effectiveness of such medical devices can be proved through the analysis and evaluation of the data obtained from the clinical trials or clinical application of the same categories of medical devices.

The medical device catalog of clinical trial exemption shall be formulated, amended and promulgated by the NMPA. Medical device products that are not included in the catalog shall be analyzed and evaluated through the data obtained from the clinical trials or clinical application of the same categories of medical devices. Where the safety and effectiveness of such medical devices can be proved, registrant may specify in the course of registration application and submit relevant proofing materials.

On March 1, 2016, the CFDA and NHC jointly circulated Good Clinical Practice for Medical Device Trials (醫療器械臨床試驗質量管理規範) to instruct and supervise the overall process of a medical device clinical trial from protocol design, implementation, monitoring, auditing and inspection to data collection, recording, analysis and final reporting.

Production permit of medical devices

Pursuant to the Regulation on the Supervision and Administration of Medical Devices (醫療器械監督管理條例) and the Administrative Measures on the Production of Medical Devices (醫療器械生產監督管理辦法) amended by the CFDA and coming into effect on November 17, 2017, a manufacturer of medical device shall satisfy the following conditions:

- (1) possessing production site, environmental conditions, production equipment and professional technicians that are suitable for such medical device produced;
- (2) possessing organizations or professional examination staff and examination equipment that carry out quality examination for such medical device produced;
- (3) formulating a management system which ensures the quality of such medical device;
- (4) having capability of after-sale services that is suitable for such medical device produced;
- (5) satisfying the requirements of the provisions of product research and production technologies.

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The enterprises engaging in the production of medical devices of Class I shall make filings for such medical devices of Class I with the food and drug supervision and administration departments of the local people's governments at the districted city level and submit proofing materials of qualification to engage in the production of such medical devices. The enterprises engaging in the production of medical devices of Class II and Class III shall apply for production licenses to the food and drug supervision and administration departments of the local people's governments of the provinces, autonomous regions or municipalities, submit proofing materials of qualification to engage in the production of such medical devices and registration certificates for such medical devices produced.

A production permit for a medical device is valid for five years and the registrant shall apply to the original departments that issued such permit for renewal six months prior to its expiration date.

Production and Quality Management of Medical Devices

Pursuant to the Administrative Measures on the Supervision of the Production of Medical Devices (醫療器械生產監督管理辦法) and the Standards on Production and Quality Management of Medical Devices (醫療器械生產質量管理規範) promulgated by the CFDA on December 29, 2014 and coming into effect on March 1, 2015, an enterprise engaging in the production of medical devices shall establish and effectively maintain a quality control system in accordance to the requirements of the Standards on Production and Quality Management of Medical Devices. The enterprise engaging in the production of medical devices shall regularly conduct comprehensive self-inspection on the operation of quality management system in accordance with the requirements of the Standards on Production and Quality Management of Medical Devices and submit a self-inspection report to the food and drug supervision and administration departments of the local people's governments of the provinces, autonomous regions, municipalities or the districted city level before the end of every year. The enterprise shall enhance its procurement management and assess its suppliers by establishing an examination system to ensure the purchased products are in compliance with the statutory requirements. The enterprise shall record the procurement, production and inspection of raw materials. Such records shall be true, accurate, complete and traceable.

The enterprise shall apply risk management to the whole process of design and development, production, sales and after-sale services. The measures being adopted shall be applicable to risks of the related products.

Permit for Medical Device Operation

Pursuant to the Regulations on the Supervision and Administration of Medical Devices, an enterprise engaging in the operation of medical devices shall have business premises and storage facilities suitable for the operation scale and scope, and shall have a quality control organ or personnel suitable for the medical devices it operates. An enterprise engaged in the distribution of Class II medical devices shall keep a record with the municipal level food and drug administration and provide proofing materials for satisfying the relevant conditions of engaging in the operation of medical devices, while an enterprise engaged in the distribution of Class III medical devices shall apply for an operation permit to the municipal level food and drug administration and provide proofing materials for satisfying the relevant conditions of engaging in the operation of medical devices.

The food and drug supervision and administration department which accepts operation permit application shall review and examine (if necessary), and will grant the operation permit if the enterprise meets the prescribed requirements. An operation permit is valid for five years and may be renewed pursuant to the relevant regulations. An enterprise engaging in medical devices operation shall not operate or use any medical device that has not been legally registered, without qualification certificate, outdated, invalid or disqualified.

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Medical Device Recalls

Pursuant to the Administrative Measures for Medical Device Recalls (醫療器械召回管理辦法), which was promulgated by the CFDA on January 25, 2017 and came into effect on May 1, 2017, in light of the severity harm, medical device recalls are divided into: (1) class I recall where the circumstances leading to the recall may cause or have caused serious health hazards; (2) class II recall where the circumstances leading to the recall may cause or have caused temporary or reversible health hazards; or (3) class III recall where the circumstances leading to the recall are not likely to cause harm.

Medical device manufacturers shall determine the recall class based on the specific situation and properly design and implement the recall plan based on the recall class and the sale and use of the medical devices. In terms of class I recall, the recall notice shall be published on the NMPA website and major media. In terms of class II and class III recalls, the recall notice shall be published on the website of the food and drug administrative authority of the provinces, autonomous regions or municipalities.

Advertisements of Medical Devices

The State Administration for Market Regulation (the “SAMR”) promulgated the Interim Administrative Measures for Censorship of Advertisements for Drugs, Medical Devices, Dietary Supplements and Foods for Special Medical Purpose (藥品、醫療器械、保健食品、特殊醫學用途配方食品廣告審查管理暫行辦法) (the “Interim Measures for Advertisements”) on December 24, 2019, which came into effect on March 1, 2020 and replaced the Measures for the Examination of Medical Devices Advertisements (醫療器械廣告審查辦法).

According to the Interim Measures for Advertisements, no advertisement for any drug, medical device, dietary supplement or food for special medical purpose may be published without censorship. The SAMR shall be responsible for organizing and guiding the censorship of advertisements for drugs, medical devices, dietary supplements and foods for special medical purpose. Departments for market regulation and drug administration of provinces, autonomous regions and municipalities directly under the central government shall be responsible for the censorship of advertisements for drugs, medical devices, dietary supplements and foods for special medical purpose and may legally entrust other administrative authorities with specifically carrying out advertisement censorship. Advertisements for drugs, medical devices, dietary supplements and foods for special medical purpose shall be authentic and legal, and shall not contain any false or misleading content.

Pursuant to the Advertising Law of the PRC (中華人民共和國廣告法) issued by the Standing Committee of the National People’s Congress (the “SCNPC”) on October 27, 1994 and last amended on October 26, 2018, any advertisement for medical treatment, pharmaceuticals or medical devices shall not contain the following items:

- (1) any assertion or guarantee for efficacy and safety;
- (2) any statement on cure rate or effective rate;
- (3) comparison with the efficacy and safety of other pharmaceuticals or medical devices or with other medical institutions;
- (4) use of the advertisement endorsers to make endorsements or testimonials; or
- (5) other items as prohibited by laws and administrative regulations.

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Any advertisement for medical devices intended for personal use shall indicate the words “please read the product specifications carefully or purchase and use the product according to the suggestions of medical personnel” conspicuously. If any registered certificate of a medical device product contains any contraindication and precaution, the advertisement for the product shall indicate the words “for the contraindication and precaution, please refer to the specifications” conspicuously. Advertisements for medical treatment, pharmaceuticals, medical devices, agricultural pesticides, veterinary medicines and healthcare food, and other advertisements required to be reviewed by laws and administrative regulations shall be reviewed by the relevant authorities before they are published. No such advertisement shall be published without being reviewed.

OTHER SIGNIFICANT LAWS AND REGULATIONS OF THE PRC AFFECTING OUR BUSINESS

Foreign Investment

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020 Edition) (外商投資準入特別管理措施(負面清單)(2020年版)) (the “Catalogue”), which was newly amended and promulgated by the Ministry of Commerce of the People’s Republic of China (“MOFCOM”) and the NDRC on June 23, 2020. The Catalogue, as amended, became effective on July 23, 2020 and contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of restricted foreign-invested industries and prohibited foreign-invested industries. Restricted category projects are subject to higher-level government approvals. Furthermore, foreign investors are not allowed to invest in companies in industries in the prohibited category. Any industry not listed in the Catalogue is a permitted industry, and is generally open to foreign investment unless specifically prohibited or restricted by the PRC laws and regulations. The medical device industry in which our PRC subsidiaries are primarily engaged does not fall into the category of restricted or prohibited foreign-invested industries.

The establishment procedures, examination and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are governed by the Foreign Investment Law of the PRC (中華人民共和國外商投資法), (the “Foreign Investment Law”), which was adopted by the National People’s Congress of the PRC on March 15, 2019 and became effective on January 1, 2020, the Implementing Regulations of the Foreign Investment Law of the (中華人民共和國外商投資法實施條例), which was promulgated on December 26, 2019, and became effective on January 1, 2020, and the PRC Company Law (中華人民共和國公司法) which was amended by the SCNPC and became effective on October 26, 2018.

On December 30, 2019, MOFCOM and the SAMR issued the Measures for the Reporting of Foreign Investment Information (外商投資信息報告辦法), which came into effect on January 1, 2020. Since January 1, 2020, for carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to these measures.

On August 8, 2006, six PRC regulatory agencies, namely, MOFCOM, the State-owned Assets Supervision and Administration Commission of the PRC, the State Administration of Taxation (the “SAT”), the State Administration for Industry and Commerce, the China Securities Regulatory Commission, and the State Administration of Foreign Exchange (the “SAFE”), jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”), which became effective on September 8, 2006 and were amended by MOFCOM on June 22, 2009. The M&A Rules require, among others, that a foreign investor acquiring the equity interest in a non-foreign invested PRC enterprise or purchasing and operating the asset of such enterprise by establishing a foreign invested enterprise shall comply with relevant foreign investment industry policies and shall be subject to approval by MOFCOM or its local competent authorities.

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Product Liability and Protection of Consumers' Rights

Pursuant to the Product Quality Law of the PRC (中華人民共和國產品質量法) amended by the SCNPC and coming into effect on December 29, 2018, producers and sellers shall have their own proper regulations for the management of product quality, rigorously implementing post-oriented quality regulations, quality liabilities and relevant measures for their assessment. Producers and sellers are responsible for the product quality according to the provisions of the laws.

The product quality supervision and administration departments of the State Council are responsible for the supervision and administration of the quality of products of the whole country. All relevant departments of the State Council shall be responsible for the supervision of product quality within their own functions and duties.

Quality of products shall pass standard examinations and it is not allowed to pass off sub-standard products as standard ones. Industrial products which may be hazardous to the health of the people and the safety of lives and property shall conform to the State and trade standards for ensuring the health of the people and safety of lives and property. In absence of such State or trade standards, the products shall conform to the minimum requirements for ensuring the health of the people and the safety of lives and property. It shall be prohibited to produce or sell industrial products that do not meet the requirements and demands for physical health and safety of body and property. Producers or sellers shall be responsible for any compensation arising from their unlawful acts such as production or sales of defective, eliminated or ineffective products, faking the place of origin or quality marks, mixing or adulterating products or passing off imitations as genuine, substandard products as quality ones or non-conforming products as conforming. Proceeds from the sales may be confiscated, the business license may be revoked and penalties may be imposed. If the case is serious, criminal responsibilities shall be investigated. Producers or sellers shall be liable for any damage to any person or property due to the defects of products resulting from the default of the producers or sellers.

Pursuant to the General Rules of the Civil Law of the PRC (中華人民共和國民法總則) promulgated by the National People's Congress on March 15, 2017 and General Principles of the Civil Law of the PRC (中華人民共和國民法通則) promulgated by the National People's Congress on April 12, 1986, amended and became effective on August 27, 2009, both manufacturers and sellers shall be held liable where relevant defective products result in damage to property of others or bodily injuries. Pursuant to Civil Code of the PRC (民法典) promulgated by National People's Congress on May 28, 2020 and came into effect on January 1, 2021, both manufacturers and sellers shall be held liable where relevant defective products result in damage to property of others or bodily injuries.

Tort Law

Pursuant to the Civil Code of the PRC, manufacturers shall assume tort liability where the defects in relevant products cause damage to others. Sellers shall assume tort liability where the defects in relevant products causing damage to others are attributable to the sellers. The aggrieved party may claim for compensation from the manufacturer or the seller of the relevant product in which the defects have caused damage.

Labor and Social Warfare

Pursuant to the PRC Labor Law (中華人民共和國勞動法), which was promulgated by the SCNPC on July 5, 1994 and became effective on January 1, 1995 and subsequently amended on August 27, 2009 and December 29, 2018, the PRC Employment Contract Law (中華人民共和國勞動合同法), which was promulgated by the SCNPC on June 29, 2007 and subsequently amended on December 28, 2012 and became effective on July 1, 2013, and the Implementing Regulations of the Employment Contracts Law

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of the PRC (中華人民共和國勞動合同法實施條例), which was promulgated by the State Council and became effective on September 18, 2008, employment contracts in written form shall be executed to establish labor relationships between employers and employees. Wages cannot be lower than local minimum wage. The employer must establish a system for labor safety and sanitation, strictly abide by State rules and standards, provide education regarding labor safety and sanitation to its employees, provide employees with labor safety and sanitation conditions and necessary protection materials in compliance with State rules, and carry out regular health examination for employees engaged in work involving occupational hazards.

Social insurance

As required under the Regulation of Insurance for Labor Injury (工傷保險條例) effective on January 1, 2004 and amended on December 20, 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (企業職工生育保險試行辦法) effective on January 1, 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance of the State Council (國務院關於建立統一的企業職工基本養老保險制度的決定) issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (國務院關於建立城鎮職工基本醫療保險制度的決定) promulgated on December 14, 1998, The Unemployment Insurance Measures (失業保險條例) promulgated on January 22, 1999 and the Social Insurance Law of the PRC (中華人民共和國社會保險法) effective on July 1, 2011 and subsequently amended on December 29, 2018, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

Housing reserve fund

In accordance with the Regulations on the Management of Housing reserve Funds (住房公積金管理條例) which was promulgated by the State Council in 1999 and last amended on March 24, 2019, enterprises must register at the competent managing center for housing reserve funds and upon the examination by such managing center of housing reserve funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing reserve funds. Enterprises are also required to pay and deposit housing reserve funds on behalf of their employees in full and in a timely manner.

Employee stock incentive plan

On February 15, 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Companies (關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) (the "Stock Option Rules"), which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly Listed Companies (境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程) issued by SAFE on March 28, 2007. In accordance with the Stock Option Rules and relevant rules and regulations, PRC citizens or non-PRC citizens residing in China for a continuous period of not less than one year, who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain procedures. We and our employees who are PRC citizens or who reside in China for a continuous period of not less than one year and who participate in our stock incentive plan will be subject to such regulation. In addition, SAT has issued circulars concerning employee share options or restricted shares. Under these circulars, employees working in the PRC who exercise share options, or whose restricted shares vest, will be subject to PRC

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individual income tax, or the IIT. The PRC subsidiaries of an overseas listed company have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold IIT of those employees related to their share options or restricted shares. If the employees fail to pay, or the PRC subsidiaries fail to withhold, their IIT according to relevant laws, rules and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC government authorities.

Production Safety

Pursuant to the Production Safety Law of the People's Republic of China (中華人民共和國安全生產法) amended by the SCNPC on August 31, 2014 and coming into effect on December 1, 2014, an enterprise shall provide production safety conditions as stipulated in this law and other laws, administrative regulations, national and industry standards, establish a comprehensive production safety accountability system and production safety rules and develop production safety standards to ensure production safety. Any entity that fails to provide required production safety conditions is prohibited from engaging in production activities.

The person-in-charge of an enterprise shall be fully responsible for the safety of production of the enterprise. An enterprise having more than 100 employees shall establish a department or engage personnel managing production safety specifically. Personnel who is responsible for managing production safety shall inspect the safety of production regularly based on the characteristics of production of the enterprise and shall deal with any safety issue identified during the inspection in a timely manner. Any unsolved issue shall be reported to the person-in-charge in a timely manner and the person-in-charge shall solve such issue immediately. The inspection and measures taken shall be duly recorded. Enterprises and institutions shall provide their employees with trainings on production safety and shall truthfully inform their employees of any potential risks in relation to the workplace and duties, preventive measures and emergency measures. Labor union shall inspect the production safety in accordance with the laws. The formulation of, and amendments to, production safety rules shall take the opinion of labor union into account. In addition, an enterprise shall provide its employees with protective equipment that meet the national or industry standards and supervise and train them to use such equipment.

Regulations relating to Personal Information Protection

Pursuant to the Civil Code of the PRC, the personal information of a natural person shall be protected by the law. Any organization or individual shall legally obtain such personal information of others when necessary and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others. Pursuant to the Ninth Amendment to the Criminal Law (刑法修正案(九)) issued by the SCNPC in August 29, 2015, which became effective in November 1, 2015, entity who sells or provides any citizen's personal information in violation of the relevant provisions shall be subject to criminal penalty. In addition, Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Personal Information (最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋), issued on May 8, 2017 and effective as of June 1, 2017, clarified certain standards for the conviction and sentencing of the criminals in relation to personal information infringement.

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Taxation

Income Tax

Pursuant to the EIT Law (中華人民共和國企業所得稅法) amended by the SCNPC and coming into effect on December 29, 2018 and the Implementation Rules of the EIT Law (中華人民共和國企業所得稅法實施條例) amended by the State Council and coming into effect on April 23, 2019, a domestic enterprise which is established within the PRC in accordance with the laws or established in accordance with any laws of foreign country (region) but with an actual management entity within the PRC shall be regarded as a resident enterprise. A resident enterprise shall be subject to an EIT of 25% of any income generated within or outside the PRC.

Enterprises that are recognized as high and new technology enterprises in accordance with the Notice of the Ministry of Science, the Ministry of Finance (the “MOF”) and SAT on Amending and Issuing the Administrative Measures for the Determination of High and New Tech Enterprises (科技部、財政部、國家稅務總局關於修訂印發《高新技術企業認定管理辦法》的通知) issued on January 29, 2016 are entitled to enjoy the preferential enterprise income tax rate of 15%. The validity period of the high and new technology enterprise qualification shall be three years from the date of issuance of the certificate of high and new technology enterprise. The enterprise can re-apply for such recognition as a high and new technology enterprise before or after the previous certificate expires.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (關於境外注冊中資控股企業依據實際管理機構標準實施居民企業認定有關問題的通知) promulgated by SAT on April 22, 2009 and amended on January 29, 2014 sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

The EIT Law provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are “non-resident enterprises,” and gains derived by such investors, which (a) do not have an establishment or place of business in the PRC or (b) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which our non-PRC shareholders reside.

Value-added Tax

Pursuant to the Provisional Regulations of the PRC on Value-Added Tax (中華人民共和國增值稅暫行條例), which was promulgated by the State Council on December 13, 1993 and amended on November 10, 2008, February 6, 2016 and November 19, 2017, and the Implementation Rules for the Implementation of the Provisional Regulations of the PRC on Value-Added Tax (中華人民共和國增值稅暫行條例實施細則), which was promulgated by the MOF and SAT on December 18, 2008 and became effective on January 1, 2009 and as amended on October 28, 2011, entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax (“VAT”).

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Since January 1, 2012, the MOF and SAT have implemented the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (營業稅改徵增值稅試點方案) (the “VAT Pilot Plan”), which imposes VAT in lieu of business tax for certain “modern service industries” in certain regions and eventually expanded to nation-wide application in 2013. According to the implementation circulars released by the MOF and SAT on the VAT Pilot Program, the “modern service industries” include research, development and technology services, information technology services, cultural innovation services, logistics support, lease of corporeal properties, attestation and consulting services. Following the implementation of the VAT Pilot Plan, most of our PRC subsidiaries and affiliates have been subject to VAT, at a rate of 6% or 17%, instead of business tax. Pursuant to the Notice on Adjusting Value-added Tax Rates (關於調整增值稅稅率的通知), which was jointly promulgated by the MOF and SAT on April 4, 2018 and came into effect on May 1, 2018, where a taxpayer engages in a taxable sales activity for the VAT purpose or imports goods, the previous applicable 17% tax rates are adjusted to be 16%. On March 20, 2019, the MOF, SAT and General Administration of Customs jointly promulgated the Announcement on Policies for Deeping the VAT Reform (關於深化增值稅改革有關政策的公告) (the “Notice 39”), which came into effect on April 1, 2019. Notice 39 further changes the VAT tax rates of 16% to 13%.

Intellectual Property

Patents

Pursuant to the Patent Law of the PRC (中華人民共和國專利法) (the “Patent Law”) promulgated by the SCNPC on March 12, 1984, lastly amended on October 17, 2020 and effective from June 1, 2021 and the Implementation Rules of the Patent Law of the PRC (中華人民共和國專利法實施細則), promulgated by the State Council on June 15, 2001 and lastly amended on January 9, 2010, there are three types of patent in the PRC: invention patent, utility model patent and design patent. The protection period is 20 years for invention patent and 10 years for utility model patent and design patent, commencing from their respective application dates. Any individual or entity that utilizes a patent or conducts any other activity in infringement of a patent without prior authorization of the patentee shall pay compensation to the patentee and stop such activities of infringement and, if constituting a crime, shall be held criminally liable in accordance with the law.

Existing patents can become narrowed, invalid or unenforceable due to a variety of grounds, including lack of novelty, creativity, and deficiencies in patent application. In China, a patent must have novelty, creativity and practical applicability. Under the Patent Law, novelty means that before a patent application is filed, no identical invention or utility model has been publicly disclosed in any publication in China or overseas or has been publicly used or made known to the public by any other means, whether in or outside of China, nor has any other person filed with the patent authority an application that describes an identical invention or utility model and is recorded in patent application documents or patent documents published after the filing date. Creativity means that, compared with existing technology, an invention has prominent substantial features and represents notable progress, and a utility model has substantial features and represents any progress. Practical applicability means an invention or utility model can be manufactured or used and may produce positive results. Patents in China are filed with the China National Intellectual Property Administration (the “CNIPA”). Normally, the CNIPA publishes an application for an invention patent within 18 months after the filing date, which may be shortened at the request of applicant. The applicant must apply to the CNIPA for a substantive examination within three years from the date of application.

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Trademarks

The Trademark Law of the PRC (中華人民共和國商標法) amended by the SCNPC on April 23, 2019 and coming into effect on November 1, 2019 and the Implementation Rules of the Trademark Law of the PRC (中華人民共和國商標法實施條例) amended by the State Council on April 29, 2014 and coming into effect on May 1, 2014, stipulate the application, examination and approval, renewal, alternation, transfer, use and invalidation of trademark registration, and protect the trademark rights entitled to trademark registrants. According to the aforesaid laws and regulations, the registration of a trademark shall be valid for 10 years from the date of approval. Upon the expiry of the trademark registration, a renewal shall be made in accordance with requirements within 12 months if necessary. If the renewal is not made within the stipulated period, the valid period may be extended for a further period of six months. Each renewal of registration of trademark shall be valid for 10 years from the date of the expiry of the previous trademark registration. A trademark registrant may license others the right to use his/her trademark by entering into a trademark license agreement.

Domain Names

Pursuant to the Administrative Measures for Internet Domain Names (互聯網域名管理辦法) promulgated by the Ministry of Industry and Information Technology on August 24, 2017 and effective from November 1, 2017, “domain name” shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of such computer. The principle of “first come, first served” applies to domain name registration service. After completing the domain name registration, the applicant will become the holder of the registered domain name. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay corresponding fees as required, the original domain name registry shall deregister the relevant domain name and notify the holder of deregistration in written forms.

Environmental Protection

Construction Project Environment Protection

The main PRC environmental protection laws and regulations applicable to us include the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “Environmental Protection Law”), which was promulgated by the SCNPC on December 26, 1989 and whose amendments were made on April 24, 2014 and became effective as from January 1, 2015, the Appraising of Environmental Impacts Law of the PRC (中華人民共和國環境影響評價法) (the “Appraising of Environmental Impacts Law”) promulgated by the SCNPC on October 28, 2002 and last amended on December 29, 2018 and, the Regulations on Administration of Construction Project Environmental Protection (建設項目環境保護管理條例) promulgated by the State Council and effective as from November 29, 1998, amended on July 16, 2017 and effective as from October 1, 2017, the Rules on the Administration of Filing of Environmental Impact Registration Form of the Construction Project (建設項目環境影響登記表備案管理辦法) promulgated by the Ministry of Environmental Protection on November 16, 2016 and effective as from January 1, 2017 and other relevant laws and regulations.

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In accordance with the Appraising of Environmental Impacts Law and the Regulations on Administration of Construction Project Environmental Protection, the development of each construction project is subject to the environmental impact assessment which assesses the pollution the construction project is likely to produce and its impact on the environment and stipulates the preventive and curative measures. The environmental impact report and environmental impact statement of a construction project shall be submitted to the relevant environmental protection authorities for examination and approval and the State implements the record-filing administration over the environmental impact registration forms. In accordance with the Rules on Acceptance Inspection, after completion of the project, the construction entity shall also apply to the relevant environmental protection authorities for checks and acceptance of the corresponding environmental protection facilities. The said construction project may be put into operation or use only after the completion of the said checks and acceptance procedures.

Pollutant Discharge

The Environmental Protection Law stipulates that the government shall implement the pollutant emission license administration system. Pollutant discharge by enterprises, public institutions and other producers and business operators is subject to relevant pollutant emission license. The Environmental Protection Law requires any entity operating a facility that produces pollutants or other hazardous materials to adopt environmental protection measures in its operations, and to establish an environmental protection responsibility management system. Effective measures to control and properly dispose of waste gas, waste water, waste residue, dust or other waste materials shall be adopted. Any entity operating a facility that discharges pollutants shall report to and register with the competent authority pursuant to applicable regulations. According to the Environmental Protection Law, in the event that an entity discharges pollutants in violation of the pollutant discharge standards or volume control requirement, the entity would be subject to administrative penalties, including order to suspend business for rectification, and even order to terminate or close down business under severe circumstances.

Overseas Investment

Pursuant to the Administrative Measures for the Outbound Investment of Enterprises (企業境外投資管理辦法), which was promulgated by the NDRC on December 26, 2017 and became effective on March 1, 2018, the State adopts approval administration and filing administration for overseas investment projects respectively according to different circumstances. An overseas investment project that involves any sensitive country or region or any sensitive industry is to be approved by the NDRC. Under the circumstances, with regard to an overseas investment project that has the Chinese party's investment amount of not less than US\$300 million, the NDRC is in charge of the record-filing.

Pursuant to the Measures on the Administration of Overseas Investment (境外投資管理辦法), promulgated by MOFCOM on September 6, 2014 and became effective on October 6, 2014, overseas investments refer to possessing of non-financial enterprises abroad or acquisition of the ownership of, control over, business management right of, or other rights and interests of existing overseas non-financial enterprises by enterprises established in the PRC through newly establishment or mergers and acquisitions or other methods. Other than the overseas investments involving sensitive countries, regions or sensitive industries which are subject to approval, all other overseas investments are subject to filing administration.

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Foreign Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations of the PRC (中華人民共和國外匯管理條例) which was promulgated by the State Council on January 29, 1996, became effective on April 1, 1996 and was subsequently amended on January 14, 1997 and August 5, 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) which was promulgated by the People's Bank of China on June 20, 1996 and became effective on July 1, 1996. Pursuant to these regulations and other PRC rules and regulations on currency conversion, Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of SAFE or its local counterpart is obtained.

Foreign invested enterprises are permitted to convert their after tax dividends into foreign exchange and to remit such foreign exchange out of their foreign exchange bank accounts in the PRC. However, foreign exchange transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and approval from or filing with the relevant PRC government authorities (if necessary).

SAFE promulgated the Notice on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign Invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (the "Circular 19") on March 30, 2015, further expanding the extent of convertibility under direct investment. The Circular 19 stipulates that the use of capital funds and exchange settlement funds by foreign-invested enterprises shall be subject to foreign exchange management regulations, and implement negative list management.

On June 9, 2016, SAFE promulgated the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (the "SAFE Circular 16"). The SAFE Circular 16 unifies the Discretionary Foreign Exchange Settlement for all the domestic institutions. The Discretionary Foreign Exchange Settlement refers to the foreign exchange capital in the capital account which has been confirmed by the relevant policies subject to the Discretionary Foreign Exchange Settlement (including foreign exchange capital, foreign loans and funds remitted from the proceeds from the overseas listing) can be settled at the banks based on the actual operational needs of the domestic institutions. The proportion of Discretionary Foreign Exchange Settlement of the foreign exchange capital is temporarily determined as 100%. Violations of the Circular 19 or the SAFE Circular 16 could result in administrative penalties in accordance with the Regulations of the People's Republic of China on Foreign Exchange Control and relevant provisions.

Furthermore, SAFE Circular 16 stipulates that the use of foreign exchange incomes of capital accounts by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The foreign exchange incomes of capital accounts and capital in Renminbi obtained by the foreign invested enterprises from foreign exchange settlement shall not be used for the following purposes: (1) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (2) directly or indirectly used for investment in securities or financial schemes other than bank guaranteed products unless otherwise provided by relevant laws and regulations; (3) used for granting loans to non-connected enterprises, unless otherwise permitted by its business scope; and (4) used for the construction or purchase of real estate that is not for self-use (except for the real estate enterprises).

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SAFE Circular 37

On October 21, 2005, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicle and Investing Back in China by Domestic Residents (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), which became effective on November 1, 2005 (the “Circular 75”). The notice requires PRC domestic resident natural persons to register or file with the local SAFE branch in the following circumstances: (1) before establishing or controlling any company outside the PRC for the purpose of capital financing, (2) after contributing their assets or shares of a domestic enterprise into overseas special purpose vehicles, or raising funds overseas after such contributions, and (3) after any major change in the share capital of the special purpose vehicle without any round-trip investment being made. On July 4, 2014, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments by Domestic Residents through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “Circular 37”) for the purpose of simplifying the approval process and for the promotion of the cross-border investment. The Circular 37 supersedes the Circular 75 and revises and regulates the relevant matters involving foreign exchange registration for round-trip investment. Under the Circular 37, in the event the change of basic information of the registered offshore special purpose vehicle such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration formality for offshore investment. In addition, according the procedural guideline as attached to the Circular 37, the principle of review has been changed to “the domestic individual resident only registered the SPV directly established or controlled (first level).” At the same time, SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment (返程投資外匯管理所涉業務操作指引) with respect to the procedures for SAFE registration under the Circular 37, which became effective on July 4, 2014 as an attachment to Circular 37.

Under the relevant rules, failure to comply with the registration procedures set forth in the Circular 37 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 may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who hold any shares in the company from time to time are required to register with SAFE in connection with their investments in the company.

OUR HISTORY AND CORPORATE DEVELOPMENT

OVERVIEW

We are a leading clear aligner solution provider in China. China's clear aligner treatment solution market is highly concentrated, with the top two market players accounting for an aggregate market share of 82.4% in 2020 in terms of case shipments, according to the CIC Report. We had a market share of approximately 41.0% in the same year, according to the same source.

Our history can be traced back to the year of 2003 when we co-developed the first clear aligner treatment solution in China. In the same year, Ms. LI Huamin (“Ms. Li”) together with a group of dental professionals and scientists from leading medical institutes and universities co-founded our Group and established Beijing EA as our first operating entity. In 2010, in order to expand our production capability, we established Wuxi EA and moved our manufacturing center to Wuxi City, Jiangsu Province, China. In 2011, we built our 3D printing base in Wuxi City, beginning to apply 3D printing technology into our standardized production process. In the same year, in order to enhance our sales and operating capability, we established Shanghai EA and moved our operating center to Shanghai, China. As of the Latest Practicable Date, we maintained our operating center in Shanghai and our manufacturing and research and development center in Wuxi City.

We received funds and support from many reputable investors throughout the development of our Group. In June 2015, CareCapital Group, a long-term investment and operating group committed to dental and oral care industry for the digital age, acquired all the equity interests held by the then existing investors of our Group through CareCapital Holdings, and became our controlling shareholder. Its co-founder and managing partner Mr. FENG Dai became Chairman of the Board. See “— Our History and Major Corporate Developments Prior to the Reorganization — CareCapital Group and CareCapital Investment” for more information of such investment.

In anticipation of the Listing, we incorporated our Company in the Cayman Islands as a listing entity in November 2018 and underwent a series of reorganization to transfer the respective interests of our shareholders held in our PRC operating platform, Wuxi EA into our Company. The Reorganization was completed in December 2020. See “— Our Reorganization” for details.

As of the Latest Practicable Date, our Company was owned as to 67.1242% by CareCapital Orthotech, which is controlled by CareCapital Group and Mr. FENG Dai, 15.8798% by Sky Honour Enterprises Limited, which is controlled by Ms. Li, our executive Director and chief executive officer, and 16.9960% by certain minority shareholders such as our investors and certain other Directors, senior management and employees respectively. See “— Our Corporate Structure” and “Directors and Senior Management” for more information.

OUR MILESTONES

The following table sets forth major events and milestones in the development of our business:

<u>Year</u>	<u>Event</u>
2003	We co-developed the first clear aligner treatment solution in China.
2006	Our <i>Angelalign</i> was approved by State Food and Drug Administration (國家食品藥品監督管理局). Our <i>Angelalign</i> became the first clear aligner treatment technology that was granted patent in China. We started to commercialize our clear aligners products.
2007	We built our 3D printing production line in Beijing, which was the first 3D printing production line for clear aligners in China.

OUR HISTORY AND CORPORATE DEVELOPMENT

<u>Year</u>	<u>Event</u>
2010	We moved our manufacturing center to Wuxi City and expanded our production capacity.
2011	We built our oral 3D printing base in Wuxi City and started applying 3D printing technology into our standardized production process. We moved our operating center to Shanghai.
2013	Our <i>iOrtho</i> service platform was launched.
2014	The first <i>A-Tech Forum</i> was initiated and held by us.
2015	CareCapital Group invested in us and became our controlling shareholder.
2016	Our <i>Angelalign Pro</i> was launched.
2017	We have been appointed as a sponsor by the Bureau of Training of General Administration of Sport of China (國家體育總局訓練局) to provide clear aligner treatment for national athletes since 2017, with our clear aligners being designated as the Approved Products for National Team Athletes. Our <i>COMFOS</i> was launched.
2019	Our <i>Angelalign Kid</i> was launched.
2020	We commenced the construction of our Chuangmei Center (時代天使創美基地) in Wuxi City, which is expected to be our research and development and manufacturing center.

OUR COMPANY AND PRINCIPAL SUBSIDIARIES

Our Company and Wuxi EA

Our Company was incorporated as an exempted limited liability company under the laws of Cayman Islands on November 29, 2018 with an authorized share capital of US\$50,000 divided into 5,000,000 shares with a par value of US\$0.01 each.

Prior to the Reorganization, we operated our business through Wuxi EA, a company established under the laws of the PRC in February 2010 and was wholly-owned by CareCapital Orthotech prior to December 2016. From December 2016 to December 2020, CareCapital Orthotech transferred or sold certain equity interests of Wuxi EA to several limited partnerships established and beneficially owned by certain of our Directors, senior management and employees as incentive shares in recognition of their contribution to the Group or for their investment in our Group. See “— Our History and Major Corporate Developments Prior to the Reorganization” for more information. As such, immediately prior to the completion of the Reorganization, Wuxi EA was owned as to 67.7896% by CareCapital Orthotech and 32.2104% by several limited partnerships that were respectively beneficially owned by certain of our Directors, senior management and employees.

In anticipation of the Listing, we underwent a series of reorganization and established our offshore corporate structure, including incorporation of our Company as the listing entity and issuance of Shares to all the beneficial owners of equity interests in Wuxi EA to transfer their respective interests in Wuxi

OUR HISTORY AND CORPORATE DEVELOPMENT

EA into our Company. See “— Our Reorganization” for more information. The Reorganization was completed in December 2020. Immediately upon the completion of the Reorganization, our Company was owned as to 67.7896% by CareCapital Orthotech, a company controlled by CareCapital Group, and 32.2104% by certain Directors, senior management and employees of our Group.

In December 2020, our Company issued a total of 10,023 new shares of our Company with par value of US\$0.01 each to Wuxi Jinhe Venture Investment Co., Ltd. (無錫市金禾創業投資有限公司) (“Wuxi Jinhe”), a pre-IPO investor and an independent third party, at the consideration of US dollar equivalent to RMB39,720,000. See “— Pre-IPO Investments” for more information. On the same day, our Company also issued an aggregate of 4,600 new shares of our Company with par value of US\$0.01 each to certain Directors, senior management and employees of our Company for incentive purposes.

As of the Latest Practicable Date, our Company was owned as to 67.1242% by CareCapital Orthotech, which is controlled by CareCapital Group and Mr. FENG Dai, 15.8798% by Sky Honour Enterprises Limited, which is controlled by Ms. Li, our executive Director and chief executive officer, and 16.9960% by certain minority shareholders such as our investors and certain other Directors, senior management and employees. See “— Our Corporate Structure” for details.

Share Subdivisions

In May 2021, our Shareholders resolved that, among other things, each of our issued and unissued shares of US\$0.01 par value each be subdivided into 100 Shares of our Company with par value of US\$0.0001 each, after which, the authorized share capital of our Company shall be US\$50,000 divided into 500,000,000 Shares with par value of US\$0.0001 each.

Our Principal Subsidiaries

The following subsidiaries of our Group had made material contribution to our results of operations during the Track Record Period and up to the Latest Practicable Date:

<u>Name</u>	<u>Place of establishment</u>	<u>Date of Establishment</u>	<u>Equity interests held by our Group</u>	<u>Principal Business Activities</u>
Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司)	PRC	February 10, 2010	100%	Research and development, product design and manufacturing
Shanghai EA Medical Instruments Co., Ltd. (上海時代天使醫療器械有限公司)	PRC	September 5, 2011	100%	Research and development, sales and marketing, general management
Shuyang EA Medical Instruments Co., Ltd. (滄陽時代天使醫療器械有限公司) (“Shuyang EA”)	PRC	January 6, 2017	100%	Sales and marketing
Wuxi EA Bio-Tech Co., Ltd. (無錫時代天使生物科技有限公司) (“Wuxi EA Biotec”)	PRC	July 11, 2018	100%	Research and development, and manufacturing

OUR HISTORY AND CORPORATE DEVELOPMENT

OUR HISTORY AND MAJOR CORPORATE DEVELOPMENTS PRIOR TO THE REORGANIZATION

Founding and Early History of our Group

Our history can be traced back to the year of 2003 when we co-developed the first clear aligner treatment solution in China. In the same year, Ms. LI Huamin together with a group of dental professionals and scientists from leading medical institutes and universities co-founded our Group and established our first operating entity, Beijing EA Bio-Tech Co., Ltd. (北京時代天使生物科技有限公司) (“Beijing EA”). Since our establishment and prior to 2010, Beijing EA had been the operating platform of our Group.

In 2010, in order to expand our production capability, we established Wuxi EA and moved our manufacturing center to Wuxi City, Jiangsu Province, China. In 2011, we built our 3D printing base in Wuxi City in the same year, starting to applying 3D printing technology into our standardized production process. In the same year, in order to enhance our sales and operating capability, we established Shanghai EA and moved our operating center to Shanghai, China. As of the Latest Practicable Date, we maintained our operating center in Shanghai and our manufacturing and research and development center in Wuxi City.

In 2010, to seek financing from reputable international institutional investors, we established our offshore corporate structure and incorporated EA Inc. (“EA,” currently known as CareCapital EA, Inc.) as our then offshore holding company. From 2010 to 2015, we completed three rounds of financing from reputable international investors, raising an aggregate amount of US\$24.2 million to support our development. We have established our in-house R&D team and continuously invested in implementation and refinement of system and software, and formed comprehensive system capability in digital orthodontics encompassing manufacturing, research and development, medical capacity, and sales and marketing. See “— Pre-IPO Investments — Description of the Pre-IPO Investments and Their Principal Terms — Investments by Previous Investors” in this section for details of these investments.

CareCapital Group and CareCapital Investment

CareCapital Investment

In June 2015, CareCapital Group acquired all the shares of EA, our then offshore holding company, held by Series A, A1 and B investors and became our controlling shareholder (the “CareCapital Investment”). This acquisition restructured and consolidated our Group’s fragmented shareholder base and CareCapital Group brought along a patient and collaborative culture that allowed management to focus on driving long-term fundamental value creation, as well as increased focus on R&D and technology. CareCapital Group places great value in fostering owner mentality and entrepreneurial-ship in management and employee talents. In addition to implementing pre-acquisition ESOP reserve by transferring 12.800% of total equity interest to management and employees, CareCapital Group also transferred 8.3628% of total equity interest to certain management of our Group, including CEO Ms. LI Huamin in 2015. Furthermore, our board has implemented a series of employee share award programs subsequently by granting 6.7099% of total equity interest to executives, senior managers and talented employees. This laid the ground for solid business performance ever since.

The aggregate consideration for the CareCapital Investment was approximately US\$63.94 million. CareCapital Group subsequently exercised warrants transferred from our then existing investors to subscribe into common and preferred shares of EA with an aggregate amount of US\$6.45 million. The consideration was determined based on arm’s length negotiation between the investors after taking into consideration of, among others, the comparable companies in orthodontics industry and their valuation and the growth prospects of our Group. The investment was completed in June 2015.

Since the CareCapital Investment, CareCapital Holdings has become a Controlling Shareholder. During the Track Record Period and up to the date of this prospectus, CareCapital Group has owned and controlled all the voting shares of CareCapital Holdings, and thus has been entitled to exercise all the voting rights at the general meeting of CareCapital Holdings as well as all the voting rights held by CareCapital Orthotech, which is wholly-controlled by CareCapital Holdings, at the general meeting of our Company.

OUR HISTORY AND CORPORATE DEVELOPMENT

CareCapital Group

CareCapital Group, founded in 2015, is an investment and operating group committed to building the dental and oral care industry for the digital age. CareCapital Group owns both majority and minority stakes in a variety of businesses that span the full dental industry value chain, from education and training at the very upstream, to aligners, implants, biologics, imaging equipment and intraoral scanner in the mid-upstream, to clinic management software and distribution in the midstream, and finally to dental hospitals and chain clinics in the downstream. The asset portfolio of CareCapital Group encompasses various leading players in the above subsegments of dental industry, and the geography of such portfolio spans across China, South Korea, USA and Europe. CareCapital Group brings to its portfolio companies a patient and collaborative culture for dental entrepreneurs and talented executives to realize their visions. CareCapital Group's presence in the whole global dental value chain allows its portfolio companies to deeply understand the needs of their diverse customers across different segments, and how to use software and data to meet those needs. CareCapital Group also brings about synergistic business opportunities for consideration in China and globally. Businesses in the portfolio of CareCapital Group interact with each other on an arms-length basis determined by each business management team.

Voting Arrangement

CareCapital Holdings is a company incorporated under the laws of the Cayman Islands, and is established by CareCapital Group as the holding company to invest in and manage the investment in our Group. The CareCapital Investment is one of the various investment portfolios of a capital management arrangement of CareCapital Group.

As part of the arrangements, HH Investors, as the funding provider, and CareCapital Group, as the investment manager, contributed to 96.97% and 3.03% of the funds used for the CareCapital Investment, respectively, and thus beneficially holds 96.97% and 3.03% of the shareholding of CareCapital Holdings, respectively. Pursuant to the articles of CareCapital Holdings and the shareholders agreement dated June 12, 2015 between the shareholders of CareCapital Holdings, CareCapital Group, through Mr. Feng and his wholly-owned entity, CareCapital Management Group LLC, is entitled to control all the voting interests of CareCapital Holdings and Mr. Feng, the ultimate controlling shareholder of CareCapital Group, has been the sole director of CareCapital Holdings. HH Investors, on the other hand, have been passive financial investors with no voting power at the general meeting of CareCapital Holdings or the Company and no control as to the composition of the board of directors of the Company. HH Investors have not participated in the operation of the Group nor appointed any representative of its own to the board of any members of the Group. As such, CareCapital Group controls and is responsible for the management of CareCapital Holdings and the investment in our Group.

Lock-Up Arrangement

The shares controlled by CareCapital Holdings, our Controlling Shareholder, will be subject to the lock-up requirements under Rule 10.07 of the Listing Rules, and the equity interests held by HH Investors in the CareCapital Holdings will be subject to a lock-up period of 12 months upon the Listing.

Other Major Shareholding and Corporate Changes

In December 2016, Ms. Li subscribed for 3.5833% equity interests in Wuxi EA at a consideration of US\$0.448 million as her personal investment in our Group, which was held by Ningbo Meishan Zhaomin Investment Management LLP (寧波梅山保稅港區照敏投資管理合夥企業(有限合夥)), a limited partnership controlled by Ms. Li, immediately prior to the Reorganization.

OUR HISTORY AND CORPORATE DEVELOPMENT

From December 2016 to December 2020, in recognition of the contributions of our executive Directors, management and employees and to incentivize management and employee participants with owner mentality, which laid the ground for solid business performance, an aggregate of 27.8727% of equity interests in Wuxi EA as incentive shares was transferred from CareCapital Orthotech to certain limited partnerships established as share incentive platforms for the grantees.

The following table illustrates details of the respective equity interests in Wuxi EA held by such platforms immediately prior to the Reorganization:

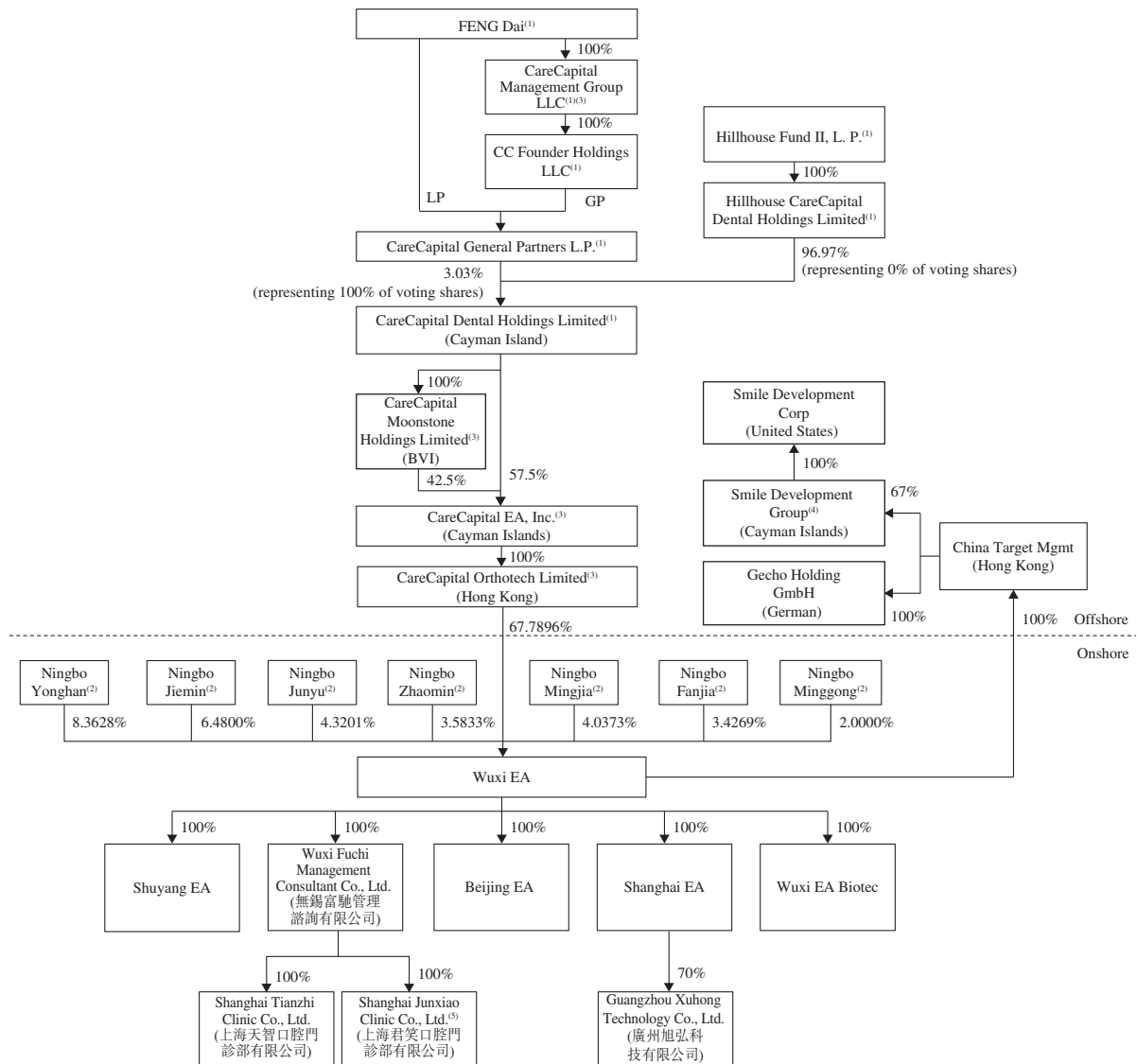
No.	Name of the platforms	Percentage of equity interest in Wuxi EA (%)
1.	Ningbo Zhaomin LLP (寧波梅山保稅港區照敏投資管理合夥企業(有限合夥)) ⁽¹⁾ (“Ningbo Zhaomin”)	3.5833
2.	Ningbo Yonghan LLP (寧波梅山保稅港區永翰投資管理合夥企業(有限合夥)) ⁽²⁾⁽⁴⁾ (“Ningbo Yonghan”)	8.3628
3.	Ningbo Jiemin LLP (寧波梅山保稅港區捷敏投資管理合夥企業(有限合夥)) ⁽²⁾⁽³⁾ (“Ningbo Jiemin”)	6.4800
4.	Ningbo Junyu LLP (寧波梅山保稅港區鈞宇投資管理合夥企業(有限合夥)) ⁽²⁾⁽⁵⁾ (“Ningbo Junyu”)	4.3201
5.	Ningbo Minggong LLP (寧波梅山保稅港區名功投資管理合夥企業(有限合夥)) ⁽²⁾⁽⁵⁾ (“Ningbo Minggong”)	2.0001
6.	Ningbo Fanjia LLP (寧波梅山保稅港區凡佳投資管理合夥企業(有限合夥)) ⁽²⁾⁽⁵⁾ (“Ningbo Fanjia”)	3.4269
7.	Ningbo Mingjia LLP (寧波梅山保稅港區名加投資管理合夥企業(有限合夥)) ⁽²⁾⁽⁵⁾ (“Ningbo Mingjia”)	4.0373
Total		32.2104⁽³⁾⁽⁴⁾⁽⁵⁾

- (1) Representing equity interests held by Ms. Li due to her self-investment. The consideration was fully paid upon the completion of the Reorganization.
- (2) The limited partners of these platforms were grantees of incentive shares of Wuxi EA and the general partners were the administrators of the respective share incentive platforms. The beneficial owners of such platforms are the same as the beneficial owners of the several holding companies established in the Reorganization. See “— Our Reorganization — Issuance of Shares to Offshore Holding Companies” and notes (2) to (8) to the corporate structure on page 118 for more information.
- (3) The limited partnership was established as share incentive platform and its general partner is Mr. CHEN Kai who was a former director and senior management of our Company and acted as general partner for such limited partnership for and on behalf of the Company.
- (4) This limited partnership was established as a share incentive platform and its general partner is Mr. HUANG Kun.
- (5) These two limited partnerships were established as share incentive platforms and their respective general partner is Ms. Li who acted as general partner for such limited partnership for and on behalf of the Company.

OUR HISTORY AND CORPORATE DEVELOPMENT

OUR REORGANIZATION

Our corporate structure immediately prior to the Reorganization was as follows:



- (1) CareCapital Holdings is ultimately controlled by CareCapital Group. In November 2020, CareCapital Group simplified its holding companies used for investing in our Group, and only retained CareCapital Management Group LLC in the shareholding structure. See “— Our History and Major Corporate Developments Prior to the Reorganization — CareCapital Group and CareCapital Investment” and “— Our Corporate Structure” for details.
- (2) See “— Our History and Major Corporate Developments Prior to the Reorganization — Other Major Shareholding and Corporate Changes” for more information.
- (3) CareCapital Orthotech Limited (松柏正畸技術有限公司) was formerly known as Rico Investments Limited (永康投資有限公司); CareCapital EA, Inc. was formerly known as EA, Inc.; CareCapital Moonstone Holdings Limited was formerly known as Moonstone Gem Holdings; CareCapital Management Group LLC was formerly known as CC Personal A Holdings LLC.
- (4) The remaining 33% equity interests are held by Kitchining, Ian David, an independent third party.
- (5) Shanghai Junxiao Clinic Co., Ltd. has been a joint venture of our Group since January 1, 2019. See Note 34 to the Accountant’s Report in Appendix I to this prospectus for details.

OUR HISTORY AND CORPORATE DEVELOPMENT

In anticipation of the Listing, we underwent the following steps of reorganization (the “Reorganization”) to restructure our corporate structure:

Incorporation of Our Company by CareCapital Orthotech

In November 2018, our Company was established as a listing vehicle in the Cayman Islands as an exempted company with limited liability. On the same date, our Company issued one share of our Company with par value of US\$0.01 each to Mapcal Limited at nominal value, which was transferred to CareCapital Orthotech on the same day.

Onshore Share Purchase by CareCapital Orthotech

In December 2020, CareCapital Orthotech purchased from the other existing shareholders of Wuxi EA all the outstanding 32.2104% equity interest in Wuxi EA at an aggregate consideration of US\$11.381 million (the “Onshore Acquisition”). The consideration was based on the initial consideration paid by such shareholders for acquisition of their respective equity interests in Wuxi EA, and was fully paid. After such acquisition, CareCapital Orthotech became the sole shareholder of Wuxi EA.

Issuance of Shares to CareCapital Orthotech

In December 2020, CareCapital Orthotech transferred 100% equity interest in Wuxi EA held by it to our Company. On the same date, our Company issued a total of 999,999 new shares of our Company with par value of US\$0.01 each to CareCapital Orthotech. After such issuance, CareCapital Orthotech owned an aggregate of 1,000,000 shares of our Company with par value of US\$0.01 each.

Issuance of Shares to Offshore Holding Companies

For the Reorganization, seven offshore holding companies were established or used by certain of our Directors, management and employees for the purpose of holding their respective corresponding equity interests in Wuxi EA prior to the Reorganization.

On December 21, 2020, our Company issued to such entities an aggregate of 475,152 shares of our Company with par value of US\$0.01 each to reflect the respective equity interests of the beneficial owners of such entities in Wuxi EA, who are Directors, senior management or employees of our Company. All the considerations were fully paid. On the same date, our Company adopted certain share incentive schemes to replace the previous onshore share incentive plans. See “— Share Award Schemes” for details.

OUR HISTORY AND CORPORATE DEVELOPMENT

The following table illustrates details of shares issued to the seven offshore holding companies and respective considerations immediately upon completion of the Reorganization:

No.	Name of the entities ⁽¹⁾	Number of Shares issued to the entity (before the Share Subdivision)	Percentage of equity interest in our Company after the Reorganization (%)
1.	Sky Honour Enterprises Limited	(a) 52,859 ⁽²⁾ (b) 181,392 ⁽³⁾	(a) 3.5833 (b) 12.2965
2.	Vast Luck Global Limited	117,204 ⁽³⁾	7.9452
3.	Noble Affluent Limited	7,172 ⁽⁴⁾	0.4814
4.	Macro Synergy Limited	3,956 ⁽⁴⁾	0.2655
5.	Ascend Benefit Limited	14,014 ⁽³⁾	0.9500
6.	Novel Boom Limited	41,427 ⁽³⁾	2.8083
7.	All Beautiful Limited	57,128 ⁽³⁾	3.8727
	Total	475,152	32.2104

- (1) These entities are controlled by their respective beneficial owners and act independently from our other shareholders. See notes (2) to (8) to the corporate structure on page 118 for details of the beneficial owners of such entities.
- (2) Representing the equity interests held by Ms. Li in Wuxi EA due to her self-investment, which was fully paid upon the completion of the Reorganization.
- (3) Representing the equity interests in Wuxi EA as awarded to executive Directors, senior management and employees of our Company as incentive shares. All the considerations were fully paid. See notes to “— Our Corporate Structure” and “— Share Award Schemes” for details.
- (4) Representing equity interests in Wuxi EA as beneficially owned by such persons prior to the Reorganization. Mr. HUANG Kun is a non-executive Director, and Mr. MAO Yibin is our former Director and currently an independent third party. All the considerations were fully paid.

Transfer of registered share capital of Shanghai Junxiao and Shanghai Tianzhi to independent third parties

After the Reorganization, Wuxi EA became a wholly-foreign owned entity. To comply with the foreign investment restrictions on clinics and hospitals under the PRC laws and regulations after the Reorganization, the Group transferred certain of the registered share capital of its wholly-owned dental clinics to independent third parties, which include the following:

- Wuxi Fuchi transferred 30% of the equity interest in Shanghai Tianzhi to an independent third party at a consideration of RMB0.9 million, which was determined based on the registered share capital of such company after arm’s length negotiation and completed in December 2018. Shanghai Tianzhi remains to be a subsidiary of our Company.
- Wuxi Fuchi transferred 30% of the equity interest in Shanghai Junxiao to an independent third party at a consideration of RMB69,000, which was determined based on the registered share capital of such company after arm’s length negotiation. Shanghai Junxiao has become a joint venture of our Company since January 1, 2019. See Note 34 to the Accountant’s Report in Appendix I to this prospectus for details.

See “— Our Corporate Structure” for details of the corporate structure of our Group after completion of the Reorganization and immediately prior to the Global Offering.

OUR HISTORY AND CORPORATE DEVELOPMENT

As advised by our PRC legal advisors, relevant PRC regulatory approvals for the Reorganization have been obtained and the Reorganization complies with the applicable laws and regulations in the PRC in all material respects.

ESTABLISHMENT OF TRUST

In January 2021, Ms. Li, our executive Director and chief executive officer, established a trust (the “Hua Family Trust”) to hold all the shares held by Sky Honour Enterprises Limited, a company ultimately controlled by Ms. Li. J.P. Morgan Trust Company (Bahamas) Limited is the trustee and Ms. Li is the settlor and beneficiary of the Hua Family Trust.

SHARE AWARD SCHEMES

Pre-IPO Share Award Schemes

In anticipation of the Listing and as part of the Reorganization, in December 2020, we adopted three offshore share award schemes (the “Pre-IPO Share Award Schemes”) to replace the previous onshore share incentive plans of Wuxi EA. See “— Our Reorganization — Issuance of Shares to Offshore Holding Companies” for details. To provide incentives to our executive Directors, senior management and employees, in December 2020 and January 2021, we further increased the number of incentive shares and granted options under the Pre-IPO Share Award Schemes.

As of the Latest Practicable Date, we issued an aggregate of 41,524,100 Shares as incentive shares and granted options for 300,000 Shares as underlying shares. The incentive Shares held by Novel Boom Limited and All Beautiful Limited will not constitute public float of the Company upon the Listing as the beneficial owners of such Shares, Novel Boom Limited and All Beautiful Limited have proxied all the voting rights attached to such Shares to the board of directors of the Company commencing from the Listing and ending on the date when such participant ceases to beneficially own any of such Shares. See “— Our Corporate Structure” and “Statutory and General Information — D. Share Award Schemes” in Appendix IV to this prospectus for details. We will comply with the requirements under Chapter 14A and other applicable rules of the Listing Rules for the Pre-IPO Share Award Schemes.

Post-IPO Share Award Schemes

We have conditionally approved and adopted the Post-IPO RSU Scheme and the Post-IPO Share Option Scheme on May 20, 2021, both of which will become effective upon the Listing. The maximum number of Shares underlying all grants of RSUs under the Post-IPO RSU Scheme and all grants of options under the Post-IPO Share Option Scheme shall not exceed 1% and 3% of our enlarged share capital immediately upon the completion of the Global Offering (assuming no exercise of the Over-allotment Option and taking into no account of any Shares that may be issued under the Share Award Schemes) respectively. See “Appendix IV — Statutory and General Information — D. Share Award Schemes — 4. Post-IPO RSU Scheme” and “Appendix IV — Statutory and General Information — D. Share Award Schemes — 5. Post-IPO Share Option Scheme” for details. We will comply with the requirements under Chapter 14A and other applicable rules of the Listing Rules for the Post-IPO Share Award Schemes.

OUR HISTORY AND CORPORATE DEVELOPMENT

PRE-IPO INVESTMENTS

Description of the Pre-IPO Investments and Their Principal Terms

To fund our rapid business expansion, we completed the following financial investments.

Investments by Previous Investors

Pursuant to the share purchase agreement dated February 26, 2010, LAU Ying Chun, OrbiMed Asia Partners, L.P. (“OrbiMed”), Favor Sky Limited and Gate Top Development Limited (collectively, “Series A Investors”) agreed to subscribe for 766,667, 12,404,636, 600,000 and 600,000 series A preferred shares at a consideration of US\$0.500 per share, respectively, representing approximately 3.0%, 47.8%, 2.3% and 2.3% of our then total outstanding share capital on a fully-diluted basis, and the aggregate investment amount of which was approximately US\$7.1 million. Pursuant to such agreement, LAU Ying Chun, OrbiMed Asia Partners, L.P., Favor Sky Limited and Gate Top Development Limited was also issued warrants equivalent to 191,667, 3,101,159, 150,000 and 150,000 series A preferred shares, respectively, the exercise of which was US\$0.500 per share. The investments were completed in December 2011. The Series A investors were ultimately controlled by individual or institutional investors which were independent third parties.

Pursuant to the share purchase agreement dated March 15, 2011, Alpha Profit Holdings Limited (“APH” or “Series A1 Investor”) agreed to subscribe for 869,565 series A1 preferred shares at a consideration of US\$0.575 per share, representing approximately 3.2% of our then total outstanding share capital on a fully-diluted basis, and the aggregate investment amount of which was approximately US\$0.5 million. Pursuant to such agreement, APH was also issued warrants equivalent to 217,391 series A1 preferred shares, respectively, the exercise of which was US\$0.575 per share. The investment was completed in March 2011. APH was ultimately controlled by an individual investor who was an independent third party.

Pursuant to the share purchase agreement dated April 6, 2012, Moonstone Gem Holdings Limited, OrbiMed Asia Partners, L.P. and APH (collectively, “Series B Investors,” together with Series A Investors, Series A1 Investor, the “Previous Investors”) agreed to subscribe for 16,201,748, 1,080,117 and 540,058 series B preferred shares at a consideration of US\$0.926 per share, respectively, representing approximately 32.9%, 2.2% and 1.1% of our then total outstanding share capital on a fully-diluted basis, and the aggregate investment amount of which was approximately US\$16.5 million. Pursuant to such agreement, Moonstone Gem Holdings Limited, OrbiMed Asia Partners, L.P. and APH was also issued warrants equivalent to 4,050,438, 270,029 and 135,015 series B preferred shares, respectively, the exercise price of which was US\$0.926 per share. The investments were completed on December 27, 2013. The Series B investors were ultimately controlled by individual or institutional investors which were independent third parties.

OUR HISTORY AND CORPORATE DEVELOPMENT

In June 2015, all the Previous Investors transferred their respective equity interest in our Group to CareCapital Holdings upon the completion of the CareCapital Investment, and ceased to be our Shareholders. See “— Our History and Major Corporate Development Prior to the Reorganization — CareCapital Group and CareCapital Investment” for details.

Investments by Wuxi Jinhe

Pursuant to the share purchase agreement dated December 21, 2020, Wuxi Jinhe Venture Investment Co., Ltd. (無錫市金禾創業投資有限公司) agreed to subscribe for 10,023 ordinary shares of the Company with par value of US\$0.01 each, representing approximately 0.6728% of our then total outstanding share capital on a fully-diluted basis, and the aggregate investment amount was US dollar equivalent to RMB39.72 million. The consideration was determined based on arms’ length negotiation between the investor and our Company after taking in account of various factors, including, among others, the timing of investment and the status of our business performance. The investment was completed and fully settled on December 31, 2020.

See “— Our Corporate Structure” for details of the investors’ equity interest in our Company as of the Latest Practicable Date and upon completion of the Global Offering (assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes).

Cost per Share and Discounts to the Offer Price

The purchase price paid by Series A Investors in 2010 was equivalent to US\$0.08 per share based on the post-money valuation of the Group of approximately US\$13.0 million, representing 99.6% discount to the mid-point of the Offer Price of HK\$160.00, assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes.

The purchase price paid by Series A1 Investors in 2011 was equivalent to US\$0.09 per share based on the post-money valuation of the Group of approximately US\$15.5 million, representing 99.5% discount to the mid-point of the Offer Price of HK\$160.00, assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes.

The purchase price paid by Series B Investors in 2012 was equivalent to approximately US\$0.28 per share based on the post-money valuation of the Group of US\$45.7 million, representing 98.7% discount to the mid-point of the Offer Price of HK\$160.00, assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes.

The purchase price paid by Wuxi Jinhe in 2020 was equivalent to approximately US\$5.43 per share based on the post-money valuation of the Group of US\$900.0 million, representing 73.7% discount to the mid-point of the Offer Price of HK\$160.00, assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes.

Lock-up Period

All the existing shareholders will be subject to a lock-up period of six-months commencing from the date of this prospectus, except for (1) Vast Luck Global Limited, the equity interests of which will be subject to lock-up after the date of this prospectus with each 2.5% of the shares of the Company held by it upon the Listing being released from the lock-up on a monthly basis commencing from the Listing Date and the aggregate number of shares to be disposed of or sold by it or its beneficial owner in any 12-month period after the Listing not exceeding 30% of the shares of the Company held by it upon the Listing; and (2) the shares controlled by CareCapital Holdings, our Controlling Shareholder, which will be subject to the lock-up requirements under Rule 10.07 of the Listing Rules.

OUR HISTORY AND CORPORATE DEVELOPMENT

Public Float

The shares held by Wuxi Jinhe will be count towards the public float.

Use of Proceeds from the Pre-IPO Investments

We utilized all of the proceeds from the Pre-IPO Investments for, among others, the development and operation of our business, including but not limited to research and development, new business development, administrative expense and general working capital needs, except for the investments from Wuxi Jinhe, which we expect to apply for general working capital needs.

Special Rights of the Pre-IPO Investors

There were no special rights as stipulated under the Guidance Letter HKEX-29-12, the Guidance Letter HKEX-GL43-12 and the Guidance Letter HKEX-GL44-12 issued by the Stock Exchange granted to our existing Pre-IPO Investors as of the Latest Practicable Date or will exist after the Listing.

Benefits of the Pre-IPO Investments

Our Directors are of the view that we would benefit from our pre-IPO investments in various aspects, including but not limited to, the capital contributed by such investments for our business development as well as the profound resources and supports from our investors. Such investments demonstrate their confidence in the future development of our Group and serves as endorsements of our Group's performance, strength and prospects. In particular, investments from Wuxi Jinhe benefit us from the established network our investors provided in healthcare industry and the management and operation experience in healthcare industry. Furthermore, such investment could also create potential strategical cooperation opportunities whereby our investors could provide insights and advice on our development and strategies.

Information of existing Pre-IPO Investors

The following sets forth information of the existing pre-IPO investors.

Wuxi Jinhe

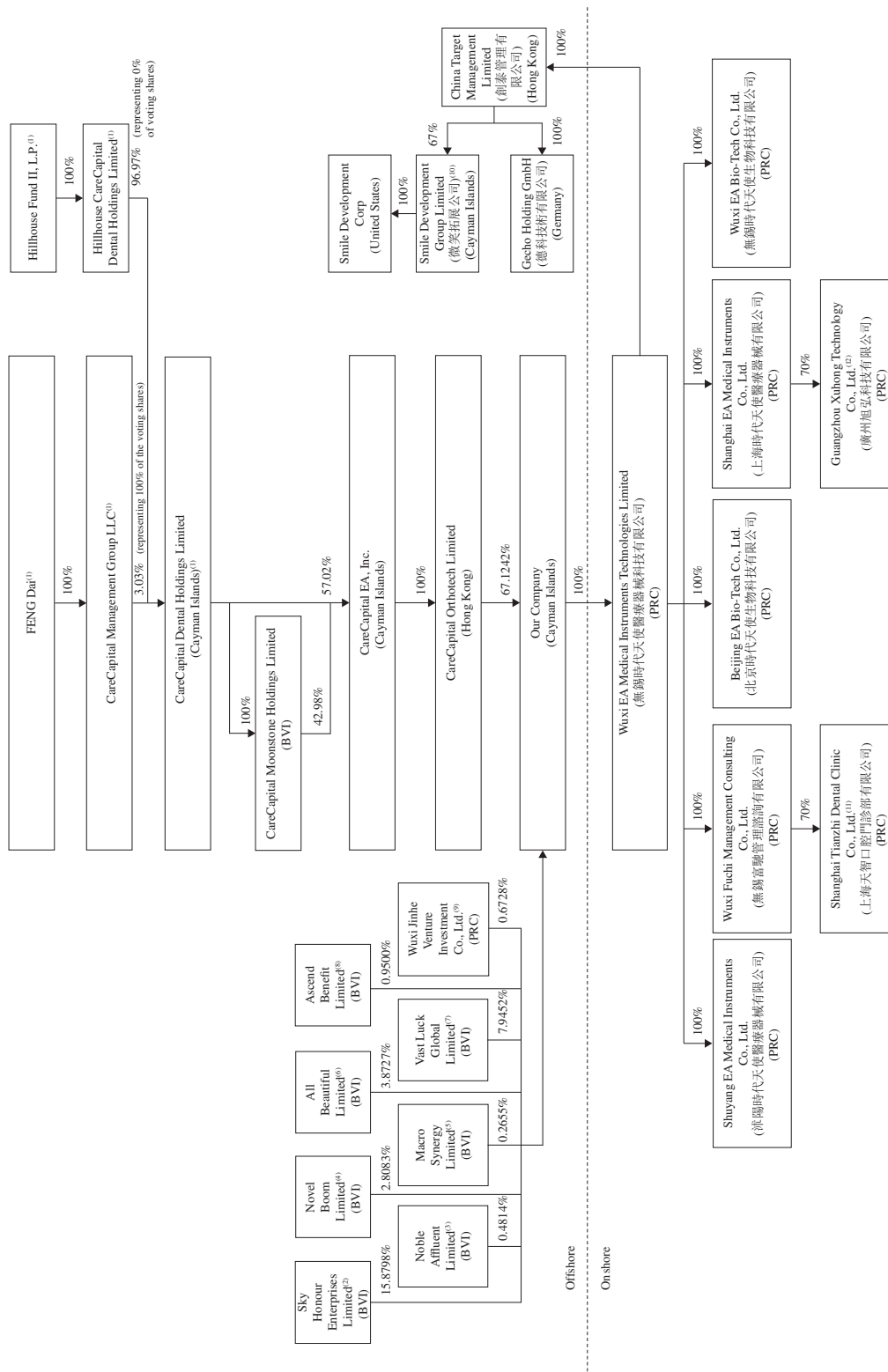
Wuxi Jinhe is a company established under the laws of the PRC. Wuxi Jinhe is wholly-owned by Wuxi Finance Venture Capital Group Co., Ltd. (無錫市金融創業投資集團有限公司), which is ultimately controlled by the State-owned Assets Supervision and Administration Commission of Wuxi City.

Joint Sponsors' Confirmation

The Joint Sponsors confirm that the existing Pre-IPO Investments are in compliance with the Guidance Letter HKEX-29-12, the Guidance Letter HKEX-GL43-12 and the Guidance Letter HKEX-GL44-12 issued by the Stock Exchange.

OUR CORPORATE STRUCTURE

The following chart illustrates our corporate structure as of the Latest Practicable Date and immediately prior to the Global Offering (without taking into account of any Shares that may be issued under the Share Award Schemes):

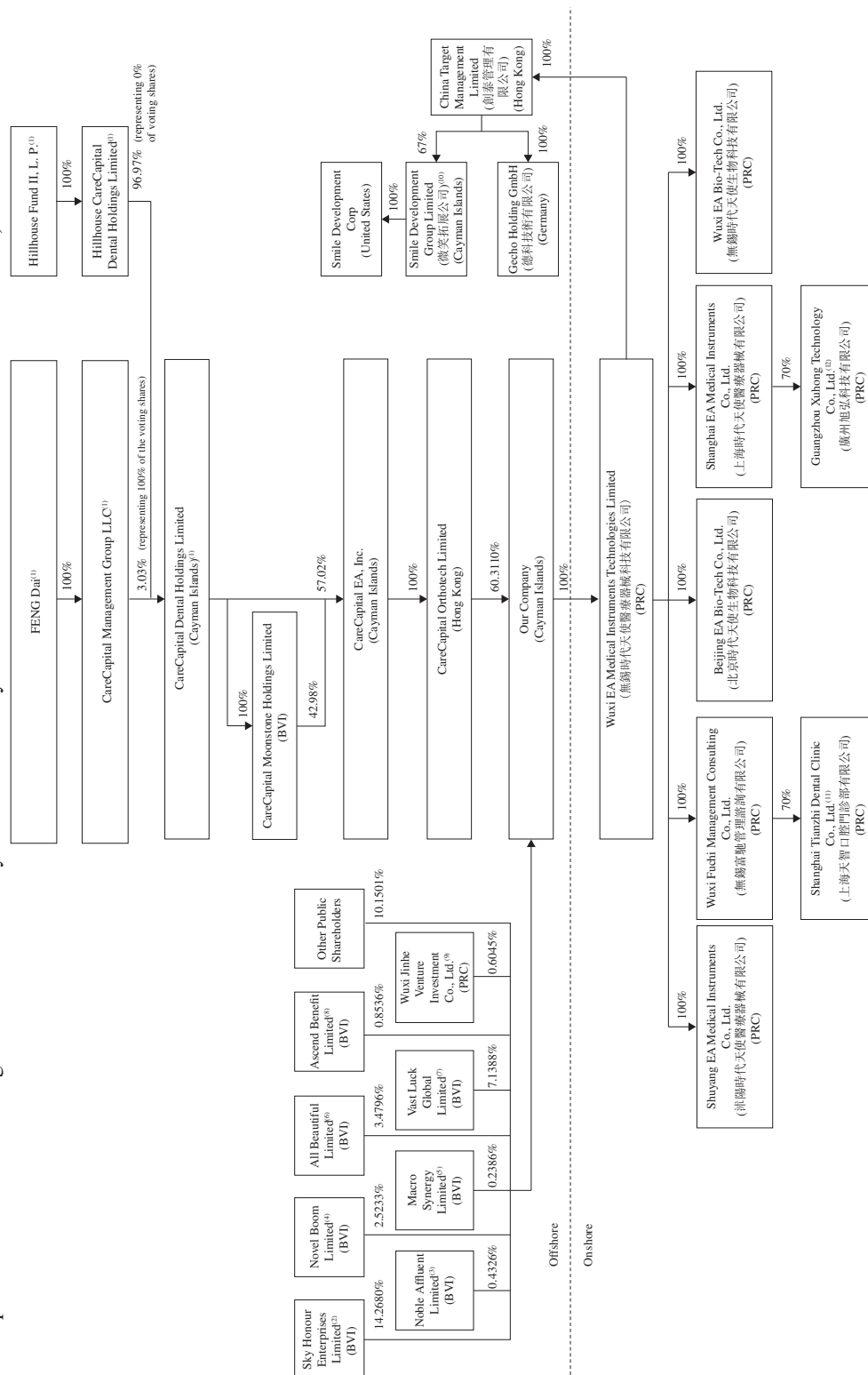


OUR HISTORY AND CORPORATE DEVELOPMENT

- (1) CareCapital Holdings is beneficially owned as to 96.97% by Hillhouse CareCapital Dental Holdings Limited and 3.03% by CareCapital Management Group LLC according to a CareCapital managed capital management arrangement between CareCapital Group as the manager and HH Investors as the funding provider. However, CareCapital Holdings is controlled by CareCapital Management Group LLC as it holds all the voting shares of CareCapital Holdings while Hillhouse CareCapital Dental Holdings Limited only holds non-voting shares of CareCapital Holdings. CareCapital Management Group LLC is wholly-owned by Mr. Feng, the ultimate controlling person of CareCapital Group. Hillhouse CareCapital Dental Holdings Limited is wholly-owned by Hillhouse Fund II, L.P. which has a dispersed investor base. Hillhouse Capital Management, Ltd. acts as the sole management company of Hillhouse Fund II, L.P. The general partner of Hillhouse Fund II, L.P. is Hillhouse Fund II GP, Ltd., which is under common control with Hillhouse Capital Management, Ltd. All investment decisions regarding the interests in CareCapital Holdings are made by the investment committee of Hillhouse Capital Management, Ltd. and the committee's decisions are final and conclusive.
- (2) Sky Honour Enterprises Limited is controlled by Shore Lead Limited, a company wholly-owned by Ms. Li, an executive Director, the chief executive officer and a substantial shareholder of our Company. J.P. Morgan Trust Company (Bahamas) Limited is the trustee of Hua Family Trust. Ms. Li is the beneficiary and settlor of Hua Family Trust. See “— Establishment of Trusts” for more information. 5,338,300 Shares held by Sky Honour Enterprises Limited was the personal investments contributed by Ms. Li and 18,319,000 Shares were granted to Ms. Li as incentive shares. See “— Share Award Schemes” for details.
- (3) Noble Affluent Limited is wholly-owned and controlled by Mr. HUANG Kun, a non-executive Director.
- (4) Novel Boom Limited is ultimately owned as to 18.8729%, 25.5765%, 14.9559%, 29.5558% and 11.0389% by ZHENG Yan, a vice president of our Group, LIU Yu, our chief marketing officer, ZHU Guolin, our chief financial officer, TIAN Jie, our chief medical officer and KONG Quanqing, a vice president of our Group, through their respective wholly-owned offshore holding companies. These shares were issued to them as incentive shares. See “— Share Award Schemes” for details. The Shares held by Novel Boom Limited will not constitute public float of the Company upon the Listing as the beneficial owners of such Shares and Novel Boom Limited have proxied all the voting rights attached to such Shares to the board of directors of the Company commencing from the Listing and ending on the date when such Participant ceases to beneficially own any of such incentive Shares. See “Appendix IV — Statutory and General Information — D. Share Award Schemes” for more information.
- (5) Macro Synergy Limited is wholly-owned and controlled by Mr. MAO Yibin (毛益斌), who was a former director of Wuxi EA and Wuxi Fuchi and is currently an independent third party. The Shares held by Macro Synergy Limited constitute public float of our Company upon completion of the Listing.
- (6) All Beautiful Limited is owned by 70 employees as incentive shares granted to them as incentive shares. See “— Share Award Schemes” for details. The Shares held by All Beautiful Limited will not constitute public float of the Company upon the Listing as the beneficial owners of such Shares and All Beautiful Limited have proxied all the voting rights attached to such Shares to the board of directors of the Company commencing from the Listing and ending on the date when such Participant ceases to beneficially own any of such incentive Shares. See “Appendix IV — Statutory and General Information — D. Share Award Schemes” for more information.
- (7) Vast Luck Global Limited is controlled by Jovial Day Global Limited, a company wholly-owned by Mr. CHEN Kai, a former director and senior management of our Company who resigned as a Director and senior management of the Company in April 2021 and will complete the resignation procedures of all his positions in the Group prior to the Listing. Such equity interest was granted to him as incentive shares. In January 2021, Mr. CHEN Kai established a trust (the “Chen Family Trust”) to hold all the shares held by Vast Luck Global Limited, a company ultimately controlled by him. J.P. Morgan Trust Company (Bahamas) Limited is the trustee and Mr. Chen is the settlor and beneficiary of the Chen Family Trust. See “— Share Award Schemes” for details. The Shares held by Vast Luck Global Limited constitute public float of our Company upon completion of the Listing.
- (8) Ascend Benefit Limited is wholly-owned and controlled by Mr. SONG Xin (宋鑫), an executive Director and our chief commercial officer, the equity interest of which was granted to him as incentive shares. See “— Share Award Schemes” for details.
- (9) Wuxi Jinhe is wholly-owned by Wuxi Finance Venture Capital Group Co., Ltd. (無錫市金融創業投資集團有限公司), which is ultimately controlled by the State-owned Assets Supervision and Administration Commission of Wuxi City. The Shares held by Wuxi Jinhe constitutes public float of our Company upon completion of the Listing.
- (10) The remaining 33% of equity interests in Smile Development Group Limited is held by Kitchiming, Ian David, an independent third party.
- (11) The remaining 30% of the equity interest in Shanghai Tianzhi Dental Clinic Co., Ltd. (“Shanghai Tianzhi”) is owned by LIU Xiaohui, an independent third party except for his interests in Shanghai Tianzhi. See notes to “— Principal Subsidiaries” and “— Our Reorganization” in this section for details.
- (12) The remaining 30% of equity interests in Guangzhou Xuhong Technology Co., Ltd. (“Guangzhou Xuhong”) is held by Ningbo Wuling Investment Management LLP (寧波五嶺投資管理合夥企業(有限合夥)), which was owned as to 70% by LING Hongwang and 30% by SHEN Zhida, both of whom are independent third parties except for their interests in Guangzhou Xuhong.

OUR HISTORY AND CORPORATE DEVELOPMENT

The following chart illustrates our corporate structure immediately after completion of the Global Offering (assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes):



(1) CareCapital Holdings is beneficially owned as to 96.97% by Hillhouse CareCapital Dental Holdings Limited and 3.03% by CareCapital Management Group LLC according to a CareCapital managed capital management arrangement between CareCapital Group as the manager and HH Investors as the funding provider. However, CareCapital Holdings is controlled by CareCapital Management Group LLC as it holds all the voting shares of CareCapital Holdings, while Hillhouse CareCapital Dental Holdings Limited only holds non-voting shares of CareCapital Holdings. CareCapital Management Group LLC is wholly-owned by Mr. Feng, the ultimate controlling person of CareCapital Group. Hillhouse CareCapital Dental Holdings Limited is wholly-owned by Hillhouse Fund II, L.P. which has a dispersed investor base. Hillhouse Capital Management, Ltd. acts as the sole management company of Hillhouse Fund II, L.P. The general partner of Hillhouse Fund II, L.P. is Hillhouse Fund II GP, Ltd., which is under common control with Hillhouse Capital Management, Ltd. All investment decisions regarding the interests in CareCapital Holdings are made by the investment committee of Hillhouse Capital Management, Ltd. and the committee's decisions are final and conclusive.

OUR HISTORY AND CORPORATE DEVELOPMENT

- (2) Sky Honour Enterprises Limited is controlled by Shore Lead Limited, a company wholly-owned by Ms. Li, an executive Director, the chief executive officer and a substantial shareholder of our Company. J.P. Morgan Trust Company (Bahamas) Limited is the trustee of Hua Family Trust. Ms. Li is the beneficiary and settlor of Hua Family Trust. See “— Establishment of Trusts” for more information. 5,338,300 Shares held by Sky Honour Enterprises Limited was the personal investments contributed by Ms. Li and 18,319,000 Shares were granted to Ms. Li as incentive shares. See “— Share Award Schemes” for details.
- (3) Noble Affluent Limited is wholly-owned and controlled by Mr. HUANG Kun, a non-executive Director.
- (4) Novel Boom Limited is ultimately owned as to 18.8729%, 25.5765%, 14.9559%, 29.5558% and 11.0389% by ZHENG Yan, a vice president of our Group, LIU Yu, our chief marketing officer, ZHU Guolin, our chief financial officer, TIAN Jie, our chief medical officer, and KONG Quanqing, a vice president of our Group, through their respective wholly-owned offshore holding companies. These shares were issued to them as incentive shares. See “— Share Award Schemes” for details. The Shares held by Novel Boom Limited will not constitute public float of the Company upon the Listing as the beneficial owners of such Shares and Novel Boom Limited have proxied all the voting rights attached to such Shares to the board of directors of the Company commencing from the Listing and ending on the date when such Participant ceases to beneficially own any of such incentive Shares. See “Appendix IV — Statutory and General Information — D. Share Award Schemes” for more information.
- (5) Macro Synergy Limited is wholly-owned and controlled by Mr. MAO Yibin (毛益斌), who was a former director of Wuxi EA and Wuxi Fuchi and is currently an independent third party. The Shares held by Macro Synergy Limited constitute public float of our Company upon completion of the Listing.
- (6) All Beautiful Limited is owned by 70 employees as incentive shares granted to them as incentive shares. See “— Share Award Schemes” for details. The Shares held by All Beautiful Limited will not constitute public float of the Company upon the Listing as the beneficial owners of such Shares and All Beautiful Limited have proxied all the voting rights attached to such Shares to the board of directors of the Company commencing from the Listing and ending on the date when such Participant ceases to beneficially own any of such incentive Shares. See “Appendix IV — Statutory and General Information — D. Share Award Schemes” for more information.
- (7) Vast Luck Global Limited is controlled by Jovial Day Global Limited, a company wholly-owned by Mr. CHEN Kai, a former director and senior management of our Company who resigned as a Director and senior management of the Company in April 2021 and will complete the resignation procedures of all his positions in the Group prior to the Listing. Such equity interest was granted to him as incentive shares. In January 2021, Mr. CHEN Kai established Chen Family Trust to hold all the shares held by Vast Luck Global Limited, a company ultimately controlled by him. J.P. Morgan Trust Company (Bahamas) Limited is the trustee and Mr. Chen is the settlor and beneficiary of the Chen Family Trust. See “— Share Award Schemes” for details. The Shares held by Vast Luck Global Limited constitute public float of our Company upon completion of the Listing.
- (8) Ascend Benefit Limited is wholly-owned and controlled by Mr. SONG Xin (宋鑫), an executive Director and our chief commercial officer, the equity interest of which was granted to him as incentive shares. See “— Share Award Schemes” for details.
- (9) Wuxi Jinhe is wholly-owned by Wuxi Finance Venture Capital Group Co., Ltd. (無錫市金融創業投資集團有限公司), which is ultimately controlled by the State-owned Assets Supervision and Administration Commission of Wuxi City. The Shares held by Wuxi Jinhe constitutes public float of our Company upon completion of the Listing.
- (10) The remaining 33% of equity interests in Smile Development Group Limited is held by Kitchining, Ian David, an independent third party.
- (11) The remaining 30% of the equity interest in Shanghai Tianzhi Dental Clinic Co., Ltd. (“Shanghai Tianzhi”) is owned by LIU Xiaohui, an independent third party except for his interests in Shanghai Tianzhi. See notes to “— Principal Subsidiaries” and “— Our Reorganization” in this section for details.
- (12) The remaining 30% of equity interests in Guangzhou Xuhong Technology Co., Ltd. (“Guangzhou Xuhong”) is held by Ningbo Wuling Investment Management LLP (寧波五嶺投資管理合夥企業(有限合夥)), which was owned as to 70% by LING Hongwang and 30% by SHEN Zhida, both of whom are independent third parties except for their interests in Guangzhou Xuhong.
- (13) Assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes and all the Shares to be issued in the Global Offering is subscribed by the public as well as taking into account the Shares held by Vast Luck Global Limited, Macro Synergy Limited and Wuxi Jinhe, which constitute public float of our Company, the percentage of public float of our Company following completion of the Global Offering will be approximately 18.13% of the equity interests in our Company. Our Company has applied for and the Stock Exchange has granted to us a public float waiver for the percentage of Shares held by the public after the Listing. See “Waivers from Strict Compliance with the Listing Rules” for more information.

OUR HISTORY AND CORPORATE DEVELOPMENT

REGULATORY REQUIREMENTS OF CHINA

According to the Regulations on Merger and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”) jointly issued by MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, SAT, the CSRC, the SAIC and SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (1) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (2) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (3) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (4) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for the listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the Listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

Our PRC legal advisors are of the opinion that, unless new laws and regulations are enacted or CSRC publish new provisions or interpretations on the M&A Rules in the future, prior CSRC approval for the Listing is not required because (1) the CSRC currently has not issued any definitive rule or interpretation concerning whether the listing like ours are subject to the M&A Rules; (2) Wuxi EA was incorporated as a foreign-invested enterprise without involving acquisition of the equity or assets of a “PRC domestic company,” as such term is defined under the M&A Rules; (3) Shanghai EA was incorporated as a wholly foreign-owned enterprise by CareCapital Orthotech and was acquired by Wuxi EA from CareCapital Orthotech in 2012, and as such, neither the incorporation nor the acquisition of Shanghai EA involves acquisition of the equity or assets of a “PRC domestic company,” as such term is defined under the M&A Rules, (4) Shuyang EA, Wuxi Fuchi, Wuxi EA Biotec and Guangzhou Xuhong were established by our relevant PRC subsidiaries directly without involving acquisition of the equity or assets of a “PRC domestic company,” as such term is defined under the M&A Rules; and (5) Beijing EA and Shanghai Tianzhi were respectively incorporated as a domestic company by third party PRC companies and/or individuals and acquired by our relevant PRC subsidiaries in compliance with the M&A Rules, such that the M&A Rules are not applicable to it thereafter. However, there is uncertainty as to how the M&A Rules will be interpreted or implemented, and whether the relevant PRC government authorities will reach the same conclusion as our PRC legal advisors.

SAFE REGISTRATION IN CHINA

Pursuant to the Circular of SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “Circular 37”), issued by SAFE and effective on July 4, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the “Overseas SPV”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPA, including, among others, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be restricted from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in

OUR HISTORY AND CORPORATE DEVELOPMENT

its ability to contribute additional capital into its PRC subsidiaries. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. Circular 37 supersedes the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicle and Investing Back in China by Domestic Residents (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the “Circular 75”) promulgated by SAFE on October 21, 2005 and effective on November 1, 2005.

Pursuant to the Circular of SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “Circular 13”), issued by SAFE and effective on June 1, 2015, and was amended on December 30, 2019, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity are located.

As advised by our PRC legal advisors, Ms. LI, and other eighty-one individual shareholders who indirectly hold shares in the Company, being PRC residents as defined under the Circular 37 and Circular 75, have completed their registration under Circular 37 and Circular 75 as of the date of this prospectus.

OUR MISSION

Our mission is to bring people confident smiles with technologies.

Smile matters. With technologies, we engage, empower and enliven.

OVERVIEW

We are a leading clear aligner treatment solution provider in China. China's clear aligner treatment solution market is highly concentrated, with the top two market players accounting for an aggregate market share of 82.4% in 2020 in terms of case shipments, according to the CIC Report. We had a market share of approximately 41.0% in the same year, according to the same source.

We provide dental professionals with Angelalign clear aligner system, our self-developed digital orthodontics solution, which comprises a trio of components: (1) digitally-assisted case assessment support and treatment planning services, (2) customized, removable clear aligners based on specific treatment plans, and (3) *iOrtho*, a cloud-based service platform. We facilitate dental professionals throughout the entire clear aligner treatment process with the assurance of reliability, simplicity, efficiency and accuracy, which translates into dependability, and ultimately, into user loyalty. As the backstage driving force, we have developed profound understanding of the medical principles and practice of digital orthodontics. It serves as a critical foundation for us to fully address disparate demands of China's dental professionals with varying levels of sophistication, in particular a multitude of GP dentists. During the Track Record Period, the number of dental professionals we served increased from approximately 11,500 in 2018 to approximately 15,800 in 2019, and further to approximately 19,900 in 2020.

We persistently optimize our clear aligner system, allowing dental professionals to continuously extend their outreach. We currently market four lines of clear aligners with a variety of unique features that appeal to different user segments, including *Angelalign*, *Angelalign Pro*, *Angelalign Kid* and *COMFOS*. In particular, we have established one of the largest stomatology databases for Asian population, according to the CIC Report. Leveraging our data-driven insight and a series of appliances and attachments and patented treatment plans on top of our diversified product lines, we are uniquely positioned to help dental professionals address intractable cases that are prevalent in China. As a result, we enable dental professionals to deliver effective treatment for a growing number of malocclusion cases with varying complexities and for an enlarging patient base of a broad spectrum of ages and different spending powers. Our case shipments increased from approximately 77,700 in 2018 to approximately 120,100 in 2019, and further to approximately 137,600 in 2020.

We are well positioned to capture the enormous market opportunities in China. As the second largest in the world, China's overall clear aligner market, in terms of retail sales revenue, is expected to increase from US\$1.5 billion in 2020 to US\$11.9 billion in 2030 at a CAGR of 23.1%, according to the CIC Report. Moreover, as an increasing number of traditional orthodontic cases will become addressable by clear aligners, we expect to seize the overall potential of China's orthodontics market, which is expected to reach US\$29.6 billion in terms of retail sales revenue in 2030 at a CAGR of 14.2% from 2020 to 2030, according to the same source. On the other hand, China's clear aligner market is still at a nascent stage. In 2020, China had approximately 1,040 million malocclusion cases; however, among the 3.1 million treated malocclusion cases in China in 2020, only 11.0% were addressed with clear aligners, which indicates a huge underpenetrated clear aligner market in China. Leveraging our market leadership and our intimate understanding of China's digital orthodontics market, we believe that we are well positioned to capture the upside potential of the enormous market. Furthermore, we are poised to explore opportunities of expanding into the global clear aligner market, which is expected to reach US\$46.2 billion in terms of retail sales revenue by 2030.

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Everyone wants beautiful, healthy smiles and seeks ways to enhance their natural endowment. Orthodontic treatment involves complex medical procedures with multidisciplinary technologies, which transcends the mere fixing of crooked, uneven, discolored or misshapen teeth that shy away from smiling. We attribute our capability in digital orthodontics to the integrated application of our dedicated scientific research efforts on a range of relevant subjects, including clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies, including 3D printing and manufacturing automation. As the nucleus of our Angelalign clear aligner system, our self-developed and solid technology and data platforms, nicknamed *masterForce*, *masterControl* and *masterEngine*, play a vital role in our capability to continuously make breakthrough in digital orthodontics, which has created entry barriers and underpinned our long-term growth.

We have developed intelligent manufacturing capabilities to produce customized clear aligners with premium quality and high tolerance. We manufacture all the clear aligners pertinent to specific treatment plans through a “mass customization” model based on intelligent manufacturing technologies, including 3D printing and automated production lines.

We experienced significant growth during the Track Record Period. We generate revenue primarily from the provision of clear aligner treatment solutions. Our revenue increased from RMB488.5 million in 2018 to RMB645.9 million in 2019, and further to RMB816.5 million in 2020. Our net profit increased from RMB58.2 million in 2018 to RMB67.7 million in 2019, and further to RMB150.9 million in 2020. Our adjusted EBITDA (non-IFRS measure) was RMB129.1 million, RMB174.6 million and RMB296.6 million in 2018, 2019 and 2020, respectively. Our adjusted net profit (non-IFRS measure) was RMB92.1 million, RMB130.0 million and RMB227.2 million in 2018, 2019 and 2020, respectively. See “Financial Information — Non-IFRS Measures” for a reconciliation of our net profit to adjusted EBITDA and adjusted net profit, respectively.

COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our success and differentiated us from our competitors.

Pioneer and leading clear aligner treatment solution provider in China well positioned to capture the enormous market opportunities

We are a leading clear aligner treatment solution provider in China. China’s clear aligner treatment solution market is highly concentrated, with the top two market players accounting for an aggregate market share of 82.4% in 2020 in terms of case shipments, according to the CIC Report. We had a market share of approximately 41.0% in the same year, according to the same source. With Angelalign clear aligner system, our self-developed digital orthodontics solution, we facilitate dental professionals throughout the entire clear aligner treatment process with the assurance of reliability, simplicity, efficiency and accuracy, which translates into dependability, and ultimately, into user loyalty. The number of dental professionals we served increased from approximately 11,500 in 2018 to approximately 15,800 in 2019, and further to approximately 19,900 in 2020.

We are the first clear aligner treatment solution provider to obtain the SFDA approval (now known as the NMPA) in China, and we own the first patent registration for clear aligner treatment in China. Since our inception, we have been spearheading the development of digital orthodontics in China and stayed abreast of the ever-evolving treatment demands and preferences of China’s dental professionals. We take pride in our various trailblazing solutions, such as *Angelalign Pro*, the first multimode clear aligner treatment solution in the world, as well as *Angelalign Kid*, China’s first comprehensive clear aligner treatment solution designed for children aged between six and 12, according to the CIC Report. In addition, we established the first and largest 3D printing base for dental appliances in China in 2011, and

the first automated production line in our manufacturing facilities in 2017, which has enabled us to rapidly achieve mass customization and expand our operation scale.

We believe that we are well positioned to continue capitalizing on China's promising market opportunities. As the second largest in the world, China's overall clear aligner market, in terms of retail sales revenue, is expected to increase from US\$1.5 billion in 2020 to US\$11.9 billion in 2030 at a CAGR of 23.1%, according to the CIC Report. Moreover, as an increasing number of traditional orthodontic cases will become addressable by clear aligners, we expect to seize the overall potential of China's orthodontics market, which is expected to reach US\$29.6 billion in 2030 at a CAGR of 14.2% from 2020 to 2030, according to the same source. On the other hand, China's clear aligner market is still at a nascent stage. In 2020, China had approximately 1,040 million malocclusion cases; however, among the 3.1 million treated malocclusion cases in China in 2020, only 11.0% were addressed with clear aligners, which indicates a huge underpenetrated clear aligner market in China. In addition, China has a higher prevalence rate of Class II and Class III malocclusion cases than the U.S., which are more challenging to treat compared to Class I cases.

We believe we are well positioned to capture the upside potential of the enormous market and continue to increase our market share in China and worldwide with more than a decade of experience and leveraging our leading market position, first-mover advantage, comprehensive product portfolio, industry-leading medical and technological services, strong research and development capabilities, self-developed technology platforms, and strong brand recognition. In particular, we believe that we are uniquely positioned to address the prevalent complex cases in China by virtue of our in-depth data-driven insight into China's digital orthodontics and our comprehensive and targeted product portfolio.

Comprehensive product portfolio addressing diverse user needs

We have strategically developed a comprehensive product portfolio as an integral part of our digital orthodontics solution to address diverse user needs. We currently market four lines of clear aligners with a variety of unique features that appeal to different user segments, including *Angelalign*, *Angelalign Pro*, *Angelalign Kid* and *COMFOS*. Our diversified product portfolio, in synergy with our medical and technological services, allows dental professionals to deliver effective treatment for a growing number of malocclusion cases with varying complexities and for an enlarging patient base of a broad spectrum of ages and different spending powers.

- *Angelalign*. As our classic clear aligner product, *Angelalign* can be used for a wide range of malocclusions with moderate pricing. We distinguish *Angelalign* from competing products provided by other market participants with constant improvement. For example, we are upgrading *Angelalign* with our newly launched *masterControl S*, which is developed based on extensive biomechanics studies and stomatology profiles of Chinese population.
- *Angelalign Pro*. As our premium clear aligner and the first multimode clear aligner in the world, according to the CIC Report, *Angelalign Pro*, in its latest version, features two pairs of aligners made of our *masterControl* and *masterControl S* with complementary mechanical properties to achieve different movement progress at different stages during the treatment. As a result, *Angelalign Pro* will be able to address more complex cases, and at the same time, shorten the length of the treatment cycle by approximately 30% without compromising treatment accuracy.
- *Angelalign Kid*. We expanded into children's clear aligner treatment market with *Angelalign Kid*, China's first comprehensive clear aligner treatment solution designed for children aged between six and 12, according to the CIC Report. *Angelalign Kid* represents a shift in approach from *ex post* treatment towards early intervention. By combining the clear aligners, the

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bucco-labial shield and the functional fitness exercises for muscles alternately in line with the progress of children's tooth growth and muscle and jaw bone development, it provides children with a better oral environment for the growth and development of their permanent teeth, facial muscles and jawbones.

- *COMFOS*. We position *COMFOS* as a good value-for-money product in response to the growing demand for aesthetics of the young generation with moderate malocclusions. *COMFOS* has rapidly gained popularity among the young generation seeking to improve their smiles in a fast, convenient, comfortable and affordable manner, as it caters to their willingness to pay and spending power.

Benefiting from our comprehensive product portfolio, our case shipments increased from approximately 77,700 in 2018 to approximately 120,100 in 2019, and further to approximately 137,600 in 2020. As we facilitate an increasing number of dental professionals and help them enlarge their patient base, we have been able to rapidly scale up our business and increase our market share.

Furthermore, we are uniquely positioned to help dental professionals address intractable cases that are prevalent in China with the assurance of celerity, efficacy and efficiency, utilizing a series of innovative orthodontic appliances and attachments. For example, we have developed *angelButton*, a traction product, which can be integrated with clear aligners at any designated position and deliver excellent orthodontic mechanics results. We also recently launched *angelArm*, the world's first mandibular appliance that features active force application, according to the CIC Report. *angelArm* increases the precision and control of force application and expands addressable occlusal structures. The coordinated application of *angelArm*, *angelButton* and our various clear aligners provide solutions to skeletal malocclusion such as maxillary protrusion and mandibular retrusion, which is typical among Asian malocclusion cases, and demonstrates excellent efficacy and safety.

Premium medical and technological services

Our profound knowledge of stomatology, cutting-edge technologies and strong interdisciplinary R&D initiatives have fostered our ability to provide dental professionals with sophisticated medical and technological services. As the core components of our Angelalign clear aligner system, we provide dental professionals with comprehensive digitally-assisted case assessment support, medical treatment planning services and technological support, aiming to satisfy their demands in a precise and efficient manner. We thereby facilitate dental professionals throughout the entire clear aligner treatment process, which we believe are among our key strengths in attracting new dental professionals and retaining existing ones. In particular, we facilitate easy adoption of our system by GP dentists who, although not specialized in orthodontics, can become proficient in providing clear aligner treatment to their patients.

Our advanced technologies and sophisticated medical design personnel form the backbone of our strong treatment planning capabilities. We have developed *A-Treat*, a digital treatment planning platform using our technology accumulation in many frontiers, such as 3D computer graphics, data mining, machine learning and artificial neural network. It is embedded with digitalized critical medical rules governing the clinical protocols for teeth movement, which have been repeatedly deliberated and verified by our medical designers. Moreover, we have launched *Angelalign Zhimei*, a design optimization system that consolidates multiple intelligent computing and analysis tools, to help dental professionals formulate optimal and more customized treatment plans. *Angelalign Zhimei* accommodates the specific demand of each dental professional through real-time interactions and integration of their input with medical rules and the accumulated expert plans in our system. We also have assembled the largest medical designer team in the dental service area in China, according to the CIC Report, with over 400 members as of the Latest Practicable Date, which was led by our stomatology expert team. As a result, our system usually presents a near-final treatment plan within three to four business days after the case submission, as compared to other market players who generally require approximately 10 business days, according to the CIC Report.

Furthermore, we have brought forward patented and unique treatment plans specifically designed for intractable cases prevalent in China, which allows dental professional to achieve optimal clinical results. For example, through occlusal reconstruction and mandibular advancement and development, our A6 solution is able to correct mandibular retraction at the same time of fixing misplaced teeth, and consequently, significant shortens treatment time. Our A7 solution, which specializes in the treatment of patients in need of extraction of premolars, can effectively maintain the stability of anchorage teeth, accurately control the movement of canines and the torquing of incisors, and thereby reduce the probability of joint correction treatment with orthodontic brackets. Our A8 molar distalization solution is an integrated solution that features the progressive staging pattern, compatible attachment system and appropriate traction approach to achieve optimized treatment results.

We further enable dental professionals to streamline their operations with *iOrtho*, our cloud-based service platform. It allows dental professionals to perform multiple tasks from patient intake through review, modification and approval of their treatment plans. In particular, through *Make It*, a built-in case assessment support module of *iOrtho* that is compatible with all major intraoral scanners, dental professionals can present to a prospective patient an image of his/her own current dentition next to his/her simulated final position after the treatment through a dual view layout within a few minutes of intraoral scanning. We enable dental professionals to significantly increase communication efficiency with their prospective patients, and to market our clear aligners and acquire patients more effectively.

Self-developed technology and data platforms underpinned by industry-leading R&D capabilities

We have established strong interdisciplinary R&D capabilities in five major areas, including clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies. Drawing upon the continuous output from our R&D initiatives, we have developed, and are continuously upgrading, solid technology and data platforms, including *masterForce*, *masterControl* and *masterEngine*, as the bedrock of the effectiveness and efficiency of our clear aligner system, as well as our ability to continuously innovate our products and services.

- *masterForce*. We developed *masterForce*, a full-factorial force simulation system for orthodontics, with cutting-edge computer-aided engineering technologies to gain constructive insight into the exact biomechanical mechanisms involved in the orthodontic treatment.
- *masterControl*. Based on our in-depth study of the biomechanical mechanisms through *masterForce*, we developed *masterControl*, a sophisticated clear aligner material system. It allows us to develop advanced clear aligner material that delivers gentle and consistent forces ideal for tooth movement in orthodontic treatment, while being more resistant to plastic deformation and having better elastic recovery properties. Based on the system, we recently launched *masterControl S*, the next-generation clear aligner material that features self-adaptivity, memorability, superelasticity, tear resistance, stain resistance and improved invisibility.
- *masterEngine*. Based on our profound stomatology database, we have established *masterEngine*, an AI-based multimodal biological data platform. Leveraging the embedded deep learning system of neural networks and full-cycle AI biomimetic system, *masterEngine* enables accurate, multi-scenario data extraction and fusion to assist dental professionals' diagnosis and treatment planning processes, and provides more comprehensive, reliable and accurate information for clinical stomatology. Benefiting from *masterEngine*, we recently launched the *Intelligence Root System*, which provides dental professionals with direct, 360-degree observation of the real status of the tooth root and access to accurate data regarding the movement of crown and root, with which they can assess the cases and create and modify treatment planning for optimal clinical results.

BUSINESS

We believe that the breadth and sophistication of our technology and data platforms contribute to our competency in addressing relatively complicated malocclusion cases. Leveraging our technology and data platforms, we are able to continuously develop innovative treatment solutions and appliances.

We have devoted significant resources to our R&D initiatives. As of December 31, 2020, we had a dedicated research and development team of 123 members, representing 9.4% of our total employees. In 2018, 2019 and 2020, our research and development expenses were RMB50.2 million, RMB80.9 million and RMB93.5 million, respectively, representing 10.3%, 12.5% and 11.4% of our revenue in the same periods, respectively. As of the Latest Practicable Date, we owned 93 patents and 16 software copyrights registered in China. We have initiated *A+ Plan* since 2015, through which we partner with China's most renowned higher education institutions, stomatology hospitals, medical schools and other research institutions to boost innovations of clear aligner treatment through R&D initiatives in clinical stomatology, biomechanics, materials science, intelligent manufacturing technologies, and computer science. For example, in December 2020, we established the ZJU-Angelalign Joint Research & Development Center for Intelligent Healthcare (浙江大學 — 時代天使智慧醫療聯合研究中心) with Zhejiang University (浙江大學) for digital orthodontics and the application of artificial intelligence technologies in the dental and oral area. In October 2020, we established a joint innovation center in collaboration with Jiangsu Industrial Technology Research Institute (江蘇省產業技術研究院) focusing on manufacturing technologies and materials science innovations. We also established a Translation Medicine Research Platform on Oral Biomechanics and Artificial Intelligence with Ninth People's Hospital, Shanghai Jiaotong University School of Medicine (上海交通大學醫學院附屬第九人民醫院) in September 2020 to further explore the fundamental mechanisms of biomechanics in tooth movement, leveraging big data and artificial intelligence technologies. In addition, we have established a digital orthodontics treatment and training center in collaboration with Sichuan University Huaxi Stomatology Hospital (四川大學華西口腔醫院) in Chengdu, and a digital orthodontics testing center in collaboration with Nanjing Stomatology Hospital (南京口腔醫院) in Nanjing.

Strong brand recognition and profound academic influence

As the first market entrant, we believe that “Angelalign” has become the best known and the most trustworthy domestic brand among China's clear aligner treatment solution providers, with strong brand recognition among dental professionals and patients, as well as profound academic influence on industry experts. Our strong word-of-mouth reputation has driven organic referrals among dental professionals and patients.

According to the CIC Report, dental professionals are generally inclined to be highly prudent while recommending clear aligner treatment solutions for their patients. This is because the treatment process for malocclusion cases typically lasts around two years, and it would be difficult for dental professionals to switch to different treatment methods midway. By offering a comprehensive and diversified suite of treatment plans and services based on our medical and technological capabilities, our Angelalign clear aligner system has appealed to a large pool of dental professionals across China. Furthermore, we have provided orthodontic certification training programs on digital orthodontics to dental professionals in collaboration with the UCLA Dental Research Service Center since 2017, through which we market the strengths of clear aligner treatment to more dental professionals. The number of dental professionals we served increased from approximately 11,500 in 2018 to approximately 15,800 in 2019, and further to approximately 19,900 in 2020.

In addition, we launched Yulong Plan (育龍計劃) in collaboration with China Oral Health Foundation to provide postgraduate orthodontics students with advanced, standardized training on digital clear aligner treatment to help cultivate qualified dental professionals specialized in digital orthodontics. We also cooperate with private dental clinics to establish named consulting room for clear aligner treatment. We believe that our long-lasting relationships with hospitals, clinics and dental professionals create a barrier to entry for new market entrants.

BUSINESS

In addition, we pay close attention to academic development and exchange as we operate in a highly scientific and technological industry. Starting in 2014, we have organized the *A-Tech Forum*, an annual academic conference, to increase our influence in both industry and academia. We invite orthodontists and experts in other relevant fields worldwide to exchange discussions and information on the most advanced orthodontic technology and latest innovations. We also organize frequent online lectures and regional symposia focusing on underlying technologies and clinical application of our Angelalign clear aligner system, leveraging an established key opinion leaders network comprising orthodontics specialists from 55 prestigious stomatology hospitals and medical schools in China. Furthermore, we have published a book on clear aligner treatment to further increase our academic influence, which is China's first original work on the subject, according to the CIC Report.

We believe that the strength of our brand image is also well illustrated by the numerous awards and recognition we received. We have been appointed as a sponsor by the Bureau of Training of General Administration of Sport of China (國家體育總局訓練局) to provide clear aligner treatment for national athletes since 2017, with our clear aligners being designated as the Approved Products for National Team Athletes.

Solid intelligent manufacturing capabilities with stringent quality assurance system

We produce customized clear aligners with premium quality and high tolerance through a “mass customization” model based on our solid intelligent manufacturing capabilities. We are able to produce custom-built, precisely calibrated clear aligners that fit each patient's teeth positions at each stage of the corresponding treatment plan on the one hand, and achieve mass production of custom-tailored products to lower our costs and increase scale of operations on the other.

Over the years, we have accumulated extensive expertise and know-how in manufacturing clear aligners, which sets a solid foundation for our long-term growth. We have been a consistent early adopter of the latest manufacturing technologies. For example, we have deployed the 4th generation 3D printers, which are the most advanced ones for clear aligner application, according to the CIC Report. Our 3D printers, with custom build-in parameters to address our demand for large scale production, perform approximately 25% to 50% faster than the industry average. In addition, we have manufactured our clear aligners primarily through our automated production lines, which can double our production efficiency and minimize human error in the manufacturing process to the largest extent.

We have developed a rigorous quality assurance system that enables us to monitor all aspects of our production process, including maintenance of equipment and facilities, procurement of raw materials, production and quality inspection, and packaging and delivery. As of December 31, 2020, we had a dedicated quality control department to ensure that our internal quality procedures are duly followed. We place great emphasis on product safety and quality, and regularly arrange quality control trainings for our staff. As the first clear aligner treatment solution provider to obtain the SFDA approval (now known as the NMPA) in China, we have passed the certifications of the GB T19001 idt ISO9001 quality management system and the YY/T 0287-2017 idt ISO13485 quality management system for medical devices. We believe that our ability to deliver safe and high quality products has enabled us to accelerate our market penetration and strengthen our brand image in China.

Visionary and seasoned management team with strong shareholder support

Our success is led by a visionary and seasoned management team that is relentlessly pursuing innovative digital orthodontics solutions to bring greater value to dental professionals and their patients. Their foresight and sagacity, in-depth industry experience, extensive managerial and operational experience, and long-term focus and commitment underpin our current accomplishment and future direction.

BUSINESS

Our founder and chief executive officer, Ms. LI Huamin, is among the pioneers that seek to introduce the most advanced orthodontic treatment to Chinese dental professionals and patients. With her demonstrated tenacity, she has focused on promoting the vigorous development of China's digital orthodontics industry for the past 18 years. Leveraging her forward-looking industry vision, innovative operational thinking and excellent management skills, Ms. LI has led us to stay ahead in the global digital orthodontics industry. Dr. TIAN Jie, our chief medical officer, is one of the trailblazers engaged in the research and development, training and promotion of application of clear aligner treatment in China. He has been dedicated to establishing medical rules of China's clear aligner treatment, formulating clinical operational procedures and standards and conducting technology promotion.

Over the past 18 years, we have also established a cohesive and diversified senior management team, members of which possess strong academic background and profound understanding of China's highly sophisticated and rapidly evolving digital orthodontics market. Members of our senior management, on average, have approximately 20 years of experience in related industries and have been with us for approximately a decade. They have demonstrated complementary skillsets and proven track record in their areas of expertise, including management and operations, business development, medical science, sales and marketing, finance, manufacturing, and information technology. We believe that our senior management team, while continuously devoting themselves into the innovation of digital orthodontics products and technologies, has been crucial in formulating business strategies, capturing opportunities in the industry and execution of business plans. Our management has nurtured a corporate culture of user-focus, integrity and responsibility, and cooperation and innovation. These values, along with our market leadership position, systematic employee training and career and personal development opportunities, have contributed greatly to motivating and retaining our talented employees. We view our culture as fundamental to the continued innovation of our clear aligner system, our ability to create long-term value for both dental professionals and patients and, ultimately, the rapid and sustainable growth of our business.

Furthermore, we enjoy strong support of CareCapital Group, our Controlling Shareholder and a well-known investor and key opinion leader in the global dental and oral care industry. Mr. FENG Dai, the co-founder and managing partner of CareCapital Group and our chairman, has been instrumental to the strategic planning and development of our Group with over 15-year experience in medical and healthcare industry. We believe that we benefit from CareCapital Group's culture of creating a patient and collaborative environment for dental entrepreneurs and talented executives to realize their visions. CareCapital Group owns both majority and minority stakes in a variety of businesses that span the full dental industry value chain, from education and training at the very upstream, to aligners, implants, biologics, imaging equipment and intraoral scanner in the mid-upstream, to clinic management software and distribution in the midstream, and finally to dental hospitals and chain clinics in the downstream. This allows our Board and our management to deeply understand the needs of the diverse customer segments that is unique to dentistry, as well as the long term technology drivers in those segments. We also benefit from CareCapital Group's broad network of industry experts, talents and enterprises which brings about synergistic business opportunities for consideration in China and globally while maintaining full independence. In addition, we believe that we share a common set of organizational values with our Controlling Shareholder in terms of dedication to the heritage of the dental profession and significant focus on software and data.

GROWTH STRATEGIES

User satisfaction is our top priority. We aim to serve dental professionals and their patients with more customized products and services, refined manufacturing capability and flexible supply chain. To this end, we intend to pursue the following key strategies to grow our business sustainably and maintain our market leadership.

Strengthen R&D capabilities and continue orthodontic solution innovations

The clear aligner industry is characterized with rapid technological innovations and changing market demand. We believe our ability to respond to such technological advancements and to compete effectively in a concentrated market is critical to our success. We seek to persistently innovate and diversify our clear aligner treatment solutions by devoting substantial resources to advance our research and development efforts. We recently established Angelalign Digital Stomatology Research Institute (時代天使數字化口腔智能研究院) to step up our multidisciplinary R&D efforts and spearhead the innovation and application of digital technologies in the oral and dental area. In particular, we plan to implement the following strategies:

- *Utilize cutting-edge theories and technologies.* We will continue to seek breakthroughs of our technology systems with the most advanced theories. By utilizing cutting-edge theories and technologies, we aim to develop innovative clear aligner treatment solutions and enhance features of our existing ones to expand the addressable indications of our clear aligner system and enlarge the patient base for dental professionals. For example, we will explore multidisciplinary orthodontic solutions together with experts from other branches of dentistry, thereby enhancing our ability to address highly complicated malocclusion cases. We will also closely follow the global theoretical development of clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies, to strengthen our medical, technological and production capabilities.
- *Implement an R&D talent strategy.* We regard the success of our employees as the source and the foundation for our sustainable and healthy development. We plan to continue to grow our R&D talent reserve by attracting additional qualified R&D personnel with solid educational backgrounds and extensive industry experience. We have adopted and will continue to explore incentive mechanisms to encourage service inventions by our R&D personnel. We will also continue to provide our R&D personnel with ongoing training to help improve their technical skills and support their professional development.
- *Strengthen domestic and international collaborations.* We plan to continue to strengthen our collaboration with various Chinese and international higher education institutions, stomatology hospitals, medical schools and other research institutions to improve and refine our clear aligner system more efficiently. For example, we intend to dedicate significant resources in our *A+ Plan* to further support multidisciplinary R&D initiatives and boost innovation of treatment solutions.

Further intelligentize and digitalize our systems to improve operational efficiency

We intend to continue to invest in technology infrastructure and software capabilities to enhance intelligentization and digitalization of our systems and boost our operational efficiency. In particular, we intend to develop a flexible and scalable information technology system to streamline and fully digitalize all aspects of our operations, spanning order placing, data transmission, treatment planning, user interactions, procurement and production processes, quality control and product delivery, and after-sales customer services. We plan to realize full compatibility among our existing systems and technology

platforms. By doing so, we expect to achieve fully integrated end-to-end digital workflows to facilitate fluent information flow between us and dental professionals. In doing so, we aim to ensure that the demands of each dental professional will be consistently satisfied, and the parameters of each submitted case will be accurately addressed, throughout the entire treatment process.

Optimize medical services to enhance user experience

We win on the quality of experience we deliver for dental professionals by virtue of our sophisticated medical services. Therefore, we plan to optimize our treatment planning capabilities by conducting profound biomechanical research and clinical verification to strengthen dental professionals' confidence in the use of our Angelalign clear aligner system, and accordingly, increase the utilization rate of our Angelalign clear aligner system, especially among GP dentists. We plan to utilize the power of artificial intelligence and big data analytics to further improve the efficacy of our Angelalign clear aligner system and boost the treatment experience for patients, thereby enlarging our user base and enhancing user stickiness. We aim to establish our Angelalign clear aligner system as the standard method for treating malocclusion among dental professionals.

We have cultivated, and will expand, a highly qualified medical team with stringent recruitment standards and comprehensive and systematic ongoing training. In addition, drawing upon our R&D capabilities, we intend to constantly upgrade our intelligent planning and optimization systems to further intelligitize the treatment planning process and improve the work efficiency for dental professionals. Furthermore, we plan to establish additional regional demonstration centers to improve the accessibility of our medical services offline for dental professionals and provide them with regular in-the-field training in the application of our solutions.

Increase production capacity and improve production efficiency

In anticipation of the increasing demand for our clear aligner treatment solutions, we plan to expand our production capacity and improve our production efficiency by utilizing cutting-edge intelligent manufacturing technologies and fully implementing intelligent manufacturing for our clear aligners.

In particular, we are in the process of constructing our Chuangmei Center, which comprises new manufacturing facilities and a research and development center with a gross floor area of approximately 126,000 square meters in Wuxi city. We plan to equip our Chuangmei Center and our existing manufacturing facilities with intelligent manufacturing technologies, including most advanced 3D printers and manufacturing automation technologies, such as robot technologies. We believe that these technologies will enable us to decrease our cost, better control the quality of our clear aligners, meet requests and orders from customers more promptly, and achieve economies of scale. We expect to commence production in our Chuangmei Center with the first few established automated production lines by the end of 2021. The new manufacturing facilities in Chuangmei Center, once fully commissioned, are expected to have an annual designed production capacity of approximately 100 million units of clear aligners by 2026. See “— Our Intelligent Manufacturing — Expansion Plan” for details.

Solidify our market leading position by expanding sales network and enhancing brand awareness and academic influence

We will continue to strengthen our brand recognition and increase market penetration by enhancing our marketing efforts, expanding our direct sales and distribution network, and hiring additional marketing personnel. We also plan to enhance sales and marketing training to our in-house sales force. We may engage additional qualified distributors with considerable sales channels, especially in unexplored regions. In addition, we plan to pursue overseas expansion in both developed countries and emerging markets by preparing for intellectual property application and product registration and seeking collaboration opportunities with local sales channels.

BUSINESS

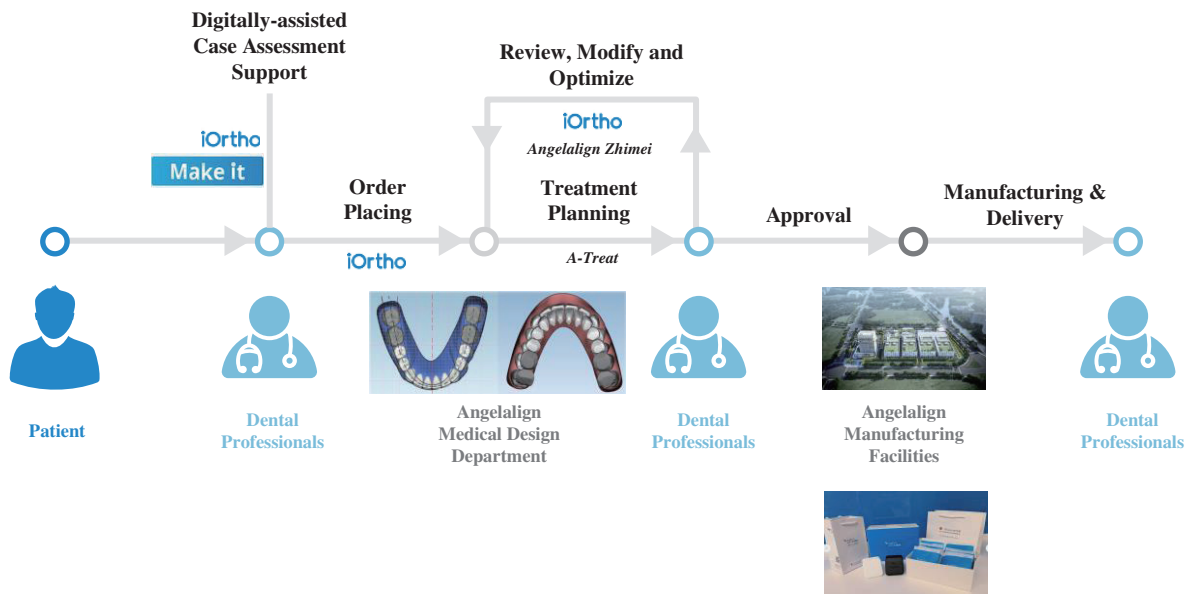
We intend to continue to focus on marketing efforts that directly reach dental professionals through training programs, workshops, forums and seminars. For example, we plan to strengthen our cooperation with the UCLA Dental Research Service Center in providing more orthodontic certification training programs on clear aligners to dental professionals, through which we can market the strengths of clear aligner treatment to more dental professionals. To achieve broader market acceptance of our products, we will also educate potential patients of the benefits of clear aligners through social media, physician media, our official website, and the demonstration centers.

We seek to further increase the exposure and recognition of our *Angelalign* brand by carrying out a variety of marketing and promotional campaigns through multiple media channels and social events. For example, we will deepen our cooperation with the Bureau of Training of General Administration of Sport of China (國家體育總局訓練局) and continue to sponsor international high-profile sport events with the aim of establishing a healthy and iconic status of our brand image. We also plan to increase our influence in both industry and academia by continually hosting the *A-Tech Forum* and other forms of symposiums and workshops, providing an exchange platform for experts and specialists in the clear aligner industry.

OUR VALUE CHAIN AND VALUE PROPOSITIONS

Value Chain

Our Angelalign clear aligner system consists of treatment planning services, clear aligners, and *iOrtho*, a cloud-based service platform that enables dental professionals to provide comprehensive, efficient and effective orthodontic treatment to their patients. As illustrated by the following diagram, our Angelalign clear aligner system penetrates the entire value chain of orthodontic treatment services.



Digitally-assisted case assessment support and order acquisition. At an initial patient visit, the dental professional conducts an orthodontic diagnosis and determines the eligibility of patients for using the Angelalign clear aligner system. In particular, we provide digitally-assisted case assessment support to enable dental professional to help patients visualize how their teeth may look at the end of the treatment within a few minutes after intraoral scanning. The dental professional then places an order and initiates a treatment case on *iOrtho*, which will automatically create a unique traceable code to each case for identification and record purposes.

BUSINESS

Transmission of treatment data to us. The dental professional prepares treatment data, which primarily contain the polyvinyl-siloxane or digitally scanned dental impression of the patient's dental arches, x-rays and/or dental cone-beam computed tomography of the patient's dentition, facial and oral photographs of the patient, and a treatment planning form and prescription. All these treatment data are submitted and uploaded through *iOrtho*, except for the polyvinyl-siloxane dental impression, which is couriered by the dental professionals to us and then scanned for digitization and uploaded to our system by our specialists.

Treatment planning. Upon receipt of the treatment data, our medical designers use them to develop a three-dimensional digital prototype of the patient's teeth and a customized and computer-simulated three-dimensional treatment plan that simulates appropriate tooth movement during the treatment process through our intelligent planning and optimization system. Upon passing our internal review, the treatment plan is delivered to the prescribing dental professional through *iOrtho*. We usually present a near-final treatment plan within three to four business days after the case submission, subject to further modifications during the treatment process to the extent necessary.

Review, modification and approval of the treatment plan by dental professionals. The dental professional reviews the treatment plan through *iOrtho* and may modify the plan themselves through *iOrtho* or request us to make adjustments on an as-needed basis. The dental professional then approves the proposed treatment plan and, in doing so, confirms the order and engages us to manufacture the corresponding clear aligners.

Manufacture and shipment of customized clear aligners. Upon the dental professional's approval of the treatment plan, we assign a unique identification code to each of the clear aligners of this order and fabricate clear aligners in our intelligent manufacturing facilities. The clear aligners are thermoformed, trimmed, polished, cleaned, packaged and, following the final inspection, shipped to the prescribing dental professional.

Patients' wearing of aligners. After receiving the clear aligners, the dental professional will instruct his or her patients to wear the aligners, and the patient generally meets with the dental professional for follow-up consultations every two to three months till the end of the treatment process. During the treatment process, the dental professionals may employ additional aligners for refinement to the extent necessary.

Value Propositions to Dental Professionals

We believe that our Angelalign clear aligner system provides the following value propositions to dental professionals.

Ability to visualize treatment plan and predict treatment outcomes. Our advanced digital orthodontics application system enables dental professionals to preview the entire course of treatment and the likely outcome of the treatment through an interactive three-dimensional computer model. As a result, dental professionals are able to analyze multiple treatment alternatives and select the most appropriate one for patients on a case-by-case basis.

Expanded patient base. With all the advantages of our solutions to patients over traditional orthodontic appliances and our trustworthy brand image, dental professionals who apply our Angelalign clear aligner system will be able to attract more patients who otherwise will not take orthodontic treatment.

Reduced chair time and less time-intensive processes. Our Angelalign clear aligner system reduces both the frequency and length of patient visits during the entire treatment process, and eliminates the need for time-intensive processes for dental professionals, such as bonding appliances to patients' teeth, adjusting arch wires in the process and removing the appliances at the conclusion of treatment. As a result, dental professionals are able to treat more patients in a given period.

Increased profitability. Benefiting from the expanded patient base and the reduced chair time and less time-intensive processes, dental professionals adopting our solutions may substantially improve their practice throughout and profitability.

Expanded dental professional base for orthodontic treatment services. While traditional orthodontic treatment methods can only be prescribed by orthodontists, our Angelalign clear aligner system can be prescribed by GP dentists by equipping them with comprehensive medical services and technological support, thereby reducing the technique requirements for dental professionals and expanding the dental professional base for providing orthodontic treatment services.

Development of advanced orthodontic treatment plans. We place strong emphasis on creating synergies with dental professionals, especially orthodontists, by providing them access to our technology platforms to experiment and modify their innovative treatment methods. If these methods are proved to be efficient and advanced, we can help them productize their treatment methods which can be easily used by dental professionals.

Value Propositions to Patients

Driven by our mission to bring people confident smiles with technologies, our Angelalign clear aligner system provides the following value propositions to patients who otherwise would not seek treatment due to the limitations of traditional orthodontic treatment methods.

Increased predictability. As dental professionals can present visualized tooth movement with the advance digital technologies of our Angelalign clear aligner system, patients can be well-informed of the ultimate treatment outcomes beforehand.

Excellent aesthetics. Clear aligners' unique feature of being almost invisible provides a discreet look for patients who consider orthodontic treatment as a private matter.

Improved oral hygiene. Patients can remove aligners for eating or social occasions, and most importantly, for tooth-brushing and flossing so that their oral hygiene is not compromised.

More comfort. Our clear aligners are made of our self-developed material that is less likely than metal wires and braces to irritate the soft tissues of the mouth, providing considerably more comfort to patients than conventional braces during their treatment process.

Greater convenience. Our clear aligners have little impact on patients' day-to-day routines while at home, work or play as it is removable. Moreover, compared to conventional braces, our clear aligner treatment solution drastically reduces the frequency and length of follow-up visits for patients.

OUR ANGELALIGN CLEAR ALIGNER SYSTEM

Our digital orthodontics solution, Angelalign clear aligner system, consists of a trio of components:

- ***Digitally-assisted case assessment support and treatment planning services.*** We provide dental professionals, including orthodontists and GP dentists, with digitally-assisted case assessment support and treatment planning services. We have built our own medical design team to help dental professionals design, review and modify treatment plans.
- ***Clear aligners.*** Our clear aligners are designed and tailor-made according to specific treatment plans for individual patients. We currently design and manufacture four lines of clear aligners, namely *Angelalign*, *Angelalign Pro*, *Angelalign Kid* and *COMFOS*. By applying calculated forces to teeth and moving them into an optimal position, our clear aligners help treat malocclusion with more comfort and reduced treatment time and clinic visits.
- ***Cloud-based service platform.*** Our *iOrtho*, a cloud-based service platform, allows dental professionals to perform multiple tasks in the entire treatment process, including (1) placing orders with us; (2) reviewing, modifying and finalizing their treatment plans online with the help from our medical designers, and (3) reviewing, editing and managing medical records of their patients.

Digitally-assisted Case Assessment Support and Treatment Planning Services

At the core of our Angelalign clear aligner system lies the design of an effective orthodontic treatment plan which requires the parameters and velocity of the tooth movements to be uniquely calculated for each tooth depending upon the crown shape, root size and position in the arch, based on accurate and reliable diagnosis results. Over the past years, we have developed strong medical and technological capabilities based on our continued scientific research and development of clinical stomatology, as well as software development and data analytics capabilities, to assist dental professionals in this regard. We provide dental professionals with digitally-assisted case assessment support and/or treatment planning services as appropriate.

We primarily deliver our digitally-assisted case assessment support through *Make It*, a built-in case assessment support module of *iOrtho*. Benefiting from its compatibility with all major intraoral scanners and the resulting immediate transmission of the scan data, dental professionals can present to a prospective patient an image of his/her own current dentition next to his/her simulated final position after the treatment through a dual view layout within a few minutes of intraoral scanning.

Our advanced technologies and sophisticated medical design personnel form the backbone of our strong treatment planning capabilities. We have developed *A-Treat*, a digital treatment planning platform using our technology accumulation in many frontiers, such as 3D computer graphics, data mining, machine learning and artificial neural network. It is embedded with digitalized critical medical rules governing the clinical protocols for teeth movement, which have been repeatedly deliberated and verified by our medical designers. Our algorithms are able to keep records of dental professionals' treatment planning preference on *A-Treat*, which enables us to reduce our communication costs with them in the long run, as well as to provide treatment plans to their satisfaction in an efficient and prompt way. We therefore have cultivated long-term stickiness and loyalty from dental professionals.

Moreover, in order to help dental professionals formulate optimal and more customized treatment plans, we have launched *Angelalign Zhimei*, a design optimization system that consolidates multiple intelligent computing and analysis tools. On top of the standardized treatment plans we present, *Angelalign Zhimei* accommodates the specific demand of each dental professional through integration of their input of customized parameters with medical rules and the accumulated expert plans embedded in our *A-Treat* system on a real-time basis. With the combination of outputs of *masterForce* and *masterEngine*, and leveraging our repository of Asian-specific stomatology data, *Angelalign Zhimei* is capable of delivering optimal and customized treatment plans through optimization of orthodontic forces and features of clear aligners.

We also have assembled the largest medical designer team in the dental service area in China, according to the CIC Report, with over 400 members as of the Latest Practicable Date, which was led by our stomatology expert team.

To help a dental professional design a treatment plan for his or her patients, we start with analyzing all the dental data of the patient. Dental professionals will send us a patient's treatment data package for our analysis. We encourage dental professionals to submit an intraoral digital scan instead of a physical polyvinyl-siloxane impression using dental scanners through *iOrtho*. Based on the examination and analysis of the digitalized data package, our medical design department will formulate a treatment plan, which is subject to subsequent review, modification and optimization. Once the dental professional approves the treatment plan, we will output it for manufacturing of clear aligners.

We focus on creating synergies with dental professionals who have profound clinical experiences and established strong and long-standing relationships with us. We believe these dental professionals play critical roles in driving the improvement of our treatment planning capabilities by providing first-hand professional feedback and input to our solutions. Therefore, we provide them access to our medical and technology platforms to experiment and modify their innovative treatment methods.

Our Clear Aligners

Clear aligners are custom-manufactured, transparent and removable orthodontic appliances that cover patients' teeth to provide orthodontic treatment. They are designed to move patients' teeth in small steps to the desired final position prescribed by dental professionals. Aligners are commonly worn in pairs over the upper and lower dental arches. Patients wear a pair of aligners over a certain period before they discard and replace them with the next pair. This process is repeated until the treatment is completed.

Our clear aligners have gained market recognition since it was approved by the SFDA (now known as the NMPA) and first marketed in 2006. We currently market four lines of clear aligners, including *Angelalign*, *Angelalign Pro*, *Angelalign Kid* and *COMFOS*. Our diversified clear aligners, in synergy with our medical and technological services, allow dental professionals to deliver effective treatment for a growing number of malocclusion cases with varying complexities and for an enlarging patient base of a broad spectrum of ages and different spending powers.

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The following table sets forth the major features our clear aligners.

Product line	Average length of treatment cycle	Average number of pairs of aligners required ⁽¹⁾⁽²⁾	Frequency of changing to a new pair of aligners	Suggested retail price during the Track Record Period
<i>Angelalign</i>	23.8 months	51 pairs	biweekly	RMB32,000
<i>Angelalign Pro</i>	21.5 months ⁽³⁾	92 pairs (46 sets)	biweekly for each set ⁽¹⁾	RMB40,000
<i>Angelalign Kid</i>	8.6 months	37 pairs	weekly	RMB26,000
<i>COMFOS</i>	20.1 months	43 pairs	biweekly	RMB24,000

(1) *Angelalign Pro* features a multimode treatment approach that applies two pairs of clear aligners using *masterControl* and *masterControl S*, respectively, which are worn by patients alternatively. Subject to dental professionals' adjustments, the first pair of *Angelalign Pro* aligner is typically worn over a one-week period before switching to the second pair, which is typically worn over a three-day period. See “— *Angelalign Pro*” for details.

(2) For *Angelalign*, *Angelalign Kid* and *COMFOS*, each set of clear aligns consists of one pair.

(3) *Angelalign Pro* is usually used to address more complex orthodontic cases which would have a longer treatment cycle if treated with other product lines.

The following table sets forth a breakdown of our sales volume, as measured by case shipments, and the average selling price by product line for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	Sales volume (number of case shipments)	Average selling price (RMB)	Sales volume (number of case shipments)	Average selling price (RMB)	Sales volume (number of case shipments)	Average selling price (RMB)
<i>Angelalign</i>	60,700	8,200	78,800	7,500	73,200	7,600
<i>Angelalign Pro</i>	15,800	9,700	24,700	9,300	32,000	9,600
<i>Angelalign Kid</i> ⁽¹⁾	—	—	2,200	5,600	5,000	8,700
<i>COMFOS</i>	1,200	4,300	14,400	4,000	27,400	5,500
Total	<u>77,700</u>	8,400	<u>120,100</u>	7,500	<u>137,600</u>	7,700

(1) *Angelalign Kid* was officially launched in 2019.

Angelalign

Since its first launch in 2006, *Angelalign* has become a classic product of our Company, which can be used for a wide range of malocclusion, including overly-crowded teeth, widely-spaced teeth, open-bite, deep-bite, cross-bite, and under-bite.

Based on each patient's treatment plan and orthodontists' clinic diagnosis, we customize each set of *Angelalign* aligners on a case-by-case basis. Each pair of *Angelalign* aligner is typically worn over a two-week period before switched to the next pair. To achieve precise and constant tooth movement, we recently upgraded *Angelalign* aligners using our most cutting-edge self-developed material, *masterControl S*. See “— Our Technology and Data Platforms — *masterControl*” for details.

Angelalign Pro

We launched *Angelalign Pro* in 2016 based on our profound understanding of clear aligner materials science and orthodontic force calculation. *Angelalign Pro* is our premium aligner product featured with *masterMulti*, a multimode treatment approach that applies two pairs of clear aligners fabricated by different aligner materials with complementary mechanical properties to achieve different movement progress at different stages during the treatment.

As the first multimode clear aligner in the world, according to the CIC Report, *Angelalign Pro*, in its latest version, features two pairs of aligners using *masterControl* and *masterControl S*, respectively, which are worn alternately. The first pair of *Angelalign Pro* aligner is made of softer material, which is typically worn over a one-week period before switching to the second pair of harder aligner, which is worn over a three-day period, subject to adjustments of dental professionals. *Angelalign Pro* helps patients garner the benefits of the two distinct pairs of aligners: the soft aligner can rapidly start the movement of teeth, while the hard aligner is more accurate in terms of controlling the tooth movement. As a result, *Angelalign Pro* is more accurate, efficient and comfortable, and is able to further shorten the length of the treatment cycle by approximately 30% without compromising treatment accuracy. Due to its multimode feature, *Angelalign Pro* can be used to address more complex orthodontic cases that cannot be easily treated by *Angelalign*. As a result, we continuously expand the coverage of our Angelalign clear aligner system.

Angelalign Kid

In 2019, we expanded into children's clear aligner treatment market by officially launching *Angelalign Kid*, which is China's first comprehensive clear aligner treatment solution designed for children aged between six and 12, according to the CIC Report. Our *Angelalign Kid* solution consists of the specifically-designed clear aligners, the bucc-labial shield and a set of functional fitness exercises for muscles.

As children's constant teeth growth and unpredictable muscle and jaw bone development make it extremely difficult to address their orthodontic needs with a series of pre-calculated and manufactured clear aligners. Traditionally, orthodontic treatment was only applicable to patients aged above 12 who have been through the permanent tooth eruption process. *Angelalign Kid* represents a shift in approach from *ex post* treatment towards early intervention. By incorporating three diverse treatment methods, our innovative *Angelalign Kid* effectively addresses the special orthodontic and facial appearance needs for children, which allows us to expand patient base for our Angelalign clear aligner system.

Angelalign Kid realigns children's teeth with mild orthodontic force and makes room for the growth of permanent teeth, and thus lowers the chance of tooth extraction for subsequent treatment. We design and tailor-make specific types of attachments for each child, which are 36% smaller and 32% stronger in fixation than regular attachments, to better wrap up their deciduous teeth, the crowns of which are usually lower than permanent teeth. In addition, by combining the clear aligners, the bucc-labial shield and the functional fitness exercises for muscles alternately in line with the progress of children's tooth growth and muscle and jaw bone development, *Angelalign Kid* provides children a better oral environment for the growth and development of their permanent teeth, facial muscles and jawbones.

COMFOS

In 2017, we launched *COMFOS*, a good value-for-money product in response to the growing demand for aesthetics of the young generation with moderate malocclusions. *COMFOS* is generally applied to patients with common malocclusions. Since its launch, *COMFOS* rapidly gained popularity among the young generation seeking to improve their smiles in a fast, convenient, comfortable and affordable manner, as it caters to their willingness to pay and spending power. We believe that with *COMFOS*, we enable dental professionals to extend their outreach to patients of a broader spectrum of spending powers.

COMFOS is made of *masterControl* and crafted with our advanced automated manufacturing and 3D printing technologies. Empowered by our artificial intelligence treatment planning system and assisted by our professional medical design team, dental professional will be able to deliver effective treatment solutions in a timely manner.

Other appliances and attachments

In addition to clear aligners, we have developed a series of appliances and attachments that can be added on to our various clear aligners to achieve optimal treatment results. For example, we developed *angelButton*, a traction product, which can be placed at any position on aligners and, therefore, can address intruding anterior teeth, multi-direction traction, vertical position adjustment, traction for single maxillary tooth extrusion, arch width coordination, inter-maxillary traction, impacted teeth extrusion, and traction for missing teeth. Dental professionals are allowed to flexibly design traction without restriction with *angelButton*. Moreover, empowered by AI-enabled accurate positioning, dental professionals no longer need to trim the traction cut manually, and thereby avoid disrupting alignment force and improve treatment efficiency. We also recently launched *angelArm*, the world's first mandibular appliance that features active force application, according to the CIC Report. Enriched with features such as lock design, force indication and adjustable length, *angelArm* increases the precision and control of force application and expands addressable occlusal structures. The coordinated application of *angelArm*, *angelButton* and our various clear aligners provide solutions to skeletal malocclusion such as maxillary protrusion and mandibular retrusion, which is typical among Asian malocclusion cases, and demonstrates excellent efficacy and safety.

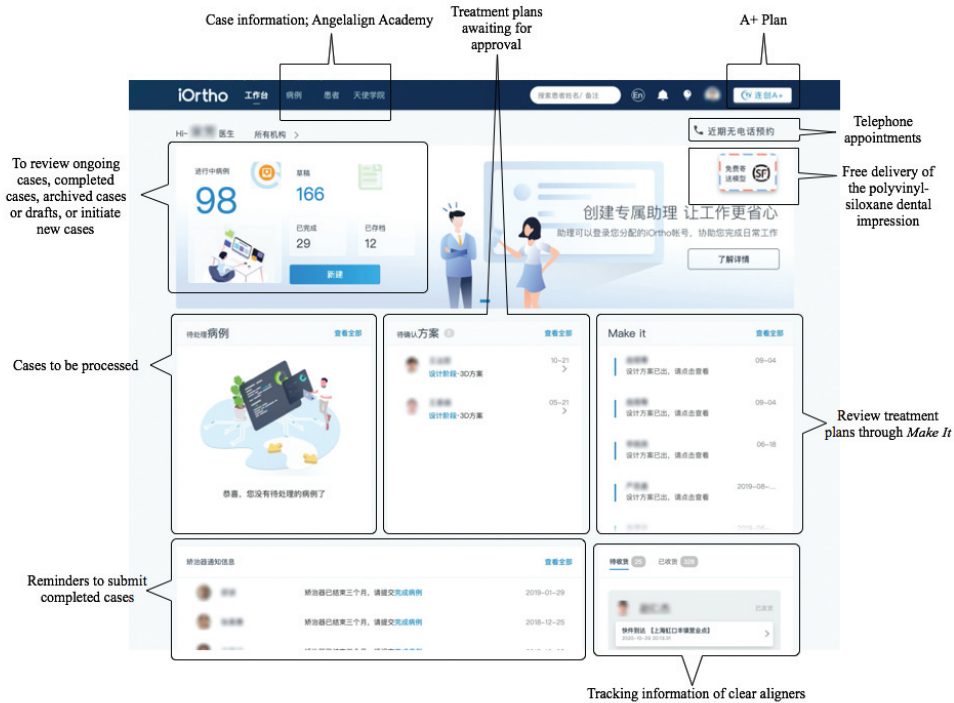
iOrtho

To aid dental professionals in the treatment of their patients, we developed *iOrtho*, a cloud-based multifunctional service platform, in 2013. It provides dental professionals with a variety of services, such as order management, review and approval of treatment plans, and information collection and transfer. Empowered by its cloud data processing capabilities and multiple modules consisting of personal computers and mobile devices, *iOrtho* enables dental professionals to access, manage and assess their orders and treatment plans anywhere at any time. In addition, dental professionals are able to borrow from others' experiences and ideas by reviewing select past treatment plans available for reference on the platform.

We continuously upgrade *iOrtho* and enhance its features to adapt to changing demands and preferences of dental professionals. For example, in response to the increasing preference of submitting an intraoral digital scan instead of a polyvinyl-siloxane impression of the relevant dental arches among dental professionals, we have made *iOrtho* compatibility with all major intraoral scanner providers and achieved immediate transmission of the scan data. As a result, through *Make It*, dental professionals can present to a prospective patient an image of his/her own current dentition next to his/her simulated final

position after the treatment through a dual view layout within a few minutes of intraoral scanning. As such, *iOrtho* can help dental professionals to market our clear aligners and acquire patient users more effectively. We also improved the accuracy and efficiency of the medical record management module in the latest version of *iOrtho* to optimize the user experience for dental professionals in their daily operations. Recently, we upgraded *iOrtho* with artificial intelligence-driven data processing engine.

The following screenshot shows the intuitive and integrated user interface of *iOrtho*.



OUR TECHNOLOGY AND DATA PLATFORMS

Leveraging our scientific research results, we have developed a number of major technology and data platforms, including *masterForce*, *masterControl* and *masterEngine*, as the bedrocks of our Angelalign clear aligner system. As a biomechanics platform, *masterForce* helps achieve full-factor force simulation and calculation in clear aligner treatment. Based on our biomechanics calculation through *masterForce*, we developed *masterControl*, a clear aligner material platform, based on which we are able to develop cutting-edge materials that deliver calculated ideal force for orthodontic tooth movements. Furthermore, we have established *masterEngine*, an AI-based multimodal biological data platform, which enables accurate, multi-scenario data extraction and fusion to assist dental professionals' diagnosis and treatment planning processes, and provides more comprehensive, reliable and accurate information for clinical stomatology.

masterForce

It is critical to study the exact biomechanical mechanisms involved in the orthodontic treatment as it is accomplished by applying precise forces to move the teeth. As a full-factorial orthodontic force simulation system, *masterForce* aids physical mechanics testing with cutting-edge computer-aided engineering technologies. It is involved in every aspect of the mechanics factor analysis of clear aligner treatment, including basic mechanical properties of aligner materials, structural mechanics, forces and

moments, and force regressions of aligner materials. Its biomechanics simulation is able to visualize the impact of force and movement of teeth, accurately predict orthodontic design deviation, make compensation for such deviation, thereby delivering more desirable treatment outcomes for patients. As of the Latest Practicable Date, we owned 14 registered patents in relation to *masterForce*.

masterControl

Based on biomechanical analysis enabled by *masterForce*, we have established a sophisticated clear aligner material platform, *masterControl*, to develop cutting-edge material that delivers gentle and consistent forces to achieve anticipated clinical results. In 2016, we launched *masterControl* in collaboration with the UCLA Dental Research Service Center, which maintains more constant force over the period of wear time, and conforms to tooth morphology, attachments and interproximal spaces more precisely to improve control of tooth movement throughout treatment. According to the UCLA Dental Research Service Center, based on its experimental study, it was observed that *masterControl*, compared with other aligner materials tested, is mechanically stronger while maintaining similar initial strain conditions, and therefore, offers abundant orthodontic forces and energy throughout the treatment process. It was also found that *masterControl* has higher resistance to plastic deformation and better elastic recovery properties. Therefore, *masterControl* provides sustainable orthodontic forces after a given amount of wear time. The UCLA Dental Research Service Center concluded that *masterControl* is a better material for clear aligner application compared with typical aligner polymers. We incurred R&D fees of approximately US\$0.1 million to cover raw material costs and equipment and staff costs incurred by the UCLA Dental Research Service Center in relation to its experimental study.

Based on the system, we recently launched *masterControl S*, the next-generation of high-end polymer developed for clear aligners, leveraging extensive biomechanics studies and the reverse design results from the stomatology profiles of Chinese population. With a real sandwich structure, *masterControl S* distinguishes itself with several primary advantages, including self-adaptivity, memorability, superelasticity, tear resistance, stain resistance and improved invisibility. *masterControl S* overcomes the inherent difficulty with traditional materials to achieve elasticity and resistance simultaneously and accomplishes both comfort and control while patients are wearing clear aligners, which provides the required mechanical feature for each tooth at any time and automatically adapts to demand of each patient. Moreover, the memorability and hyperelasticity of *masterControl S* enables the clear aligners to maintain its original shape throughout the treatment process and delivers gentle and consistent forces considered ideal for orthodontic tooth movements.

masterEngine

In addition to our technology platforms, we have established *masterEngine*, an AI-based multimodal biological data platform, based on our profound stomatology database. Leveraging the embedded deep learning system that interprets and translates data across different forms, together with the full-cycle AI biomimetic system, *masterEngine* enables accurate, multi-scenario data extraction and fusion to assist dental professionals' diagnosis and treatment planning processes, and provides more comprehensive, reliable and accurate information for clinical stomatology. Benefiting from *masterEngine*, we recently launched the *Intelligence Root System*, which provides dental professionals with direct, 360-degree observation of the real status of the tooth root and access to accurate data regarding the movement of crown and root, with which they can assess the cases and create and modify treatment planning for optimal clinical results.

We safeguard our data platform in strict accordance with our internal protocols and procedures. See “— Data Privacy and Security.”

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RESEARCH AND DEVELOPMENT

Orthodontic treatment involves complex medical procedures with multidisciplinary technologies, which transcends the mere fixing of crooked, uneven, discolored or misshapen teeth that shy away from smiling. We have developed our Angelalign clear aligner system underpinned by the integrated application of our dedicated scientific research efforts on a range of relevant subjects, including clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies.

We believe our success is largely attributable to our strong R&D capabilities and our continued commitment to R&D efforts. We are committed to investing in world-class technology development to continually develop and bring to market innovative clear aligner treatment solutions, and to redefine and improve industry standards. In 2018, 2019 and 2020, our research and development expenses were RMB50.2 million, RMB80.9 million and RMB93.5 million, respectively, representing 10.3%, 12.5% and 11.4% of our revenue in the same periods, respectively. In 2018, 2019 and 2020, we had 11, 10 and 21 research projects, respectively.

We primarily develop in-house our intellectual property rights. We also collaborate with renowned Chinese higher education institutions, stomatology hospitals, medical schools and other research institutions, and jointly own the intellectual property rights arising from such collaborations. See “— Our R&D Collaborations” for details. To a much lesser extent, we used to acquire intellectual property rights from third parties.

Our R&D Team

We are committed to recruiting new talent to join our R&D team. We attend campus recruitment events on a regular basis to hire qualified graduates with outstanding academic records. We also seek to hire R&D personnel with experience in the relevant fields. We attract new R&D talent by offering competitive compensation packages, career development opportunities and trainings designed to enhance their technical skills and professional knowledge. As of December 31, 2020, we had a research and development team of 123 members, representing 9.4% of our total employees in the same period.

The following table sets forth a breakdown of our research and development team by department as of December 31, 2020.

Department	As of December 31, 2020	
	Number of Employees	% of Total
Product design and development	24	19.5%
Technology development	17	13.8%
Software and algorithm development	82	66.7%
Total	123	100.0%

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The following table sets forth a breakdown of our research and development team by degree as of December 31, 2020.

Degree	As of December 31, 2020	
	Number of Employees	% of Total
Bachelor's degree ⁽¹⁾	76	61.8%
Master's degree	38	30.9%
Doctor's degree ⁽²⁾	9	7.3%
Total	123	100.0%

(1) Include three employees with an associate's degree (大專).

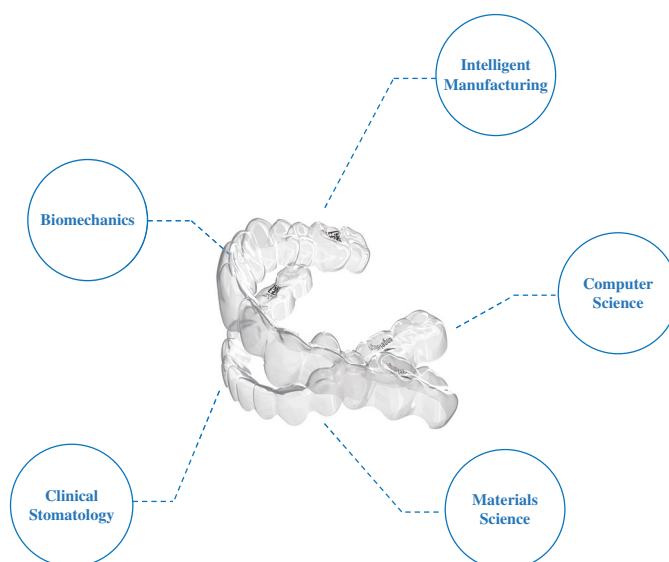
(2) Include two postdoctoral researchers.

Our R&D Collaborations

In addition to in-house R&D efforts, we collaborated with renowned Chinese higher education institutions, stomatology hospitals, medical schools and other research institutions in relation to our R&D initiatives. We generally enter into a legally binding cooperation agreement with such entities for joint R&D projects. Pursuant to such cooperation agreement, we generally pay a predetermined amount of R&D fees in several installments for jointly developed projects and projects commissioned by us based on project milestones. Our R&D fees typically cover raw material costs, testing and clinical trial fees, and expenses incurred in the operation of laboratories and execution of projects. We generally own the intellectual property rights arising from such collaborations jointly with the other party and we may use the relevant rights and improve the research results in our favor. See “— Our R&D Initiatives” below for our collaborations in each R&D area.

Our R&D Initiatives

Our research and development activities are directed toward developing the technological innovations that we believe will deliver our next generation of orthodontic solutions. These activities range from accelerating product and clinical innovation to developing manufacturing process improvements to researching future technologies and products. Specifically, we take research and development initiatives in the following five major areas:



Clinical stomatology

Our Angelalign clear aligner system is in large part dependent on our research results of clinical stomatology. According to the CIC Report, Asian malocclusion cases are usually more complicated compared to other ethnic groups. As a result, we specifically focus on formulating rules and systems for Asian-specific orthodontics treatment plans. We also have assembled the largest medical designer team in the dental service area in China, according to the CIC Report, with over 400 members as of the Latest Practicable Date, which was led by our stomatology expert team. Our stomatology team is led by Dr. Jie Tian, our chief medical officer, who pioneered the application of clear aligner treatment in China and has over 30 years of experience in clinical stomatology and clear aligner treatment.

We have forged strategic partnerships with a number of prestigious stomatology hospitals and research institutions in China. In 2014, we collaborated with Sichuan University Huaxi Stomatology Hospital (四川大學華西口腔醫院) to establish a digital orthodontics treatment and training center in Chengdu. In 2015, we collaborated with Nanjing Stomatology Hospital (南京口腔醫院) to establish a digital orthodontics testing center in Nanjing, Jiangsu province.

Biomechanics

Orthodontic tooth movement is accomplished by applying forces to teeth. It is necessary to control the force system for the movement of both the root and crown of each tooth for excellent orthodontic treatment. Therefore, we have devoted significant resources to the study of the control of the force system in order to provide excellent control of tooth movement.

We conduct our biomechanics study based on *masterForce*, which can help us achieve full-factorial simulation and calculation of biomechanics in the following ways, including (1) multi-faceted visualization of orthodontic force and tooth movement, (2) accurate prediction of variations in treatment planning, (3) accurate calculation of compensation in treatment planning, and (4) optimized treatment planning based on orthodontic biomechanics. See “— Our Technology and Data Platforms — *masterForce*” for details. We thereby design innovative force-enhanced features on aligners, such as various attachments and appliances, such as the *angelButton* traction product. In addition, we develop our A6 solution for mandibular retrusion, A7 solution for patients in need of extraction of premolars, and A8 molar distalization solution, based on extensive biomechanics study.

In addition, we established a Translation Medicine Research Platform on Oral Biomechanics and Artificial Intelligence with Ninth People’s Hospital, Shanghai Jiaotong University School of Medicine (上海交通大學醫學院附屬第九人民醫院) in 2020 to further explore the fundamental mechanisms of biomechanics in tooth movement, leveraging big data and artificial intelligence technologies. We also sponsored a number of clinical research projects in Sichuan University Huaxi Stomatology Hospital and Peking University Hospital of Stomatology to validate and verify different treatment plans proposed by biomechanical analysis.

Materials science

The properties of materials have a significant influence on the performance of clear aligners. Accordingly, we strive to continuously upgrade the materials used for our clear aligners in order to seek a balance between comfort and efficiency, and to achieve precise control. For example, we recently launched *masterControl S*, a new generation of high-end polymer developed for clear aligners based on extensive biomechanics studies and the reverse design results from the stomatology profiles of Chinese population. See “— Our Technology and Data Platforms — *masterControl*” for details.

Computer science

We focus our R&D efforts on computer science and software development. We have developed, and are continually upgrading, our intelligent planning and optimization system to enhance computer analysis of treatment data and to reduce time spent on judgmental tasks for each case, thereby increasing the efficiency of our medical designers. We are enhancing the functions of *iOrtho* with embedded *Angelalign Zhimei* and *Make It*. We are also inventing the chairside design tool for target teeth position. In addition, we are committed to improving our data analytics and machine learning capabilities to further optimize our digital orthodontics solutions. For example, in December 2020, we established the ZJU-Angelalign Joint Research & Development Center for Intelligent Healthcare (浙江大學-時代天使智慧醫療聯合研究中心) with Zhejiang University (浙江大學) and began to recruit postdoctoral researchers to further the development of digital orthodontics and the application of artificial intelligence technologies in the dental and oral area. Additionally, we are developing the automation digital model processing technology. See “— Our Technology and Data Platforms — masterEngine” for details.

Intelligent manufacturing technologies

Since the manufacturing process of our products requires substantial and varied technical expertise, we believe that our manufacturing capabilities are paramount to our success. In order to produce customized products with high precision and premium quality, we have developed a number of manufacturing processes and technologies. In particular, we have adopted 3D printing and production automation technologies to increase the efficiency and consistency of our manufacturing process. To improve the precision of our teeth molds and clear aligners, we also compose a method to evaluate the precision of 3D printing for teeth molds and develop high-precision cutting technology for clear aligners based on six-axis robots. In addition, to improve efficiency and increase the scale of our operations, we continue to invest in the development and optimization of automated systems for the fabrication and packaging of aligners. In 2020, we established a joint innovation center in collaboration with Jiangsu Industrial Technology Research Institute (江蘇省產業技術研究院) focusing on manufacturing technologies and materials science innovations. See “— Our Intelligent Manufacturing” for details.

OUR INTELLIGENT MANUFACTURING

We produce customized clear aligners with premium quality and high tolerance through a “mass customization” model based on intelligent manufacturing technologies, including complex software solutions, 3D printing, rapid prototyping methods and automated production lines.

During the Track Record Period, we have not experienced any material or prolonged stoppage of production due to equipment failure, and we have not experienced any material accidents during our manufacturing process.

Our Mass Customization Process

After a treatment plan is generated by us and approved by the corresponding dental professional, we start to manufacture all the clear aligners pertinent to the specific treatment plan in our manufacturing facilities located in Wuxi, Jiangsu province.

On the one hand, each aligner is custom-built, and must be precisely calibrated and manufactured to fit each patient’s teeth positions at each stage of the corresponding treatment plan. On the other hand, we must achieve mass production to lower our costs and increase scale of operations. Enabled by technologies including 3D printing and automated production line, we have introduced the “mass customization” model to mass-produce custom-tailored clear aligners. Our “mass customization” process is generally divided into four main stages, including (1) 3D printing of teeth molds depicting the future position of the patient’s

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teeth based on the approved treatment plan, (2) aligner fabrication by pressure-forming polymeric sheets over each teeth mold, (3) trimming, polishing and quality check of the clear aligners, and (4) sorting and packing of all finished aligners based on the designated identification codes in our automatic sorting system. Subsequently, all sets of aligners of each individual patient will be packed together and shipped to the prescribing dental professional of such patient.

Manufacturing Facilities

Our principal manufacturing facilities are located in the Wuxi (Huishan) Life Science and Technology Industrial Park in Jiangsu Province, China, with an aggregate area of approximately 9,000 square meters. The following table sets forth our production capacity, production volume and utilization rate of our clear aligners for the periods indicated.

	Year ended December 31,		
	2018 ⁽⁴⁾	2019	2020
	(unit in thousands, except for the percentages)		
Production capacity ⁽¹⁾	6,800	15,800	21,900
Production volume ⁽²⁾	6,770	12,150	16,200
Utilization rate ⁽³⁾	99.6%	76.9%	74.0%

(1) Production capacity is calculated based on the assumption that our manufacturing facilities operate 520 hours per month.

(2) Production volume refers to the number of units produced in a given period.

(3) Utility rate is calculated by dividing the production volume of a given period by the production capacity of the same period.

(4) We had commenced the mass production utilizing our automated production lines since July 2018.

Our production capacity generally increased during the Track Record Period, primarily due to the commencement of production on our newly established automated production lines. The utilization rate of our production facilities decreased from 2018 to 2019, primarily due to the under-utilization of our newly established automated production line during the trial stage. The utilization rate of our production facilities decreased from 2019 to 2020, primarily due to the impact of COVID-19 pandemic.

3D printing

We use the 3D printing technology to produce a series of teeth molds depicting the future position of each patient's teeth, which is essential to the manufacturing of clear aligners.

3D printing is a precise production technology that can produce teeth molds that match the complexity and uniqueness of each individual patient's tooth movement. As a computer-controlled production process, 3D printing forms a teeth mold with around 200 successive layering of materials in accordance with a 3D model.

We have established China's largest 3D printing base in dental application in our Wuxi manufacturing facilities and deployed the 4th generation 3D printers, which are the most advanced ones for dental appliances, according to the CIC Report. Our 3D printers, with custom build-in parameters to address our demand for large scale production, perform approximately 25% to 50% faster than the industry average.

Automated production line

Historically, we manufactured all our clear aligners manually. In 2017, we built our first automated production line in Wuxi manufacturing facilities, which commenced commercial production in 2018. Equipped with our advanced computer-aided technologies, the automated production line can minimize human error in the manufacturing process to the largest extent and double our production efficiency. As of December 31, 2020, we manufactured our clear aligners primarily through our automated production line. Going forward, we expect to maintain our manual production capabilities to fabricate clear aligners for extremely complicated cases and for purposes of our research and development efforts and clinical studies.

Manufacturing execution system

Manufacturing execution system (the “MES”) plays an important role in controlling and monitoring in real time the entire production process through which raw materials are converted into finished goods. MES forms a link between our enterprise information system and our systems for production processes and data collection. It documents the critical inputs of each workflow and is highly integrated with our automated manufacturing equipment. MES generates dynamic production schedules, accommodates multiple rework solutions, provides traceable production data and allows process customization, which enables faultless and agile manufacturing and increase our production efficiency.

Expansion Plan

As the second largest in the world, China’s overall clear aligner market, in terms of retail sales revenue, is expected to increase from US\$1.5 billion in 2020 to US\$11.9 billion in 2030 at a CAGR of 23.1%, according to the CIC Report. Moreover, we believe that the enormous yet underpenetrated market will present great upside potential. In anticipation of such increase in demand, we plan to further enhance our “mass customization” production capacity by expanding our manufacturing facilities and increasing the degree of manufacturing automation and efficiency at our existing and new sites.

We own the land use right to one parcel of land located in Wuxi city with a site area of approximately 68,883 square meters. As advised by our PRC legal advisors, we have obtained the land use certificate for such parcel of land and legally owned the land use right, which will expire in February 2069. We are in the process of constructing our Chuangmei Center on the parcel, which comprises new manufacturing facilities and a research and development center with a gross floor area of approximately 126,000 square meters. The new manufacturing facilities in our Chuangmei Center, once fully commissioned, are expected to have an annual designed production capacity of approximately 100 million units of clear aligners by 2026. We expect to commence production in our Chuangmei Center with the first few established automated production lines by the end of 2021 after we obtain relevant permits, certificates and approvals, such as a certificate for passing construction completion inspections and a medical device production permit.

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We expect to incur total investment of approximately RMB1,092 million for the construction of Chuangmei Center, which will be primarily funded by proceeds from the Global Offering, and to a lesser extent, by our cash reserves and operating cash flow in the future. See “Future Plans and Use of Proceeds.” The following table sets forth certain details of our expansion plans.

<u>Project</u>	<u>Approximate gross floor area</u>	<u>Construction commencement date</u>	<u>Expected construction completion date⁽¹⁾</u>	<u>Expected aggregate capital expenditure</u>
	(sq. m.)			(RMB in millions)
Production Plant	56,000	September 2020	December 2023	616
Research Center	70,000	July 2022	July 2024	476

(1) Represents the completion date for the construction of the new plant and deployment of six automated production lines. See “Future Plans and Use of Proceeds” for details.

We may face a number of challenges in implementing our expansion plans, such as procurement of sales orders and raw materials, and maintaining quality control. We intend to further improve the automation levels of our production process to reduce our dependence on labor to the largest extent. Moreover, we intend to capture market growth and expand our market share by leveraging our leading market position and expanding distribution network. We also seek to continue to improve our inventory management and our procurement process in order to ensure a sufficient supply of raw materials, and to continue to invest in and improve our quality control procedures and systems. However, we may face failure or delay in implementing our expansion plan. See “Risk Factors — Risks Relating to Our Business and Industry — If we fail to implement our expansion plan as planned, our business and prospects could be materially and adversely affected.”

QUALITY CONTROL

Product quality is vital to our business, since any potential quality defect may cause significant risks to patients. As such, we are committed to developing and producing high quality products in compliance with international and applicable domestic standards, regulations and directives. We have established what we believe to be a stringent quality management system. We have a quality and regulatory affairs department and devote significant resources to quality management of our products.

As of December 31, 2020, we had a quality control team of 37 members. Our quality control team is responsible for formulating and implementing our quality control policies, and conducting inspections of raw materials, production processes and finished products to identify quality defects. We have strictly followed the ISO 13485 quality management system for medical devices.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaints about product quality and our products had not been subject to any material claim, litigation or investigation. In addition, during the Track Record Period and up to the Latest Practicable Date, there were no product recalls or fatal accidents related to our products.

OTHER SERVICES

To improve the accessibility of our medical services for dental professionals, we maintained a few dental clinics as our demonstration centers where dental professionals can receive regular in-the-field training in application of our clear aligner treatment solutions and access to our medical services offline to level up the user experience. With the demonstration centers, we can also educate the potential patients on how our clear aligner works, such as showing them a scan-driven simulation of how they might look

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with straighter teeth. As of the Latest Practicable Date, we maintained one self-operated dental clinic in Shanghai and one dental clinic in joint venture in Guangzhou as our two demonstration centers. We maintained an additional dental clinic in joint venture in Shanghai which no longer served as our demonstration center since 2019.

We engage qualified dentists to provide orthodontics and cosmetic dentistry services and other dental services to patients in the dental clinics, and charge them service fees. During the Track Record Period, we generated revenue of RMB23.5 million, RMB17.8 million and RMB17.5 million from other services in 2018, 2019 and 2020, respectively, representing 4.8%, 2.8% and 2.1% of our total revenue in the same periods, respectively. See “Financial Information” for more information.

The following table sets forth the number of our self-operated and joint venture dental clinics during the Track Record Period.

	Year ended December 31,		
	2018	2019	2020
Shanghai Tianzhi ⁽¹⁾	self-operated	self-operated	self-operated
Guangzhou Shengshi ⁽²⁾	—	joint venture	joint venture
Shanghai Junxiao ⁽³⁾	self-operated	joint venture	joint venture

(1) We operated Shanghai Tianzhi primarily as our demonstration center in Shanghai. As of the date of this prospectus, our shareholding in Shanghai Tianzhi is 70%, while the remaining 30% is held by a PRC independent third party.

(2) We acquired 40% interest in Guangzhou Shengshi in 2019, as we considered it suitable for serving as our demonstration center in Guangzhou. Our interest in Guangzhou Shengshi has been recorded in investment accounted for using the equity method.

(3) We relinquished control over Shanghai Junxiao in January 1, 2019, primarily because we considered that Shanghai Junxiao was not suitable for a demonstration center due to its size and locality, and that the coverage of Shanghai Tianzhi, which already served as a demonstrative center, was sufficient in the area. Shanghai Junxiao has subsequently become a joint venture of our Group since January 1, 2019, and our remaining interest in Shanghai Junxiao has been recorded in investment accounted for using the equity method. As of the date of this prospectus, Shanghai Junxiao is owned as to 70% by us, and 30% by a PRC independent third party.

Save as disclosed above, we did not open or close any other dental clinics during the Track Record Period. As advised by our PRC legal advisors, the abovementioned dental clinics are considered as medical institutions and subject to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020 Edition) (外商投資準入特別管理措施(負面清單) (2020年版)) (the “Catalogue”). According to the Catalogue, medical institutions shall not be wholly-owned by foreign investors. In addition, according to the Interim Measures for the Administration of Sino-foreign Equity Joint and Cooperative Joint Medical Institutions (中外合資、合作醫療機構管理暫行辦法) (the “Interim Administrative Measures”), which became effective in July 2000, the shareholding in medical institutions by foreign investors shall not exceed 70%. Our PRC legal advisors are of the view that foreign investor shareholding in these dental clinics has not exceeded 70% and, therefore, complies with the Catalogue and the Interim Administrative Measures. Our PRC legal advisors further advise that during the Track Record Period and up to the Latest Practicable Date, our operation of these dental clinics complied with relevant laws and regulations in all material respects.

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OUR CUSTOMERS

Our customers primarily include public hospitals and private dental clinics. We also recognize distributors as our customers. See “— Sales and Distribution — Sales to Distributors.”

Revenue generated from our top five customers accounted for 11.7%, 13.5% and 13.3% of our total revenue in 2018, 2019 and 2020, respectively, and revenue generated from our largest customer accounted for 4.1%, 3.8% and 3.3% of our total revenue in the same periods, respectively. The following table sets forth certain information of our top five customers during the Track Record Period.

<u>Customer</u>	<u>Transaction amount</u> (RMB in millions)	<u>Percentage of total revenue</u> (%)	<u>Approximate length of relationship as of the Latest Practicable Date</u> (Years)	<u>Principal business</u>
<i>For the year ended December 31, 2020</i>				
Company A ⁽¹⁾	26.6	3.3	four	distribution of medical devices
Company B ⁽²⁾	23.1	2.8	four	distribution of medical devices
Company C ⁽³⁾	22.9	2.8	four	aesthetic medicine services
Company D ⁽⁴⁾	17.9	2.2	three	dental care services
Company E ⁽⁵⁾	17.8	2.2	four	distribution of medical devices
Total	<u>108.3</u>	<u>13.3</u>	—	—
<i>For the year ended December 31, 2019</i>				
Company C ⁽³⁾	24.9	3.8	four	aesthetic medicine services
Company A ⁽¹⁾	19.2	3.0	four	distribution of medical devices
Company B ⁽²⁾	15.2	2.4	four	distribution of medical devices
Company D ⁽⁴⁾	14.4	2.2	three	dental care services
Company F ⁽⁶⁾	13.5	2.1	five	dental care services
Total	<u>87.2</u>	<u>13.5</u>	—	—
<i>For the year ended December 31, 2018</i>				
Company C ⁽³⁾	19.8	4.1	four	aesthetic medicine services
Company F ⁽⁶⁾	14.3	2.9	five	dental care services
Company D ⁽⁴⁾	7.8	1.6	three	dental care services
Company G ⁽⁷⁾	7.8	1.6	four	dental care services
Company B ⁽²⁾	7.3	1.5	four	distribution of medical devices
Total	<u>57.0</u>	<u>11.7</u>	—	—

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- (1) Company A, founded in 1998, is primarily engaged in the sale and distribution of oral devices. As the authorized distributor of several oral and dental medical device brands, including us, it primarily operates in Sichuan province, Chongqing, Tibet Autonomous Region and Guizhou province.
- (2) Company B, founded in 2017, is primarily engaged in the sale and distribution of Class I and Class II medical devices, as well as sale of computer hardware and software. It also provides technical consultation services relating to medical devices, software development and design services, and 3D design services.
- (3) Company C is an aesthetic medicine group with a network of more than 40 aesthetic medicine clinics in China. During the Track Record Period, we conducted business with a number of subsidiaries of Company C.
- (4) Company D is an oral health conglomerate in China whose business encompasses the establishment of dental clinics, investment in the oral health industry and training of dental professionals. During the Track Record Period, we conducted business with a number of subsidiaries of Company D.
- (5) Company E refers to Zhengzhou Smile Songbai Industrial Co., Ltd., an entity controlled by CareCapital Group. It is primarily engaged in the sale and distribution of medical devices in Henan province. During the Track Record Period, we conducted business with Company E and its subsidiary.
- (6) Company F, founded in 1993, is a dental medical group with a nationwide network of more than 200 dental clinics and specializes in the provision of premium dental health services. During the Track Record Period, we conducted business with a number of subsidiaries of Company F.
- (7) Company G is primarily engaged in the provision of high-end dental services. It operates a network of more than 20 dental clinics in Jiangsu province, Zhejiang province, Shanghai and Fujian province. During the Track Record Period, we conducted business with a number of subsidiaries of Company G.

We entered into direct sales agreements with hospitals and dental clinics, and distribution agreements with our distributors, respectively. See “— Sales and Distribution” for details.

As of the Latest Practicable Date, except for Customer E, an entity controlled by CareCapital Group, none of our Directors, their close associates or any shareholders which, to the best knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, had any interest in any of our top five customers.

OUR SUPPLIERS

Our suppliers primarily include suppliers of clear aligner raw materials, vendors of our manufacturing equipment and consumables, logistics service providers, and marketing service and event planning service providers. We select our suppliers based on the quality and prices of their supplies and our business needs. Purchase from our top five suppliers accounted for 70.9%, 79.0% and 74.2% of our total purchases of such products and services in 2018, 2019 and 2020, respectively, and purchase from our largest supplier accounted for 32.6%, 35.4% and 35.4% of our total purchases in the same periods, respectively. We have generally maintained stable and long-term relationships with our suppliers, including our major raw material suppliers. We have identified readily available alternative suppliers that can offer services and products, in particular raw materials, at comparable terms, price and quality, in case of any material disruption of the supply of our current major suppliers. As such, we believe that we will be able to procure products and services we require from alternative suppliers without any significant difficulty. Based on the above, our Directors are of the view that we are capable of sustaining our business in the future in the unlikely event that the business relationship between us and our major suppliers are interrupted or terminated for any reasons.

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The following table sets forth certain information of our top five suppliers during the Track Record Period.

Supplier	Transaction amount (RMB in millions)	Percentage of total cost of procurement (%)	Approximate length of relationship as of the Latest Practicable Date (Years)	Major products/services purchased by us
<i>For the year ended December 31, 2020</i>				
Supplier A	60.5	35.4	four	manufacturing raw materials
Supplier B	42.4	24.8	four	3D printers and manufacturing consumables
Supplier C	14.0	8.2	nine	logistics services
Supplier D	5.3	3.1	three	event planning services
Supplier E	4.7	2.7	two	marketing services
Total	<u>126.9</u>	<u>74.2</u>	—	—
<i>For the year ended December 31, 2019</i>				
Supplier B	60.9	35.4	four	3D printers and manufacturing consumables
Supplier A	55.7	32.4	four	manufacturing raw materials
Supplier C	10.9	6.3	nine	logistics services
Supplier F	5.0	2.9	four	marketing services
Supplier D	3.4	2.0	three	event planning services
Total	<u>135.9</u>	<u>79.0</u>	—	—
<i>For the year ended December 31, 2018</i>				
Supplier A	51.6	32.6	four	manufacturing raw materials
Supplier B	43.7	27.7	four	3D printers and manufacturing consumables
Supplier C	6.2	3.9	nine	logistics services
Supplier G	5.4	3.4	five	marketing services
Supplier H	5.3	3.3	four	marketing services
Total	<u>112.2</u>	<u>70.9</u>	—	—

As of the Latest Practicable Date, none of our Directors, their close associates or any shareholders which, to the best knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, had any interest in any of our top five suppliers.

Raw Materials

The principal raw materials for our clear aligners include composite polymer materials (in splint/sheet form). We typically enter into legally-binding procurement agreements with our raw materials suppliers, under which the suppliers are obligated to fulfill each of our procurement order on demand. The procurement agreement typically includes the following major terms.

- *Term and renewal.* The procurement agreements generally remain in force until they are terminated or replaced by new arrangements.
- *Purchase amount.* The procurement agreements may stipulate a minimum purchase amount in some cases.
- *Pricing arrangements.* We generally stipulate a fixed price for each unit of raw materials we purchase in the framework procurement agreements, in particular with our major suppliers, and therefore, effectively manage our costs against the market price inflation of the relevant raw materials. The agreements may allow us to negotiate price adjustment under certain circumstances.
- *Payment method and credit period.* Payments generally will be made by us in a lump-sum or installments via bank transfer. We are generally allowed to have a credit period ranging from 30 to 60 days.
- *Raw materials return/exchange.* We examine raw materials when we receive them and may return any raw materials that do not meet our requirements within a specified period.
- *Raw materials quality.* Suppliers are subject to standard quality control terms specified or referenced to in the agreement.
- *Exclusivity.* We may require certain suppliers not to sell the relevant raw materials to third parties in the territory and within the time period prescribed in the agreement.
- *Confidentiality.* Both parties shall keep confidential of the information acquired in the performance of the procurement agreement.
- *Termination.* The procurement agreements can be terminated without cause upon written consent from both parties. Either party can also terminate the agreement upon material breach by the other party.

We select our raw material suppliers based on stringent criteria and applicable laws and regulations. We consider, among other things, their product capacity, quality accreditations, technological level, pricing, reputation and delivery capacity. Our raw materials suppliers are required to possess all licenses and permits necessary to conduct their operations. We also conduct annual evaluation of our major suppliers. When it comes to our attention that any supplier's products manifests material defects that may adversely affect the quality of our clear aligners, we have the discretion to terminate any purchase from that supplier and take measures accordingly to reduce any risk it may have on our clear aligners.

3D Printers

During the Track Record Period, we leased 3D printers and purchased relevant manufacturing consumables from Supplier B, with whom we entered into a mutual exclusive strategic cooperation framework agreement. Founded in 2005, Supplier B specializes in the development, production, sales and service of 3D printers.

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In selecting our 3D printer suppliers, we have conducted industry search, consulted with various suppliers and inspected their products and techniques. After we conducted thorough evaluation of available suppliers in the market, we entered into a mutual exclusive strategic cooperation framework agreement with Supplier B during the Track Record Period by virtue of the quality of its products and services. We typically set the unit leasing cost of 3D printers, as measured by the number of teeth molds printed by such 3D printers, in the purchase agreement we entered into with Supplier B under the strategic framework agreement.

During the Track Record Period, to the best knowledge of our Directors, Supplier B had no other past or present relationship (including, without limitation, business, family, trust, financing, fund flow or otherwise) with our Company, our subsidiaries, shareholders, directors, senior management or any of their respective associates.

During the Track Record, we have engaged a limited number of suppliers for key raw materials and production equipment to manufacture our clear aligners. See “Risk Factors — Risks Relating to Our Business and Industry — We have engaged a limited number of suppliers for raw materials and manufacturing equipment of our clear aligners, which may render us vulnerable to supply shortages, quality issues and price fluctuations and could materially and adversely affect our business, results of operations, financial condition and prospects.” We have maintained stable and long-term relationships with these major raw material suppliers. In addition, we believe that we will be able to secure alternatives for our major raw materials as and when required. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had not experienced any material disputes with suppliers, difficulties in the procurement of raw materials, interruptions in our operations due to a shortage or delay of raw materials or significant fluctuations in raw material prices.

Inventory Control

As we manufacture customized aligners on a build-to-order basis, we do not build or maintain a significant inventory of finished products. Finished aligners enter the warehouse before they are shipped to customers. We count the finished products in the warehouse on a daily basis and record each entry and delivery of finished products. As a result, our inventories primarily include raw materials, and to a much lesser extent, work in progress and finished goods that have not been delivered yet. As of December 31, 2018, 2019 and 2020, we had inventories of RMB21.7 million, RMB22.8 million and RMB19.9 million, respectively. We maintain our inventories of raw materials primarily according to the projected demand from our customers and distributors and the estimated production time of our products. We typically maintain an inventory level of one month to meet the procurement needs of our distributors and customers. See “Financial Information — Discussion of Major Balance Sheet Items — Inventories” for details.

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SALES AND DISTRIBUTION

During the Track Record Period, we sold our services and products primarily in China, and to a much less extent, in certain other countries and regions, including Australia and other Asian regions, through a PRC distributor. We had approximately 0.4%, 0.4% and 0.5% of our total case shipments in overseas markets in 2018, 2019 and 2020, respectively, which was generated by a PRC distributor. We sell our services and products either directly to hospitals and clinics or to our distributors, who in turn resell to hospitals and clinics. As such, our customers consist of hospitals and clinics to which we sell directly and our distributors.

The following table sets forth a breakdown of our sales volume, as measured by case shipments, and the average selling price by sales channel and customer type for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price
	(number of case shipments)	(RMB)	(number of case shipments)	(RMB)	(number of case shipments)	(RMB)
Direct Sales						
Public hospitals	4,300	10,200	1,500	11,100	1,200	11,200
Private clinics	58,100	8,500	70,000	8,200	82,200	8,000
Sales to Distributors . . .	<u>15,300</u>	<u>7,500</u>	<u>48,600</u>	<u>6,300</u>	<u>54,200</u>	<u>7,000</u>
Total	<u>77,700</u>	<u>8,400</u>	<u>120,100</u>	<u>7,500</u>	<u>137,600</u>	<u>7,700</u>

During the Track Record Period, the wholesale price to distributors was lower than the direct selling prices to public hospitals and private clinics, primarily because we have granted distributors a wholesale price at a discount compared to the direct selling price based on various factors, including the distributors' distribution territory, channel resources, business volume and bargaining power. See “— Sales to Distributors.”

The following table sets forth a breakdown of our revenue generated from the provision of clear aligner treatment solutions by sales channel and customer type for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Direct Sales						
Public hospitals	39,466	8.5	15,318	2.5	12,009	1.5
Private clinics	374,219	80.5	424,701	67.6	518,928	64.9
Sales to Distributors . . .	<u>51,264</u>	<u>11.0</u>	<u>188,040</u>	<u>29.9</u>	<u>268,068</u>	<u>33.6</u>
Total	<u>464,949</u>	<u>100.0</u>	<u>628,059</u>	<u>100.0</u>	<u>799,005</u>	<u>100.0</u>

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Profitability Analysis by Sales Channel

Our business operations are not organized in a way that all costs are identifiable and separable between sales through our direct sales force and distributors. Our cost of revenue with respect to clear aligner treatment solutions consists of (1) cost of the provision of treatment planning services, and (2) cost of the manufacture of clear aligners. Such costs are incurred at our group level and not closely associated with any specific sales channel; therefore, they would not differ significantly between direct sales and sales to distributors. For example, our medical designers, who assist dental professionals in treatment planning, as well as our treatment planning software, are not assigned exclusively to address cases generated from direct sales or sales to distributors. Similarly, our production lines and other manufacturing equipment do not exclusively manufacture clear aligners for cases generated from direct sales or sales to distributors. As a result, it is impracticable to fairly and accurately delineate our cost of revenue relating to clear aligner treatment solutions by sales channel. Accordingly, we cannot separately track the profitability of our clear aligner treatment solutions by sales channel; rather, we adopt a holistic approach to optimize our cost of revenue and increase our overall profitability.

We grant different discount rates to our distributors by taking into account various factors, including distribution territory, channel resources, business volume, bargaining power, and our promotion plans, in order to balance their contribution to our business expansion and growth and their impacts on our gross profit margin. We believe that we have maintained a sustainable and gradually increasing gross profit margin of our clear aligner treatment solutions during the Track Record Period, which was 65.4%, 65.5% and 71.3% in 2018, 2019 and 2020, respectively.

For illustrative purpose, the following table sets forth a weighted average discount rate that we granted to our distributors during the Track Record Period, which is calculated based on the average selling price for sales to distributors and the weighted average selling price for direct sales to public hospitals and private clinics. The weighted average discount rate for sales to distributors was relatively high in 2019, primarily because we incentivized distributors to promote *COMFOS* following the launch of such product line. In 2020, we adjusted back the discount rate level as we have established relatively solid market acceptance of *COMFOS*.

	For the year ended December 31,		
	2018	2019	2020
Weighted average discount rate for sales to distributors	13.0%	23.7%	13.0%

Direct Sales

We directly sell a substantial portion of our services and products to hospitals and dental clinics through our wholly-owned subsidiary which holds the record-filing proof for operation of Class II medical devices (第二類醫療器械經營備案憑證). As of December 31, 2020, we had an in-house sales team of 230 members. We generally enter into a clear aligner customization agreement with hospitals and clinic customers, which typically includes the following major terms.

- *Term and renewal.* The agreement generally has a term ranging from one to two years. Agreements with private hospitals and clinics are generally extendable for six months before the expiry of the agreements.
- *Purchase amount.* The agreement generally does not stipulate a minimum purchase amount for each customer.
- *Pricing arrangements.* The agreement generally stipulates different prices for different cases depending on their complexity. Prices for additional services, such as delivery in advance and additional aligner manufacturing, are stipulated at a fixed rate. We do not grant rebates to direct sales customers.
- *Payment and delivery.* We require a lump sum payment from all direct sale customers with or without a credit period. For small- and medium-sized hospitals and clinics, we usually require such full-payout when they place an order. Upon receipt of the full payment, we commence the treatment planning services and start to manufacture the clear aligners once the treatment plan has been approved by the relevant dental professional. We usually deliver the first batch of clear aligners within one week after the approval of the relevant treatment plan. We may grant some direct sale customers, primarily credible public hospitals and private clinics, a credit period typically ranging from 30 to 60 days to make such full-payout, and in such cases, we will commence the treatment planning services and manufacture of clear aligners once they place an order. In the event of a late payment, we may terminate delivery of clear aligners, and the relevant customer may be subject to late charges. During the Track Record Period, we provided a longer credit period to credible public hospitals and select reputable, large-scale private clinics. Payments generally will be made by our direct sale customers on a patient-by-patient basis via bank transfer.
- *Termination.* The agreement can be terminated without cause upon written consent from both parties. Either party can also terminate the agreement upon material breach by the other party.

Sales to Distributors

In addition to direct sales, we have engaged distributors to increase sales and market share by leveraging their channel resources and, as a result, reduce our marketing cost. By doing so, we are able to scale our operations and replicate our success into unexplored regions, in particular certain lower-tier cities where we may not fully penetrate solely with our in-house sales team, quickly and cost-effectively with minimal incremental costs.

According to the CIC Report, it is customary in the medical device industry, including the dental medical device industry, to rely on or involve distributors for the sales to hospitals and clinics. The adoption of the distributor model can provide several crucial advantages to clear aligner treatment solution providers. Since the terminal clients for clear aligner treatment solution providers are generally medical institutions of various types and sizes, distributors can utilize resources to help them reach the fragmented target clients, which is especially beneficial to their expansion into unexplored regions. In addition, clear

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aligner treatment solution providers can save their in-house resources as they can retain a more dedicated team of in-house sales and marketing personnel with superior understanding of the solutions and the overall market while relying on distributors' network and understanding of regional markets. Distributors can also assist with customer retention for small and mid-sized clinics from fragmented markets as direct sales team may find difficult to engage. As such, we believe that it is in our best interest to supplement our direct sales with engagement of distributors, which allows us to (1) expand into unexplored regions, in particular certain lower-tier cities where we may not fully penetrate solely with our in-house sales team, in a cost-effectively manner, (2) enhance our cash collection, and (3) designate the pre-sale process and retention of hospitals and clinics to distributors, which can be costly and time-consuming, and focus on empowering dental professionals registered with the medical institutions acquired by our distributors.

Our relationship with our distributors is that of seller and buyer and not principal and agent. We have no ownership or management control over any of our distributors. Our distributors extend sales to public hospitals and private clinics which are not covered by our in-house sales team. During the Track Record Period and up to the Latest Practicable Date, none of the public hospitals and private clinics covered by distributors approached us for direct sales, primarily because (1) they may prefer procuring through distributors due to internal procedures or their long-lasting relationships with the relevant distributors, and (2) we will not provide hospitals and clinics with a lower selling price if they approach us for direct sales than the selling price provided by the relevant distributors. Once our distributors enter into a sales agreement with a public hospital or private clinic, they will submit the qualification information of such hospital or clinic to us for verification purpose. Once we have concluded our review and verification procedures, the dental professionals associated with such hospital or clinic will be able to submit treatment data through *iOrtho* and use our Angelalign clear aligner system as described in “— Our Value Chain and Value Propositions — Value Chain.”

We recognize revenue generated from sales to distributors with the wholesale prices entered into with our distributors and in accordance with the same principles as direct sales as discussed in “Financial Information — Critical Accounting Policies, Judgments and Estimates — Revenue Recognition.”

Under our distributor model, we typically set a fixed wholesale price in the distributorship agreements at a discount compared to the direct selling price based on various factors, including the distributors' distribution territory, channel resources, business volume and bargaining power.

During the Track Record Period, we established distributorship with (1) two distributors, each controlled by a former employee who did not hold a senior managerial position in our Group, and (2) four distributors controlled by certain affiliates of CareCapital Group. The aggregate revenue contribution by the six distributors was 3.1%, 4.6% and 5.4% in 2018, 2019 and 2020, respectively. In particular, the aggregate revenue contribution by the two distributors controlled by former employees was 1.5%, 2.4% and 3.0% in 2018, 2019 and 2020, respectively. Employee A joined us in May 2006 and resigned as an operating director of Shanghai Tianzhi, a dental clinic in our Group, in December 2016 as he relocated from Shanghai to Anhui province for family reasons. We engaged Employee A as a distributor in January 2017, primarily because we were planning to enter into the local markets in Anhui province and the surrounding areas. Employee B joined us in July 2013 and resigned as a regional sales manager in September 2019 to start his own business. We engaged Employee B as a distributor in December 2019, primarily because based on his past performance, we considered that his experience and expertise would help us to further penetrate into the regional markets in Hunan province and the surrounding areas.

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Our Directors confirm that the terms with these six distributors are no different than those entered into with other third-party distributors. See “— Distribution network” for details.

During the Track Record Period, to the best knowledge of our Directors, except for the six distributors as discussed above, none of our distributors had any past or present relationship (business, employment or otherwise) with our Company, our subsidiaries, shareholders, directors, senior management or any of their respective associates. During the Track Record Period, we did not provide any advance or financial assistance to our distributors. To the best knowledge of our Directors, there is no other relationship or arrangement (family, financing guarantee or otherwise in the past or present) between each of our distributors.

Selection criteria

We have established distributor recruitment standards and process to make sure the distributors we engage are effective and resourceful. We select our distributors based on their experience in the medical device industry, particularly in orthodontics devices. In addition, they must possess the requisite business licenses and permits to sell medical devices in China and have established relationships with hospitals and dental clinics within their regions. The sales management team of each region verifies the information about potential distributors and further screens the candidates using the following metrics: operating qualification, local sales channel resources, operating directions, willingness of engagement, management capability, and business reputation. We also review the qualifications of our distributors when our contracts with them are due to be renewed.

Management of distributors

We proactively manage our distributors to ensure a healthy and orderly market condition, to maintain supervision and understanding of the sales performance of our distributors and demand of our services, and to protect our brand and reputation. We primarily rely on distribution agreements and supervision by our sales and marketing personnel to manage and control our distributors. We have adopted a series of measures to monitor the selling prices of distributors to avoid a disorderly market. For example, our distributors are contractually prohibited from selling competing clear aligners, and we authorize them to sell only certain designated product lines and within their designated geographic regions. In addition, we provide recommended retail price to our distributors, and our in-house sales and marketing personnel will oversee the retail price in the local markets. We may impose penalties such as termination of relevant distribution arrangements if they are not complying with the terms of distributor agreements. We also conduct periodic review of our distributors regarding their sales performance, the aging of their trade receivables, and their contribution and coordination with respect to marketing campaigns, sales channels development, and promotion of our training programs.

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Distribution network

We have a growing nationwide distribution network. As of December 31, 2020, we deployed 69 distributors, covering 29 provinces, municipalities and autonomous regions in China. Our distributors include relative large-scale distributors of medical devices and pharmaceutical products with wide coverage in terms of hospitals and geographical regions. We also engage certain small and medium-sized distributors focused on providing ancillary services directly to hospitals in their target geographical regions. Our distributors are not allowed to engage sub-distributors without our explicit approval. During the Track Record Period, we barely involved sub-distributors. As such, we believe that the two-invoice system, which allows only a single level of distributor for the sale of medical devices from medical device manufacturers to public hospitals, has no material adverse effect on our business, results of operations and financial condition. The following table sets forth the changes in the number of our distributors for the periods indicated.

	Year ended December 31,		
	2018	2019	2020
Distributors at the end of the previous year ⁽¹⁾	18	37	55
Addition of new distributors ⁽²⁾	23	24	23
Termination of distributors ⁽³⁾	(4)	(6)	(9)
Distributors at the end of the year	37	55	69

(1) Represents the number of distributors who had an effective distribution agreement with us at the respective year end.

(2) Represents the number of distributors who newly entered into a distribution agreement with us in the relevant year.

(3) Represents the number of distributors with whom we did not renew, or terminated, the distribution agreements in the relevant year. During the Track Record Period, we primarily terminated the distributorship if the distributor concerned failed to achieve the sales commitment or settle the payables promptly and in full.

The number of distributors we engaged during the Track Record Period generally increased as we intended to utilize sales channels of distributors to expand our business in a more cost-effective manner and increase our sales efficiency. We generally enter into a distribution agreement with our distributors. The distribution agreement contains terms and conditions consistent with customary industry practice, primarily including the principal terms.

- *Term and renewal.* The agreement generally has a term of one year, and are renewable by mutual consent.
- *Designated distribution territories.* We designate certain distribution territory for each distributor. Distributors are prohibited from distributing and marketing outside their own distribution territory absent our prior approval. All distributors are granted exclusive distributorship with respect to certain designated product lines in their designated distribution territories.

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- *Sales commitment.* The distribution agreement generally sets a sales commitment for each distributor, taking into consideration of the market potential of the designated territory and our expansion requirement. Distributors are entitled to rebates in proportion with their sales revenue after hitting the sales target as measured by case shipments. On the other hand, failure to fulfill their commitments gives us the right to cancel their distributorship. We set the benchmark for granting rebates based on our overall business goal and the specific circumstance of the distributors, and assess whether each distributor is entitled to rebates on both quarterly and annually basis. In 2018, 2019 and 2020, we granted rebates of RMB2.0 million, RMB4.8 million and RMB14.4 million to four, 45 and 66 distributors, respectively. We have implemented internal policies prohibiting distributors from inflating their sales figures through bribe or other illegal or inappropriate incentives. Our clear aligners are made to order based on each specific treatment plan and cannot be applied to another patient. As such, there is no accumulation of inventory at the level of distributors as we have no stock-in-trade. As a result, we believe that our exposure to the risk of channel stuffing is remote.
- *Pricing policies.* The distribution agreement generally stipulates a fixed price for different lines of products. We reserve the right to make price adjustment.
- *Delivery.* Unless otherwise stipulated, we deliver clear aligners to end users (i.e., dental professionals) directly and generally bear the delivery cost. We usually deliver the first batch of clear aligners within one week after the approval of the relevant treatment plan.
- *Non-compete.* Our distributors and their employees are refrained from dealing or cooperating with third parties that provide products or services similar with ours. Violation of the non-compete arrangements is a cause for termination and may subject the violating distributor to a fine.
- *Compliance.* Our distributors are responsible for conducting sales in accordance with the relevant laws and regulations, and may not use any payments or other means prohibited under PRC law to promote or sell our solutions.
- *Payment and credit terms.* We require a lump sum payment from all distributors. We generally grant distributors a credit period of 30 to 60 days. In the event of a late payment, we may terminate delivery of clear aligners, and the relevant distributors shall be held accountable for any loss incurred thereof. Payments generally will be made by our distributors via bank transfer on a monthly basis.
- *Product return/exchange.* We generally do not accept product returns or exchanges except for products with quality defects. See “— Customer Service.”
- *Suspension and termination.* Under most distribution agreements, we are granted broad discretion regarding suspending or terminating distributorships with our distributions. For example, we may suspend the distributorship if the distributor fails to settle the payables promptly and in full, materially breaches the terms under the distribution agreement and fails to remediate such breach, or is subject to significant operational risk. In addition, we may terminate the distributorship if the distributor undergoes a change of control without prior notice to us, assigns the agreement in part or in full to a third party without our written consent, or suspends its business for an aggregation of more than one month without our written consent.

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Customer Service

We strive to provide our customers with satisfactory customer services. As of December 31, 2020, we had a customer service team of 40 members.

Our customer service team provides after-sales services to our customers, including correcting delivery mistakes, returning products, and providing clinical trainings to clients and distributors. They also visit clients and distributors periodically, collect feedback, and prepare visiting reports for our internal use. As all aligners are custom manufactured, we generally do not allow returns. If any clear aligner is found defective, our customer service department must inform our quality control department and properly handle the matter pursuant to our internal policy, in which case we generally make an exchange for the defective one.

Pricing Policy

We take into account a number of factors in determining our selling prices to customers, which primarily include our costs and expenses, different product lines, prices of competing products, our market share and the overall competitive landscape. In addition, we generally set a relatively higher direct selling price to public hospitals than that to private clinics, considering the relatively longer period for public hospitals to review, approve and settlement payments with us. See “Financial Information — Discussion of Major Balance Sheet Items — Trade and Other Receivables.” We generally set a fixed selling price in our agreements with customers.

SEASONALITY

We generally experience effects of seasonality primarily due to the consumption preferences of patients with a need for clear aligner treatment. We typically experienced the highest sales during the summer vacation. As clear aligner treatment involves consultation with dental professionals and regular check-ups along the treatment process, it can be easier for potential patients, especially children and teenage, to make time for starting this new routine during the summer vacation when schedules tend to be a bit more relaxed. We had our second highest sales during winter vacations before and after the Chinese New Year for similar reasons.

BRANDING AND MARKETING

A-Tech Forum

Starting in 2014, we have organized and hosted *A-Tech Forum*, an annual academic conference with the aim of gathering renowned orthodontists, stomatologist and experts in other relevant fields worldwide to exchange the most advanced digital orthodontics technologies and latest innovations.

The scope of application of clear aligner products has been largely expanded over the years, and an increasing number of orthodontists have started to recommend clear aligner products to their patients. As a pioneer in China’s clear aligner industry, we witnessed the evolution of the industry, and feel obliged to leverage our knowledge, experience and industry resources to enhance orthodontists’ capability of providing clear aligner products and services to patients. Through the *A-Tech Forum*, we share our latest technologies and innovations with attendees, provide them with a platform to exchange ideas and learn from each other, and bring them to a common vision of the industry. We avail the *A-Tech Forum* to spread out our academic impact, which in turn helps us in establishing our key opinion leaders network.

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We believe our development is closely related to the support from industry and academia, and the *A-Tech Forum* affords us with a unique opportunity to foster a strong bond with practitioners as well as research institutions. We also believe that the *A-Tech Forum* can advance integration of industry resources, encourage cooperation between academia and industry, and promote technological development and innovation.

Other Branding and Marketing Activities

In addition to *A-Tech Forum*, we have conducted a variety of branding and marketing activities to increase our brand awareness and promote our products and services.

- *Training programs.* Since 2017, we have provided orthodontic certification training programs on digital orthodontics to dental professionals in collaboration with the UCLA Dental Research Service Center, through which we do not only promote the development of China's digital orthodontics, but also publicize the strengths of clear aligner treatment to more dental professionals, thereby expanding our dental professional base. In addition, we launched Yulong Plan (育龍計劃) in collaboration with China Oral Health Foundation to provide postgraduate orthodontics students with advanced, standardized training on digital clear aligner treatment.
- *Academic events and publications.* In addition to our annual *A-Tech Forum*, we have organized over 3,000 regional symposia focusing on specific products and technologies since 2018. We also regularly attend national academic events, such as the International Orthodontic Conference and the Annual Meeting of the Chinese Orthodontic Society (國際正畸大會暨全國口腔正畸學術會議). Moreover, we have published a book on clear aligner treatment to further increase our academic influence.
- *Sponsorship.* In 2017, we entered into a cooperation agreement with the Bureau of Training of General Administration of Sport of China (國家體育總局訓練局), pursuant to which we were appointed as a sponsor to provide orthodontic solutions for national athletes, with our clear aligners being designated as the Approved Products for National Team Athletes.
- *Social network.* We use social network, such as Weixin, to promote the strengths of clear aligner treatment.
- *Demonstration centers.* As of the Latest Practicable Date, we had two demonstration centers in Shanghai and Guangzhou, through which we provide dental professionals with access to our medical services offline to level up user experience, as well as regular in-the-field training in application of our solutions. We can also educate the potential patients on how our clear aligner works, such as showing them a scan-driven simulation of how they might look with straighter teeth.

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COMPETITION

We operate in a highly concentrated market characterized by rapid changes resulting from technological advances and scientific discoveries, and we expect competition in this market to persist and intensify. In addition, it is subject to overall changes in China's dental healthcare industry and medical device industry. According to the CIC Report, in 2020, the top two market players, including us, accounted for approximately 82.4% of China's clear aligner treatment solution market in terms of case shipments. We have faced and may continue to face competition mainly from international and domestic clear aligner treatment solution providers.

We believe our principal competitive advantages include:

- the scope and quality of our services and products;
- our brand recognition;
- the price-to-value factor;
- our research and development capabilities;
- our ability to continue to innovate and develop advanced technologies;
- our efficient operating model;
- our ability to attract and retain skilled personnel; and
- our ability to effectively market our products and services.

We believe that we are well-positioned to effectively compete in China's clear aligner industry by virtue of our ability to deliver high quality services and products nationwide, our comprehensive product lines, well-known *Angelalign* brand, strong research and development capabilities, cutting-edge technologies and experienced management team. However, some of our current or future competitors may have greater access to financing resources than we do, and a longer operating history than us. See "Risk Factors — Risks Relating to Our Business and Industry — We face competition in the clear aligner industry with domestic and international competitors. Our failure to compete successfully could materially and adversely affect our prospects, business, financial condition and results of operations."

THIRD-PARTY PAYMENT ARRANGEMENTS

Background

During the Track Record Period, certain of our customers (the "Relevant Customer(s)") settled their payments with us through third-party payors (the "Third-party Payment Arrangement(s)"). In 2018, 2019 and the ten months ended October 31, 2020, the aggregate amount of third-party payments accounted for approximately 10.8%, 2.0% and 0.7% of the total payments we received from all customers, respectively. No individual Relevant Customer had made material contribution to our revenue during the Track Record Period. Since November 2020, we have ceased all Third-party Payment Arrangements.

During the Track Record Period and up to the date of the prospectus, other than simply accepting the third-party payments paid by the third-party payors for the Relevant Customers, we have not proactively initiated any of the Third-party Payment Arrangements, nor have we participated in any separate

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arrangement between the Relevant Customers and their respective third-party payors for the settlement of the payments owed by the Relevant Customers to the third-party payors. Furthermore, during the Track Record Period and up to the date of this prospectus, we have not provided any discount, commission, rebate or other benefit to any of the Relevant Customers or the third-party payors to facilitate or incentivize the Third-party Payment Arrangements.

During the Track Record Period and up to October 2020, third-party payors primarily consisted of (1) persons affiliated with the Relevant Customers, such as spouses and family members of the owners, finance managers, treasurers and other designated employees of the Relevant Customers, dental professionals registered with the Relevant Customers and co-owners of the Relevant Customers; and (2) four salespersons in 2018. Our Directors have confirmed that, except for certain salespersons, all the third-party payors are independent of our Group and each of our respective directors, senior management and shareholders. Our Directors further confirm that, the four salespersons who acted as third-party payors in 2018 made the relevant payment solely to facilitate the settlement of payments owed by the Relevant Customers to us, and none of them held a senior management position in our Group. To the best knowledge of our Directors, the aggregate third-party payments of RMB74,700 made through these four salespersons, which accounted for approximately 0.1% of the total third-party payments we received in 2018, had genuine underlying transactions. Furthermore, we issued the bills to the Relevant Customers directly with respect to the relevant transactions and payment amounts. As part of our enhanced internal controls over the third-party payment issue, we had substantially ceased accepting third-party payments made by our salespersons since December 2017. We have forbidden, and will continue to forbid, our salespersons from participating in the settlement of payments by our customers.

Reasons for Utilizing Third-party Payment Arrangements

The Relevant Customers during the Track Record Period primarily consisted of small-sized hospitals and private dental clinics. After conducting qualitative interviews and quantitative investigations regarding the payment arrangement of medical device procurement by small-sized private medical institutions, the CIC is of the view that it is a common commercial practice for small-sized hospitals and private dental clinics in China to settle all types of payments through third-party payors to their providers and vendors, such as payments for purchases of medical products and supplies as well as consultation services, primarily due to the following reasons:

- (i) many small-sized private dental clinics operated their business in the form of sole proprietorship (個體工商戶), which is a type of organization that typically prefers not to open a separate business bank account but to settle payments through personal bank accounts of their respective family members due to the complexity of using corporate bank accounts;
- (ii) many small-sized private dental clinics engage their family members as treasurers and finance managers, whose personal accounts usually are used by the clinics to settle their payments;
- (iii) many small-sized hospitals and private dental clinics have pre-determined arrangements with third-party payors for settlement of their payments, such as using personal bank accounts of their employees or shareholders, for cost saving purposes; and
- (iv) it is more efficient for most small-sized hospitals and private dental clinics to settle payments through personal accounts as the value of each transaction is relatively small.

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As advised by our PRC legal advisors, these Third-party Payment Arrangements do not contravene or circumvent applicable laws or regulations in China.

Internal Control Measures and Cessation of Third-party Payment Arrangements

To safeguard our interest against risks associated with Third-Party Payment Arrangements, we implemented various internal control measures to reduce the proportion of payments received from third-party payors and to mitigate the relevant risks, including, among other things:

- (i) we have required all customers to settle their payments directly through their own corporate bank accounts since December 2017;
- (ii) for customers who were unable to directly settle payments with us immediately at the relevant time, we required that such customers (1) communicate relevant information to us, including, among others, the identity of the involved third-party payors; (2) obtain the prior written approval of our Chief Financial Officer; and (3) enter into a tri-party payment agreement (the “Tri-party Payment Agreement(s)”) with us and the third-party payors based on our house form. Pursuant to the Tri-party Payment Agreement, the Relevant Customer delegates its payment obligation under the terms of the original agreement with us to the respective third-party payor (the “delegation”), which undertakes to pay directly to us under the same terms. We shall accept the payment from the third-party payor as if it were paid by the Relevant Customer and issue the invoice to either the Relevant Customer or the third-party payor. The delegation shall not discharge the payment obligation of the Relevant Customer, and we may demand payment from, and pursue legal action against, the Relevant Customer if the respective third-party payor fails to pay accordingly. The third-party payor is jointly liable for the payment obligation of the Relevant Customer. In 2018, 2019 and the ten months ended October 31, 2020, the amount of third-party payments received without an executed Tri-party Payment Agreement accounted for approximately 89.8%, 64.8% and 0.9% of the aggregate third-party payments we received during the corresponding periods;
- (iii) before accepting any third-party payment, we verified the payment information against the information recorded within our register of receipt to ensure that such payment was settled through the relevant third-party payor’s account as identified in the appropriate Tri-party Payment Agreement;
- (iv) if a Tri-party Payment Agreement could not be entered immediately at the relevant time, we implemented additional stringent internal procedures to determine whether to retain or reject such third-party payments. Moreover, our finance department has issued, on a monthly basis, a client account statement for all third-party payments without Tri-party Payment Agreements to verify the payment amount accuracy and relevant treatment case numbers during the period; and
- (v) we rejected all payments made by third-party payors that failed to satisfy the abovementioned requirements.

We established a special supervisory team consisting of persons from sales department, finance department and legal department to jointly supervise and monitor the implementation of these measures.

With the implementation of these measures, payments received from third-party payors, as a percentage of the total payments received from all customers, reduced significantly during the Track Record Period from approximately 10.8% in 2018 to approximately 0.7% in the ten months ended October 31, 2020. Since November 2020, we have completely ceased all Third-party Payment Arrangements.

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Considering that the revenue contribution by Third-Party Payments during the Track Record Period was not material to our business, and that our business continued to grow during the abovementioned rectification process, we believe that our cessation of allowing Third-Party Payments will not have a material adverse effect on our business, financial condition, results of operations and prospects. As of the date of this prospectus, there has been no material impact to our financial and operational position as a result of our cessation of Third-party Payments Arrangements. See “Risk Factors — Risks Relating to Our Business and Industry — We are subject to various risks relating to third-party payments.”

Furthermore, to prevent the reoccurrence of the Third-party Payment Arrangements going forward, we have implemented enhanced internal control measures, including establishing a mechanism to monitor and return all coming payments through third-party payors. In addition, in our agreements with all newly acquired customers, we stipulate the payment account information of each customer with the assurance that such information is consistent with the business license of the relevant customer.

Our Directors are responsible for formulating and overseeing the implementation of our internal control measures and the effectiveness of our quality management system. In preparation for the Listing, we have engaged an independent third-party consultant (the “Internal Control Consultant”) to perform a review over selected areas of our internal controls over financial reporting in October 2020 (the “Internal Control Review”). The scope of the Internal Control Review performed by the Internal Control Consultant covered, among others, the Third-party Payment Arrangements. During the Internal Control Review undertaken for the Listing purpose, the Internal Control Consultant reviewed the above internal control measures in relation to Third-party Payment Arrangements adopted by us and did not identify any material deficiencies. See “— Internal Control and Risk Management — Internal Control” for details.

LICENSES, PERMITS AND APPROVALS

Our PRC legal advisors have advised that we had obtained all licenses, permits, and approvals necessary to conduct our operations in all material respects from the relevant government authorities in China, and such licenses, permits, approvals and certificates remained in effect as of the Latest Practicable Date.

The following table sets out a list of material licenses, permits, and approvals relating to our operations.

<u>License/Permit</u>	<u>Holder</u>	<u>Latest Validity Period</u>	<u>Issuing Authority</u>
Medical Device Production Permit (醫療器械生產許可證)	Wuxi EA	October 2020- October 2025	Jiangsu Medical Products Administration (江蘇省藥品監督管理局)
Registration Certificate for Medical Device (醫療器械註冊證)	Wuxi EA	January 2021- January 2026	Jiangsu Medical Products Administration (江蘇省藥品監督管理局)
Record-filling Proof for Operation of Class II Medical Devices (第二類醫療器械經營備案憑證)	Shanghai EA	June 2017-Present	Shanghai Yangpu District Market Supervision Administration (上海市楊浦區市場監督管理局)

We intend to apply for renewal of the above material licenses prior to their respective expiry dates. The successful renewal of our existing licenses, permits and certifications will be subject to our fulfilment of relevant requirements. As of the date of this prospectus, our Directors are not aware of any reason that would cause or lead to the nonrenewal of such licenses, permits and certificates. Our PRC legal advisors confirmed that as of the Latest Practicable Date, there was no legal impediment for us to renew these licenses, permits and certificates as long as we comply with the relevant legal requirements.

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INFORMATION TECHNOLOGY SYSTEMS

We have enacted our IT system management policy to enhance the reliability of our IT system and further improve consistency and collaboration of related work. Those rules cover computer hardware management, computer software management, account management, computer virus prevention, data privacy and backup, data change recording, password security and management, and server room management.

DATA PRIVACY AND SECURITY

During our ordinary course of business, we have access to an extensive volume of data of malocclusion cases and certain confidential information submitted by dental professionals, public hospitals and private clinics. We generally retain such personal information and data on our physical servers and in our cloud-based storage system operated by prominent third-party cloud service providers for the minimum time necessary for the purpose of their processing, ranging from years to permanent preservation, which, as advised by our PRC legal advisors, is in accordance with the applicable laws and regulations in all material respects. As stipulated in the relevant agreements and personal information protection and privacy policy, the relevant dental professionals, public hospitals, private clinics and patients retain the ownership of such information and data. The following table sets forth the type of information and data obtained and their scope of usage.

<u>Category</u>	<u>Type of information</u>	<u>Scope of usage</u>
Information relating to dental professionals	Contact information and qualification information	The information is primarily used for (1) communications for treatment planning services, (2) qualification evaluation and verification, (3) marketing, promotional and educational events, and (4) other support services to dental professionals.
Information relating to public hospitals and private clinics	Name, qualifications, address, payment-related information such as account number and invoice title	The information is primarily used for (1) qualification evaluation and verification, (2) marketing and promotional activities, (3) communications for medical design issues, (4) delivery of clear aligners, and (5) payment and settlement.
Information relating to patients	Personal information and treatment data (including the polyvinyl-siloxane or digitally scanned dental impression and the three-dimensional digital prototype)	The information is primarily used for treatment planning and manufacture of clear aligners, as each pair of clear aligners shall be customized based on each patient's specific treatment plan and traceable for accurate delivery.

We are committed to protecting such data in our possession over our business and operation. We treat all data in our possession as highly confidential. We have formulated and implemented information technology management policies and information security management policies. We also enter into

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confidentiality agreements with our employees who have access to any aforementioned privacy information. The confidentiality agreements provide that, among others, these employees are legally obligated not to misuse the confidential information while in office, to surrender all confidential information in possession while resigning, and to retain their confidential obligations after they leave office.

We take safety precautions in data storage and processing. We utilize hypertext transfer protocol secure (“HTTPS”) to secure the communications over our network and file encryption technology that prevents unauthorized view or modification. Our information technology network is configured with multiple layers of protection to secure our databases and servers. Our operation system received a level three certification from Shanghai Municipal Public Security Bureau, pursuant to which it was deemed to have met the requirements under relevant law and regulations to protect against the potential harm to public order and interests. As of December 31, 2020, we had 71 self-owned physical servers located in Shanghai and Wuxi. We back-up malocclusion case data on a real-time basis in separate and various secured data back-up systems to minimize the risk of data loss or leakage. We also conduct frequent reviews of our back-up systems to ensure that they function properly and are well maintained. We have also implemented a variety of protocols and procedures, such as regular system checks, password policy, server access logging, network access authentication, user authorization review and approval and data back-up, as well as data recovery test, to safeguard our data assets and prevent unauthorized access to our network.

We enter into a series of data governance-related agreements or protocols with our business partners and dental professionals. Users of *iOrtho*, primarily dental professionals, are fully informed by our *iOrtho User Agreement* of the types of information collected and processed. Such users acknowledge to us that they provide the patients’ personal information such as their identity and dental profile for the purpose of providing *Angelalign* treatment solutions to the relevant patients and that they have the authority to provide such information and have obtained the informed consent from the relevant patients for our collection and processing of such information. We also require our business partners to enter into confidentiality agreements with us, which generally prohibit the unauthorized disclosure of confidential information including patients’ personal data to third parties.

We have designed and implemented, among others, *Data Security Governance Policies* and *Information Technology Governance Policies* to systematically regulate our data collection, usage, storage, retention and transmission. We categorize information into four categories according to their relative level of importance and confidentiality, and designate different requirements for information access, processing, transmission and storage for each respective category. Our information technology department is responsible for regulating the setup and changes to employee’s accounts in our system. Each department of our Company shall decide their protocols on data access and handling according to the relevant usage and confidentiality requirements. We also implement a series of measures to ensure our employees’ compliance with our data security measures. For instance, we require new hires to receive onboarding training on data security and employees to receive annual training to reinforce relevant data security policies. Employees shall acknowledge to us that they understand and will follow our data security policies. In addition, we may punish relevant employees for violations of our data security policies.

We continue to improve and enhance our data and system security through routine checks and timely upgrades to ensure the proper management of our malocclusion case data. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any incident of data leakage that would materially and adversely affect our business, results of operations and financial condition. See “Risk Factors — Risks Relating to Our Business and Industry — Leakage and other security risks of confidential information may materially and adversely affect our reputation and business.”

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In light of the fact that (1) we obtain access to such malocclusion case data with prior consent of the relevant dental professionals and their patients; (2) we only use such data to the extent necessary for the performance of our services; (3) we have implemented certain policies and rules on confidential information protection; (4) we have taken necessary measures including entering into confidentiality agreements with our employees to prevent leakage of confidential information; (5) we have installed anti-virus and firewall software in our office system to prevent data attack, leakage and tampering, and we upgrade such software from time to time and carry out inspection to detect virus intrusion on a regular basis; (6) we have provided training to our employees to ensure that they are aware of our internal policies in relation to confidential information protection; and (7) we were not challenged by or claimed by any dental professionals or their patients or been imposed any penalties or fines regarding confidential information leakage or dispute during the Track Record Period and up to the Latest Practicable Date, our PRC legal advisors have advised us that we are currently not in violation of any applicable PRC laws and regulations on data privacy and personal information collection and usage in all material respects.

We may analyze the malocclusion case information we have accumulated during our ordinary course of business on the condition of data anonymization and masking for the purpose of refining our solutions. We however have not engaged web crawlers or other similar tools or any other third parties to collect or mine data from external sources. As advised by our PRC legal advisors, our analysis of the accumulated in-house malocclusion case data complies with the relevant laws and regulations in all material respects.

INTELLECTUAL PROPERTY

Intellectual property rights are fundamental to our business, and we devote significant time and resources to their development and protection. We rely on a combination of contractual restrictions, confidentiality procedures, and intellectual property registrations to establish and protect our proprietary technologies. As of the Latest Practicable Date, we had registered 220 trademarks, 93 patents, and 16 software copyrights in China where we currently operate our business and generate the entire revenue from. Before we decide to expand into any overseas market, we will conduct freedom-to-operate analysis in the relevant jurisdiction for such market as part of our decision-making process. In addition, we owned 60 registered domain names, all of which remained in effect as of the Latest Practicable Date. See “Statutory and General Information — B. Further Information about Our Business — 2. Our Material Intellectual Property Rights” in Appendix IV to this prospectus for details.

Despite our efforts, third parties may still obtain and misappropriate our intellectual property without authorization. As of December 31, 2020, we did not find any of such misappropriations of our intellectual property rights. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights may adversely affect our business and results of operations. See “Risk Factors — Risks Relating to Our Business and Industry — If we are unable to obtain and maintain intellectual property rights protection for our technologies and products, our business, reputation and competitive edge may be materially and adversely affected.”

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We have used our best efforts to ensure compliance with applicable intellectual property laws. We have engaged a PRC IP counsel to conduct freedom-to-operate analysis against another major market player's key intellectual property rights in China, which identified no valid Chinese patents of the major market player that may block the use of our core products and services in China. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we were not involved in any intellectual property infringement actions brought by third parties that, individually or in the aggregate, would have a material and adverse effect on our business, result of operations and financial condition. During the Track Record Period, we were involved in several patent invalidation requests regarding certain patents of our products, which resulted in partial invalidation of our two patents and full invalidation of our three patents, among which four patents were irrelevant to our core products and services. As for the remaining one in relation to one type of attachment to our clear aligners, we modified the patent claims in response to the relevant patent invalidation request to the extent that (1) the independent claims of such patent would remain the same, and (2) certain dependent claims would be modified to substitute for the original dependent claims. Independent claims are the most important claims, as one cannot infringe a dependent claim without infringing the independent claim. The relevant governmental authority, while partially invalidating the original claims of the concerned patent, sustained all of our modified claims. As such, our Directors, after consulting with our PRC IP counsel, are of the view that the patent protection of our core products and services would not be materially and adversely affected. In addition, although the claimant making the relevant patent invalidation request initiated an administrative proceeding against the governmental authority's decision, with the outcome pending as of the Latest Practicable Date, our Directors, after consulting with our PRC IP counsel, are of the view (1) that considering the grounds of the governmental authority's decision and the hearing of the administration proceeding attended by our litigation counsel, it is more likely than not the relevant government authority's decision to sustain all of our modified patent claims will be upheld, and (2) that in the unlikely event that the relevant patent were invalidated in its entirety, our core products and services would not be materially and adversely affected, as (i) the relevant patent relates only to one type of attachment which is only applicable in one specific type of treatment plan, (ii) although we may no longer enjoy an exclusive right over such attachment, we are able to continue to use it, and (iii) the relevant clear aligners would remain under the adequate protection of our other valid patents. See "Risk Factors — Risks Relating to Our Business and Industry — Litigation or third-party claims of intellectual property infringement or challenges to the validity of our patents or other intellectual properties could be expensive, time-consuming and unsuccessful, and may prevent or delay the development, regulatory approval or commercialization of our products and product candidates."

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EMPLOYEES

As of December 31, 2020, we had 1,302 full-time employees, all of whom were stationed in China. The following table sets forth the number of our full-time employees by function as of December 31, 2020.

Function	As of December 31, 2020	
	Number of Employees	% of Total
Management	7	0.5%
Medical team	372	28.6%
Research and development	123	9.4%
Sales and marketing	347	26.7%
Manufacturing and quality control	386	29.6%
General administration	67	5.1%
Total	1,302	100.0%

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive salaries, performance-based cash bonuses and other incentives. We have adopted a training protocol, pursuant to which we provide pre-employment and regular continuing management and technical training to our employees.

As required under PRC labor laws, we enter into individual employment contracts with our employees covering matters such as wages, bonuses, employee benefits, workplace safety, confidentiality obligations, non-competition and grounds for termination. In compliance with PRC regulations, we participate in various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans.

We believe that we maintain a good working relationship with our employees and we had not experienced any material labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period and up to the Latest Practicable Date.

PROPERTIES

As of the Latest Practicable Date, we owned the land use rights of one parcel of land with a site area of approximately 68,883 square meters. As of the same date, we operated our businesses through six owned properties with a total gross floor area of approximately 475 square meters, and 16 leased properties with a total gross floor area of approximately 14,562 square meters. All such properties have been used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are primarily used as office premises, manufacturing facilities and research and development center for our business operations.

Owned Properties

As of the Latest Practicable Date, we owned the land use rights to one parcel of land located in Wuxi city, with a site area of approximately 68,883 square meters. Such parcel of land will be used primarily as our manufacturing facilities and research and development center. We are currently constructing Chuangmei Center, which comprises new manufacturing facilities and a research and development center, on the parcel. See “— Our Intelligent Manufacturing — Expansion Plan” for details. As advised by our PRC legal advisors, we have obtained the land use certificate for such parcel of land, and legally owned the land use right, which will expire in February 2069.

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As of the Latest Practicable Date, we owned six properties in Chengdu with a total gross floor area of approximately 475 square meters used primarily as offices. As advised by our PRC legal advisors, we have obtained the ownership certificate for one of such properties. We are in the process of obtaining owner certificates in accordance with the applicable laws for the remaining five properties, which is expected to be completed prior to December 2021.

Leased Properties

As of the Latest Practicable Date, we operated our businesses through 16 leased properties in Wuxi, Shanghai, Shuyang, Beijing and Guangzhou, with a total gross floor area of approximately 14,562 square meters. Such properties primarily serve as our offices and research and production facilities.

Our lease agreements in respect of the abovementioned 16 leased properties generally have expiration dates ranging from February 27, 2021 to July 14, 2024. We plan to renew our leases or negotiate new terms when the existing leases expire. All lessors are independent third parties. We did not experience material difficulties in negotiating renewal of our leases with our landlords during the Track Record Period and up to the Latest Practicable Date. We believe that there is sufficient supply of properties in China.

As of December 31, 2020, none of the properties leased or owned by us had a carrying amount of 15% or more of our consolidated total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our Group's interests in land or buildings.

Non-registration

Pursuant to the applicable PRC laws and regulations, property lease agreements must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部). The registration of such leases will require the cooperation of our lessors. As of the Latest Practicable Date, we had not obtained lease registration for our 16 leased properties in China, primarily due to the difficulty of procuring our lessors' cooperation to register such leases. We will take all practicable and reasonable steps to ensure that such leases are registered. To minimize the potential negative impact of the non-registered leases on our operations, we continue to communicate with such lessors to seek their cooperation to complete the registration process. As advised by our PRC legal advisors, the lack of registration of the lease agreements will not affect the validity of such lease agreements.

According to the relevant PRC laws and regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease. As of the Latest Practicable Date, we had not received any such request or suffered any such fine from the relevant government authorities. We undertake to cooperate fully to facilitate the registration of lease agreements once we receive any requirements from relevant government authorities.

Title Defects

As of the Latest Practicable Date, the lessor of one of our leased properties in China had not provided us with the valid property ownership certificate. We leased the relevant property as an office. The absence of such certificate or documents hampered our ability to determine whether the lessor has the legal right

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to lease the property to us. If the lessor is not the legal owner, the relevant lease agreement may be deemed invalid and, as a result, we may be challenged by the legal owner of the property and may be forced to vacate the relevant property, which could interrupt our business operations and cause us to incur relocation costs.

As of the Latest Practicable Date, we were not aware of any challenge being made by a third party or government authority on the title of the abovementioned leased property that might have a material adverse effect on our current occupation. In addition, we do not rely on such lease for our business operations, nor do we expect to incur significant time for identifying, or incur significant cost to relocate our operations to, comparable alternative properties in proximity. As advised by our PRC legal advisors, we are not subject to any material administrative penalty for the title defects in the leased property described above. Our Directors believe that potential relocation will not have a material adverse impact on our business, results of operations and financial condition.

As advised by our PRC legal advisors, in the event that the lease agreement of the defective property is deemed invalid or otherwise unenforceable due to the lessor's fault, and that we are unable to continue occupying such property, we have the right to claim indemnification against the relevant lessor for all the damages we suffer in accordance with relevant PRC laws and regulations.

INSURANCE

We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by Chinese laws and regulations and in accordance with the commercial practices in our industry. We maintain employee benefit insurance, property all risks insurance and public liability insurance with respect to our warehouse in Shanghai. However, in line with general market practice, we have not purchased or attempted to purchase any product liability insurance, considering that (1) it is not mandatory under PRC laws, (2) our risk exposure is relatively limited in light of the nature of our solutions, and (3) we have not been required to purchase product liability insurance by any customer or business partner. We may purchase product liability insurance in the future in consideration of our growing business scale to further minimize our risk exposure. We do not maintain keyman life insurance, business interruption insurance or insurance policies covering damages to our technical infrastructure. During the Track Record Period, we have not made or been the subject of any material insurance claims. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material adverse effect on our results of operations. See "Risk Factors — Risks Relating to Our Business and Industry — We are exposed to potential product liability claims and our insurance coverage may be inadequate to protect us from all the liabilities we may incur."

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AWARDS AND RECOGNITION

During the Track Record Period, we have received recognition for the quality and popularity of our business. The following table sets forth some significant awards and recognition we have received.

Awarding Year	Award/Certificate	Issuing Organization	Awarded Entity
2018	Integration of Information and Industrialization Management System Certificate (國家兩化融合管理體系貫標試點企業)	Ministry of Industry and Information Technology of the PRC (國家工業和信息化部)	Wuxi EA
2018	Small Giant Enterprise in Science and Technology of Jiangsu Province (江蘇省科技小巨人企業)	Jiangsu Provincial Commission of Economy and Information (江蘇省經濟和信息化委員會)	Wuxi EA
2019	Certificate of High-tech Enterprise (高新技術企業證書)	Science and Technology Commission of Shanghai Municipality (上海市科學技術委員會), Shanghai Municipal Finance Bureau (上海市財政局), Shanghai Municipal Tax Service, State Taxation Administration (國家稅務總局上海市稅務局)	Shanghai EA
2019	Leading Enterprise in Producer Services Industry of Jiangsu Province (江蘇省生產性服務業領軍企業)	Jiangsu Development and Reform Commission (江蘇省發展和改革委員會)	Wuxi EA
2019	Specialized, Sophisticated, Special and New Enterprise (「專精特新」企業)	Jiangsu Municipal Bureau of Economy and Information Technology (江蘇省工業和信息化廳)	Wuxi EA
2020	Model Intelligent Manufacturing Plant of Jiangsu Province (Automatic Sorting and Packaging System) (江蘇省示範智能車間(自動化分揀包裝))	Jiangsu Municipal Bureau of Economy and Information Technology (江蘇省工業和信息化廳)	Wuxi EA
2020	Specialized, Sophisticated, Special and New Small Giant Enterprise of Wuxi City (無錫市專精特新小巨人)	Wuxi Municipal Bureau of Industry and Information Technology (無錫市工業和信息化局)	Wuxi EA

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We are subject to legal proceedings, investigations and claims arising in the ordinary course of our business from time to time. As of the Latest Practicable Date, we were not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material and adverse effect on our business, financial condition or results of operations.

Compliance

We are subject to various regulatory requirements and guidelines issued by regulatory authorities in China. During the Track Record Period and as of the Latest Practicable Date, we did not commit any material non-compliance of the laws and regulations, and we did not experience any noncompliance incident, which taken as a whole, in the opinion of our Directors, is likely to have a material and adverse effect on our business, financial condition or results of operations. As advised by our PRC legal advisors, during the Track Record Period and up to the Latest Practicable Date, save as set out below, we had complied with the relevant laws and regulations in all material respects in China.

Non-compliance with social insurance and housing reserve fund contributions

Background and reasons of non-compliance incidents

Pursuant to relevant PRC laws and regulations, employers are obligated to directly and duly make social insurances and housing reserve fund contributions for their employees. During the Track Record Period, we did not make adequate social insurances and housing reserve fund contributions for certain employees with the relevant social insurance or housing reserve fund authorities.

Our non-compliance was primarily due to (1) inadvertent oversight of the relevant PRC laws and regulations, the implementation of which varies from city to city; (2) the lack of sufficient knowledge on understanding the relevant local laws and regulations by the responsible staff, and (3) some employees' unwillingness to make full contributions to the funds.

Potential legal consequences

As advised by our PRC legal advisors, if any of the relevant social insurance authorities is of the view that we failed to make full social insurance contributions for our employees in accordance with the relevant laws and regulations, it may order us to pay outstanding amounts within a prescribed time limit, and we may be subject to a late charge at the daily rate of 0.05% on the outstanding amounts from the date on which such amounts are payable. If such payment is not made within the prescribed period, the competent authority may further impose a fine from one to three times the amount of any overdue payment.

As advised by our PRC legal advisors, if any of the relevant housing reserve fund authorities is of the view that we failed to make full housing reserve fund contributions for our employees in accordance with the relevant laws and regulations, it may order us to make outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to PRC courts for compulsory enforcement.

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Rectification and internal control measures

During the Track Record Period and up to the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant regulatory authorities with respect to our contributions to social insurance and housing reserve funds, nor had we received any order or been informed to settle the under-payments. In January 2021, we have obtained confirmations from the relevant social insurance authorities supervising our principal subsidiaries in Wuxi city, Jiangsu province and Shanghai that we complied with the relevant local laws and regulations with respect to social insurance contributions in all material respects during the Track Record Period. Our PRC legal advisors have confirmed that these social insurance authorities are the competent authorities governing our business operations in the relevant cities. We have also made provision for the historical inadequate contributions in our financial statements. In 2018, 2019 and 2020, the amount of provisions made for the shortfall of social insurance and housing reserve fund contributions was RMB5.8 million, RMB10.4 million and RMB10.4 million, respectively.

On September 21, 2018, the Ministry of Human Resources and Social Security of the PRC issued the Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilization the Levy of Social Insurance Payment (關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知), which promotes the reduction in the amount of social insurance contributions by companies to avoid overburdening enterprises, and prohibits local authorities from requiring enterprises to make up for historically underpaid or unpaid social insurance contributions in one go. We undertake that, in the event that the competent regulatory authorities require us to make supplemental contributions and overdue fine, we would comply in a timely manner.

We have liaised with relevant regulatory authorities in different localities to adjust the payment base for our social insurance and housing reserve fund contributions, the procedure and timing of which may vary based on local rules and policies, such that we can make full contribution in compliance with the applicable laws and regulations as soon as practicable. Based on our consultations, we currently expect to adjust our payment base in Wuxi and Shanghai, which are two of the cities where most of our employees are located, starting from April 2021 and July 2021, respectively, being the earliest applicable dates pursuant to relevant laws and regulations for us to make the adjustment and make full contributions. We will also make full contributions for our employees located in other cities as soon as the earliest date for adjustments in such localities can be fixed. In addition, we have enhanced our internal policies and procedures to ensure compliance with the relevant laws and regulations. Among others, we have clarified in the employee manual that the contribution of social insurance and housing reserve funds shall conform with the relevant laws and regulations. Our human resources department will follow the rules and policies on social insurance and housing reserve fund contributions for any update. In addition, we will (1) regularly consult outside counsel to understand whether we are at risk of non-compliance with the relevant laws and regulations; (2) regularly prepare reports regarding our contribution amounts for review by our Board; and (3) conduct internal trainings for our Directors, members of senior management and certain employees on the relevant laws and regulations.

Our Directors are of the view that the above-described incident would not have a material adverse effect on our business, results of operations and financial condition, considering that (1) we had not been subject to any material administrative action, fine or penalty imposed by the relevant regulatory authorities with respect to our contributions to social insurances and housing reserve funds during the Track Record Period and up to the Latest Practicable Date; (2) as of the Latest Practicable Date, we had not received any notifications from the relevant PRC authorities requiring us to pay the shortfalls or the penalties with respect to social insurance and/or housing reserve funds; (3) we were neither aware of any employee complaints nor were involved in any labor disputes with our employees with respect to social insurance and/or housing reserve funds; (4) we made provisions for social insurance and housing provident fund contributions; (5) we have been rectifying the issue; and (6) as advised by our PRC legal advisors, based on the on-site consultations with, and confirmations obtained from, the competent authorities supervising

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our principal subsidies in Wuxi city, Jiangsu province and Shanghai, the likelihood that we would be required by relevant authorities to pay the late charges for the shortfall of social insurance contributions or subject to material administrative penalties due to failure to make full social insurance and housing reserve fund contributions is relatively low.

OCCUPATIONAL SAFETY

We have obtained all necessary licenses in relation to workplace safety and established work safety policies and procedures to ensure that all parts of our operations are in compliance with applicable laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant workplace accident or encounter any material non-compliance issues with respect to any applicable laws and regulations on occupational safety.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

We regard environment protection as an important corporate responsibility, and are committed to promoting corporate social responsibility and sustainable development as well as integrating it into all major aspects of our business operations. Corporate social responsibility is viewed as part of our core growth philosophy that will be pivotal to our ability to create sustainable value for our Shareholders by embracing diversity and public interests. Accordingly, our Board has adopted a comprehensive policy on environmental, social and corporate governance responsibilities (the “ESG Policy”) on May 20, 2021 in accordance with the Listing Rules, which sets forth our corporate social responsibility objectives and provides guidance on practicing corporate social responsibility in our daily operations.

Under our ESG Policy, we aim to build a sustainable community with our employees, customers and business partners by supporting local initiatives that aim to create effective and lasting benefits to the local community, through various initiatives that may include corporate philanthropy, establishing community partnerships, and mobilizing our employees to participate in volunteer work. For example, with the COVID-19 pandemic bringing unprecedented challenges to people’s lives, we have quickly responded to the situation and proactively took various measures to help fight against the pandemic, including making a donation of RMB2.0 million to support front line medical teams and providing our customers, primarily hospitals and clinics, with protective equipment when they gradually restored their operations. In addition, we also endeavor to reduce any negative impacts on the environment through our commitment to energy saving and sustainable development. We will also focus on embracing diversity within our organization and equal and respectful treatment of all of our employees in their hiring, training, wellness and professional and personal development. While maximizing equal career opportunity for everyone, we will also continue to promote work-life balance and create a happy culture in our workplace for all of our employees.

Our Board has the collective and overall responsibility for establishing, adopting and reviewing the ESG vision, policy and target of our Group, and evaluating, determining and addressing our ESG-related risks at least once a year. Our Board may assess or engage independent third parties to evaluate the ESG risks and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate the risks.

We are subject to various PRC environmental laws and regulations, the implementation of which involves regular inspections by local environmental protection authorities. See “Regulatory Overview” for details. We do not operate in a highly polluting industry, and our clear aligners are made of composite polymer materials, which are toxic-free and FDA approved food safe materials. As such, disposed clear aligners do not need to be processed as medical waste. According to GB/T 19095-2019 Signs for Classification of Municipal Solid Waste, used clear aligners are recyclable waste and can be processed by mechanical recycling and/or chemical recycling, depending on their specific material. As a result, we

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believe that our clear aligners will not pose a threat to the environment. As China is promoting waste sorting, we are updating the instruction manual to convey the message that used clear aligners shall be disposed in recycling waste containers. We expect to complete the filing of the updated instruction manual with the relevant government authority by the end of this year.

The manufacturing process of our clear aligners may nevertheless generate noise, general solid waste, exhaust gas and waste water. We have established an environmental protection department and adopted specific environmental protection policies to make our operations more energy efficient and environmentally friendly and to ensure effective compliance with applicable PRC environmental laws and regulations. We have also developed internal policies for environmental risk prevention to ensure compliance with the requirements of the applicable national, industrial and local standards, laws, regulations and policies. Such policies include report on the emission level of gas pollutants, noise, waste water and solid waste to our Board to the extent applicable and evaluation of such emission levels on a regular basis. If there is any deviation from the applicable emission standard, we will investigate the cause and will take rectification measures accordingly. In particular, we have implemented a series of measures to control the potential harmful impact of our manufacturing activities on the environment. We did not incur a discharge level of general solid waste, as they were typically sold to, or processed by, qualified entities. With respect to the waste water produced during the cutting and cleaning process of clear aligners, we disseminated such to the local sewage disposal system after sedimentation at an amount within its handling capacity. In addition, we limit the impact of the emission of exhaust so that its impact on the surrounding environment is far below the relevant statutory standard, in particular that on the sensitive target areas such as schools and parks. We also set up buffer zone of 100 meters from our workshops in order to prevent the establishment of sensitive targets therein. Moreover, our noise emission was categorized as level three under the Noise Emission Standard for Industrial Enterprises at Boundary (GB12348-2008), which would not cause a material impact on the neighborhood. The following table sets forth the emission level of gas pollutants, noise and waste water of our manufacturing facilities during the Track Record Period.

	For the year ended December 31,					
	2018		2019		2020	
	Permitted annual discharge (t/a)/ Permitted numerical value (dB)	Actual annual discharge (t/a)/ Actual numerical value	Permitted annual discharge (t/a)/ Permitted numerical value	Actual annual discharge (t/a)/ Actual numerical value	Permitted annual discharge (t/a)/ Permitted numerical value	Actual annual discharge (t/a)/ Actual numerical value
Gas pollutants						
Volatile Organic Compounds ⁽¹⁾	0.5375	0.4918	—	—	—	—
Non-methane Hydrocarbon ⁽¹⁾	—	—	0.4030	0.3163	0.2975	0.2290
Particulates	0.0002	0.0002	0.0057	0.0057	0.1425	0.1090
Noise	Daytime: 65dB	Daytime: 49dB	Daytime: 65dB	Daytime: 56dB	Daytime: 65dB	Daytime: 60dB
	Late night: 55dB	Late night: —	Late night: 55dB	Late night: —	Late night: 55dB	Late night: 44dB
Waste water.	14,064	980.8	12,864	3,287.2	17,472	10,209.6

(1) We changed the detergent used in the manufacturing process in 2019 and, therefore, has discharged different gas pollutants since then.

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The significant increase of the discharge of waste water during the Track Record Period was primarily due to (1) our deployment of automated production lines, and (2) the upgrade of our manufacturing techniques. We have commenced the mass production utilizing automated production lines since July 2018, which requires a rinse procedure to clean the 3D-printed teeth molds and, therefore, discharges waste water. Furthermore, since late 2019, we have gradually upgraded our techniques to rinse the 3D-printed teeth molds with water and detergent, instead of alcohol, as the former is less volatile and nonflammable and, thereby, increases the safety level of the entire manufacturing process. As a result, the discharge level of waste water further increased from 2019 to 2020.

We have engaged professional third-party qualified companies for hazardous waste reclamation and disposal. During the Track Record Period, the estimated costs and expenses incurred for our environmental protection measures were approximately RMB2.7 million. We believe that we are not susceptible to climate change, and we have not experienced extreme weather in the areas where we conduct our operations. We have, however, purchased property all risks insurance and implemented contingency plans to safeguard us against any climate change or extreme weather conditions that would materially and adversely affect our business and operations. As of the Latest Practicable Date, we had not experienced any material impact on our business operations or financial performance as a result of climate change or extreme weather conditions.

Our Directors confirm that we have obtained all applicable permits and licenses under PRC environmental laws and regulations that are material to our operations. As advised by our PRC legal advisors, there were no breaches or violations of the PRC environmental laws and regulations applicable to our business operations during the Track Record Period that would have a material and adverse impact on our business, financial condition or results of operation taken as a whole. In addition, we had not been subject to any material claim or penalty in relation to health, safety, social and environmental protection, or been involved in any significant work place accident or fatality. During the Track Record Period, our expenses in relation to environmental protection were insignificant and we expect such expenses to remain at relatively low levels in the foreseeable future.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

We have designated responsible personnel in our Company to monitor the ongoing compliance by our Company with the relevant PRC laws and regulations that govern our business operations and oversee the implementation of any necessary measures. In addition, we plan to provide our Directors, senior management and relevant employees with continuing training programs and/or updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identify any concerns and issues relating to any potential non-compliance.

In addition, we have adopted a set of internal rules and policies governing the conduct of our employees. We have established a monitoring system to implement our systematic anti-bribery and anti-corruption procedures and policies to ensure that our employees comply with our internal rules and applicable laws and regulations. As part of our internal control measures, we have adopted practice management policies that prohibit any form of bribery and corruption conducts by our employees and require them to comply with the laws and regulations and deal with conflict of interest appropriately. We have identified certain forbidden conduct in our internal anti-bribery and anti-corruption policies, including, among others, the prohibition to offering and acceptance of bribes or rebates, embezzlement or misappropriation of our assets, and forgery or alteration of our accounting records. In addition, we enter into a sunshine contract with all employees and suppliers, which contains anti-corruption and anti-bribery provisions. Our employee handbook provides that any employee who provides bribery to suppliers, customers or government authorities will be subject to termination of employment for cause. We have also

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established an internal channel for reporting of corruption and bribery activities by our employees. Upon receiving relevant training on our practice management policies and other anti-fraud measures, we require our employees to sign a commitment letter on honest practices with us, under which they undertake not to, among other things, (1) accept or solicit any inappropriate interests in relation to our business, such as those concerning persons in business relations with us; (2) misappropriate our resources, business opportunities, trade secrets and intellectual properties; (3) embezzle or misappropriate company assets; and (4) accept gifts in cash or gifts in kind of material value from persons in business relations with us. We also require our employees to report current or potential conflict of interests with us, as well as the receipt of customary gifts to our business on a timely basis, which will be subsequently reviewed by the responsible personnel and handled and recorded in accordance with our established policies. We have designated the compliance division of our legal department and our internal control department to oversee the implementation of, and our employees' ongoing compliance with, the abovementioned internal control measures. Our management is responsible for conducting a fraud and bribery risk assessment on an annual basis and our audit committee reviews and approves our annual risk assessment results and policies.

In particular, while we have continuously organized national and regional conferences and symposia to increase our influence in both industry and academia, we pay great attention to adhering to our internal policies in communicating and interacting with attendees and make great efforts to prevent occurrence of illegal or misappropriate conduct at the venue of our events. For example, as for *A-Tech Forum*, our annual academic conference for product and technology release and exchange of innovative ideas, we invite primarily orthodontists, stomatologists and other experts in relevant fields. We carefully plan our conference under an intensive, two-day schedule with a set of consecutive lectures that leave no extra breaks. We do not arrange entertainment activities or souvenirs during the *A-Tech Forum* and the conference ends upon the completion of all scheduled events. As such, we believe that the professional objectives and the highly-disciplined procedures of *A-Tech Forum* serve to ensure compliance with relevant laws and regulations. Our Directors confirm that, during the Track Record Period and as of the Latest Practicable Date, we had not been involved in any bribery or corrupt practices or any related illegal or unethical conducts.

In addition, we conduct qualification verification for every dental professional before delivering our services to ensure that they are qualified to provide clear aligner treatment. Our system is also able to identify excessive treatment by dental professionals, as it could track the case initiation pattern of all dental professionals and the details of each treatment case. During the Track Record Period and up to the Latest Practicable Date, we had not been aware of any suspicious pattern of case initiation by any dental professionals that would suggest any unethical conduct.

We offer continuing training to our employees to enhance their knowledge and awareness of the relevant rules and regulations. We also keep abreast of the latest regulatory updates and communicate with the relevant regulatory authorities from time to time to discuss the latest regulatory requirements of China's clear aligner market and the overall medical device market.

Furthermore, we have engaged an independent internal control consultant to evaluate our internal control system in preparation for the Listing. The internal control consultant performed review procedures over selected areas of our internal controls over financial reporting at both the entity-level and the business process level, including revenue and receivables which covers revenue and receivables including the third-party payment, purchases and payables, fixed assets, intangible assets, production and costs, inventory and product delivery, treasury, investment, financial reporting, insurance, tax, payroll and general controls of information technology. The major recommendations identified by the internal control consultant include (1) establishing the required terms of reference of the Board and its committees and (2) developing various corporate governance rules required for the Listing. The internal control consultant performed the follow-up reviews in December 2020 to review the status of our management actions to address the findings of the internal control review with no further recommendation except for the appointment of the required independent non-executive Directors, which is expected to be completed by us before the Listing.

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In addition, we have also appointed Somerley Capital Limited as our compliance advisor with effect from the date of the Listing to advise on ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.

During the Track Record Period, save as discussed above, our Directors did not identify any material internal control weaknesses or failures. Considering the remedial actions we have taken, our Directors are of the view that we have adequate and effective internal control procedures.

Risk Management

We are exposed to various risks during our operation. Key operational risks faced by us include, among others, changes in general market conditions and perceptions of clear aligner treatments, changes in the regulatory environment in the PRC clear aligner industry, our ability to offer quality products and services to our students, our potential expansion into other regions in China, availability of financing to fund our expansions and business operations, and competition from other market players. See “Risk Factors” for disclosures on various risks we face. In addition, we face numerous market risks, such as interest rate, credit and liquidity risks that arise in the normal course of our business. See “Financial Information — Quantitative and Qualitative Disclosure about Market Risks” for details.

We have implemented various policies and procedures to ensure effective risk management at each aspect of our operations, including the administration of daily operations, financial reporting and recording procedures, and compliance with applicable laws and regulations. Our Board oversees and manages the overall risks associated with our operations. We have established an audit committee to review and supervise the financial reporting process and internal control system of our Group. See “Directors and Senior Management — Board Committees — Audit Committee” for the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee. We have adopted written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, CareCapital Orthotech held approximately 67.1242% of the total issued share capital and thus a Controlling Shareholder of our Company. CareCapital Orthotech is wholly-owned by CareCapital EA, Inc., which is in turn owned by CareCapital Holdings and CareCapital Moonstone Holdings Limited, a wholly-owned subsidiary of CareCapital Holdings. As part of the capital management arrangements between them, CareCapital Group and HH Investors contributed 3.03% and 96.97% of the funds to the CareCapital Investment, respectively, which resulted in 3.03% and 96.97% of the beneficial ownership in CareCapital Holdings, respectively. Pursuant to the articles of CareCapital Holdings and the shareholders agreement of CareCapital Holdings dated June 12, 2015, CareCapital Group controls all the voting power of CareCapital Holdings, the controlling shareholder of our Company, and has the sole right to appoint the director of CareCapital Holdings and is responsible for the management and operation of our Group, while HH Investors are passive financial investors with no voting power in CareCapital Holdings or our Company and no right to appoint director of CareCapital Holdings or our Company. See “Our History and Corporate Development — CareCapital Group and CareCapital Investment — CareCapital Group — Voting Arrangement” for details. Pursuant to the Listing Rules and HKEx-GL-89-16, CareCapital Group is our controlling shareholder and HH Investors, being legal and beneficial shareholders of CareCapital Holdings, are collectively deemed as the Controlling Shareholders. Immediately after the completion of the Global Offering (assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued pursuant to the Share Award Schemes), CareCapital Group will continue to control approximately 60.3110% of the voting rights at the general meetings of our Company, and thus become the Controlling Shareholders of our Company. See “Our History and Corporate Development” for details of the voting arrangement and more information of CareCapital Group.

BUSINESS DELINEATION AND COMPETITION

Our core business is to research and development, manufacture and marketing of clear aligners treatment solutions in China (the “Core Business”). During the Track Record Period, our revenues from clear aligners solutions accounted for approximately 95.2%, 97.2% and 97.9% of our total revenues, respectively, and all of our revenues were generated in China.

CareCapital Group, our Controlling Shareholders, is a long-term investment and operating group committed to dental and oral care industry, and its investment portfolios cover the full value chain in the industry from upstream education and training, product and equipment to mid-stream clinic management software and distribution to downstream hospitals and clinics. As of the Latest Practicable Date, other than the interest in our Group, CareCapital Group has invested and controlled certain other companies in dental industry, including, among others, dental clinics, dental device manufacturer (intraoral scanners or other medical devices than clear aligners) or medical devices distributors, where our non-executive Directors, as representatives of CareCapital Group, serve as directors of certain such companies. The businesses of such companies are different types of businesses as compared to our Core Business.

CareCapital Group is also interested in approximately 30% of the equity interests of Ortho Caps GmbH, a small German family business primarily engaging in the provision of clear aligner treatment solutions in Europe. CareCapital Group is only a passive minority financial investor. CareCapital Group cannot exercise control over Ortho Caps GmbH and has not participated in the management of the company. Furthermore, Ortho Caps GmbH primarily focuses on the business and targets at the patients and customers in Europe, the geographical and market focuses as well as the patient origins of which are different from our Core Business.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In light of such investment portfolio companies of CareCapital Group, CareCapital Group has undertaken to provide a Non-Competition Undertaking in favor of us, which includes that CareCapital Group will grant the Group the right of first refusal for the new business opportunities that competes with our Core Business. See “— Non-Competition Undertaking” for details. We have adopted and will adopt appropriate enhanced measures to manage the conflict of interests between our Controlling Shareholders, our Directors and our Group and Shareholders as a whole. See “— Corporate Governance Measures” for details.

Our Controlling Shareholders and our Directors confirm that as of the Latest Practicable Date, save as disclosed above, neither of them nor their respective close associates have any interest in any business, apart from the Core Business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that our Group is capable of carrying on our business independently from our Controlling Shareholders and their respective close associates after the Listing.

Management Independence

Our business is managed and conducted by our Board and senior management. Upon the completion of the Listing, our Board consist of two executive Directors, three non-executive Directors and three independent non-executive Directors. See “Directors and Senior Management” for details.

All of our non-executive Directors are employees and senior management of CareCapital Group, our Controlling Shareholders. Despite such relationship, our Directors believe that our Board and senior management has been and will continue to be able to independently manage our business and function independently from our Controlling Shareholders based on the following grounds:

- (1) each of our Directors is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest;
- (2) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Directors shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum;
- (3) our daily management and operations are carried out by our executive Directors and a senior management team, all of whom are independent from our Controlling Shareholders and have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interest of our Group;
- (4) we have three independent non-executive Directors who have extensive experience in different professions. They have been appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions. Our Directors believe that the presence of our independent non-executive Directors from different backgrounds provides a balance of views and opinions; and
- (5) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. See “— Corporate Governance Measures.”

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors are satisfied that our Board together with our senior management team as a whole is able to manage our business independently from our Controlling Shareholders and their close associates.

Operational Independence

We have established our own organizational structure comprised of individual departments, each with specific areas of responsibilities. We have also established various internal controls procedures to facilitate the effective operation of our business. Our Group is not operationally dependent on our Controlling Shareholders. Our Company (through our subsidiaries) holds or enjoys the benefit of all relevant licenses and owns all relevant intellectual property and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and suppliers.

Apart from the transactions set out in “Connected Transactions,” our Directors do not expect that there will be any other significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing. Based on the above, our Directors believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. Our Group’s accounting and finance functions are independent of our Controlling shareholders. During the Track Record Period, we primarily financed our business operation through cash generated from our business activities. As of the Latest Practicable Date, we did not have any outstanding borrowing or guarantee from our Controlling Shareholders or any of their respective close associates.

Having considered the above, we believe we are able to obtain external financing, when and if necessary, without guarantee or security provided by our Controlling Shareholders. Our Directors confirm that we will not rely on our Controlling Shareholders for financing after the Global Offering as we expect that our working capital will be funded from the Global Offering and cash flow from operations. Therefore, there is no financial dependence on our Controlling Shareholders and their respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

NON-COMPETITION UNDERTAKING

On May 20, 2021, Mr. FENG Dai, CareCapital Management Group LLC, CareCapital Dental Holdings Limited, CareCapital Moonstone Holdings Limited, CareCapital EA, Inc. and CareCapital Orthotech Limited (collectively, “CareCapital”) entered into the deed of non-competition in favor of our Company, pursuant to which they have each undertaken to our Company that they will not and will use their best reasonable efforts to procure their close associates (except any member of our Group) not to commence, engage in, participate in or acquire any business (“Restricted Business”) which competes with our Core Business, subject to certain limited exceptions as set forth below.

New Business Opportunities

CareCapital have further undertaken that during the Restricted Period (as defined below), they should and will procure their close associates (except any member of our Group) (CareCapital and their close associates together, “Offeror”) to offer new business opportunities to us first in the following manner when any business, investment or other business opportunities (“New Business Opportunities”) that are the Restricted Business become available to the Offerors:

- (1) the Offerors will refer New Business Opportunities to us, and will inform us in writing (“Offer Notice”) about all necessary and reasonably required information in respect of any New Business Opportunities (including but not limited to details of the nature and investment or acquisition cost of the New Business Opportunities) for us to consider (i) whether the relevant New Business Opportunities will compete with our business, and (ii) whether pursuit of the New Business Opportunities is in the interest of our Group;
- (2) upon receipt of the Offer Notice, the independent non-executive Directors will consider whether to pursue the New Business Opportunities taking into account whether the relevant New Business Opportunities would be able to achieve a sustainable profitability level, whether they are in line with the prevailing development strategies of our Group, and whether they are in the best interest of our Group and our Shareholders. Our Company must inform the Offeror in writing within 20 days after receipt of the Offer Notice about its decision on whether the New Business Opportunities will be pursued; and
- (3) only when (i) the Offerors have received our notice to reject the New Business Opportunities; or (ii) the Offerors have not received the relevant notice from our Company within the period as stated above in paragraph (2) after the Offer Notice has been received by us; or (iii) we have failed to transact the New Business Opportunities within three months, then the Offerors are entitled to pursue the New Business Opportunities on terms and conditions not more favorable than those specified in the Offer Notice issued to us.

The undertakings under the deed of non-competition are not applicable in the following circumstances:

- (1) CareCapital and/or their respective close associates engage in the Restricted Business directly or indirectly through the ownership of equity interest in any member of our Group;
- (2) CareCapital’s existing interests in its investment portfolio companies; or
- (3) CareCapital and/or their respective close associates engage in the Restricted Business directly or indirectly through the ownership of equity interest in listed companies other than our Group, with the following conditions being satisfied:
 - (i) The Restricted Business (and relevant assets) conducted or carried out by such company represents less than 10% of the revenue or total assets of such company according to the latest audited accounts of such company; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (ii) CareCapital and/or their respective close associates (except any member of our Group) hold in aggregate not more than 10% of the issued share capital of relevant class of shares of such company, and CareCapital and/or their respective close associates (except any member of our Group) have no right to appoint the majority of directors of such company or participate in the management of such company.

Pursuant to the deed of non-competition, the Restricted Period refers to the period which commences from the Listing Date and ends on the following dates (whichever is earlier):

- (1) the date when the Shares cease to be listed on the Stock Exchange; and
- (2) the date when CareCapital cease to be controlling shareholders of our Company.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders' interests. We have put in place sufficient corporate governance measures to manage the conflict of interest and potential competition from our Controlling Shareholders and safeguard the interest of the Shareholders, including:

- (1) our independent non-executive Directors will review, at least on an annual basis, whether there is any conflict of interest between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (2) our independent non-executive Directors will review the compliance with the undertakings under the deed of non-competition on an annual basis;
- (3) our Controlling Shareholders will provide reasonable and necessary information for the annual review by our independent non-executive Directors;
- (4) our Company will disclose decisions on matters (if any) reviewed by our independent non-executive Directors (including our independent non-executive Directors' views and decisions (with basis) for accepting or declining any New Business Opportunities) and will confirm whether the Non-Competition Undertaking have been fulfilled in the annual reports of our Company or in the announcement under the Listing Rules;
- (5) where a Shareholders' meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of his close associates has a material interest, our Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (6) our Company has established internal control mechanism to identify connected transactions. After the Listing, our Company will comply with the requirements in connection with connected transactions under the Listing Rules;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (7) where our Directors reasonably request the advice of independent professionals, such as independent financial advisors, the appointment of such independent professional will be made at our Company's expense;
- (8) we have appointed Somerley Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance; and
- (9) we will establish the audit committee, remuneration committee and nomination committee prior to the Listing with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective close associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

CONNECTED TRANSACTIONS

CONNECTED PERSONS

The following sets forth our connected persons that will conduct continuing connected transactions with us upon or after the Listing and the details of their relationship with our Group:

Connected Persons	Relationships with our Group
Shanghai CareCapital Dental Devices Co., Ltd. (上海松佰牙科器械有限公司) (“CC Dental”) and its subsidiaries and associates (the “CC Dental Group”)	a company that is wholly-controlled by CareCapital Group, our Controlling Shareholder, and principally engages in sales of dental devices, equipment and consumable

CONTINUING CONNECTED TRANSACTIONS

The following table sets forth the continuing connected transactions with our Group following the Listing:

Transaction	Applicable Listing Rules	Waiver sought	Proposed annual cap for the year ending December 31,		
			2021	2022	2023
(in RMB'000)					
<i>Non-exempt continuing connected transactions (subject to reporting, annual review and announcement requirements)</i>					
1. Intraoral Scanner Purchase and Sales Framework Agreement	14A.35, 14A.53, 14A.76(2) and 14A.105	Requirements as to announcement under Chapter 14A of the Listing Rules	13,200	13,200	19,800
<i>Non-exempt continuing connected transactions (subject to reporting, annual review, announcement and independent Shareholders' approval requirements)</i>					
2. Clear Aligners Purchase and Sales Framework Agreement	14A.35, 14A.36, 14A.46, 14A.53, and 14A.105	Requirements as to announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules	27,380	36,600	47,210

Non-fully exempt continuing connected transactions (subject to reporting, annual review and announcement requirements)

We set out below a summary of the continuing connected transaction of our Group which are partially exempt from the circular and independent shareholders' approval requirements under Rule 14A.76(2) in Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

Intraoral Scanner Purchase and Sales Framework Agreement

Principal Terms

In May 2021, Wuxi EA and CC Dental entered into an intraoral scanner purchase and sales framework agreement (the “Intraoral Scanner Purchase and Sales Framework Agreement”), pursuant to which, CC Dental agrees to grant to us exclusive right to sell certain intraoral scanners manufactured by a subsidiary of CC Dental in China, and we agree to purchase from them and sell to third parties such intraoral scanners in China. The Intraoral Scanner Purchase and Sales Framework Agreement has a term of commencing from the date of signing to December 31, 2023.

Reason for the Transactions

Given the demands for intraoral scanners in clear aligner treatment process and our large customer base in clear aligner industry, we believe that we are well positioned to recommend and sell intraoral scanners to our customers to provide value-added services and enhance customer experience, and thus enabling us to maintain our competitiveness. As such, we intend to expand our business to cooperate with intraoral scanner manufacturers, including independent manufacturers, to sell such products to our customers since 2021. Our sales of intraoral scanners will primarily focus on providing intraoral scanners to our customers as supplemental value-added services to enhance their experience for using our clear aligner treatment solutions, and thus we expect that such business will not constitute a major business segment of our Group or materially affect our financial performance.

Historical Amount

During the three years ended December 31, 2020, we had not purchased any product from any member of CC Dental Group.

Annual Cap and Basis for Annual Cap

Our Directors estimate that the total fees to be paid by our Group to CC Dental Group for purchases of products will not exceed RMB13.2 million, RMB13.2 million and RMB19.8 million for the year ending December 31, 2021, 2022 and 2023, respectively.

In determining such annual caps, our Directors have considered (i) the existing volume we contracted and agreed to purchase in 2021, and the purchase price we agreed to pay to the seller for the contracted types of scanners in 2021; (ii) the estimated demand and sales volume we intend to procure in the following two years; (iii) the estimated purchase price we may obtain from the seller in the following two years taking into account of the general market guide price of such types of scanners in 2021 and the estimated prevailing market price for such types of scanners, as well as the potential fluctuations in the market price for such goods in the future; and (iv) the market acceptance of such types of scanners, our customer base and sales capacity.

CONNECTED TRANSACTIONS

Pricing Policies

Fees charged for our purchase of intraoral scanners shall be primarily determined based on the general guide on the sales price of the goods as provided by the seller from time to time to the purchasers of such goods (including independent purchasers), with certain adjustment determined from time to time by the parties on an arm's length basis with reference to the market prices of such goods. We and the CC Dental Group determine, on annual basis, the sales price provided to us based on arm's length negotiation taking into account of primarily (i) the guide sales price for the types of scanners it provided to its purchasers (including independent purchasers) for the corresponding year; (ii) the total sales volume we agreed to purchase; (iii) our sales capacity and industry-leading position; and (iv) its policies on provision of sales price discounts. We generally order delivery of products after contracting with our customers and settle payment directly with CC Dental Group for the goods purchase price and pay each order by installments. The CC Dental Group agrees to provide product quality insurance in certain period after delivery of the products to us. Specific price, payment and insurance policy will be made according to the respective intraoral scanner purchase and sales contracts as further entered into between CC Dental Group and us pursuant to the Intraoral Scanner Purchase and Sales Framework Agreement.

Listing Rule Implications

The Intraoral Scanner Purchase and Sales Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of our business and on normal commercial terms or better and our Directors currently expect that one or more of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of such transactions will exceed 0.1% but will be lower than 5%. Pursuant to Rule 14A.76(2)(a) of the Listing Rules, the transactions will be exempt from circular and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules, but will be subject to reporting, annual review and announcement requirements.

Waiver Application

Our Directors (including our independent non-executive Directors) are of the view that the Intraoral Scanner Purchase and Sales Framework Agreement benefits our business operations, given the synergy between our principal business and the value-added services as well as the importance of stable supply of high-quality intraoral scanners to our customers. In addition, given the transactions under the Intraoral Scanner Purchase and Sales Framework Agreement will be carried out from time to time after the Listing and the related framework agreement is disclosed in this document, our Directors consider that strict compliance with the announcement requirement in respect thereof would be impractical and unduly burdensome, and would add unnecessary administrative cost to us. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the Intraoral Scanner Purchase and Sales Framework Agreement. The waiver will expire on December 31, 2023. In case of any future amendment to the Listing Rules which is stricter than the requirements applicable to continuing connected transactions disclosed in this prospectus, we will take appropriate measures to ensure the compliance by us of relevant requirements within a reasonable time period.

CONNECTED TRANSACTIONS

Non-exempt continuing connected transactions (subject to reporting, annual review, announcement and independent Shareholders' approval requirements)

We set out below a summary of the continuing connected transactions of our Group which are subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Clear Aligners Purchase and Sales Framework Agreement

Principal Terms

In May 2021, Wuxi EA and CC Dental entered into a clear aligners purchase and sales framework agreement (the "Clear Aligners Purchase and Sales Framework Agreement," together with the Intraoral Scanner Purchase and Sales Framework Agreement, the "Continuing Connected Transaction Framework Agreements"), pursuant to which, we agree to grant to CC Dental Group rights to sell our clear aligners and related services in regions in China as agreed between CC Dental Group and us from time to time, and CC Dental Group agrees to purchase from us and sell to third parties our clear aligners and related services accordingly. The authorized regions/institutions may vary from time to time as agreed between CC Dental Group and us, and the current authorized regions or institutions include certain areas in Henan province and certain institutions in Guiyang city, Guizhou province and Hunan province. The Clear Aligners Purchase and Sales Framework Agreement has a term commencing from the date of signing to December 31, 2023.

Reason for the Transactions

Given the large sales network of CC Dental Group in China, we benefit from the business cooperation between us and CC Dental Group in sales of our products and expansion and promotion of our products and brands among the hospitals and dental clinics in China, which enabling us to enhance our competitiveness.

Historical Amount

During the year ended December 31, 2018, 2019 and 2020, the total revenues from CC Dental Group for purchases of our products and services was RMB7.9 million, RMB14.4 million and RMB19.4 million, respectively.

Annual Cap and Basis for Annual Cap

Our Directors estimate that the total revenues from CC Dental Group for purchases of our products and services will not exceed RMB27.4 million, RMB36.6 million and RMB47.2 million for the year ending December 31, 2021, 2022 and 2023, respectively.

In determining such annual caps, our Directors have considered (i) the historical and prevailing market price for our clear aligners and related services under the Clear Aligners Purchase and Sales Framework Agreement, prices offered to other distributors of our Company of comparable goods and services, as well as the potential fluctuations in the market price for such goods in the future; (ii) the historical growth rate of sales of our products and the estimated demands and growth of sales of our products in the future three years in the relevant authorized regions and areas under such agreements; and (iii) the possible future growth in the clear aligner industry and the dental industry in China.

CONNECTED TRANSACTIONS

Pricing Policies

Fees charged by us for purchases of our clear aligners and related services shall be primarily determined based on the general guide on sales price of such goods as provided by us from time to time to the distributors (including independent distributors), with certain adjustment determined from time to time by the parties on an arm's length basis with reference to the sales volume and historical performance. We generally determine, on annual basis, the sales price with the CC Dental Group based on arm's length negotiation after taking into account of primarily (i) the general guide sales price we provided to our purchasers (including independent purchasers) for the corresponding year; (ii) the total sales volume it agreed to purchase from us; (iii) the length of business relationship with such respective purchasers; (iv) the industry position and sales capacity of such respective purchasers; and (v) the discount range we generally provide to our purchasers. We generally determine, on an annual basis, the general guide sales price of our clear aligner treatment products based on the estimated gross profit of our products and services for such year and the estimated market demand in such year. We generally settle payment directly with CC Dental Group for the goods purchase price and CC Dental Group is generally pay us on a monthly basis. Specific price and payment will be made according to the respective clear aligner purchase and sales contracts as further entered into between CC Dental Group and us under the Clear Aligners Purchase and Sales Framework Agreement, which shall generally be in line with the term and conditions we provide to a similar independent distributor. See "Business — Sales and Distribution — Sales to Distributors" for more information.

Listing Rule Implications

The Clear Aligners Purchase and Sales Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of our business and on normal commercial terms or better and our Directors currently expect that one or more of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of such transactions will exceed 5%. Pursuant to Chapter 14A of the Listing Rules, the transactions will be subject to reporting, annual review, announcement, circular and the independent shareholders' approval requirement.

Waiver Application

Our Directors (including our independent non-executive Directors) are of the view that the Clear Aligners Purchase and Sales Framework Agreement benefits our business operations, given the importance of stable sales and expansion of our product sales coverage. In addition, given the transactions under the Clear Aligners Purchase and Sales Framework Agreement will be carried out from time to time after the Listing and the related framework agreement is disclosed in this document, our Directors consider that strict compliance with the announcement and shareholders' approval requirement in respect thereof would be impractical and unduly burdensome, and would add unnecessary administrative cost to us. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules in respect of the Clear Aligners Purchase and Sales Framework Agreement. The waiver will expire on December 31, 2023. In case of any future amendment to the Listing Rules which is stricter than the requirements applicable to continuing connected transactions disclosed in this prospectus, we will take appropriate measures to ensure the compliance by us of relevant requirements within a reasonable time period.

CONNECTED TRANSACTIONS

DIRECTORS' VIEWS

Our Directors (including our independent non-executive Directors) consider that the non-exempt continuing connected transactions under the Continuing Connected Transaction Framework Agreements, including but not limited to terms and annual caps thereof, have been entered into and will be entered into, as applicable, (i) in the ordinary and usual course of our business; (ii) on normal commercial terms or better; and (iii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

JOINT SPONSORS' VIEWS

The Joint Sponsors have (i) reviewed the relevant documents and historical figures prepared and provided by the Company in relation to the above Non-exempt Continuing Connected Transactions; and (ii) conducted due diligence by discussing with the Company with respect to the above Non-exempt Continuing Connected Transactions. Based on the above, the Joint Sponsors are of the view that the proposed annual caps of each of the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and that such transactions have been and will be, as applicable, entered into in the ordinary and usual course of the Company's business, on normal commercial terms, are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

INTERNAL CONTROL MEASURES

We will adopt the following internal control and corporate governance measures to closely monitor connected transactions and ensure future compliance with the Listing Rules:

- (1) we will adopt and implement a management system on connected transactions and our Board and various internal departments of our Company will be responsible for the control and daily management in respect of the continuing connected transactions;
- (2) our Board and various internal departments of our Company will be jointly responsible for evaluating the terms of the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps (if applicable) under each transaction;
- (3) our Board and the finance department of our Group will regularly monitor the connected transactions and our management will regularly review the pricing policies to ensure connected transactions to be performed in accordance with the relevant agreements;
- (4) we shall engage our auditors to, and our independent non-executive Directors will, conduct annual review on the connected transactions to ensure that the transactions contemplated thereunder have been conducted pursuant to the requirements of the Listing Rules and have fulfilled the relevant disclosure requirements; and
- (5) we will comply with the relevant requirements under Chapter 14A of the Listing Rules for the continuing connected transactions, and comply with the conditions prescribed under the waiver submitted to the Stock Exchange in connection with the continuing connected transactions in this regard.

DIRECTORS AND SENIOR MANAGEMENT

SUMMARY INFORMATION OF OUR DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our current Directors.

Name	Age	Position	Date of appointment as Directors	Time of joining our Group	Responsibilities	Relationship with other Directors and senior management
Directors						
Mr. FENG Dai (馮岱)	45	Chairman of the Board and non-executive Director	November 29, 2018	May 2012	Overall strategy planning, corporate governance and business direction of our Group	None
Ms. LI Huamin (李華敏)	48	Executive Director and chief executive officer	November 29, 2018	July 2003	Overall strategy planning, corporate governance, business direction, and business management of our Group	None
Mr. HUANG Kun (黃琨)	38	Non-executive Director	November 29, 2018	January 2015	Overall strategy planning, corporate governance and business direction of our Group	None
Mr. HU Jiezhang (胡杰章)	46	Non-executive Director	December 21, 2020	December 2020	Overall strategy planning, corporate governance and business direction of our Group	None
Mr. SONG Xin (宋鑫)	34	Executive Director and chief commercial officer	April 21, 2021	August 2011	Overall strategy planning, corporate governance, business direction, and sales management of our Group	None
Mr. HAN Xiaojing (韓小京)	66	Independent non-executive Director	May 20, 2021	May 2021	Supervising and providing independent opinion to our Board	None
Ms. DONG Li (董莉)	51	Independent non-executive Director	May 20, 2021	May 2021	Supervising and providing independent opinion to our Board	None
Mr. SHI Zi (石子)	51	Independent non-executive Director	May 20, 2021	May 2021	Supervising and providing independent opinion to our Board	None

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding the senior management members of our Company (excluding the Directors disclosed above):

Name	Age	Position	Date of appointment as senior management	Time of joining our Group	Responsibilities	Relationship with other Directors and senior management
Mr. TIAN Jie (田杰)	55	Chief medical officer	January 1, 2007	January 2007	Overall medical matters of our Group	None
Mr. LIU Yu (劉彧)	38	Chief marketing officer	September 18, 2015	September 2015	Overall management of marketing, training and education of our Group	None
Mr. ZHU Guolin (朱國林)	49	Chief financial officer	November 1, 2017	November 2017	Overall financial management of our Group	None
Mr. ZHU Lingbo (朱凌波)	37	Senior vice president, board secretary and joint company secretary	October 9, 2020	October 2020	Overall management of financing, investment, investor relations, capital market activities and corporate governance related matters of our Group	None

BOARD OF DIRECTORS

Executive Directors and Non-Executive Directors

Mr. FENG Dai (馮岱), aged 45, is our chairman of the Board and non-executive Director, appointed in November 2018, and is primarily responsible for overall strategy planning, corporate governance and business direction of our Group. Mr. Feng joined our Group in May 2012. He also serves as a director of certain of our subsidiaries, including serving as a director of Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司) since May 2012 and as the chairman of the board since May 2016.

Mr. Feng is the co-founder and managing partner of CareCapital Advisors Limited (松柏投資管理(香港)有限公司), an investment and operating group committed to building the dental and oral care industry, since March 2015. He also serves as directors in the portfolio companies of CareCapital, including the vice chairman of Carestream Dental LLC, a leading global company in dental x-ray, intra-oral scanners and dental clinic management software businesses, the chairman of Huikou Dental Hospital Group (惠州市口腔醫院有限公司), a leading regional dental hospital group based out of China, and a director of the controlling shareholder of Neoss Limited, a leading dental implant company based out of UK and Sweden. Mr. Feng also serves as an independent director of Wuxi Apptec. (無錫藥明康德新藥開發股份有限公司), a CRO company listed on the Stock Exchange (stock code: 02359) and the Shanghai Stock Exchange (stock code: 603259), since December 2018, and an independent director of Sling Group Holdings Limited (森浩集團股份有限公司), a company listed on the Stock Exchange (stock code: 08285), since December 2017. He has been the director of The Forsyth Institute (Affiliate of Harvard Dental School) (哈佛大學醫學院附屬福賽斯牙科研究院) since February 2018. From April 2004 to December 2014, he served various positions, including associate, principal and managing director at Warburg Pincus Asia LLC, a leading global private equity firm.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Feng graduated from Harvard University (哈佛大學) with a bachelor's degree in engineering sciences in June 1997.

Ms. LI Huamin (李華敏), aged 48, is our executive Director and chief executive officer, and is primarily responsible for the overall strategy planning, corporate governance, business direction, and business management of our Group. Ms. Li together with a group of dental professionals and scientists co-founded our Group in 2003 and was appointed as an executive Director in November 2018. Ms. Li has also served as director or general manager of certain of our subsidiaries, including serving as the chairman of the board at Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司) from November 2011 to May 2016 and as a director and the general manager since May 2016, and as a director at Beijing EA Bio-tech Co., Ltd. (北京時代天使生物科技有限公司) from July 2003 to April 2016. Ms. Li was also as a director and the general manager of Shanghai Dongshan Industrial Co., Ltd. (上海東衫實業有限公司), previously known as Shanghai EA Industrial Co., Ltd. (上海時代天使實業有限公司), from July 2003 to September 2008.

Ms. Li is a member of the National Technical Committee on Dental Materials and Devices of Standardization Administration of China (全國口腔材料和器械設備標準化技術委員會) (SAC/TC99). She has also been a director of China Oral Health Foundation (中國牙病防治基金會) since 2013, and was appointed as a member of the Fourth Subcommittee of Stomatological Devices of Chinese Stomatological Association (中華口腔醫學會第四屆口腔醫學設備器材分會) in 2020.

Ms. Li graduated from Nankai University (南開大學) with a bachelor's degree in auditing in June 1995, and obtained an MBA degree from Shanghai Jiao Tong University (上海交通大學) in June 2000.

Mr. HUANG Kun (黃琨), aged 38, is our non-executive Director, appointed in November 2018, and is primarily responsible for the overall strategy planning, corporate governance and business direction of our Group. Mr. Huang joined our Group in January 2015. He has served as a director of certain of our subsidiaries, including serving as a director of Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司) since January 2015.

Mr. Huang joined CareCapital Advisors Limited (松柏投資管理(香港)有限公司), an investment and operating group committed to building the dental and oral care industry, in April 2015, and is the co-founder and managing partner. Mr. Huang currently also serves as directors in the portfolio companies of CareCapital, including the Chairman of Shanghai CareCapital Dental Devices Co., Ltd. (上海松佰牙科器械有限公司), a leading distribution group of dental products based out of China, a director of Purgo Biologics Inc., a leading company in dental bone regeneration products based out of South Korea, and a director of Szechuan New Huaguang Medical Technology Limited (四川新華光醫療科技有限公司), a leading distributor of dental products based out of China. Prior to that, Mr. Huang served as a vice president at Beijing Warburg Pincus Consulting Co., Ltd. (北京華平投資諮詢有限公司) from July 2011 to March 2015. Mr. Huang also served as a senior investment manager during his work at Orchid Asia Investment Consulting (Shanghai) Co., Ltd. (蘭馨投資諮詢(上海)有限公司) from June 2007 to June 2011.

Mr. Huang graduated from Tsinghua University (清華大學) with a bachelor's degree in finance in July 2005.

DIRECTORS AND SENIOR MANAGEMENT

Mr. HU Jiezhong (胡杰章), aged 46, is our non-executive Director, and is primarily responsible for the overall strategy planning, corporate governance and business direction of our Group. Mr. Hu joined our Group since and was appointed as a non-executive Director in December 2020. He has also served as a director of Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司) since December 2020.

Mr. Hu currently serves as a partner of CareCapital Advisors Limited (松柏投資管理(香港)有限公司), an investment and operating group committed to building the dental and oral care industry, since January 2018, and as a director and the chief executive officer of Shanghai CareCapital Dental Devices Co., Ltd. (上海松佰牙科器械有限公司), a leading distribution group of dental products based out of China, since March 2020. Prior to that, Mr. Hu was a vice president at Zoom Commerce Ltd. (廣州市尊網商通信息科技有限公司) from June 2016 to January 2018. Mr. Hu also served as a vice president at Beyondsoft Corporation (博彥科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002649), from December 2012 to May 2016. Mr. Hu also worked for several other companies, including served as a vice president at Achievo Information Technology (Shenzhen) Co., Ltd. (大展信息科技(深圳)有限公司) from May 2007 to November 2012, as a general manager at Guangzhou Jie'ao Computer Technology Co., Ltd. (廣州市杰傲計算機科技有限公司) from February 2003 to April 2007, as a technical director at Zoom Commerce Ltd. (廣州市尊網商通信息科技有限公司) from November 1999 to January 2003.

Mr. Hu graduated from Nanjing University (南京大學) with a bachelor's degree in applied physics in July 1995.

Mr. SONG Xin (宋鑫), aged 34, is an executive Director and our chief commercial officer, and is primarily responsible for the overall strategy planning, corporate governance, business direction, and sales management of our Group. Mr. Song joined our Group in August 2011, and has served as the chief commercial officer since February 2018 and an executive Director since April 2021. Mr. Song has also severed several positions in certain of our subsidiaries, including serving as the chief commercial officer at Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司) since February 2018.

Prior to joining our Group, Mr. Song had served as a regional manager at Guizhou Tongjitang Pharmaceutical Co., Ltd (貴州同濟堂製藥有限公司) from March 2009 to July 2011.

Mr. Song graduated from Henan University of Technology (河南工業大學) with his bachelor's degree in bio-technology in July 2008, and is currently pursuing an EMBA degree at Fudan University (復旦大學).

Independent Non-Executive Directors

Mr. HAN Xiaojing (韓小京), aged 66, is our independent non-executive Director, and is primarily responsible for supervising and providing independent opinion to our Board. Mr. Han has been appointed as our independent non-executive Director since May 2021.

Mr. Han is the founding partner of Commerce & Finance Law Offices (北京市通商律師事務所) and has been an attorney there since May 1992. Mr. Han has also been an independent non-executive director at Sino-Ocean Group Holding Limited (遠洋集團控股有限公司), a real estate company listed on the Stock Exchange (stock code: 3377), Far East Horizon Limited (遠東宏信有限公司), a company listed on the Stock Exchange (stock code: 3360) and Vital Mobile Holdings Limited (維太創科控股有限公司), a company listed on the Stock Exchange (stock code: 6133), since June 2007, March 2011 and June 2019, respectively. He has also served as a supervisor at Ping An Bank Company Limited (平安銀行股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000001), since October 2020 and

DIRECTORS AND SENIOR MANAGEMENT

served as one of its independent directors from February 2014 to October 2020. Prior to that, he served as an independent director of Beijing Sanju Environmental Protection & New Materials Company Limited (北京三聚環保新材料股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300072), from April 2014 to September 2020, and as an outside director of China National Aviation Fuel Group Limited (中國航空油料集團有限公司), a Chinese state-owned enterprise in 2016 Fortune Global 500 list, since December 2017.

Mr. Han graduated from Hubei Finance College (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) with a bachelor's degree in law in July 1982. He further obtained a master's degree in law from China University of Political Science and Law (中國政法大學) in July 1985.

Ms. DONG Li (董莉), aged 51, is our independent non-executive Director, and is primarily responsible for supervising and providing independent opinion to our Board. Ms. Dong has been appointed as our independent non-executive Director since May 2021.

Ms. Dong has been an independent non-executive director at Yixin Group Limited, a company listed on the Stock Exchange (stock code: 2858), since November 2017. She was also an independent non-executive director of 58.com Inc., a company previously listed on the New York Stock Exchange (ticker: WUBA), from April 2020 to September 2020. Prior to that, Ms. Dong was the chief financial officer of *eDaijia* (北京億心宜行汽車技術開發服務有限公司), an online designated driver service provider, from August 2015 to June 2017. She served as a chief financial officer at RDA Microelectronics, Inc., a company previously listed on NASDAQ (ticker: RDA), from November 2007 to July 2015, and was appointed as its executive director from January 2014 to July 2015. Ms. Dong worked for Hewlett-Packard in China since 1992, and was the Finance Operations Manager of Hewlett-Packard Technology (Shanghai) Co., Ltd. when she left in 2005.

Ms. Dong graduated from Nanjing University of Science and Technology (南京理工大學) with a bachelor's degree in economics in July 1992. She further obtained an MBA degree from China Europe International Business School in April 2004. She is an accountant recognized by the Ministry of Finance of the People's Republic of China in October 1994.

Mr. SHI Zi (石子), aged 51, is our independent non-executive Director, and is primarily responsible for supervising and providing independent opinion to our Board. Mr. Shi has been appointed as our independent non-executive Director since May 2021.

Mr. Shi has been the executive director and general manager of Shenzhen Qianhai E-Cloud Technology Company Limited (深圳市前海逸雲科技有限公司) since January 2015. He also worked as a senior partner at Junsan Capital Management Company Limited (君盛投資管理有限公司) from September 2009 to September 2014 and a vice president of the group at SF Express (Group) Company Limited (順豐速運(集團)有限公司) from July 2007 to November 2009. Prior to that, Mr. Shi served as the director of the information technology department and the director of factory affairs at Hitachi Global Storage Technologies (Shenzhen) Company Limited (日立環球存儲科技(深圳)有限公司) (formerly known as Shenzhen IBM Technology Products Company Limited (深圳國際商業機器技術產品有限公司)) from January 1999 to July 2007.

Mr. Shi graduated from Tsinghua University (清華大學) with a bachelor's degree in electrical engineering in July 1993. He further obtained a master's degree in business administration from Tsinghua Shenzhen International Graduate School (清華大學深圳研究生院) in July 2006.

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Ms. LI Huamin (李華敏), aged 48, is our executive Director and chief executive officer. See “—Board of Directors” for her biographical details.

Mr. TIAN Jie (田杰), aged 55, is our chief medical officer, and is primarily responsible for the overall medical matters of our Group. Mr. Tian joined our Group in January 2007 as our medical director. Mr. Tian has also served as senior management in certain of our subsidiaries, including serving as the medical director of Beijing EA Bio-tech Co., Ltd. (北京時代天使生物科技有限公司) from January 2007 to December 2009, as the medical director at Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司) from February 2010 to January 2012, and as the chief medical officer or chief medical expert at Shanghai EA Medical Instruments Co., Ltd. (上海時代天使醫療器械有限公司) since February 2012.

Prior to joining our Group, Mr. Tian served as dentist and associate chief physician in the department of stomatology in No. 210 Hospital of People’s Liberation Army (解放軍第210醫院) from July 1997 to March 2006. Mr. Tian also served as a dentist at The Fourth Military Medical University Stomatological Hospital (第四軍醫大學口腔醫院) from July 1989 to July 1997.

Mr. Tian received his bachelor’s degree in stomatology from The Fourth Military Medical University (第四軍醫大學) in September 1989, where he also received his doctorate degree in orthodontics in August 1997. He received his professional qualification certificate for associate chief physician in December 2001, granted by the political department of Shenyang Military Region of the People’s Liberation Army (中國人民解放軍瀋陽軍區政治部).

Mr. SONG Xin (宋鑫), aged 34, is an executive Director and our chief commercial officer. See “—Board of Directors” for his biographical details.

Mr. LIU Yu (劉彧), aged 38, is our chief marketing officer, and is primarily responsible for the overall management of marketing, training and education of our Group. Mr. Liu joined us in September 2015, and has served as the chief marketing officer since then. Mr. Liu has also served as chief marketing officer of Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司) since September 2015.

Prior to joining our Group, he served as the director of public relations in the department of corporate marketing and public relations of Tencent Group and at Tencent Technology (Shenzhen) Co., Ltd. (騰訊科技(深圳)有限公司), a subsidiary of Tencent Holdings Limited which is listed on the Stock Exchange (stock code: 0700), from July 2008 to September 2015.

Mr. Liu obtained a master’s degree in communications from Sichuan University (四川大學) in June 2008.

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Mr. ZHU Guolin (朱國林), aged 49, is our chief financial officer, and is primarily responsible for the overall financial management of our Group. Mr. Zhu joined us in November 2017, and has served as the chief financial officer since then. Mr. Zhu has also served as chief financial officer of Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司) since November 2017.

Prior to joining our Group, Mr. Zhu served as a senior vice president at Chengdu Tiandi Network Information Technology Co., Ltd. (成都天地網信息科技有限公司) from March 2017 to October 2017, and as the vice president of finance at Jin Ba Men's (Shanghai) Co., Ltd. (勁霸男裝(上海)有限公司) from November 2016 to March 2017. He served successively as the director of finance department and the vice president of finance at Yonghui Superstores Co., Ltd. (永輝超市股份有限公司) from August 2011 to October 2016, and assistant to general manager of finance management center and general manager at China Life Insurance Company Limited Shanghai Branch Company (中國人壽保險股份有限公司上海分公司) from March 2006 to July 2011. Prior to that Mr. Zhu worked as an investment manager at Wanxiang Investment Co., Ltd. (萬向投資有限公司) from July 2005 to March 2006, and worked at Shenyin & Wanguo Securities Co., Ltd. (申銀萬國證券股份有限公司) from July 2002 to July 2005.

Mr. Zhu graduated from Nanjing University (南京大學) with a bachelor's degree in urban planning in July 1993. He further obtained a master's degree in economy from Sun Yat-sen University (中山大學) in June 1999 and a doctorate degree in economy from Fudan University (復旦大學) in July 2002.

Mr. ZHU Lingbo (朱凌波), aged 37, is our senior vice president, board secretary and a joint company secretary, and is primarily responsible for financing, investment, investor relations, capital market activities and corporate governance related matters of our Group. Mr. Zhu joined our Group in October 2020, and has been our senior vice president and board secretary since then. Mr. Zhu has also served as senior vice president and board secretary of Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司) since October 2020.

Mr. Zhu has more than 11 years of experience in corporate finance and capital market practices. Prior to joining our Group, Mr. Zhu worked as an investment banker, serving as a vice president or executive director at J.P. Morgan Securities (China) in Shanghai from July 2019 to October 2020 and at Goldman Sachs Gao Hua Securities in Beijing from July 2013 to July 2019. Prior to that, he worked as an investment analyst in Corporate Planning & Strategic Investment department at Sun Hung Kai Properties (Shanghai) in Shanghai from June 2009 to June 2011. Mr. Zhu also worked at KPMG Huazhen (Special General Partnership) in Shanghai from August 2006 to April 2008.

Mr. Zhu graduated from Fudan University (復旦大學) with a bachelor's degree in management in July 2006, and obtained an MBA degree from Kellogg School of Management at Northwestern University in June 2013. He was recognized as a Chartered Financial Analyst by CFA Institute in September 2010 and was also accredited as a non-practicing certified public accountant by the Chinese Institute of Certified Public Accountants in December 2010.

DIRECTORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. ZHU Lingbo (朱凌波), is our senior vice president, board secretary and a joint company secretary. See “— Senior Management” for his biographical details.

Ms. CHU Cheuk Ting (朱卓婷), was appointed as a joint company secretary of our Company in May 2021. Ms. Chu is a manager of Corporate Services of Tricor Services Limited. She has over 10 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Chu is an associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). Ms. Chu holds a bachelor of arts degree from The Hong Kong Polytechnic University and a master of science in professional accounting and corporate governance from the City University of Hong Kong.

BOARD COMMITTEES

Audit Committee

Our Company has established an Audit Committee on May 20, 2021, with effect from the Listing Date, with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, namely Ms. DONG Li, Mr. HAN Xiaojing and Mr. SHI Zi. Ms. DONG Li is the chairwoman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of our Group, oversee the audit process, review and oversee the existing and potential risks of our Group and perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

Our Company has established a Remuneration Committee on May 20, 2021, with effect from the Listing Date, with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee has five members, namely Mr. HAN Xiaojing, Ms. LI Huamin, Mr. HUANG Kun, Ms. DONG Li and Mr. SHI Zi. Mr. HAN Xiaojing is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for our Directors and senior management and make recommendations on employee benefit arrangement.

Nomination Committee

Our Company has established a Nomination Committee on May 20, 2021, with effect from the Listing Date, with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of five members, namely Mr. FENG Dai, Mr. SONG Xin, Mr. HAN Xiaojing, Ms. DONG Li and Mr. SHI Zi. Mr. FENG Dai is the chairman of the Nomination Committee. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of Directors of our Company.

DIRECTORS AND SENIOR MANAGEMENT

BOARD DIVERSITY

We have adopted our board diversity policy in May 2021, which sets out the objective and approach to achieve and maintain diversity on our Board in order to enhance the effectiveness of our Board. Our board diversity policy provides that our Company should endeavor to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy, and when nominate and appoint a Director, with the assistance of the nomination committee, the Board will consider a number of factors to diversify our board composition, including but not limited to professional experience, skills, knowledge, gender, age, cultural and educational background, ethnicity, length of service and the potential contributions that the candidate is expected to bring to our Board, in order to better serve the needs and development of our Company. All Board appointments will be based on merits and candidates will be considered against objective criteria, having due regard to the benefits of diversity to our Board. After the Listing, our nomination committee will review our board diversity policy and evaluate the implementation of the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of our board diversity policy on an annual basis.

CORPORATE GOVERNANCE

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. In order to accomplish this, we expect to comply with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

DIRECTORS' REMUNERATION

Our Directors and members of our senior management receive remuneration from our Company in the form of fees, salaries, contributions to pension schemes, discretionary bonuses, allowances and other benefits in kind.

The aggregate amount of remuneration our Directors have received (including fees, salaries, contributions to pension schemes, discretionary bonuses, allowances, share-based compensation and other benefits in kind) for the year ended December 31, 2018, 2019 and 2020 was approximately RMB15.1 million, RMB37.5 million and RMB50.2 million, respectively. It is estimated that remuneration and benefits in kind equivalent to approximately RMB21.9 million in aggregate will be paid and granted to our Directors by us in respect of the financial year ending December 31, 2021 under arrangements in force as at the date of this prospectus.

The aggregate amount of emolument paid to the five highest paid individuals of our Group (including fees, salaries, contributions to pension schemes, discretionary bonuses, allowances, share-based compensation and other benefits in kind), excluding Directors, for the year ended December 31, 2018, 2019 and 2020 was approximately RMB9.1 million, RMB7.6 million and RMB11.5 million, respectively. During the Track Record Period, no remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been paid, or are payable, by our Group to our Directors or the five highest paid individuals of our Company during the Track Record Period.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management on which, following the Listing, advice will be received from the remuneration committee taking into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of our Group.

DIRECTORS AND SENIOR MANAGEMENT

SHARE AWARD SCHEMES

See “Our History and Corporate Development — Share Award Schemes” and “Appendix IV — Statutory and General Information — D. Share Award Schemes” for more information.

COMPLIANCE ADVISOR

We have appointed Somerley Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us in the following circumstances:

- (1) before publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might constitute a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and share repurchases;
- (3) where we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results of operation deviate from any forecast, estimate or other information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute the annual report of the first full financial year commencing after the Listing and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company as of the date of this prospectus and immediately after completion of the Global Offering:

	Aggregate nominal value of Shares (US\$)
	<hr/>
As of the date of this prospectus	
<i>Authorized share capital</i>	
500,000,000 Shares of par value of US\$0.0001 each	50,000
<i>Issued share capital</i>	
148,977,500 Shares of par value of US\$0.0001 each	14,897.75
Immediately after completion of the Global Offering	
<i>Authorized share capital</i>	
500,000,000 Shares of par value of US\$0.0001 each	50,000
<i>Issued share capital</i>	
148,977,500 Shares of par value of US\$0.0001 each in issue	14,897.75
16,829,600 Shares of par value of US\$0.0001 each to be issued under the Global Offering	1,682.96
165,807,100 Shares of par value of US\$0.0001 in total	16,580.71

ASSUMPTIONS

The above table assumes that (1) the Global Offering becomes unconditional and the issuance of Shares pursuant to the Global Offering is made as described herein; (2) the Over-allotment Option is not exercised; and (3) no issue of any Shares that may be issued under the Share Awards Schemes or any Shares that may be allotted and issued or repurchased pursuant to the general mandate given to the Directors for allotment and issuance of Shares referred to in Appendix IV in this prospectus or the repurchase mandate referred to in Appendix IV to this prospectus, as the case may be.

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this Prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

After completion of the Global Offering, our Company will have only one class of Shares, namely ordinary shares, and each ranks *pari passu* with the other Shares.

Pursuant to the Cayman Companies Act and the terms of our Memorandum and Articles of Association, our Company may from time to time by ordinary resolution (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce or redeem its share capital by special resolution. For more details, please see “Summary of the Constitution of the Company and Cayman Companies Act — Summary of the Constitution of the Company — 2. Articles of Association — 2.5 Alteration of capital” in Appendix III.

SHARE CAPITAL

Pursuant to the Cayman Companies Act and the terms of our Memorandum and Articles of Association, all or any of the special rights attached to the Shares or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For more details, please see “Summary of the Constitution of the Company and Cayman Companies Act — Summary of the Constitution of the Company — 2. Articles of Association — 2.4 Variation of rights of existing shares or classes of shares” in Appendix III. Further, our Company will also hold general meetings from time to time as may be required under the Articles, a summary of which is set out in “Summary of the Constitution of our Company and Cayman Companies Act” in Appendix III.

GENERAL MANDATE TO ISSUE SHARES AND GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions set forth in “Structure and Conditions of the Global Offering — Conditions of the Global Offering,” our Directors have been granted a general unconditional mandate on May 20, 2021 to allot, issue and deal with up to 10% Shares of as well as to repurchase up to 10% Shares of the total issued share capital of our Company immediately upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option and without taken into account of any Shares that may be issued under the Share Award Schemes. See “Statutory and General Information — A. Further Information about Our Group — 3. Written Resolutions of the Shareholders of Our Company Passed on May 20, 2021” of Appendix IV to this prospectus for details.

SHARE AWARD SCHEMES

See “Our History and Corporate Development” and “Statutory and General Information — D. Share Award Schemes” in Appendix IV to this prospectus for details.

SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately following completion of the Global Offering (taking into no account of any Shares which may be issued upon the exercise of the Over-allotment Option or under the Share Awards Schemes), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Long positions in our Company

<u>Name</u>	<u>Capacity/Nature of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage</u>
CareCapital Orthotech Limited ⁽¹⁾	Beneficial Interest	100,000,000 (L)	60.3110%
CareCapital EA, Inc. ⁽¹⁾	Interest in controlled corporation	100,000,000 (L)	60.3110%
CareCapital Moonstone Holdings Limited ⁽¹⁾	Interest in controlled corporation	100,000,000 (L)	60.3110%
CareCapital Dental Holdings Limited ⁽¹⁾	Interest in controlled corporation	100,000,000 (L)	60.3110%
CareCapital Management Group LLC ⁽¹⁾	Interest in controlled corporation	100,000,000 (L)	60.3110%
Mr. FENG Dai ⁽¹⁾	Interest in controlled corporation	100,000,000 (L)	60.3110%
Sky Honour Enterprises Limited ⁽²⁾	Beneficial Interest	23,657,300 (L)	14.2680%
Shore Lead Limited ⁽²⁾	Interest in controlled corporation	23,657,300 (L)	14.2680%
J.P. Morgan Trust Company (Bahamas) Limited ⁽²⁾	Trustee	23,657,300 (L)	14.2680%
Ms. LI Huamin ⁽²⁾	Trustee; Settlor of a trust; interest in controlled corporation	23,657,300 (L)	14.2680%
Vast Luck Global Limited ⁽³⁾	Beneficial Interest	11,836,600 (L)	7.1388%
Jovial Day Global Limited ⁽³⁾	Interest in controlled corporation	11,836,600 (L)	7.1388%
J.P. Morgan Trust Company (Bahamas) Limited ⁽²⁾	Trustee	11,836,600 (L)	7.1388%
Mr. CHEN Kai ⁽³⁾	Trustee; Settlor of a trust; interest in controlled corporation	11,836,600 (L)	7.1388%

The letter “L” denotes the person’s long position in the Shares.

- (1) See notes to corporate structure set forth in the section headed “Our History and Corporate Development” for details.
- (2) See “Our History and Corporate Development — Establishment of Trusts” and notes to corporate structure in the section headed “Our History and Corporate Development” for details.
- (3) See notes to corporate structure in the section headed “Our History and Corporate Development” for details.

SUBSTANTIAL SHAREHOLDERS

For details of the substantial shareholders who will, directly or indirectly, have interests in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of our Group other than our Company, see “— C. Further Information about Our Directors and Substantial Shareholders” in Appendix IV to this prospectus for details.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering (taking into no account of any Shares which may be issued upon the exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

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You should read the following discussion in conjunction with the consolidated financial statements and the notes thereto included in the Accountant's Report set out in Appendix I to this prospectus which have been prepared in accordance with IFRS and the selected historical financial information and operating data included elsewhere in this prospectus. Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in "Forward-looking Statements" and "Risk Factors." In evaluating our business, you should carefully consider the information provided in "Risk Factors" in this prospectus.

OVERVIEW

We are a leading clear aligner treatment solution provider in China. China's clear aligner treatment solution market is highly concentrated, with the top two market players accounting for an aggregate market share of 82.4% in 2020 in terms of case shipments, according to the CIC Report. We had a market share of approximately 41.0% in the same year, according to the same source.

We empower dental professionals with Angelalign clear aligner system, our proprietary digital orthodontics solution, which comprises a trio of components: (1) digitally-assisted case assessment support and treatment planning services, (2) customized, removable clear aligners based on specific treatment plans, and (3) *iOrtho*, a cloud-based service platform. During the Track Record Period, the number of dental professionals we served increased from approximately 11,500 in 2018 to approximately 15,800 in 2019, and further to 19,900 in 2020. Our case shipments increased from approximately 77,700 in 2018 to approximately 120,100 in 2019, and further to 137,600 in 2020.

We generate revenue primarily from the provision of clear aligner treatment solutions, and to a much lesser extent, from the provision of other services. Our revenue was RMB488.5 million, RMB645.9 million and RMB816.5 million in 2018, 2019 and 2020, respectively. Our gross profit was RMB311.7 million, RMB417.1 million and RMB575.0 million in 2018, 2019 and 2020, respectively, representing a gross profit margin of 63.8%, 64.6% and 70.4%, respectively. Our net profit was RMB58.2 million, RMB67.7 million and RMB150.9 million in 2018, 2019 and 2020, respectively, representing a net profit margin of 11.9%, 10.5% and 18.5%, respectively. Our adjusted EBITDA (non-IFRS measure) was RMB129.1 million, RMB174.6 million and RMB296.6 million in 2018, 2019 and 2020, respectively. Our adjusted net profit (non-IFRS measure) was RMB92.1 million, RMB130.0 million and RMB227.2 million in 2018, 2019 and 2020, respectively. See "— Non-IFRS Measures" for a reconciliation of our net profit to adjusted EBITDA and adjusted net profit, respectively.

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

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The preparation of historical financial information in conformity with IFRS requires the use of certain critical accounting estimates, as well as our management’s judgment in applying our accounting policies. See Note 4 to the Accountant’s Report in Appendix I to this prospectus for the areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information.

We have applied IFRS 16 “Leases” consistently during the Track Record Period, which became effective for annual periods beginning on or after January 1, 2019.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition have been, and are expected to continue to be, affected by various general factors, including primarily the following.

Economic and Industry Trends in China

China has experienced rapid economic growth over the past few decades, which has resulted in increasing per capita disposable income, expanding network of medical institutions, and increasing awareness of dental health, aesthetics and treatment, all of which have contributed to the increase in the demand for clear aligner treatment. According to the CIC Report, the market size of China’s clear aligner market, in terms of retail sales revenue, increased from US\$0.2 billion in 2015 to US\$1.5 billion in 2020 at a CAGR of 44.4%, and is expected to reach US\$11.9 billion by 2030 at a CAGR of 23.1% from 2020 to 2030. Moreover, laws and regulations enacted by China’s governmental authorities, as well as favorable industry policy including preferential tax treatments and other governmental supports, also have a significant impact on the prospect of the clear aligner market. Other factors, such as the scientific and technological development in the industry could also have a significant impact on the demand of clear aligner treatment. See “Industry Overview” for details relating to key market drivers. Changes in the factors that impact the growth rate of China’s clear aligner market would have significant impact on the demand of our clear aligner treatment solutions, and in turn, our business and prospects. Our ability to anticipate and respond to potential changes in industry trends will have a significant impact on our future performance.

Pandemic Influence

As a clear aligner treatment solution provider, our business and results of operations could be materially affected by outbreak of health pandemics. For example, since the outbreak of COVID-19 throughout China and other countries and regions, a number of precautionary and control measures have been implemented worldwide to contain the virus. Government efforts to contain the spread of COVID-19, including city lockdowns or “stay-at-home” orders, suspension of non-emergent dental care services and temporary closures of dental hospitals and clinics, restrictions on travel and emergency quarantines, have caused significant and unprecedented disruptions to the global and Chinese economy and normal business operations across sectors. As a result, China’s clear aligner market has been negatively impacted, which in turn materially and adversely affected our business, results of operations and financial condition in the short-term. For example, we experienced a temporary decrease in the case shipments to approximately 10,900 in the three months ended March 31, 2020, as compared to approximately 24,100 in the three months ended March 31, 2019.

The Chinese government has gradually lifted the domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal nationwide since the second quarter of 2020. We have experienced a strong rebound in our business volume since April 2020, as evidenced by the increase in case shipments from approximately 10,900 in the three months ended March 31, 2020 to approximately 36,400 in the three months ended June 30, 2020, and further to approximately 54,500 in the three months ended September 30, 2020. However, there remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the

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severe global situation and the recent regional resurgence of COVID-19 cases in certain areas in China. We are closely monitoring the development of the COVID-19 outbreak and continuously evaluating any potential pandemic impact on our business, results of operations and financial condition. See “— COVID-19 Outbreak and Effects on Our Business” for the impact of COVID-19 outbreak on our business and “Risk Factors — Risks Relating to Our Business and Industry — Our business and operations have been and may continue to be materially and adversely affected by the COVID-19 pandemic” for the associated risks and challenges.

Seasonality

Our business experiences some effects of seasonal variations due to the preferences of patients with a need for clear aligner treatment. We typically experienced the highest sales during the summer vacation. As clear aligner treatment involves consultation with dental professionals and regular check-ups along the treatment process, it can be easier for potential patients, especially children and teenage, to make time for starting this new routine during the summer vacation when schedules tend to be a bit more relaxed. We had our second highest sales during winter vacations before and after the Chinese New Year for similar reasons. The seasonality changes may cause fluctuations in our financial results.

SPECIFIC FACTORS AFFECTING OUR RESULTS OF OPERATIONS

In addition to general economic conditions and industry factors, we believe the following company-specific factors have had, and will continue to have, a significant impact on our results of operations.

Our Ability to Retain and Attract Customers and Dental Professionals

We generate revenue primarily from the provision of clear aligner treatment solutions. Our sustainable revenue growth depends significantly on our ability to retain and attract customers, primarily including hospitals and clinics. Our ability to attain continuous growth also depends significantly on our dental professional base, which in turn depends on the efficiency, operability and comprehensiveness of our clear aligner treatment solutions vis-à-vis dental professionals, the efficacy, reliability and all-rounded advantages of clear aligners vis-à-vis their patients, and our brand recognition and reputation in the market. During the Track Record Period, the number of dental professionals we served increased from approximately 11,500 in 2018 to approximately 15,800 in 2019, and further to approximately 19,900 in 2020. We believe that we attract customers and dental professionals primarily through delivery of comprehensive and diversified solutions with premium quality and high tolerance. Our ability to continue to improve and diversify the features of our clear aligner treatment solutions and enhance our recognition among dental professionals and their potential patients is critical to our ability to retain our existing customers and dental professionals and attract prospective ones, thereby achieving sustainable growth in revenue and our overall results of operations.

Our Production Capacity

The growth of our revenue depends to a large extent on our ability to expand our production capacity. In 2018, 2019 and 2020, the production capacity of our manufacturing facilities for clear aligners was approximately 6.8 million units, 15.8 million units and 21.9 million units, respectively. Our production capacity over the Track Record Period generally increased, primarily due to the commencement of production on our newly established automated production lines. For details of our annual production capacity and utilization rates at our current facilities, see “Business — Our Intelligent Manufacturing — Manufacturing Facilities.”

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We plan to expand our production capacity by constructing our Chuangmei Center with a gross floor area of approximately 126,000 square meters in Wuxi City. The new manufacturing facilities in our Chuangmei Center, once fully commissioned, are expected to have an annual designed production capacity of approximately 100 million units of clear aligners by 2026. We expect to commence production with the first few established automated production lines by the end of 2021. See “Business — Our Intelligent Manufacturing — Expansion Plan” and “Future Plans and Use of Proceeds” for details.

However, our expansion plan involves significant capital expenditure, which may affect our liquidity if we are unable to generate sufficient cash flow from operations or from financing activities. In addition, expanding our production capacity generally results in higher depreciation expenses in future periods. As a result, if we are unable to maintain a sufficient utilization rate, or otherwise fail to generate sufficient profit from the expanded production capacity to offset the increased depreciation expenses, our profitability would suffer from the expansion.

Our Research and Development Efforts and Technological Capabilities

We operate in a market characterized by continuous technological advancements and changing industrial trends. As a result, our results of operations and long-term growth prospects will depend on our ability to continue to improve and innovate our clear aligner treatment solutions through our research and development efforts and enhanced technological capabilities. Our research and development expenses were RMB50.2 million, RMB80.9 million and RMB93.5 million in 2018, 2019 and 2020, respectively, representing 10.3%, 12.5% and 11.4% of our total revenue for the same periods, respectively. We seek to continually strengthen our research and development capabilities by maintaining a dedicated research and development team with high credentials and expertise and upgrading our core technology platforms, in order to keep pace with the technological advancements and industrial trends. Such plans could increase our research and development expenses and may impact our results of operations and financial condition.

Our Ability to Control Costs and Expenses

Our results of operations have been and will continue to be affected by our ability to control our cost of revenue and other expenses.

Our cost of revenue was RMB176.8 million, RMB228.8 million and RMB241.5 million in 2018, 2019 and 2020, respectively, representing 36.2%, 35.4% and 29.6% of our total revenue for the same periods, respectively. Our cost of revenue primarily consisted of raw materials and consumables used and staff costs.

We purchase various raw materials from both domestic and international third-party suppliers. The prices of raw materials are determined principally by market forces and changes in government policies, as well as our bargaining power with our suppliers. Any fluctuation in raw material costs from current levels would impact our cost of revenue and our gross profit margins. We have implemented a number of cost-control measures with respect to our raw material procurement in order to mitigate the impact of rising raw material prices, including maintaining safety stock based on our manufacturing forecasts, selectively cooperating with alternative suppliers and engaging in strategic negotiations with suppliers.

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In addition, our selling and marketing expenses and administrative expenses also represented a significant percentage of our total revenue. Our selling and marketing expenses represented 16.7%, 19.0% and 18.2% of our total revenue in 2018, 2019 and 2020, respectively. Our administrative expenses represented 22.0%, 21.1% and 18.9% of our total revenue in 2018, 2019 and 2020, respectively. We strive to manage these expenses, such as advertising and promotion expenses, by, among other things, establishing and adhering to an annual budget for our marketing expenses. If we fail to manage our operating expenses, our profitability may be materially and adversely affected.

Pricing and Sales Channels

Our pricing directly affects our revenue, gross profit margin and results of operations. We consider various factors when pricing our products, such as estimated costs and expenses, including cost of raw materials and consumables used, staff costs, depreciation and amortization expenses and other operating expenses, as well as market conditions, such as market demand and competition.

Our profitability may also be affected by our sales channels. In addition to direct sales, we have engaged distributors to increase sales and market share, reduce the marketing cost in less developed markets, and leverage their channel resources. We generated 11.0%, 29.9% and 33.6% of our total revenue from sales to distributors in 2018, 2019 and 2020, respectively. Our ability to effectively select and manage our distributor network is critical to our business and financial performance. In addition, we typically set a fixed wholesale price in the distributorship agreements at a discount compared to the direct selling price based on various factors, including the distributors' distribution territory, channel resources, business volume and bargaining power. As such, the proportion of our sales to distributors may impact our profitability.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our consolidated financial statements. Our significant accounting policies and estimates, which are important for understanding our results of operations and financial condition, are set forth in Notes 2 and 4 to the Accountant's Report in Appendix I to this prospectus, respectively. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (1) our selection of critical accounting policies, (2) the judgment and other uncertainties affecting the application of such policies, and (3) the sensitivity of reported results to changes in conditions and assumptions.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the goods or services in the ordinary course of our activities. Revenue is recognized when the control of the goods or services is transferred to a customer.

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Revenue from clear aligner treatment solution services

We recognize revenue for our clear aligner solutions based on the promises comprising (1) digitally-assisted support and treatment planning services, and (2) clear aligners, which we contract for with customers. We do not recognize revenue with respect to the provision of *iOrtho* since it alone does not provide economic benefit to dental professionals and we do not charge customers for the use of such. The services rendered and clear aligners provided, which are highly interrelated as a whole in each solution service contract, represent one performance obligation to our customers. Deliverables in each solution service contract are designed and custom-made for each specific patient based on their needs and teeth position, and thus do not create an asset with an alternative use to us, and we have an enforceable right to payment for performance completed to date. As a result, we recognize revenue from clear aligner treatment solution services over time based on the progress towards satisfaction of the promise. When considering the progress, we apply output method by measuring the value of deliverables transferred to customers, such as the value of the design report (i.e., our initial treatment planning services) or each specific batch of clear aligners delivered to customers (including both the ongoing modification of the treatment plans and clear aligners), against the value of the remaining deliverables. Activities undertaken for each contract between each deliverable are immaterial and thus result in immaterial work in process being recognized.

With respect to the initial treatment planning services, we measure their value based on their standalone contract price which represents the respective value transferred to our customers. With respect to the ongoing modification of the treatment plans and our clear aligners provided during the treatment process, we generally measure their value based on the contract price which represents the respective value transferred to our customers, and we recognize revenue for such based on the relative value of batches delivered and those yet to be delivered. Deliveries are typically made every few months for one batch, depending on the product line involved and the complexity of the treatment plan, and each batch typically contains 10 sets of clear aligners, with adjustments depending on each specific case. However, from time to time, we may be requested to provide extra clear aligners for free based on modifications to the treatment plans. We thus adjust the value of each batch of clear aligners to be delivered based on the total unrecognized contract price of clear aligners and the revised estimated number of batches to be delivered. Our Directors confirm that there had been no significant changes in the judgements and estimations during the Track Record Period.

If a customer pays consideration or we have an unconditional right to consideration before we transfer goods or services to a customer, we record the contract as a contract liability when the payment is received or a receivable is recorded, whichever is earlier. A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer. A receivable is recorded when we have an unconditional right to consideration, i.e. if only the passage of time is required before payment of that consideration is due.

In addition to direct sales, we engaged distributors to deliver products and services to public hospitals and private dental clinics. These distributors possess the requisite business licenses and permits to sell medical devices in China and have established relationships with public hospitals and private dental clinics within their regions. Therefore, they are treated as the vendors of public hospitals and private dental clinics. In this case, we recognize revenue with the wholesale prices entered into with distributors and in accordance with the same principles as direct sales as discussed above.

Revenue from other services

Revenue from other services, including orthodontics and cosmetic dentistry services and other dental services to patients, is recognized over time in the accounting period in which the related services have been rendered.

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Share-based Payments

We operate a share incentive plan, under which we receive services from employees as consideration for our equity instruments. We recognize an expense at the fair value of employee services received in exchange for the grant of the equity instruments (including share options) and a corresponding increase in equity. The total amount of expense in terms of equity instruments awarded to employees is determined by reference to the fair value of the equity instruments granted, taking into consideration of the impact of market performance conditions and non-vesting conditions. Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognized over the vesting period, during which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, we revise our estimates of the number of equity instruments expected to vest based on the non-marketing performance and service conditions. We recognize the impact of such revisions to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. If employees provide services in advance of the grant date, the grant date fair value is estimated for the purposes of recognizing the expense during the period between the service commencement date and grant date.

The grant of equity instruments to the employees of our subsidiaries is treated as capital contribution. The fair value of employee services, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in subsidiaries, with a corresponding increase in the parent equity accounts.

We issue new shares upon the exercise of share options. The proceeds net of any directly attributable transaction costs are credited to share capital. Where there is any modification of the terms and conditions which increases the fair value of the equity instruments granted, we include such in the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. We recognize expense based on the incremental fair value over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period. If we modify the terms or conditions in a manner that reduces the total fair value of the share-based payment, or not otherwise beneficial to the employee, we shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

Leases

We recognize a right-of-use asset and a corresponding liability on the day when the leased asset is available for our use. Each lease payment is allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if such can be determined, which is generally the lessee's incremental borrowing rate.

Right-of-use assets are measured at cost, taking into consideration the amount of the initial measurement of lease liability, lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. Right-of-use assets are generally

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depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If we are reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Research and development

Research expenditures are recognized as an expense as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, which include the following: (1) it is technically feasible to complete the development project so that it will be available for use; (2) management intends to complete the development project and use or sell it; (3) there is an ability to use or sell the development project; (4) it can be demonstrated how the development project will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the development project are available; and (6) the expenditure attributable to the development project during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred. During the Track Record Period, all research and development expenditures were recognized in profit or loss as incurred.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth a summary of our consolidated statements of comprehensive income for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Revenue	488,483	100.0	645,898	100.0	816,528	100.0
Cost of revenue	(176,765)	(36.2)	(228,756)	(35.4)	(241,479)	(29.6)
Gross profit	311,718	63.8	417,142	64.6	575,049	70.4
Selling and marketing expenses . . .	(81,439)	(16.7)	(122,645)	(19.0)	(148,835)	(18.2)
Administrative expenses	(107,702)	(22.0)	(136,544)	(21.1)	(154,423)	(18.9)
Research and development expenses	(50,163)	(10.3)	(80,905)	(12.5)	(93,479)	(11.4)
Net impairment losses on financial assets	(3,684)	(0.8)	(2,512)	(0.4)	(10,148)	(1.2)
Other income	4,608	0.9	8,804	1.4	22,625	2.8
Other expenses	—	—	(2,000)	(0.3)	(6,000)	(0.7)
Other gains — net	1,933	0.4	2,851	0.4	3,096	0.4
Operating profit	75,271	15.4	84,191	13.0	187,885	23.0
Finance income	1,223	0.3	1,791	0.3	4,153	0.5
Finance costs	(1,354)	(0.3)	(1,142)	(0.2)	(1,154)	(0.1)
Finance (costs)/income net	(131)	(0.0)	649	0.1	2,999	0.4
Share of results of investments accounted for using the equity method	(363)	(0.1)	(348)	(0.1)	347	0.0
Profit before income tax	74,777	15.3	84,492	13.1	191,231	23.4
Income tax expense	(16,591)	(3.4)	(16,827)	(2.6)	(40,299)	(4.9)
Profit for the year	58,186	11.9	67,665	10.5	150,932	18.5
Other comprehensive income						
Currency translation differences . . .	89	0.0	396	0.1	(1,241)	(0.2)
Total comprehensive income for the year	58,275	11.9	68,061	10.5	149,691	18.3
Total comprehensive income for the year attributable to						
— Owners of the Company	59,823	12.2	69,231	10.7	149,681	18.3
— Non-controlling interests	(1,548)	(0.3)	(1,170)	(0.2)	10	0.0
	<u>58,275</u>	<u>11.9</u>	<u>68,061</u>	<u>10.5</u>	<u>149,691</u>	<u>18.3</u>
Non-IFRS Measures⁽¹⁾:						
Adjusted EBITDA	129,107	26.4	174,557	27.0	296,632	36.3
Adjusted net profit	92,134	18.9	130,006	20.1	227,209	27.8

(1) See “— Non-IFRS Measures.”

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NON-IFRS MEASURES

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted EBITDA and adjusted net profit as additional financial measures, which is not required by, or presented in accordance with IFRS. We believe that these non-IFRS measures facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management do not consider indicative of our operating performance, such as certain non-cash items and certain impact of investment transactions. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of these non-IFRS measures may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures have limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted EBITDA as EBITDA (which is profit before income tax plus interest expenses recorded as finance costs, depreciation of property, plant and equipment, depreciation of right-of-use assets, and amortization of intangible assets, less interest income recorded as finance income) for the year with adjustments of non-recurring or non-operating items, including share-based payments and listing expenses. We define adjusted net profit as profit for the year adjusted by non-recurring or non-operating items, including share-based payments and listing expenses. Share-based payments are non-operational expenses arising from granting restricted share units and options to senior management and employees. The decision to make grants is discretionary and does not form a sustained pattern of recurrence, and the amount of grants may not directly correlate with the underlying performance of our business operations. The following table reconciles our adjusted EBITDA and adjusted net profit for the year presented to the most directly comparable financial measure calculated and presented under IFRS.

	Year ended December 31,		
	2018	2019	2020
	(RMB in thousands)		
Profit for the year	58,186	67,665	150,932
<i>Add:</i>			
Income tax expenses	16,591	16,827	40,299
Profit before income tax	<u>74,777</u>	<u>84,492</u>	<u>191,231</u>
<i>Add:</i>			
Finance cost/(income) – net	131	(649)	(2,999)
Depreciation of property, plant and equipment . .	9,595	13,402	17,521
Depreciation of right-of-use assets	8,338	10,367	11,077
Amortization of intangible assets	2,318	4,604	3,525
EBITDA	<u>95,159</u>	<u>112,216</u>	<u>220,355</u>
<i>Add:</i>			
Share-based payments	23,438	61,677	66,319
Listing expenses	10,510	664	9,958
Adjusted EBITDA	<u><u>129,107</u></u>	<u><u>174,557</u></u>	<u><u>296,632</u></u>
Profit for the year	58,186	67,665	150,932
<i>Add:</i>			
Share-based payments	23,438	61,677	66,319
Listing expenses	10,510	664	9,958
Adjusted net profit	<u><u>92,134</u></u>	<u><u>130,006</u></u>	<u><u>227,209</u></u>

FINANCIAL INFORMATION

DESCRIPTION OF MAJOR PROFIT OR LOSS LINE ITEMS

Revenue

During the Track Record Period, we generated revenue primarily from the provision of clear aligner treatment solutions, and to a much lesser extent, from the provision of other services. The following table sets forth a breakdown of our revenue by business line, both in absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Clear aligner treatment solutions . . .	464,949	95.2	628,059	97.2	799,005	97.9
Other services	23,534	4.8	17,839	2.8	17,523	2.1
Total	488,483	100.0	645,898	100.0	816,528	100.0

We generated revenue of RMB464.9 million, RMB628.1 million and RMB799.0 million from the provision of clear aligner treatment solutions in 2018, 2019 and 2020, respectively, representing 95.2%, 97.2% and 97.9% of our total revenue in the same periods, respectively. During the Track Record Period, our revenue generated from the provision of clear aligner treatment solutions increased primarily due to the increases in the number of dental professionals we served with our Angelalign clear aligner system and case shipments.

Revenue generated from other services primarily represented service fees generated by our dental clinics for provision of orthodontics and cosmetic dentistry services and other dental services to patients. From a business planning perspective, we maintained a few dental clinics within our group as demonstration centers, primarily for the purpose of improving the accessibility of our medical services for dental professionals and providing them with regular in-the-field training in application of our solutions. We generated revenue of RMB23.5 million, RMB17.8 million and RMB17.5 million from other services in 2018, 2019 and 2020, respectively, representing 4.8%, 2.8% and 2.1% of our total revenue in the same periods, respectively.

FINANCIAL INFORMATION

Cost of revenue

Our cost of revenue primarily consisted of raw materials and consumables used, staff costs, production costs, depreciation and amortization expenses and delivery costs. The following table sets forth a breakdown of our cost of revenue by nature, both in absolute amount and as a percentage of total cost of revenue, for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Raw materials and consumables used	80,863	45.7	108,808	47.6	121,764	50.4
Staff costs	50,415	28.5	64,280	28.1	65,654	27.2
Production costs	12,705	7.2	22,234	9.7	8,335	3.5
Depreciation and amortization expenses	8,846	5.0	11,943	5.2	15,882	6.6
Delivery costs	7,201	4.1	10,710	4.7	13,133	5.4
Others ⁽¹⁾	16,735	9.5	10,781	4.7	16,711	6.9
Total	176,765	100.0	228,756	100.0	241,479	100.0

(1) Include primarily outsourcing expenses, tax and other surcharges, property management fees and labor insurance costs.

Raw materials and consumables used primarily consisted of purchase costs of raw materials and consumables used to manufacture our clear aligners, including composite polymer materials (in splint/sheet form) and other manufacturing materials. Staff costs primarily consisted of wages and salaries, pension, housing funds, medical insurances, social insurances and other welfare benefits for our medical design and manufacturing personnel. Production costs primarily consisted of leasing expenses for manufacturing equipment, such as 3D printers, and utilities costs incurred to produce clear aligners. Depreciation and amortization expenses primarily consisted of depreciation of our manufacturing equipment for clear aligners and right-of-use assets representing the land use rights for our manufacturing plants, and amortization of medical design software and manufacturing plants renovations. Delivery costs were primarily related to the delivery of clear aligners to corresponding dental professionals.

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The following table sets forth a breakdown of our cost of revenue by business line, both in absolute amount and as a percentage of total cost of revenue, for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Clear aligner treatment solutions	160,735	90.9	216,731	94.7	229,128	94.9
Other services	16,030	9.1	12,025	5.3	12,351	5.1
Total	<u>176,765</u>	<u>100.0</u>	<u>228,756</u>	<u>100.0</u>	<u>241,479</u>	<u>100.0</u>

Gross Profit and Gross Profit Margin

Our gross profit was RMB311.7 million, RMB417.1 million and RMB575.0 million in 2018, 2019 and 2020, respectively, representing a gross profit margin of 63.8%, 64.6% and 70.4% for the same periods, respectively.

The following table sets forth a breakdown of our gross profit and gross profit margin by business line for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB in thousands except for percentages)					
Clear aligner treatment solutions	304,214	65.4%	411,328	65.5%	569,877	71.3%
Other services	7,504	31.9%	5,814	32.6%	5,172	29.5%
Total	<u>311,718</u>	<u>63.8%</u>	<u>417,142</u>	<u>64.6%</u>	<u>575,049</u>	<u>70.4%</u>

Our gross profit margin for the provision of clear aligner treatment solutions continuously increased during the Track Record Period, primarily because we were able to optimize the cost structure of our clear aligner treatment solutions. Our gross profit margin for the provision of other services decreased during the Track Record Period, primarily due to the impact of COVID-19 pandemic in 2020.

FINANCIAL INFORMATION

Selling and Marketing Expenses

Our selling and marketing expenses primarily consisted of staff costs, advertising and promotion expenses, travelling and entertainment expenses, training expenses, and depreciation and amortization expenses. The following table sets forth a breakdown of our selling and marketing expenses, both in absolute amount and as a percentage of total selling and marketing expenses, for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Staff costs	27,264	33.5	57,994	47.3	79,185	53.2
Advertising and promotion expenses	34,809	42.7	38,905	31.7	43,644	29.3
Travelling and entertainment expenses	11,153	13.7	11,637	9.5	9,486	6.4
Training expenses	2,563	3.1	5,548	4.5	5,300	3.6
Depreciation and amortization expenses	1,100	1.4	2,086	1.7	1,500	1.0
Others ⁽¹⁾	4,550	5.6	6,475	5.3	9,720	6.5
Total	<u>81,439</u>	<u>100.0</u>	<u>122,645</u>	<u>100.0</u>	<u>148,835</u>	<u>100.0</u>

(1) Include primarily professional service fees, conference expenses and transportation expenses.

Staff costs primarily consisted of wages and salaries, pension, housing funds, medical insurances, social insurances and other welfare benefits for our sales and marketing personnel. Advertising and promotion expenses primarily consisted of expenses incurred in relation to our *A-tech Forum* and the service fees and materials and delivery costs incurred by our branding and marketing activities. Travelling and entertainment expenses primarily consisted of the travelling and entertainment expenses incurred by our selling and marketing personnel. Training expenses primarily represented the costs we incurred in providing training to dental professionals with respect to the use of our clear aligner treatment solutions. Depreciation and amortization expenses were primarily related to the depreciation of equipment for sales and marketing purposes and right-of-use assets representing office premises of our selling and marketing department, and the amortization of software and renovations with respect to sales and marketing activities.

FINANCIAL INFORMATION

Administrative Expenses

Our administrative expenses primarily consisted of staff costs, share-based payments, listing expenses, professional services fees, depreciation and amortization expenses and travelling and entertainment expenses. The following table sets forth a breakdown of our administrative expenses, both in absolute amount and as a percentage of total administrative expenses, for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Staff costs (excluding share-based payments)	32,106	29.8	33,773	24.7	38,816	25.1
Share-based payments	23,438	21.8	61,677	45.2	66,319	42.9
Listing expenses	10,510	9.8	664	0.5	9,958	6.4
Professional services and consulting fees	15,329	14.2	14,874	10.9	11,486	7.4
Depreciation and amortization expenses	8,188	7.6	9,602	7.0	10,766	7.0
Travelling and entertainment expenses	6,245	5.8	4,432	3.2	1,822	1.2
Others ⁽¹⁾	11,886	11.0	11,522	8.5	15,256	10.0
Total	<u>107,702</u>	<u>100.0</u>	<u>136,544</u>	<u>100.0</u>	<u>154,423</u>	<u>100.0</u>

(1) Include primarily office expenses, recruiting expenses, property management fees, disability benefits and business insurance expenses.

Staff costs primarily consisted of wages and salaries, pension, housing funds, medical insurances, social insurances and other welfare benefits for our administrative personnel and management personnel. Share-based payments were related to the grant of equity instrument to our employees under our share incentive plan during the Track Record Period. Listing expenses represented the expenses incurred in connection with our preparation for the Global Offering, including our previous listing initiatives in preparation for the Global Offering, which commenced in 2018. Professional services fees primarily consisted of consulting fees, auditing fees and legal fees. Depreciation and amortization expenses primarily consisted of the depreciation of our office facilities and right-of-use assets representing office premises of our administrative and management departments, and the amortization of software and renovations with respect to administrative and management activities. Travelling and entertainment expenses primarily consisted of the travelling and entertainment expenses incurred by our administrative personnel.

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Research and Development Expenses

Our research and development expenses primarily consisted of staff costs, technical service fees and depreciation and amortization expenses. The following table sets forth a breakdown of our research and development expenses, both in absolute amount and as a percentage of total research and development expenses, for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Staff costs	41,078	81.9	66,633	82.4	77,485	82.9
Technical service fees	5,117	10.2	5,973	7.4	8,523	9.1
Depreciation and amortization expenses	2,117	4.2	4,742	5.9	3,975	4.3
Others ⁽¹⁾	1,851	3.7	3,557	4.3	3,496	3.7
Total	50,163	100.0	80,905	100.0	93,479	100.0

(1) Include primarily travelling and entertainment expenses, utilities expenses, delivery costs and costs of raw materials and other consumables.

Staff costs primarily consisted of wages and salaries, pension, housing funds, medical insurances, social insurances and other welfare benefits for our research and development personnel. Technical service fees primarily consisted of consulting service fees, technology development fees and testing fees incurred for our research and development initiatives. Depreciation and amortization expenses primarily consisted of the depreciation of our research and development equipment and facilities and right-of-use assets representing office premises of our research development department, and the amortization of our research and development software.

Net Impairment Losses on Financial Assets

Net impairment losses on financial assets primarily consisted of loss allowance provision for trade receivables and other receivables. We recorded net impairment losses on financial assets of RMB3.7 million, RMB2.5 million and RMB10.1 million in 2018, 2019 and 2020, respectively.

Other Income

Other income consisted of government grants. We had other income of RMB4.6 million, RMB8.8 million and RMB22.6 million in 2018, 2019 and 2020, respectively. Our governmental grants primarily consisted of subsidies and incentives we received from local government authorities. Such subsidies and incentives from local government authorities may fluctuate from time to time pursuant to the changes in relevant government policies. There are no unfulfilled conditions or contingencies relating to these governmental grants.

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Other Expenses

Other expenses consisted of donations. We recorded other expenses of nil, RMB2.0 million and RMB6.0 million in 2018, 2019 and 2020, respectively.

Other Gains — net

Other gains — net primarily consisted of investment return from wealth management products, losses on disposal of property, plant and equipment, and net foreign exchange gains or losses. We recorded other gains — net of RMB1.9 million, RMB2.9 million and RMB3.1 million in 2018, 2019 and 2020, respectively. The following table sets forth a breakdown of our other gains — net for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Realized fair value gain of wealth management products	2,322	120.1	2,512	88.1	4,235	136.8
Net foreign exchange gains/(losses)	429	22.2	161	5.6	(1,044)	(33.7)
Losses on disposal of intangible assets	(44)	(2.3)	—	—	—	—
Losses on disposals of property, plant and equipment	(728)	(37.7)	(218)	(7.6)	(265)	(8.6)
Losses on disposal of a subsidiary	—	—	(81)	(2.8)	—	—
Gains on early termination of lease contracts	—	—	57	2.0	10	0.3
Others	(46)	(2.4)	420	14.7	160	5.2
Total	<u>1,933</u>	<u>100.0</u>	<u>2,851</u>	<u>100.0</u>	<u>3,096</u>	<u>100.0</u>

Finance Income

Finance income primarily consisted of our interest income on bank deposits. We also generated interest income derived from loans to third parties in 2018. As advised by our PRC legal advisors, our loan agreements with such third parties do not violate any mandatory stipulation of PRC laws and regulations and are valid according to the Private Lending Cases Provisions and the Civil Code of the PRC, although they do not fall under the permitted scope of the General Lending Provisions which, as department rules of the People's Bank of China, shall be overrode by PRC laws and regulations. We recorded finance income of RMB1.2 million, RMB1.8 million and RMB4.2 million in 2018, 2019 and 2020, respectively.

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Finance Costs

Finance costs consisted of our interest expense on leasing liabilities and amounts due to related parties. The following table sets forth our finance costs for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Interest expense on leasing liabilities	780	57.6	1,123	98.3	1,135	98.4
Interest expense on amounts due to related parties	574	42.4	19	1.7	19	1.6
Total	<u>1,354</u>	<u>100.0</u>	<u>1,142</u>	<u>100.0</u>	<u>1,154</u>	<u>100.0</u>

Share of Results of Investments Accounted for Using the Equity Method

Share of results of investments accounted for using the equity method primarily consisted of the share of results of the joint ventures and associate that we invested in. We recorded a share of loss of investments accounted for using the equity method of RMB0.4 million and RMB0.3 million in 2018 and 2019, respectively, and a share of profit of RMB0.3 million in 2020.

Income Tax Expense

We incurred income tax expense of RMB16.6 million, RMB16.8 million and RMB40.3 million in 2018, 2019 and 2020, respectively, representing an effective tax rate of 22.2%, 19.9% and 21.1%, respectively. Our effective income tax rate is calculated by dividing income tax expense by profit before income tax. Our effective tax rates during the Track Record Period were below the 25% statutory rate, primarily due to (1) preferential income tax rates applicable to our certain subsidiaries, and (2) super deduction for research and development expenditure.

Our Company was incorporated in Cayman Islands as an exempted company with limited liability under the Cayman Companies Act and accordingly is not subject to income tax. Our subsidiary incorporated in Hong Kong is subject to the Hong Kong profits tax rate at 16.5%.

Pursuant to the EIT Law and related regulations, enterprises which operate in China are generally subject to enterprise income tax at a rate of 25% on the taxable profit. Enterprises recognized as a “high and new technology enterprise” (“HNTE”) are entitled to a preferential tax rate of 15% for three years as long as the HNTE status is valid, and qualifying entities may re-apply for an additional three years provided that their business operations continue to qualify for the HNTE status. Our subsidiary, Wuxi EA, was recognized as a “high and new technology enterprise” (“HNTE”) in 2017, and successfully renewed the HNTE status in 2020. As a result, Wuxi EA was subject to a preferential tax rate of 15% during the Track Record Period. In addition, our subsidiary, Shanghai EA, was recognized as an HNTE in 2019 and enjoyed a preferential tax rate of 15% in 2019 and 2020.

In addition, pursuant to the EIT Law and the related rules, enterprises are allowed to claim an additional deduction of 50% of research and development expenses incurred for the development of new technologies, new products and new craftsmanship from 2008. Pursuant to Caishui [2018] No. 99 (财税[2018]99號), an extra 75% of the actual amount of research and development expenses can be deducted before tax.

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No provision for German company income tax or the United States corporate income tax has been made during the Track Record Period, as we do not have any assessable income subject to German company income tax or the United States corporate income tax during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, we had paid all relevant taxes when due and there are no matters in dispute or unresolved with the relevant tax authorities.

Profit for the Year

As a result of the foregoing, we recorded net profit of RMB58.2 million, RMB67.7 million and RMB150.9 million in 2018, 2019 and 2020, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Our revenue increased by 26.4% from RMB645.9 million in 2019 to RMB816.5 million in 2020 for the following reasons.

- *Clear aligner treatment solutions.* Our revenue generated from the provision of clear aligner treatment solutions increased by 27.2% from RMB628.1 million in 2019 to RMB799.0 million in 2020, primarily due to (1) the increase in the case shipments from approximately 120,100 in 2019 to approximately 137,600 in 2020 as our clear aligner treatment solutions appealed to an increasing number of dental professionals, and (2) the increase in the case shipments in prior periods as a portion of the revenue attributable to such cases was recognized at a later stage along with the subsequent delivery of clear aligners for those cases.
- *Other services.* Our revenue generated from other services decreased by 1.8% from RMB17.8 million in 2019 to RMB17.5 million in 2020, primarily due to the impact of COVID-19 outbreak in early 2020, which temporarily affected the business operations of the dental clinics.

Cost of revenue

Our cost of revenue increased by 5.6% from RMB228.8 million in 2019 to RMB241.5 million in 2020, primarily due to the increased number of malocclusion cases we help addressed with our clear aligner treatment solutions.

- *Clear aligner treatment solutions.* Our cost of revenue related to the provision of clear aligner treatment solutions increased by 5.7% from RMB216.7 million in 2019 to RMB229.1 million in 2020, primarily due to the increases in the cost of raw materials and consumables used, depreciation and amortization expenses and delivery costs in line with the increase in the number of malocclusion cases we help addressed with our solutions, partially offset by the decrease in production costs representing the lowered unit lease expense of our 3D printers.
- *Other services.* Our cost of revenue related to the provision of other services remained relatively stable at RMB12.1 million and RMB12.4 million in 2019 and 2020, respectively.

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Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 37.9% from RMB417.1 million in 2019 to RMB575.0 million in 2020, and the corresponding gross profit margin increased from 64.6% to 70.4%.

- *Clear aligner treatment solutions.* Our gross profit margin for clear aligner treatment solutions increased from 65.5% in 2019 to 71.3% in 2020, primarily due to (1) the decrease in production costs representing the lowered unit lease cost of our 3D printers, and (2) the optimization of our cost structure in relation to clear aligner production, in particular the relative savings in our raw materials and consumables used and manufacturing-related staff costs compared to our production growth as a result of economies of scale and the adoption of automated production lines. In particular, as a result of our enhanced market position in the clear aligner industry and the corresponding increase of our bargaining power with the relevant supplier, our lease costs of 3D printers decreased from RMB20.2 million in 2019 to RMB5.9 million in 2020, despite the increase in the number of clear aligners we manufactured for our increased case shipments. During the Track Record Period, we engaged Supplier B as our 3D printer supplier. See “Business — Our Suppliers — 3D Printers” for details.
- *Other services.* Our gross profit margin for other services decreased from 32.6% in 2019 to 29.5% in 2020, primarily because our costs of other services, which primarily consisted of staff costs, remained relatively stable despite the decrease of revenue from other services due to the impact of COVID-19 outbreak.

Selling and marketing expenses

Our selling and marketing expenses increased by 21.4% from RMB122.6 million in 2019 to RMB148.8 million in 2020, primarily due to the increases in (1) staff costs as a result of increased headcount and level of compensation to our sales and marketing personnel, (2) advertising and promotion expenses as a result of the increased spending on *A-Tech Forum*, and (3) professional service fees as a result of increased market research activities. Our selling and marketing expenses as a percentage of our total revenue decreased from 19.0% in 2019 to 18.2% in 2020.

Administrative expenses

Our administrative expenses increased by 13.1% from RMB136.5 million in 2019 to RMB154.4 million in 2020, primarily due to the increases in (1) listing expenses in connection with our preparation for the Global Offerings, (2) salaries and wages incurred for our administrative personnel as we increased the headcount and level of compensation, and (3) share-based payments, partially offset by the decreases in (1) our contribution of social insurance premiums according to relevant government relief policies during the COVID-19 outbreak, and (2) company events expenditures, including travelling and entertainment expenses and professional service fees as result of COVID-19 impact. As a result, our administrative expenses as a percentage of our total revenue decreased from 21.1% in 2019 to 18.9% in 2020.

Research and development expenses

Our research and development expenses increased by 15.5% from RMB80.9 million in 2019 to RMB93.5 million in 2020, primarily due to the increases in (1) staff costs incurred for our research and development personnel as we increased their level of compensation, and (2) technical services fees incurred for our research and development initiatives. Our research and development expenses as a percentage of our total revenue decreased from 12.5% in 2019 to 11.4% in 2020, primarily because our revenue growth outpaced the increase in our research and development expenses.

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Net impairment losses on financial assets

Our net impairment losses on financial assets increased significantly from RMB2.5 million in 2019 to RMB10.1 million in 2020, primarily due to the increase in loss allowance provision for trade and other receivables.

Other income

Our other income increased significantly from RMB8.8 million in 2019 to RMB22.6 million in 2020, primarily due to the increases in government grants we received from multiple local government authorities, which primarily consisted of (1) subsidies for our intensive research and development activities, (2) increased tax refund in line with the significant increase in our net profit, and (3) other incentives and awards in recognition of our business performance and market leadership.

Other expense

We made a donation of RMB2.0 million and RMB6.0 million to China Oral Health Foundation in 2019 and 2020, respectively.

Other gains — net

We had other gains — net of RMB2.9 million and RMB3.1 million in 2019 and 2020, respectively, primarily due to the increase in the realized fair value gain of wealth management products, partially offset by the net foreign exchange losses.

Finance income

Our finance income increased significantly from RMB1.8 million in 2019 to RMB4.2 million in 2020, primarily due to the increase in the amount of interest income on our bank deposits.

Finance costs

Our finance costs remained relatively stable at RMB1.1 million and RMB1.2 million in 2019 and 2020, respectively, which mainly consisted of interest expense on leasing liabilities.

Share of results of investments accounted for using the equity method

We had a share of loss of investment accounted for using the equity method of RMB0.3 million in 2019 and a share of profit of investment accounted for using the equity method of approximately RMB0.3 million in 2020.

Income tax expense

Our income tax expense increased significantly from RMB16.8 million in 2019 to RMB40.3 million in 2020, primarily due to the increases in our profit before income tax, partially offset by the increased deductibles as a result of preferential income tax rates applicable to certain subsidiaries.

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Profit for the year

As a result of the above, our net profit increased significantly from RMB67.7 million in 2019 to RMB150.9 million in 2020. Our net profit margin increased from 10.5% in 2019 to 18.5% in 2020.

Adjusted net profit for the year

We used adjusted net profit, a non-IFRS measure, to supplement our consolidated financial statements. We recognized adjusted net profit of RMB130.0 million and RMB227.2 million in 2019 and 2020, respectively, representing an adjusted net profit margin of 20.1% and 27.8%, respectively. See “— Non-IFRS Measures” for a reconciliation of our profit for the year to our adjusted net profit.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenue

Our revenue increased by 32.2% from RMB488.5 million in 2018 to RMB645.9 million in 2019 for the following reasons.

- *Clear aligner treatment solutions.* Our revenue generated from the provision of clear aligner treatment solutions increased by 35.1% from RMB464.9 million in 2018 to RMB628.1 million in 2019, primarily due to the increase in the case shipments from approximately 77,700 in 2018 to approximately 120,100 in 2019 as our clear aligner treatment solutions appealed to an increasing number of dental professionals.
- *Other services.* Our revenue generated from other services decreased by 24.2% from RMB23.5 million in 2018 to RMB17.8 million in 2019, primarily because we relinquished control over Shanghai Junxiao in 2019, and our remaining interest in Shanghai Junxiao has been reclassified to investment accounted for using the equity method. See “Our History and Corporate Development — Our Reorganization.”

As a percentage of our total revenue, our revenue generated from the provision of clear aligner treatment solutions increased from 95.2% in 2018 to 97.2% in 2019, and our revenue generated from other services decreased from 4.8% in 2018 to 2.8% in 2019, primarily due to the reasons discussed above.

Cost of revenue

Our cost of revenue increased by 29.4% from RMB176.8 million in 2018 to RMB228.8 million in 2019, primarily due to the increased demand of our clear aligner treatment solutions and the corresponding increase in the related cost. As a percentage of revenue, our cost of revenue remained relatively stable at 36.2% in 2018 and 35.4% in 2019.

- *Clear aligner treatment solutions.* Our cost of revenue related to the provision of clear aligner treatment solutions increased by 34.8% from RMB160.7 million in 2018 to RMB216.7 million in 2019, primarily due to the increases in our costs of raw material and consumables used, staff costs, production costs and delivery costs in line with our increased case shipments.
- *Other services.* Our cost of revenue related to the provision of other services decreased by 25.0% from RMB16.0 million in 2018 to RMB12.0 million in 2019, primarily because we relinquished control over Shanghai Junxiao in 2019.

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Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 33.8% from RMB311.7 million in 2018 to RMB417.1 million in 2019, and our gross profit margin increased from 63.8% in 2018 to 64.6% in 2019.

- *Clear aligner treatment solutions.* Our gross profit margin for clear aligner treatment solutions remained relatively stable and high at 65.4% in 2018 and 65.5% in 2019.
- *Other services.* Our gross profit margin for other services remained relatively stable at 31.9% in 2018 and 32.6% in 2019.

Selling and marketing expenses

Our selling and marketing expenses increased by 50.6% from RMB81.4 million in 2018 to RMB122.6 million in 2019, primarily due to the increases in (1) staff costs as a result of increased headcount and level of compensation to our sales and marketing personnel, (2) advertising and promotion expenses driven by our enhanced efforts to increase our brand recognition and expand our business, and (3) training expenses in line with the increased number of dental professionals utilizing our solutions. As a result, our selling and marketing expenses as a percentage of our total revenue increased from 16.7% in 2018 to 19.0% in 2019.

Administrative expenses

Our administrative expenses increased by 26.8% from RMB107.7 million in 2018 to RMB136.5 million in 2019, primarily due to the increase in share-based payments, partially offset by the decreases in the portion of listing expenses recognized in 2019 as more listing-related activities had occurred in 2018 compared with those in 2019 due to our listing schedule and business planning. Our administrative expenses as a percentage of our total revenue decreased from 22.0% in 2018 to 21.1% in 2019, primarily because our revenue growth outpaced the increase in our administrative expenses.

Research and development expenses

Our research and development expenses increased by 61.3% from RMB50.2 million in 2018 to RMB80.9 million in 2019, primarily due to the increase in staff costs for our research and development personnel as we increased headcount and level of compensation to strengthen our research and development capabilities. As a result, our research and development expenses as a percentage of our total revenue increased from 10.3% in 2018 to 12.5% in 2019.

Net impairment losses on financial assets

Our net impairment losses on financial assets decreased by 31.8% from RMB3.7 million in 2018 to RMB2.5 million in 2019, primarily due to the decrease in loss allowance provision for trade and other receivables as we enhanced our management and collection efforts for trade receivables in 2019.

Other income

Our other income increased by 91.1% from RMB4.6 million in 2018 to RMB8.8 million in 2019, primarily due to the increases in subsidies and incentives we received from local government authorities.

Other expense

We made a donation of RMB2.0 million to China Oral Health Foundation in 2019. We did not incur donation expense in 2018.

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Other gains — net

Our other gains — net increased from RMB1.9 million in 2018 to RMB2.9 million in 2019, primarily due to the increase in investment return from wealth management products and the decrease in losses on disposals of property, plant and equipment.

Finance income

Our finance income increased by 46.4% from RMB1.2 million in 2018 to RMB1.8 million in 2019, primarily due to the increase in the amount of interest income on our bank deposits.

Finance costs

Our finance costs decreased by 15.7% from RMB1.4 million in 2018 to RMB1.1 million in 2019, primarily due to the decrease in the amount of interest expense on amounts due to related parties, partially offset by the increase in our interest expense on leasing liabilities.

Share of results of investments accounted for using the equity method

We had a share of losses of investment accounted for using the equity method of RMB0.3 million in 2019, compared with a share of losses of investment accounted for using the equity method of RMB0.4 million in 2018, primarily because we started to recognize share of results of our investment in Shanghai Junxiao using the equity method in 2019 and Shanghai Junxiao recognized modest profit in 2019.

Income tax expense

Our income tax expense remained relatively stable at RMB16.6 million and RMB16.8 million in 2018 and 2019, respectively, despite the increase of our taxable income from 2018 to 2019, primarily due to the increase in super deduction for research and development expenditure and the application of a preferential tax rate to certain subsidiaries in 2019.

Profit for the year

As a result of the foregoing, our profit increased by 16.3% from RMB58.2 million in 2018 to RMB67.7 million in 2019. Our net profit margin was 11.9% and 10.5% in 2018 and 2019, respectively.

Adjusted net profit for the year

We used adjusted net profit, a non-IFRS measure, to supplement our consolidated financial statements. We recognized adjusted net profit of RMB92.1 million and RMB130.0 million in 2018 and 2019, respectively, representing an adjusted net profit margin of 18.9% and 20.1%, respectively. See “— Non-IFRS Measures” for a reconciliation of our profit for the year to our adjusted net profit.

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DISCUSSION OF MAJOR BALANCE SHEET ITEMS

The following table sets forth details of our summary consolidated statements of financial position as of the dates indicated.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
ASSETS			
Non-current assets			
Property, plant and equipment	55,046	84,338	105,299
Right-of-use assets	16,432	80,795	70,759
Intangible assets	13,692	9,330	6,188
Investment accounted for using the equity method	3,438	13,681	13,848
Prepayments for non-current assets	6,578	1,691	764
Deferred income tax assets	4,501	7,379	9,573
Total non-current assets	99,687	197,214	206,431
Current assets			
Inventories	21,663	22,827	19,914
Trade and other receivables	107,423	97,816	101,693
Amounts due from related parties	27,712	30,235	4,523
Cash and cash equivalents	216,015	504,697	877,578
Total current assets	372,813	655,575	1,003,708
Total assets	472,500	852,789	1,210,139
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital and premium	—	—	486,669
Shares held for employee share scheme	(54,994)	(54,994)	(29,529)
Other reserves	240,034	307,823	(22,135)
(Accumulated losses)/retained earnings	(18,530)	44,589	66,698
Non-controlling interests	(2,958)	(4,039)	(4,029)
Total equity	163,552	293,379	497,674
Liabilities			
Non-current liabilities			
Amounts due to related parties	4,415	4,415	—
Contract liabilities	45,856	65,445	18,924
Lease liabilities	8,838	13,353	5,543
Deferred income	683	5,124	6,280
Deferred income tax liabilities	—	—	6,000
Total non-current liabilities	59,792	88,337	36,747
Current liabilities			
Trade and other payables	128,650	205,881	238,587
Amounts due to related parties	1,775	1,876	5,940
Contract liabilities	109,151	238,898	399,692
Current income tax liabilities	1,503	14,496	22,274
Lease liabilities	7,995	9,517	8,625
Deferred income	82	405	600
Total current liabilities	249,156	471,073	675,718
Total liabilities	308,948	559,410	712,465
Total equity and liabilities	472,500	852,789	1,210,139

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Property, Plant and Equipment

Our property, plant and equipment consisted of plant and machinery, transportation equipment, furniture, fixtures and equipment, leasehold improvements, construction in progress and buildings. We had property, plant and equipment of RMB55.0 million, RMB84.3 million and RMB105.3 million as of December 31, 2018, 2019 and 2020, respectively. The following table sets forth the components of our property and equipment as of the dates indicated.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Plant and machinery	30,297	47,295	50,292
Transportation equipment	1,206	959	635
Furniture, fixtures and equipment	1,807	4,347	4,146
Leasehold improvements	13,911	24,536	20,308
Construction in progress	6,035	943	23,966
Buildings	1,790	6,258	5,952
Total	55,046	84,338	105,299

Our property, plant and equipment increased from RMB55.0 million as of December 31, 2018 to RMB84.3 million as of December 31, 2019, primarily due to (1) addition to our plant and machinery and buildings to enhance our production capacity and (2) increases in leasehold improvements and plant and machinery as we transferred our construction in progress upon completion, partially offset by depreciation expenses. Our property, plant and equipment further increased to RMB105.3 million as of December 31, 2020, primarily due to addition to our plant and machinery and construction in progress, partially offset by depreciation expenses.

Right-of-use Assets

Our right-of-use assets primarily consisted of office premises and land use rights. Our right-of-use assets increased from RMB16.4 million as of December 31, 2018 to RMB80.8 million as of December 31, 2019, primarily due to the acquisition of new land use rights in Wuxi City in 2019. Our right-of-use assets decreased to RMB70.8 million as of December 31, 2020, primarily due to the depreciation of our office premises.

Intangible Assets

Our intangible assets consisted of software, patents, goodwill and others which primarily represented compensation for clause prohibition of competition. Under the relevant contract clause, a supplier undertook to provide certain materials to us on an exclusive basis in the designated regions and compensate us for a breach of contract. We thus obtained a contractual right to such compensatory damages, which was recognized as intangible asset. Our intangible assets decreased from RMB13.7 million as of December 31, 2018 to RMB9.3 million as of December 31, 2019, and further to RMB6.2 million as of December 31, 2020, primarily due to the amortization on our software and compensation for clause prohibition of competition.

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Inventories

Our inventories consisted primarily of raw materials, and to a much lesser extent, work in progress and finished goods. We had inventories of RMB21.7 million, RMB22.8 million and RMB19.9 million as of December 31, 2018, 2019 and 2020, respectively. The following table sets forth our inventories as of the date indicated.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Raw materials	20,962	19,376	17,772
Work in progress	499	617	755
Finished goods	202	2,834	1,387
Total	21,663	22,827	19,914

Our inventories level increased from RMB21.7 million as of December 31, 2018 to RMB22.8 million as of December 31, 2019, primarily due to the increase in finished goods that had not been shipped yet as at year end resulting from our delivery schedule. Our inventories decreased to RMB19.9 million as of December 31, 2020, primarily due to the decreases in (1) the inventory of raw materials reflecting the monthly fluctuations in our procurements, and (2) the unit price of major raw materials in 2020.

The following table sets forth the number of our inventory turnover days for the periods indicated.

	Year ended December 31,		
	2018	2019	2020
Inventory turnover days ⁽¹⁾	33	35	32

(1) Inventory turnover days was calculated based on the average of opening and closing inventory balance for the relevant year, divided by the cost of revenue for the same year, and multiplied by the 365 days.

Our inventory turnover days remained relatively stable at 33 days, 35 days and 32 days in 2018, 2019 and 2020, respectively. We have continuously enhanced our inventory control measures.

As of April 30, 2021, approximately RMB19.5 million, or 98.0%, of our inventories as of December 31, 2020 had been delivered or consumed.

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Trade and Other Receivables

During the Track Record Period, our trade and other receivables primarily consisted of trade receivables from third parties and prepayments to suppliers. The following table sets forth the details of our trade and other receivables as of the dates indicated.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Trade receivables	79,382	73,692	88,747
Less: allowance for impairment of trade receivables	(5,696)	(8,203)	(18,344)
Other receivables ⁽¹⁾	11,822	8,799	5,658
Less: allowance for impairment of other receivables	(110)	(78)	(85)
Prepayments for taxes	7,120	9,605	3,169
Prepayments to suppliers	11,402	10,276	15,624
Prepayments for listing expenses	3,503	3,725	6,924
Total	<u>107,423</u>	<u>97,816</u>	<u>101,693</u>

(1) Other receivables primarily consisted of deposits receivables and deductible input value-added tax.

Our trade and other receivables decreased from RMB107.4 million as of December 31, 2018 to RMB97.8 million as of December 31, 2019, primarily due to the decrease in trade receivables as we enhanced our collection efforts and adjusted the payment terms with certain of our customers. Our trade and other receivables increased to RMB101.7 million as of December 31, 2020, primarily due to the increases in (1) prepayments to certain suppliers, (2) trade receivables in line with our business growth, and (3) prepayments for listing expenses in connection with our preparation for the Global Offering.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated presented based on invoice date.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Within 60 days	14,719	23,562	26,703
61 to 180 days	17,066	19,887	17,341
181 to 365 days	36,678	9,946	12,214
One to two years	5,136	13,001	16,004
Two to three years	4,205	2,710	10,666
Over three years	1,578	4,586	5,819
Total	<u>79,382</u>	<u>73,692</u>	<u>88,747</u>

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The following table sets forth the aging analysis of our trade receivables due from each customer type as of the dates indicated based on invoice date.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Direct Sales			
Private clinics			
Within 60 days	11,268	10,900	14,266
61 to 180 days	11,985	9,107	10,816
181 to 365 days	24,422	4,934	4,679
One to two years	2,084	5,394	9,671
Two to three years	2,746	652	4,397
Over three years	761	2,665	2,205
Subtotal	<u>53,266</u>	<u>33,652</u>	<u>46,034</u>
Public hospitals			
Within 60 days	1,477	3,557	3,982
61 to 180 days	2,572	3,925	1,495
181 to 365 days	10,798	3,299	1,719
One to two years	3,052	7,429	6,033
Two to three years	1,458	2,058	6,133
Over three years	817	1,921	3,614
Subtotal	<u>20,174</u>	<u>22,189</u>	<u>22,976</u>
Sales to Distributors			
Within 60 days	1,974	9,106	8,456
61 to 180 days	2,510	6,854	5,030
181 to 365 days	1,458	1,714	5,816
One to two years	–	177	299
Two to three years	–	–	136
Subtotal	<u>5,942</u>	<u>17,851</u>	<u>19,737</u>
Total	<u><u>79,382</u></u>	<u><u>73,692</u></u>	<u><u>88,747</u></u>

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Trade receivables mainly arise from provision of our clear aligner treatment solutions. During the Track Record Period, we generally received advances prior to the rendering of our services or sales, while we usually granted some customers, primarily certain hospitals, dental clinics and distributors, a credit period ranging from 30 to 60 days. We generally provided a longer credit period to credible public hospitals, as the internal procedures of public hospitals regarding decision making and approval, and reconciliation and settlement typically take a longer period of time and thus would affect our collection of trade receivables attributable to them. Despite that, we consider that the impairment risks of trade receivables due from these credible public hospitals are relatively low considering their nature. In addition, we selectively provided a longer credit period to certain reputable, large-scale private clinics to strengthen our cooperative relations with them and increase our market share. We believe that such arrangements were negotiated on an arm's length basis and were commercially reasonable, and were for the benefit and in the interests of our Company. In comparison, we usually implemented a manufacture-upon-payment policy to private entities with which we cooperated for the first time. We may grant credit periods to other private entities on a case-by-case basis, depending on factors such as their relative bargaining power and market position in the industry. We plan to closely monitor our trade receivables and enhance our collection efforts in the future. We believe we will be more successful in such efforts in the future as we expand the scale of our business and improve our bargaining power.

We recorded trade receivables aged over 60 days of RMB64.7 million, RMB50.1 million and RMB62.0 million as of December 31, 2018, 2019 and 2020, respectively, which, as a percentage of our revenue from the provision of clear aligner treatment solutions, decreased from 13.9% to 8.0%, and further to 7.8%. Trade receivables aged over 60 days primarily consisted of trade receivables due from credible public hospitals and reputable, large-scale private clinics, as we granted them a longer credit period as discussed above.

Specifically, trade receivables aged over 60 days due from public hospitals remained relatively stable at RMB18.7 million, RMB18.6 million and RMB19.0 million as of December 31, 2018, 2019 and 2020, respectively. As discussed above, it usually takes a longer period for public hospitals to review, approve and settlement payments with all kinds of suppliers. Despite that, we consider that the risks associated with the recoverability of such trade receivables are relatively low, considering the credibility of public hospitals and their funding sources.

Trade receivables aged over 60 days due from private clinics decreased by 45.8% from RMB42.0 million as of December 31, 2018 to RMB22.8 million as of December 31, 2019, primarily due to our enhanced management measures and collection efforts for trade receivables. Trade receivables aged over 60 days due from private clinics increased by 39.6% from RMB22.8 million as of December 31, 2019 to RMB31.8 million as of December 31, 2020, primarily because we extended the credit period for certain reputable, large-scale private clinics amid the COVID-19 outbreak based on our assessment of associated risks and taking into account their operating status. We believe that such arrangement would enable us to foster long-term cooperation relationship with them. As those private clinics have gradually resumed normal operations and business growth, we will enhance our collection efforts of these trade receivables. Based on the credibility of these private clinics and our historical cooperation relation with them, we believe that the risks associated with the recoverability of such trade receivables are relatively low. Furthermore, we had a relatively low trade receivable concentration ratio with respect to private clinics. For example, two out of the five top customers, in terms of trade receivables outstanding as of December 31, 2020, were private clinics, which accounted for approximately 4.0% and 3.3% of our total trade receivables as of the same date, respectively. As a result, we believe that our risk exposure is limited.

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Trade receivables aged over 60 days due from distributors increased from RMB4.0 million as of December 31, 2018 to RMB8.7 million as of December 31, 2019, and further to RMB11.3 million as of December 31, 2020, which was in line with the increased revenue contribution of sales to distributors. In 2018, 2019 and 2020, we generated 11.0%, 29.9% and 33.6% of our total revenue from sales to distributors, respectively. Trade receivables aged over 60 days due from distributors, as a percentage of revenue generated from the provision of clear aligner treatment solutions through distributors, decreased from 7.7% to 4.7%, and further to 4.2%. In addition, we conduct credit assessment while selecting our distributors, and we collect deposits from our distributors. As such, we believe that the risks associated with the recoverability of such trade receivables are relatively low.

As of December 31, 2018, 2019 and 2020, we recorded allowance for impairment of trade receivables of RMB5.7 million, RMB8.2 million and RMB18.3 million, respectively. In particular, the significant increase in allowance for impairment of trade receivables from December 31, 2019 to December 31, 2020 was primarily attributable to public hospitals and private dental clinics. Considering (1) the more stringent quarantine measures adopted by public hospitals and accordingly, the prolonged suspension of non-emergent dental care services by public hospitals during the COVID-19 outbreak, and (2) the closures of private clinics and their extended settlement procedures during the COVID-19 outbreak, we increased the allowance for impairment of trade receivables primarily due from public hospitals and private clinics. However, as discussed above, we believe that the recoverability risks are relatively low, and due to our relatively low trade receivable concentration ratio, the impact of a particular default customer, if any, on our overall trade receivables is relatively limited.

As a result of the foregoing and based on our credit assessment of our trade receivables aged over 60 days, our Directors are of the view that we had recorded sufficiency allowance for impairment of trade receivables during the Track Record Period. See Note 3.1(b)(i) to the Accountant's Report in Appendix I to this prospectus for the determination of the loss allowance provision.

The following table sets forth the number of our trade receivables turnover days for the periods indicated.

	Year ended December 31,		
	2018	2019	2020
Trade receivables turnover days ⁽¹⁾	41	39	30

(1) Trade receivables turnover days was calculated based on the average of opening and closing balance of trade receivables less allowance for impairment for the relevant year, divided by the revenue for the same year, and multiplied by 365 days.

Our trade receivables turnover days decreased from 41 days in 2018 to 39 days in 2019, and further to 30 days in 2020, primarily due to our enhanced management measures and collection efforts for trade receivables. We have implemented a series of internal policies and measures to strengthen the management of our trade receivables. For instance, we have assembled a dedicated team in charge of management of accounts receivables and credit assessment. Our team will conduct periodic assessment of customers' credit and adjust our management measures accordingly. Furthermore, we incentivized certain customers to enter into prepayment arrangement with us to improve the overall profile of our trade receivables.

As of April 30, 2021, approximately RMB69.1 million, or 77.8%, of our trade receivables as of December 31, 2020 had been settled. Specifically, approximately 58.0%, 91.2% and 69.6% of the trade receivables due from public hospitals, private clinics and distributors as of December 31, 2020, respectively, had been settled as of April 30, 2021.

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Amounts Due from Related Parties

We recorded amounts due from related parties of RMB27.7 million, RMB30.2 million and RMB4.5 million as of December 31, 2018, 2019 and 2020, respectively. Our amounts due from related parties primarily represented amounts attributable to certain transactions between our related parties and us for share-based payments in 2018 and our loans made to certain related parties in 2018 and 2019, which were of non-trade nature. As advised by our PRC legal advisors, our loan agreements with such related parties do not violate any mandatory stipulation of PRC laws and regulations and are valid according to the Private Lending Cases Provisions and the Civil Code of the PRC, although they do not fall under the permitted scope of the General Lending Provisions which, as department rules of the People's Bank of China, shall be overrode by PRC laws and regulations. We expect to settle the balance of the amounts due from related parties prior to the Listing. See “— Related Party Transactions” for more details.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss primarily represented our investments in wealth management products issued by major and reputable commercial banks with guaranteed principal and an expected annual investment return rate ranging from 2.30% to 4.50%. We purchased financial assets at fair value through profit or loss of RMB350.0 million, RMB588.0 million and RMB1,310.0 million in 2018, 2019 and 2020, respectively. We typically redeemed our investments in wealth management products upon their maturities before the year end and thus did not record a carrying amount for such as of December 31, 2018, 2019 and 2020. The following table sets forth the changes of our financial assets at fair value through profit or loss as of the dates indicated.

	As at December 31,		
	2018	2019	2020
	(RMB in thousands)		
Wealth management products			
Balance at the beginning of the year	43,000	—	—
Additions	350,000	588,000	1,310,000
Realized fair value gain	2,436	2,512	4,235
Disposals	(395,436)	(590,512)	(1,314,235)
Balance at the end of the year	—	—	—

During the Track Record Period and pursuant to our Board resolutions with respect to the purchase of wealth management products using short-term surplus funds, all our wealth management products were principal-guaranteed structured deposits and issued by reputable commercial banks in China. A vast majority of such products had a maturity period of less than three months. Our purchase of wealth management products must be pre-authorized by both chief executive officer and chief financial officer. As stipulated by the relevant Board resolutions, the rolling balance of our investments in wealth management products issued by any single commercial bank, and the aggregate rolling balance of our total investments in wealth management products, shall not exceed a pre-determined limit. During the Track Record Period, we set the aggregate upper limit at RMB200 million, RMB200 million and RMB300 million in 2018, 2019 and 2020, respectively. Our Board generally adjusts such limit on an annual basis by taking into account our operating goals, cash flow projections and risk factors. Our finance team closely monitors the risks of our wealth management products by following the economic trends, interest rate changes, the status of the issuing banks and other factors that may have an impact on their pricing and credit profile.

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We may continue to invest in similar wealth management products in the future using our surplus cash. Our Board and the finance department are mainly responsible for making, implementing and supervising our investment decisions. We implemented during the Track Record Period, or will continue to implement, the following investment and treasury policies:

- our Board is responsible for the overall planning and approval of our investment in wealth management products;
- our finance department are responsible for the analysis and research of investment in wealth management products, as well as the long-term routine management of such investment;
- investments in wealth management products could be made when we have surplus cash that is not required for our short-term working capital purposes and in no event beyond the amount authorized by our Board;
- we mainly make investments in short-term wealth management products with low risk, high liquidity and reasonable returns, which primarily consist of principal-guaranteed products issued by reputable commercial banks; and
- we assess the risk associated with the underlying financial instruments based on the risk classification provided by the issuing licensed commercial bank.

In addition, we will comply with relevant size test requirements under Chapter 14 of the Listing Rules and disclose the details of our investments or other notifiable transactions to the extent necessary and as appropriate after the Listing.

Fair value measurements

We made judgments and estimates in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To indicate the reliability of inputs in determining the fair values, we classified our financial instruments into three levels:

- Level 1: Financial instruments traded in active markets are included in level 1, the fair value of which is based on quoted market prices at the end of the reporting period, using the current bid price.
- Level 2: Financial instruments not traded in active markets, of which all significant inputs to fair value determination are observable, are included in level 2.
- Level 3: Financial instruments not traded in active markets, of which one or more significant inputs to fair value determination is not based on observable market data, are included in level 3.

We recognize transfers into and out of the fair value hierarchy levels at the end of the reporting period. There were no transfers between level 1, 2 and 3 during 2018, 2019 and 2020. As of December 31, 2018, 2019 and 2020, respectively, we had no level 1 and level 2 financial instruments, and had no level 3 instruments which represented financial assets at fair value through profit or loss, as we redeemed our investments in wealth management products upon their maturities before the year end. Fair value gains from all financial instruments in level 3 were all realized and recognized in our profit or loss during the Track Record Period.

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Our valuation techniques for financial instruments not traded in active markets maximize the use of observable market inputs and minimize the use of entity-specific estimates. Specifically, we use discounted cash flow model in valuing our level 3 financial instruments, under which we make certain assumptions of our expected future cash flows and expected rate of return. The unobservable inputs are expected rate of return rate and discount rate. See Note 3.3 to the Accountant’s Report in Appendix I to this prospectus for details.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consist of cash on hand, deposits held at call with financial institutions, and other short-term and highly liquid investments. We had cash and cash equivalents of RMB216.0 million, RMB504.7 million and RMB877.6 million as of December 31, 2018, 2019 and 2020, respectively.

Trade and Other Payables

Our trade payables primarily consisted of payments we owed to our suppliers. Our other payables primarily consisted of employee benefits payables, other taxes payable and dividends payable. We had trade and other payables of RMB128.7 million, RMB205.9 million and RMB238.6 million as of December 31, 2018, 2019 and 2020, respectively. The following table sets forth the details of our trade and other payables as of the dates indicated.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Trade payables	26,942	60,910	34,024
Employee benefits payable	45,217	63,129	82,302
Other taxes payable	25,618	34,642	55,514
Consideration payables in relation with			
acquisition of a subsidiary	3,432	3,488	3,262
Accrued expenses payable	9,263	9,604	15,531
Deposits payable	5,086	9,829	17,443
Advertising and promotion expenses payable	3,989	5,255	13,955
Donation payable	—	2,000	4,000
Professional services fee payable	2,242	6,208	6,128
Reimbursement payable	2,298	3,397	2,688
Payables in relation with acquisition of			
property, plant and equipment	537	3,447	286
Others	4,026	3,972	3,454
Total	<u>128,650</u>	<u>205,881</u>	<u>238,587</u>

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Our trade payables primarily represented the amount due to our suppliers. Our trade payables increased from RMB26.9 million as of December 31, 2018 to RMB60.9 million as of December 31, 2019, primarily due to the increase in the purchase of raw materials to meet the increasing demand of our clear aligners. Our trade payables decreased from RMB60.9 million as of December 31, 2019 to RMB34.0 million as of December 31, 2020, primarily due to (1) a decreased stock of raw materials and consumables, (2) the decrease in the price of certain consumables, and (3) our settlement of trade payables at the year end of 2020.

Employee benefits payable primarily represented the amount of wages and salaries and other welfare and benefits due to our employees. Our employee benefits payable increased during the Track Record Period, primarily due to the increase in the number of our employees in line with our business expansion.

Our other taxes payable primarily represented taxes payable other than income tax payable, such as value-added tax and surcharges payables. Our other taxes payable increased during the Track Record Period in line with our business growth.

Our deposits payable primarily consisted of the deposits payable to our suppliers and bid bond payable related to the construction of our Chuangmei Center. Our deposits payable increased from RMB5.1 million as of December 31, 2018 to RMB9.8 million as of December 31, 2019 primarily due to the increase in the number of suppliers and the amount of deposits required in line with our business growth. Our deposits payable further increased to RMB17.4 million as of December 31, 2020, primarily because we commenced the construction of Chuangmei Center in 2020.

Our suppliers typically granted us a credit period ranging from 30 to 60 days during the Track Record Period. The following table sets forth an aging analysis of our trade payables as of the dates indicated based on the invoice date:

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Within 60 days	21,875	52,328	28,027
61 to 180 days	5,036	6,194	3,566
181 to 365 days	10	236	685
Over one years	21	2,152	1,746
Total	26,942	60,910	34,024

The following table sets forth the number of our trade payables turnover days for the periods indicated:

	Year ended December 31,		
	2018	2019	2020
Trade payables turnover days ⁽¹⁾	37	70	72

(1) Trade payables turnover days was calculated based on the average of opening and closing balance of trade payables for the relevant year, divided by the cost of revenue for the same year, and multiplied by 365 days.

Our trade payables turnover days increased from 37 days in 2018 to 70 days in 2019, and further to 72 days in 2020, primarily because we had greater bargaining power in negotiating a longer credit period as our business continued to grow.

As of April 30, 2021, approximately RMB31.6 million, or 92.9%, of our trade payables as of December 31, 2020 had been settled.

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Amounts Due to Related Parties

We recorded amounts due to related parties of RMB6.2 million, RMB6.3 million and RMB5.9 million as of December 31, 2018, 2019 and 2020, respectively. Our amounts due to related parties were primarily related to our share incentive plans. We expect to settle the amounts due to related parties prior to the Listing. See “— Related Party Transactions” for more details.

Contract Liabilities

We require a lump sum payment from all customers with or without a credit period. Our contract liabilities primarily arose from the advance payments made by customers before the delivery of underlying services and products. Our contract liabilities increased from RMB155.0 million as of December 31, 2018 to RMB304.3 million as of December 31, 2019, and further to RMB418.6 million as of December 31, 2020, which was generally in line with our business growth. The following table sets forth a breakdown of our contract liabilities as of the dates indicated.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Clear aligner treatment solutions	153,454	303,158	416,843
Other services	1,553	1,185	1,773
Total	155,007	304,343	418,616
Analyzed into:			
Current portion			
– Clear aligner treatment solutions	107,598	237,713	397,919
– Other services	1,553	1,185	1,773
	109,151	238,898	399,692
Non-current portion			
– Clear aligner treatment solutions	45,856	65,445	18,924

The following table sets forth the revenue recognized during the Track Record Period relating to carried-forward contract liabilities.

	Year ended December 31,		
	2018	2019	2020
	(RMB in thousands)		
Revenue recognized that was included in the contract liability balance at the beginning of the year			
– Clear aligner treatment solutions	91,973	107,598	237,713
– Other services	91	1,553	1,185
Total	92,064	109,151	238,898

Accumulated Losses/Retained Earnings

We recorded accumulated losses of RMB18.5 million as of December 31, 2018, which were a fair representation of our corporate development and historical financial performance. From 2003 to 2015, we incurred significant expenses in relation to the development of our solutions, including our R&D initiatives in clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies, the development of *iOrtho* and other technology platforms, and the building

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and development of our R&D, operational and management teams. In addition, we have organized the *A-Tech Forum*, an annual academic conference since 2014, to, among other things, educate dental professionals of the advantages of our solutions. On the other hand, China's clear aligner industry was at a nascent stage during the same period, which translated into a relatively low market demand from dental professionals and patients and a resultant lack of revenue sources. As a result, we primarily recognized net losses in each year prior to 2015, which largely contributed to our accumulated loss position as of January 1, 2018, the commencement of our Track Record Period.

Starting from 2015, we began to capitalize on the advancement of China's clear aligner industry with our well-established and continuously enhanced solutions. According to the CIC Report, the number of GP dentists in China and the number of dental institutions in China increased at a CAGR of 8.2% and 6.5% from 2015 to 2019, respectively, indicating increasing awareness of dental health and demand for dental care services. According to the same source, China's clear aligner market, in terms of retail sales revenue, increased from US\$0.2 billion in 2015 to US\$1.5 billion in 2020 at a CAGR of 44.4%. During the same period, we also expanded our product portfolio and enhanced our technological and manufacturing capabilities to embrace the market growth, which translated into the steady increase in the number of our case shipments. In addition, we were able to optimize our cost structure and operating efficiency in line with our business expansion. As a result, our profitability has gradually improved since 2015, which progressively offset our accumulated loss position until December 31, 2019 when we began to recognize retained earnings position of RMB44.6 million. As of December 31, 2020, we continued to recognize retained earnings of RMB66.7 million in line with our continuous business growth. The following table sets forth the movement of our accumulated losses/retained earnings position during the Track Record Period.

	Year ended December 31,		
	2018	2019	2020
	(RMB in thousands)		
At the beginning of the year	(72,139)	(18,530)	44,589
Profit for the year	59,758	68,837	150,689
Appropriation to statutory reserves	(6,149)	(5,718)	(24,580)
Dividends	—	—	(104,000)
At the end of the year	(18,530)	44,589	66,698

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LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Working Capital Sufficiency

Our primary use of cash is to fund our working capital requirements and other recurring expenses. During the Track Record Period, we financed our capital expenditures and working capital requirements primarily through cash generated from our operating activities. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank facilities and other borrowings, net proceeds from the Global Offering and other funds raised from the capital markets from time to time. As of December 31, 2020, we had cash and cash equivalents of RMB877.6 million. Taking into account the financial resources available to us, including cash flow from operating activities and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus.

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended December 31,		
	2018	2019	2020
	(RMB in thousands)		
Net cash generated from operating activities . . .	144,585	402,332	408,279
Net cash used in investing activities	(2,062)	(103,035)	(7,276)
Net cash used in financing activities	(61,827)	(11,304)	(23,333)
Net increase in cash and cash equivalents	80,696	287,993	377,670
Cash and cash equivalents at beginning of the year	134,051	216,015	504,697
Exchange gains/(losses) on cash and cash equivalents	1,268	689	(4,789)
Cash and cash equivalents at end of the year . . .	216,015	504,697	877,578

Net cash generated from operating activities

Net cash generated from operating activities was RMB408.3 million in 2020, primarily due to our profit before income tax of RMB191.2 million minus income tax paid of RMB23.6 million, as adjusted by (1) certain non-cash and non-operating items, primarily including depreciation of property, plant and equipment of RMB17.5 million, depreciation of right-of-use assets of RMB11.1 million, net impairment losses on financial assets of RMB10.1 million, and share-based payments of RMB66.3 million, (2) changes in working capital that positively affected the cash flow from operating activities, primarily including an increase of RMB114.3 million in contract liabilities, an increase of RMB37.2 million in trade and other payables and a decrease of RMB2.9 million in inventories, and (3) partially offset by changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase of RMB15.0 million in trade and other receivables.

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Net cash generated from operating activities was RMB402.3 million in 2019, primarily due to our profit before income tax of RMB84.5 million minus income tax paid of RMB8.8 million, as adjusted by (1) certain non-cash and non-operating items, primarily including depreciation of property, plant and equipment of RMB13.4 million, depreciation of right-of-use assets of RMB10.4 million and share-based payments of RMB61.7 million; (2) changes in working capital that positively affected the cash flow from operating activities, primarily including an increase of RMB150.2 million in contract liabilities, an increase of RMB84.6 million in trade and other payables and a decrease of RMB3.1 million in trade and other receivables, and (3) partially offset by changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase of RMB1.2 million in inventories.

Net cash generated from operating activities was RMB144.6 million in 2018, primarily due to our profit before income tax of RMB74.8 million minus income tax paid of RMB23.9 million, as adjusted by (1) certain non-cash and non-operating items, primarily including depreciation of property, plant and equipment of RMB9.6 million, depreciation of right-of-use assets of RMB8.3 million and share-based payments of RMB23.4 million; (2) changes in working capital that positively affected the cash flow from operating activities, primarily including an increase of RMB55.2 million in contract liabilities and an increase of RMB56.6 million in trade and other payables, and (3) partially offset by changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase of RMB56.6 million in trade and other receivables and an increase of RMB11.1 million in inventories.

Net cash used in investing activities

Net cash used in investing activities was RMB7.3 million in 2020, primarily due to purchase of property, plant and equipment of RMB41.3 million, partially offset by loans repaid by related parties of RMB26.7 million and interest received of RMB4.2 million.

Net cash used in investing activities was RMB103.0 million in 2019, primarily due to purchase of financial assets at fair value through profit or loss of RMB588.0 million, purchases of right-of-use assets for land of RMB59.4 million and purchases of property, plant and equipment of RMB39.8 million, partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB590.5 million.

Net cash used in investing activities was RMB2.1 million in 2018, primarily due to purchase of financial assets at fair value through profit or loss of RMB350.0 million, purchases of property, plant and equipment of RMB35.9 million and loans to related parties of RMB27.2 million, partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB395.3 million and proceeds from disposal of investment in financial bonds of RMB20.0 million.

Net cash used in financing activities

Net cash used in financing activities was RMB23.3 million in 2020, primarily due to dividend paid of RMB104.0 million, partially offset by contribution from our shareholders of RMB49.5 million and issue of shares of RMB42.7 million.

Net cash used in financing activities was RMB11.3 million in 2019, primarily due to payment of lease liabilities of RMB9.2 million, payments for listing expenses of RMB1.1 million and interest paid of lease liabilities of RMB1.1 million.

Net cash used in financing activities was RMB61.8 million in 2018, primarily due to payment of buying back treasury shares of RMB50.6 million and payment of lease liabilities of RMB8.3 million.

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Current Assets and Current Liabilities

The following table sets forth our current assets and liabilities as of the dates indicated.

	As of December 31,			As of
	2018	2019	2020	April 30, 2021
	(RMB in thousands)			(unaudited)
CURRENT ASSETS				
Inventories	21,663	22,827	19,914	29,608
Trade and other receivables	107,423	97,816	101,693	86,288
Amounts due from related parties . . .	27,712	30,235	4,523	2,423
Cash and cash equivalents	216,015	504,697	877,578	812,570
Total current assets	372,813	655,575	1,003,708	930,889
CURRENT LIABILITIES				
Trade and other payables	128,650	205,881	238,587	235,557
Amounts due to related parties	1,775	1,876	5,940	–
Contract liabilities	109,151	238,898	399,692	367,702
Current income tax liabilities	1,503	14,496	22,274	27,679
Lease liabilities	7,995	9,517	8,625	8,722
Deferred income	82	405	600	600
Total current liabilities	249,156	471,073	675,718	640,260
NET CURRENT ASSETS	123,657	184,502	327,990	290,629

We had net current assets of RMB123.7 million, RMB184.5 million, RMB328.0 million and RMB290.6 million as of December 31, 2018, 2019 and 2020 and April 30, 2021, respectively. Our net current assets position as of each of these dates was primarily attributable to our trade and other receivables, cash and cash equivalents and financial assets at fair value through profit or loss, partially offset by trade and other payables and contract liabilities.

Our net current asset decreased from RMB328.0 million as of December 31, 2020 to RMB290.6 million as of April 30, 2021, primarily because we paid cash dividend in April 2021.

Our net current asset increased from RMB184.5 million as of December 31, 2019 to RMB328.0 million as of December 31, 2020, primarily due to the increases in (1) cash and cash equivalents, and (2) trade and other receivables resulting from the increases in (i) prepayments to certain suppliers, and (ii) trade receivables, all of which were in line with our business growth, partially offset by the increases in (1) trade and other payables primarily resulting from the increases in (i) employee benefits payable in line with the increase in their headcount, (ii) other taxes payable in line with our business growth, and (iii) advertising and promotional expenses payable in connection with the *A-Tech Forum*, and (2) contract liabilities in line with our business growth.

Our net current asset increased from RMB123.7 million as of December 31, 2018 to RMB184.5 million as of December 31, 2019, primarily due to the increases in cash and cash equivalents, partially offset by the increases in (1) contract liabilities in line with our business growth, and (2) trade and other payables resulting from the increase in the purchase of raw materials driven by the increasing demand of our clear aligners.

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CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

Our capital expenditures during the Track Record Period consisted primarily of purchases of property, plant and equipment, purchases of right-of-use assets, and purchase of intangible assets, and amounted to RMB66.3 million, RMB122.0 million and RMB41.0 million, respectively, in 2018, 2019 and 2020. We funded our capital expenditure requirements during the Track Record Period mainly from cash generated from our operating activities.

We plan to fund our planned capital expenditure by using the cash flow generated from our operations, bank facilities and other borrowings, and the net proceeds received from the Global Offering. See “Business — Our Intelligent Manufacturing — Expansion Plan” for details of our expansion plan and “Future Plans and Use of Proceeds” for the portion of capital expenditures to be funded by the proceeds from the Global Offering.

Capital Commitments

Our capital commitments primarily related to acquisitions of property, plant and equipment. The following table sets forth a summary of our capital commitments as of the dates indicated.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Contracted but not provided for:			
Property, plant and equipment	9,631	13,093	164,898
Intangible assets	908	–	8
Investments in joint venture	500	500	500
Total	<u>11,039</u>	<u>13,593</u>	<u>165,406</u>

INDEBTEDNESS

Our indebtedness consisted primarily of lease liabilities and amounts due to related parties. As of April 30, 2021, being the latest practicable date for the purpose of the indebtedness statement below, we had RMB16.4 million in indebtedness. The following table sets forth the breakdown of our indebtedness as of the dates indicated.

	As of December 31,			As of
	2018	2019	2020	April 30, 2021
	(RMB in thousands)			(unaudited)
Lease liabilities, current	7,995	9,517	8,625	8,722
Lease liabilities, non-current	8,838	13,353	5,543	7,648
Amounts due to related parties,				
current	1,775	1,876	5,940	–
Amounts due to related parties,				
non-current	4,415	4,415	–	–
Total	<u>23,023</u>	<u>29,161</u>	<u>20,108</u>	<u>16,370</u>

As at December 31, 2018, 2019 and 2020, amounts due to related parties were unsecured.

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Save as disclosed above, we had no bank loans or other borrowings, or any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases, guarantees or other material contingent liabilities. Our Directors confirm that there has not been any material change in our indebtedness since April 30, 2021.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group.

LISTING EXPENSES

We expect to incur a total of approximately RMB148.4 million of listing expenses in connection with the Global Offering, representing approximately 6.7% of the gross proceeds from the Global Offering (assuming an Offer Price of HK\$160.00, being the mid-point of the indicative Offer Price range between HK\$147.00 and HK\$173.00, and assuming that the Over-allotment Option is not exercised). During the Track Record Period, we incurred listing expenses of approximately RMB28.0 million, out of which approximately RMB21.1 million was charged to our consolidated statements of results of operations as administrative expenses, while the remaining amount of approximately RMB6.9 million was capitalized as prepayment and will be deducted from the share premium upon the completion of the Global Offering. We expect to further incur underwriting commission and other listing expenses of approximately RMB120.4 million upon the completion of the Global Offering, out of which approximately RMB28.4 million is expected to be charged to our consolidated statements of results of operations and approximately RMB92.0 million is expected to be deducted from the share premium. The listing expenses above are the best estimate as of the Latest Practicable Date and for reference only. The actual amount may differ from this estimate.

KEY FINANCIAL RATIOS

	As of/for the year ended December 31,		
	2018	2019	2020
Profitability ratios			
Gross profit margin ⁽¹⁾	63.8%	64.6%	70.4%
Net profit margin ⁽²⁾	11.9%	10.5%	18.5%
Adjusted net profit margin (non-IFRS measure) ⁽³⁾ . . .	18.9%	20.1%	27.8%
Adjusted return on equity (non-IFRS measure) ⁽⁴⁾	71.8%	56.9%	57.4%
Adjusted return on total assets (non-IFRS measure) ⁽⁵⁾	23.1%	19.6%	22.0%
Liquidity ratios			
Current ratio ⁽⁶⁾	1.50	1.39	1.49

(1) The calculation of gross profit margin is based on gross profit for the year divided by revenue for the respective year and multiplied by 100.0%.

(2) The calculation of net profit margin is based on profit for the year divided by revenue for the respective year and multiplied by 100.0%.

(3) The calculation of adjusted net profit margin, a non-IFRS measure, is based on adjusted net profit for the year divided by revenue for the respective year and multiplied by 100.0%. See “— Non-IFRS Measures.”

(4) The calculation of adjusted return on equity, a non-IFRS measure, is based on adjusted net profit for the year divided by average of opening and closing balance of total equity attributable to equity holders of our Company of the respective year and multiplied by 100.0%.

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- (5) The calculation of adjusted return on total assets, a non-IFRS measure, is based on adjusted net profit for the year divided by the average of opening and closing balance of total assets of the respective year and multiplied by 100.0%.
- (6) The calculation of current ratio is based on current assets divided by current liabilities as of year end.

Analysis of Key Financial Ratios

Gross profit margin, net profit margin and adjusted net profit margin (non-IFRS measure)

See “— Period to Period Comparison of Results of Operations” for a discussion of the factors affecting our gross profit margin, net profit margin and adjusted net profit margin during the Track Record Period.

Adjusted return on equity and adjusted return on total assets (non-IFRS measures)

Our adjusted return on equity ratio decreased from 71.8% in 2018 to 56.9% in 2019, primarily due to the increase in our total equity as a result of the increases in other reserves and retained earnings, which outpaced the increase in our adjusted net profit. Our adjusted return on equity remained relatively stable at 57.4% in 2020.

Our adjusted return on total assets decreased from 23.1% in 2018 to 19.6% in 2019, primarily due to the significant increase in our total assets which outpaced the increase in our adjusted net profit. Our adjusted return on total assets increased from 19.6% in 2019 to 22.0% in 2020, primarily due to the significant increase in our adjusted net profit in line with our business growth.

Current ratio

Our current ratio decreased from 1.50 as of December 31, 2018 to 1.39 as of December 31, 2019, primarily due to the increases in our trade and other payables, contract liabilities and current income tax liabilities in line with our business growth. Our current ratio increased from 1.39 as of December 31, 2019 to 1.49 as of December 31, 2020, primarily due to the increases in (1) our trade and other receivables in line with our business growth, and (2) recognition of financial assets at fair value through profit or loss at the period end in connection with our purchase of wealth management products.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, we entered into various related party transactions, primarily including transactions with companies controlled by our shareholders or Directors. For details of our related party transactions, see Note 35 to the Accountant’s Report in Appendix I to this prospectus.

Our Directors believe that each of the related party transactions was conducted in the ordinary course of business on an arm’s length basis. Our Directors are of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management.

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Market Risk

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not our functional currency. Our business is principally conducted in RMB and the majority of our assets is denominated in RMB. The majority of our non-RMB assets and liabilities are bank deposits, trade and other payables denominated in USD. We are subject to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities which are denominated in non-RMB, as well as net investments in foreign operations.

We manage our foreign exchange risk by closely monitoring the movement of the foreign currency rates. Cash repatriation from the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government. We did not have other significant exposure to foreign exchange risk.

The carrying amount of our foreign currency denominated monetary assets and monetary liabilities at the respective dates of statement of financial position are as follows:

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Assets			
USD	25,292	58,636	82,831
Liabilities			
USD	6,992	4,091	3,405
Others	—	143	39
	6,992	4,234	3,444

The following sensitivity analysis has been determined based on exposure to foreign currency rates. The analysis includes only USD denominated monetary items and adjusts their translation at the year-end for a 5% change in exchange rates. Should RMB strengthened or weakened by 5% against USD, with all other variables held constant, the post-tax profit for the year or period would have been approximately RMB0.9 million, RMB2.7 million and RMB4.0 million lower or higher in 2018, 2019 and 2020, respectively.

Cash flow and fair value interest rate risk

Our income and operating cash flows are substantially independent of changes in market interest rates and we have no significant interest-bearing assets except for cash and cash equivalents, details of which have been disclosed in Note 17 to the Accountant's Report in Appendix I to this prospectus, respectively. Our directors do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of these assets are not expected to change significantly.

Our exposure to changes in interest rates is also attributable to its amounts due to related parties carried at fixed rates, details of which have been disclosed in Note 35 to the Accountant's Report in Appendix I to this prospectus.

We closely monitor the trend of interest rate and its impact on our interest rate risk exposure. We currently have not used any interest rate swap arrangements.

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Credit Risk

We are exposed to credit risk in relation to our trade and other receivables, amounts due from related parties, financial asset at fair value through profit or loss and cash deposits at banks. The carrying amounts of trade and other receivables and cash and cash equivalents represent our maximum exposure to credit risk in relation to financial assets.

We expect that there is no significant credit risk associated with cash deposits at banks, because they are substantially deposited at state-owned banks and other medium or large size listed banks. Our management does not expect that there will be any significant losses from non-performance by these counterparties.

Our trade receivables represented amounts due from hospitals, clinics and distributors for our provision of clear aligner treatment solutions. We implemented policies to ensure that our sales are made to customers with appropriate financial strength and percentage of down payments. We also implement other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we regularly review the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Moreover, we have no significant concentrations of credit risk as our exposure is spread over a large number of counterparties and customers, without any single customer contributing material revenue.

For other financial assets at amortized cost, our management makes periodic collective assessments as well as individual assessment on the recoverability of such receivables based on historical settlement records and past experience.

For more details about our credit risks, see Note 3.1(b) to the Accountant's Report in Appendix I to this prospectus.

Liquidity Risk

To manage the liquidity risk, our management monitors rolling forecasts of our liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. We expect to fund the future cash flow needs through internally generated cash flows from operations.

DIVIDEND

According to our dividend policy adopted on May 20, 2021, the Articles of Association and applicable laws and regulations, the determination to pay dividends will be made at the discretion of our Directors, subject to the Listing Rules, and will depend upon, among others, the financial results, cash flow, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, any restrictions on payment of dividends, and other factors that our Directors may consider relevant. Our Company in general meeting may from time to time by ordinary resolution declare dividends in any currency to be paid to the Shareholders but no dividend shall be declared in excess of the amount recommended by the Board, provided always that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. We do not have a pre-determined dividend payout ratio. We will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic environment.

As advised by our Cayman legal advisors, we are a holding company incorporated under the laws of the Cayman Islands, pursuant to which, the financial position of accumulated losses does not prohibit us from declaring and paying dividends to our Shareholders, as dividends may still be declared and paid out of our share premium account notwithstanding our profitability, provided that our Company satisfies the solvency test set out in the Cayman Companies Act.

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During the Track Record Period and up to the date of this prospectus, we paid cash dividends of RMB61.0 million, RMB43.0 million and US\$15.2 million in October 2020, November 2020 and April 2021, respectively. For details, see Note 30 to the Accountant's Report in Appendix I to this prospectus.

DISTRIBUTABLE RESERVES

As of December 31, 2020, our Company had distributable reserves of RMB486.6 million.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

COVID-19 OUTBREAK AND EFFECTS ON OUR BUSINESS

Since December 2019, a novel strain of coronavirus, later named COVID-19, has severely impacted China and many other countries. The PRC government has had imposed quarantine measures across the country since late January 2020. Local governments have also imposed temporary restrictions or bans on passenger traffic to control the spread of the COVID-19. On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 a Public Health Emergency of International Concern (PHEIC). On March 11, 2020, amid the escalating situation, the World Health Organization further characterized COVID-19 as a pandemic. With measures taken by the PRC government, there has been a significant decrease in the number of existing confirmed COVID-19 cases in China since mid-February 2020. The Chinese government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal nationwide during the second quarter of 2020. Our Directors have carried out a holistic review of the impact of the COVID-19 on our operations and confirmed that as of the Latest Practicable Date, COVID-19 has not had any long-term material adverse impact on our operations based on the following grounds.

Impact on our Business and Financial Conditions

Since the outbreak of COVID-19, a series of precautionary and control measures have been implemented worldwide to contain the virus. Government efforts to contain the spread of COVID-19, including city lockdowns or "stay-at-home" orders, suspension of non-emergent dental care services and closures of dental hospitals and clinics, restrictions on travel and other emergency quarantines, have caused significant and unprecedented disruptions to the global and Chinese economy and normal business operations across sectors. As a result, China's clear aligner market had been adversely affected, which in turn materially and adversely affected our business, results of operations and financial condition. For example, we experienced a temporary decrease in the case shipments to approximately 10,900 in the three months ended March 31, 2020, as compared to approximately 24,100 in the three months ended March 31, 2019.

We expect that our business will not be severely disrupted in the long run for the following reasons. First, COVID-19 has been largely contained in China, where we primarily conduct our business. The Chinese government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal nationwide during the second quarter of 2020. As a result, the demand and supply of dental services including orthodontic treatment has gradually recovered. Second, we believe that there is long-term, inelastic demand for orthodontic treatment solutions despite the COVID-19 outbreak, which only imposes a temporary barrier to receiving treatment. Moreover, compared with traditional orthodontic treatment, clear aligners have the advantages of reduced subsequent visits and improved oral hygiene, which are valuable to users especially during pandemics. As

FINANCIAL INFORMATION

a result, dental professionals and their potential patients may develop a better understanding of our benefits and prefer our solutions over traditional ones. Third, the orthodontic demand will recover as economic activities return to normal nationwide. We experienced a bounce-back in case shipments from approximately 10,900 in the three months ended March 31, 2020 to approximately 36,400 in the three months ended June 30, 2020, compared with approximately 24,900 in the three months ended June 30, 2019. Our case shipments further increased to approximately 54,500 in the three months ended September 30, 2020, compared with approximately 42,400 in the three months ended September 30, 2019. We further generated case shipments of approximately 35,800 in the three months ended December 31, 2020, as compared with approximately 28,700 in the three months ended December 31, 2019. As of the Latest Practicable Date, we had not incurred any major capital expenditure due to the negative impact of COVID-19 outbreak.

Impact on Our Operations

All of our offices and manufacturing facilities have resumed operation since February 17, 2020 in accordance with the local government policies. As of the Latest Practicable Date, we had not experienced any significant delay in the delivery of our clear aligners to users.

We have implemented a series of measures to ensure the research and development progress of our key technologies and products, including (1) reassessing and optimizing our research and development resources allocated to different projects, (2) adjusting the schedule of certain projects, and (3) prioritizing projects that reduces manual labor, such as digitization and automation projects. As of the Latest Practicable Date, we had not experienced any material delay or impediment of our research and development.

Impact on Our Employees

In response to COVID-19, we have implemented an interim policy requiring our management members and employees to declare their recent travel history. Returnees from recent travels are required to work from home and should only return to office upon receiving further notice from us. We have adopted a flexible work arrangement, allowing our employees to work from home to the extent possible. As of the Latest Practicable Date, we were not aware of any suspected or confirmed case of COVID-19 among our staff.

We have been granted deduction in the contribution of social insurance premiums for our employees of approximately RMB11.8 million in 2020, according to relevant government relief policies during the COVID-19 outbreak.

Impact on Our Supply Chain

Our suppliers primarily include suppliers of clear aligner raw materials, vendors of our manufacturing equipment, logistics service providers, and marketing service and event planning service providers. Historically, we engaged international suppliers for certain of our raw materials, such as composite polymer materials (in splint/sheet form). Although the operations of international suppliers and the international freight have been affected by the COVID-19 outbreak, we have not experienced any material negative impact on our supply chain as of the Latest Practicable Date, primarily because we (1) assembled an internal monitoring group that actively evaluate the market supply and demand of our raw materials and our inventory level, (2) maintained a timely and responsive communication mechanism with our international suppliers, (3) made projections based on available information and requested delivery in advance, and (4) adopted ocean shipping in addition to air freight to maintain adequate safety stock. As of the Latest Practicable Date, we had not experienced any major supply chain disruption.

Our Precautionary Measures and Social Responsibility

We adopted several precautionary measures to maintain a hygienic working environment and ensure the safety of our orthodontic solutions, such as adopting COVID-19 disinfecting techniques for our clear aligners products, distributing masks for employees and implementing internal reporting system.

FINANCIAL INFORMATION

In addition, while operating in the overall healthcare industry, we are committed to fulfilling our corporate social responsibility and creating stronger communities. With the COVID-19 pandemic bringing unprecedented challenges to people’s lives, we have quickly responded to the situation and proactively took various measures to help fight against the pandemic, including making a donation of RMB2.0 million to support front line medical teams and providing our customers, primarily hospitals and clinics, with protective equipment when they gradually restored their operations.

However, we cannot be entirely certain as to when the COVID-19 pandemic will be fully contained, and its impact will be completely alleviated. Any prolonged outbreak may adversely affect our business and financial performance. There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and the recent regional resurgence of COVID-19 cases in certain areas in China. Should there be an escalation of the spread, China may again take strict emergency measures to combat the spread of the virus, including travel restrictions, mandatory cessations of business operations including dental hospitals and clinics, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions, which may impact our business. We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any potential impact on our business, results of operations and financial condition. See “Risk Factors — Risks Relating to Our Business and Industry — Our business and operations have been and may continue to be materially and adversely affected by the COVID-19 pandemic.”

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, as of the date of this prospectus, other than the continued impact of the outbreak of COVID-19 as described above, there has been no material adverse change in our financial and trading positions or prospects since December 31, 2020, being the date on which our latest audited consolidated financial statements were prepared, and there is no event since December 31, 2020 which would materially affect the information in the Accountant’s Report set out in Appendix I to this prospectus.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for inclusion in Investment Circulars” issued by the HKICPA for illustrative purposes only, and is set out here to illustrate the effect of the Global Offering on our consolidated tangible assets as of December 31, 2020 as if it had taken place on that date.

FINANCIAL INFORMATION

Our unaudited pro forma adjusted consolidated net tangible assets have been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as of December 31, 2020 or any future date. It is prepared based on our consolidated net tangible assets as of December 31, 2020 as set out in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets attributable to owners of our Company as at December 31, 2020 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company as at December 31, 2020 ⁽⁵⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company as at December 31, 2020 per Share ⁽³⁾⁽⁵⁾	
	(RMB in thousands)			RMB	HK\$ ⁽⁴⁾
Based on the Offer Price of HK\$147.00 per Share	495,515	1,923,863	2,419,378	14.59	17.67
Based on the Offer Price of HK\$173.00 per Share	495,515	2,268,920	2,764,435	16.67	20.19

- (1) The consolidated net tangible assets attributable to owners of our Company as of December 31, 2020 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the owners of our Company as of December 31, 2020 of approximately RMB501.7 million and deducting our intangible assets attributable to the owners of our Company of approximately RMB6.2 million as of December 31, 2020.
- (2) The estimated net proceeds from the Global Offering are based on 16,829,600 new Shares to be issued at the indicative Offer Price of HK\$147.00 and HK\$173.00 per offer Share, being the lower end to higher end of the stated Offer Price range (after deducting the underwriting fees and other estimated expenses which excluded listing expenses which have been accounted for the years ended December 31, 2018, 2019 and 2020). The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into RMB at an exchange rate of HK\$1.0 to RMB0.8258 prevailing on the Latest Practicable Date.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 165,807,100 Shares in issue immediately following the completion of the Global Offering, which does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.0 to RMB0.8258 prevailing on the Latest Practicable Date.
- (5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any of trading results or other transactions we entered into subsequent to December 31, 2020. In particular, no adjustment was made to reflect the dividend of US\$15.2 million we declared on April 10, 2021. Had such dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be HK\$16.94 and HK\$19.46, assuming the indicative Offer Price of HK\$147.00 per Offer Share and HK\$173.00 per Offer Share, respectively.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Growth Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the net proceeds of the Global Offering, after deducting the estimated underwriting commissions and other fees and expenses payable by us in connection with the Global Offering, will be approximately HK\$2,513.0 million, assuming an Offer Price of HK\$160.00 per Share (being the mid-point of the indicative range of the Offer Price of HK\$147.00 to HK\$173.00 per Share), and that the Over-allotment Option is not exercised.

We currently intend to apply the net proceeds from the Global Offering for the purposes and in the amounts set out as follows.

	2021	2022	2023	Total
	(HK\$ in millions)			
Funding the construction of Chuangmei Center	376.0	206.1	420.0	1,002.1
Strengthening our research and development capabilities and funding our in-house and collaborative R&D initiatives	114.5	155.8	189.8	460.1
Developing a flexible and scalable intelligent information technology system	69.2	87.0	115.3	271.5
Expanding our in-house sales team and providing sales personnel with training sessions	42.6	88.2	133.3	264.1
Funding marketing and branding activities	62.4	78.3	100.1	240.8
Optimizing medical services	44.6	44.6	66.3	155.5
Working capital and other general corporate purposes	35.8	35.8	47.3	118.9
Total	<u>745.1</u>	<u>695.8</u>	<u>1,072.1</u>	<u>2,513.0</u>

The basis and details of our estimated use of the net proceeds are set out as below:

- approximately 39.9% of the net proceeds, or HK\$1,002.1 million, for funding the construction of our Chuangmei Center in Wuxi city, which comprises new manufacturing facilities and a research and development center with a gross floor area of approximately 126,000 square meters. The new manufacturing facilities in our Chuangmei Center, once fully commissioned, are expected to have an annual designed production capacity of approximately 100 million units of clear aligners by 2026. See “Business — Our Intelligent Manufacturing — Expansion Plan” for details. We expect to incur costs primarily relating to construction and renovation of Chuangmei Center, and purchase of automated production machinery, research and development equipment and other equipment. In particular, we intend to allocate the net proceeds in the amounts as set forth below:
 - (i) approximately 18.0% of net proceeds, or HK\$453.0 million, for building new manufacturing facilities and purchasing automated production lines. We expect to ramp up our production capacity at the new facilities to capture the increased market demand.

FUTURE PLANS AND USE OF PROCEEDS

According to the CIC Report, the number of China’s orthodontics cases addressed by clear aligners is expected to reach 467,200, 603,200 and 771,400 in 2021, 2022 and 2023, respectively. See “Industry Overview — China’s Clear Aligner Market — Overview of China’s Clear Aligner Market.” Based on our experience during the Track Record Period, the average number of units of aligners required for each case ranges from 74 to 184, depending on the product lines. We plan to reach the annual designed production capacity of 100 million units of clear aligners by 2026 with a total of 11 automated production lines. For the next three years though, we plan to purchase two automated production lines each year for our new manufacturing facilities at Chuangmei Center from 2021 to 2023. We expect that each production line will cost approximately RMB30.0 million with an expected useful life of ten years. The following table sets forth the deployment of automated production lines, designed production capacity, expected utilization rate and expected production volume of our new manufacturing facilities at Chuangmei Center from 2021 to 2023 based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,		
	2021	2022	2023
New automated production lines at Chuangmei Center	2	2	2
Total automated production lines at Chuangmei Center	2	4	6
Designed additional production capacity in the relevant year (units of clear aligners) ⁽¹⁾	5,000,000	5,000,000	5,000,000
Total designed production capacity (units of clear aligners)	5,000,000	25,000,000	45,000,000
Expected utilization rate	75.0%	75.0%	75.0%
Expected production volume (units of clear aligners)	3,750,000	18,750,000	33,750,000

(1) We expect that the manufacturing activities relating to each new automated production line will commence in the fourth quarter of the relevant year. The designed production capacity of each automated product line is 10,000,000 units of clear aligners per annum, or 2,500,000 units per quarter.

Based on the estimated market demand according to the CIC Report, our estimated market share and the increasing production capacity of Chuangmei Center as discussed above, we expect that the cash investment payback period with respect to the new manufacturing facilities at our Chuangmei Center will be approximately 41 months. Cash investment payback period refers to the amount of time it takes for the cumulative net profit plus depreciation and amortization to cover the costs of construction for the manufacturing facilities;

- (ii) approximately 8.2% of the net proceeds, or HK\$205.3 million, for constructing the R&D center of our Chuangmei center. We believe that the advancement in our medical and R&D capabilities are the backbone of our long-term success in the clear aligner industry, which is increasingly influenced and even transformed by new technologies such as artificial intelligence, 3D printing and material science. Thus, the establishment of R&D center could serve as an integrated venue to carry out our multi-disciplinary studies, including but not limited to clinical stomatology, biomechanics, materials science,

FUTURE PLANS AND USE OF PROCEEDS

computer science and intelligent manufacturing technologies. We believe that the R&D center will allow us to delve into the joint study and application of multi-disciplinary science and technologies, strengthen our database and data capabilities, synergize our R&D initiatives and improve the efficiency and return on our R&D efforts, which will ultimately benefit dental professionals and patients. We plan to commence the construction of our R&D center in 2022 and complete by the first half of 2024; and

- (iii) approximately 13.7% of the net proceeds, or HK\$343.8 million, for other initiatives relating to the construction and launch of our Chuangmei Center. In particular, we expect to furnish our workshops, R&D center and laboratories at Chuangmei Center, and incur capital expenditure for the procurement of experiment equipment. We also expect to enhance the digital infrastructure of Chuangmei Center once the construction of the production plant is completed in 2023.
- approximately 18.3% of the net proceeds, or HK\$460.1 million, for strengthening our research and development capabilities and funding our in-house and collaborative R&D initiatives. We plan to continuously upgrade our technology and data platforms and explore other advanced theories and technologies. We expect to incur costs relating to purchasing and deploying additional machinery, equipment and software systems, recruiting additional research and development personnel specialized in stomatology, biomechanics, materials science, computer science or intelligent manufacturing, and cooperating with China's most prominent higher education institutions, stomatology hospitals, medical schools and other research institutions to carry out joint research and development projects. With respect to the specific focus of the net proceeds to be applied to our R&D initiatives, we plan to apply such in both product development (including but not limited to new materials, new product functions and features, and new manufacturing techniques) and software development (including but not limited to new treatment planning system and AI application in digital orthodontics).

We expect to recruit qualified R&D personnel to drive the continuous development of our products and services. The following table sets forth the details of our recruitment plan based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

Research area	Positions	Expected number of new hires			Expected average compensation (RMB/year)	Primary qualifications
		2021	2022	2023		
Product development (including but not limited to new materials, new product functions and features, and new manufacturing techniques)	Researchers and engineers	6	9	11	300,000 to 1,200,000	<ul style="list-style-type: none"> • a bachelor's degree or above in the relevant major • two to seven years of experience in the relevant industry • proficiency in dental medical device development, material science, manufacturing techniques, etc.
Software development (including but not limited to new treatment planning system, AI application in digital orthodontics)	Researchers and engineers	14	12	8	300,000 to 1,200,000	<ul style="list-style-type: none"> • a bachelor's or above in the relevant major • two to seven years of experience in the relevant industry • proficiency in software development, computer graphics, artificial intelligence, etc.

FUTURE PLANS AND USE OF PROCEEDS

In addition, we expect to acquire the following equipment for our R&D initiatives based on our estimation.

Type of equipment	Number	Useful lives (years)
3D printers (various types)	8	8 to 10
Digital and optical microscopes (various types)	3	10
Measuring and analysis equipment	5	10
Other mechanical or technical equipment	4	10

- approximately 10.8% of the net proceeds, or HK\$271.5 million, for developing a flexible and scalable intelligent information technology system to streamline and fully digitalize all aspects of our operations and deploying a data middle platform. By doing so, we expect to realize full compatibility among our existing systems and technology platforms and, consequently, achieve fully integrated end-to-end digital workflows to facilitate fluent information flow between us and dental professionals. In addition, we will invest in the upgrade of our existing platforms and systems, including *iOrtho* and MES. To that end, we expect to employ 32, 19 and 23 qualified information technology staff specialized in product management, system development and testing, and IT operation and maintenance in 2021, 2022 and 2023, respectively, to support our platform and system enhancements. We expect new recruits to have at least one to five years of relevant industry experience. The average annual compensation for these new recruits will be at approximately RMB300,000 to RMB600,000 per person. Our recruitment plan is based on current estimation and subject to changes based on our actual needs and market conditions at the relevant time.

- approximately 10.5% of the net proceeds, or HK\$264.1 million, for expanding our in-house sales team and providing sales personnel with training sessions to enhance sales effectiveness and efficiency. We expect to recruit 440 sales representatives over the next three years. They will be responsible for exploring sales opportunities, providing customer services and enhancing customer experience. As discussed in “Business — Growth Strategies” in the prospectus, a strong direct sales network supplemented with qualified distributors is instrumental to our long-term development. We have had a successful track record in prioritizing direct sales and synergizing it with distributorship, and intend to continue leveraging the coordinated sales model. We believe that the steady growth in the number of in-house sales representatives is essential to our ability to rapidly enhance the penetration in both institution customers (including public hospitals and private clinics) and dental professionals. Furthermore, we plan to further explore the market potentials in the lower-tier cities in China, given the even lower penetration of our solutions among dental professionals and institution customers in such cities. Compared with the first and second-tier cities, lower-tier cities are greater in number and more dispersed and, therefore, require prompt supplement of sales representatives.

FUTURE PLANS AND USE OF PROCEEDS

The following table sets forth a breakdown of our in-house sales representatives as of December 31, 2020 and our new sales representatives based on current estimation by geographic location.

Region	As of December 31, 2020		Estimated number of newly recruited sales representatives in three years	As of December 31, 2023	
	Number of sales representatives	% of Total		Estimated number of sales representatives	% of Total
Eastern China . . .	71	30.9%	105	176	26.3%
Western China . .	42	18.3%	78	120	17.9%
Southern China . .	53	23.0%	108	161	24.0%
Northern China . .	50	21.7%	120	170	25.4%
Central China . . .	14	6.1%	29	43	6.4%
Total	230	100.0%	440	670	100.0%

In contemplating our recruitment plan of in-house sales representatives for the next three years, we have taken into account the geographical allocation of our current in-house sales representatives and our market penetration level in the local areas. For example, we have established strong presence in the Eastern China, and therefore decided to increase in-house sales force there at a moderate level. In comparison, we will significantly enhance our sales force in the Northern China as our previously deployment there will not suffice for our growth plan.

In addition, we plan to recruit 43 sales managers over the next three years in proportion to the expansion of our sales team. They will be responsible for establishing and developing our sales team in the respective region, achieving our sales target in a cost-effective manner, and implementing our market strategy in the respective area.

The following table sets forth the details of our recruitment plan based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

Position	Expected number of new hires			Expected average compensation (RMB/year)	Primary qualifications
	2021	2022	2023		
Sales representative . . .	140	150	150	200,000-400,000	<ul style="list-style-type: none"> • working experience in the sales and marketing of drugs and medical devices • communication and customer relationship management skills

FUTURE PLANS AND USE OF PROCEEDS

Position	Expected number of new hires			Expected average compensation (RMB/year)	Primary qualifications
	2021	2022	2023		
Sales manager	14	15	14	300,000-600,000	<ul style="list-style-type: none"> • extensive experience in sales and marketing of drugs and medical devices • demonstrated organizational, project management, regional planning and customer relationship management skills

- approximately 9.6% of the net proceeds, or HK\$240.8 million, for funding a variety of marketing and branding activities to expand user base and promote brand image, including organization of *A-Tech Forum* and other regional symposia focusing on specific products and technologies, attendance at academic conferences and industry exhibitions, sponsorship of national events, promotion of Yulong Plan (育龍計劃) in collaboration with China Oral Health Foundation, and various marketing and branding campaigns targeting prospective users.
- approximately 6.2% of the net proceeds, or HK\$155.5 million, for optimizing our medical services by (1) establishing seven additional regional demonstration centers to improve the accessibility of our medical services offline and provide dental professionals with regular in-the-field training in application of our solutions, and (2) cultivating medical talent through joint programs in collaboration with China's prestigious higher education institutions in China.

We intend to extend the network of our demonstration centers to Beijing, Shenzhen, Chengdu, Xi'an, Wuhan, Chongqing and Nanjing. We believe that the addition to demonstration centers is an integral part of our business expansion strategy and complements with other expansion initiatives. Unlike other forms of contact with dental professionals and patients, demonstration centers primarily serve the population in the surrounding area under an experiential setting and bolster our presence in the targeted city. Thus, selective addition to demonstration centers is a powerful tool to enhance our market position in certain regions. Through demonstration centers, we may provide training to dental professionals and enhance their understanding of our solutions and technological advantages. In addition, our demonstration centers have the potential to become a local hub for providing more responsive support to dental professionals, such as those required in medical design process. Moreover, demonstration centers provide patients with direct access to our products and services, which promotes their acceptance and adoption of our clear aligner treatment solutions.

In connection with our establishment of demonstration centers, we expect to recruit a total of eight dentists for each demonstration center, including at least three orthodontists, from 2021 to 2023. In selecting qualified dentists, we will primarily consider their academic background, professional experience, and their knowledge and skills in orthodontics and clear aligner treatment. We anticipate that the annual compensation for each dentist will range between RMB400,000 and RMB800,000, depending on their qualifications and expertise. In addition, we expect to hire approximately 15 to 20 supportive personnel, including nurses, assistants, and administrative and operational staff, for each demonstration center, whose compensation will vary depending on their job responsibilities.

FUTURE PLANS AND USE OF PROCEEDS

In addition, we believe that a sufficient supply of medical talents is crucial to our sustained ability to meet the increase in market demand for our solutions. In addition, a rich base of medical talent will allow us to provide greater and more comprehensive support to dental professionals with respect to their adoption and usage of our clear aligner treatment solutions, especially for GP dentists. By empowering more dental professionals through our underlying medical support, we are able to evoke the untapped market of the clear aligner industry and enhance our market position. To strengthen our medical design capacities, we plan to sponsor joint programs in collaboration with China's prestigious higher education institutions to cultivate medical talent. We plan to launch such joint programs with three to five institutions each year from 2021 to 2023 and incur expenses relating to scholarships and purchase of equipment; and

- approximately 4.7% of the net proceeds, or HK\$118.9 million, for working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed below or above the mid-point of the indicative price range. Any additional proceeds received from the exercise of the Over-allotment Option will also be allocated to the above purposes on a pro rata basis. In the event that the Over-allotment Option is exercised in full, we will receive net proceeds of HK\$2,898.7 million (after deducting the estimated underwriting commissions and other fees and expenses payable by us in connection with the Global Offering and assuming an Offer Price of HK\$160.00 per Share, being the mid-point of our indicative Offer Price range).

To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the net proceeds into short-term demand deposits with licensed banks or financial institutions so long as it is deemed to be in the best interests of our Company.

UNDERWRITING

HONG KONG UNDERWRITERS

Goldman Sachs (Asia) L.L.C.

China International Capital Corporation Hong Kong Securities Limited

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters.

The Global Offering comprises the Hong Kong Public Offering of initially 1,683,000 Hong Kong Public Offer Shares and the International Offering of initially 15,146,600 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed “Structure and Conditions of the Global Offering” as well as to the Over-Allotment Option (in the case of the International Offering).

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering initially 1,683,000 Hong Kong Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this document and the **GREEN** Application Form at the Offer Price.

Subject to (a) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be offered pursuant to the Global Offering as mentioned herein and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Public Offer Shares being offered which are not taken up under the Hong Kong Public Offering on and subject to the terms and conditions set out in this document, **GREEN** Application Form and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

For applicants applying under the Hong Kong Public Offering, this document and the **GREEN** Application Form contain the terms and conditions of the Hong Kong Public Offering. The International Offering is expected to be fully underwritten by the International Underwriters.

UNDERWRITING

Grounds for Termination

The Joint Global Coordinators may (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) in their sole and absolute discretion and upon giving joint notice in writing to our Company, terminate the Hong Kong Underwriting Agreement with immediate effect, if at any time prior to 8:00 a.m. on the Listing Date:

- (A) there develops, occurs, exists or comes into force:
- (a) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Singapore, the Cayman Islands, the United States, the United Kingdom, the European Union (or any member thereof) or Japan (each a “**Relevant Jurisdiction**”); or
 - (b) any change or development involving a prospective change, or any event or series of events likely to result in or representing a change or development involving a prospective change, in local, national, regional or international financial, political, military, industrial, economic, currency, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a change of the Hong Kong dollars or of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or
 - (c) any event or series of events or circumstances in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, earthquake, flooding, tsunami, volcanic eruption, civil commotion, riots, rebellion, public disorder, acts of war (whether declared or undeclared), acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, destruction of power plant, outbreak, escalation, mutation or aggravation of diseases, epidemics or pandemics including, but not limited to, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9, Ebola virus, Middle East respiratory syndrome (MERS), COVID-19 and such related/mutated forms, economic sanction, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in whatever form) political change, paralysis of government operations, interruption or delay in transportation, other industry action in or directly or indirectly affecting any Relevant Jurisdiction; or
 - (d) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities of generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or

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- (e) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Governmental Authority), New York (imposed at Federal or New York State level or other competent Governmental Authority (as defined in the Hong Kong Underwriting Agreement)), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- (f) any (i) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations (including, without limitation, a change of the Hong Kong dollars or RMB against any foreign currencies, a change in the system under which the value of the Hong Kong dollars is linked to that of the United States dollars or RMB is linked to any foreign currency or currencies), or (ii) any change or prospective change in Taxation (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (g) the issue or requirement to issue by the Company of a supplemental or amendment to the Prospectus, **GREEN** Application Form, preliminary offering circular or offering circular or other documents in connection with the offer and sale of the Shares pursuant to the Companies Ordinance or the Listing Rules or upon any requirement or request of the Stock Exchange or the SFC; or
- (h) any change or development involving a prospective change which has the effect of materialisation of any of the risks set out in the section headed “Risk Factors” in the Prospectus; or
- (i) any litigation or claim being threatened or instigated against any Group Company (as defined in the Hong Kong Underwriting Agreement) or any Director; or
- (j) any contravention by any Group Company, any Director of the Companies Ordinance, the PRC Company Law or the Listing Rules; or
- (k) non-compliance of the Prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Law;
- (l) any executive Directors, the chief executive officer or the chief financial officer of the Company vacating his or her office or any of them being charged with an indictable offence or prohibited by operation of Laws (as defined in the Hong Kong Underwriting Agreement) or otherwise disqualified from taking part in the management of a company; or
- (m) a governmental authority or a regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or other action or proceedings, or announcing an intention to investigate or take other action or proceedings, against any Group Company or any Director; or

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- (n) any order or petition for, or any demand by creditors for repayment of indebtedness before its maturity caused by event of default or a petition being presented for the winding-up or liquidation of any Group Company, or any Group Company making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any Group Company or a provisional liquidator, receiver or manager being appointed over all or part of the material assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company; or
- (o) a prohibition on the Company for whatever reason from allotting, issuing or selling the Shares (including the Over-allotment Option Shares (if any)) pursuant to the terms of the Global Offering; or
- (p) the imposition of sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction on the Company or any Group Company; or

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters): (A) is or will be or may be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of the Company or the Group as a whole or to the shareholders of the Company as a whole; or (B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or may make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C) makes or will make it or may make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the Prospectus, the **GREEN** Application Form, the Formal Notice (as defined in the Hong Kong Underwriting Agreement), the preliminary offering circular or the offering circular; or (D) have or may have the effect of making a part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (B) there has come to the notice of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters)
 - (a) that any statement contained in the offering documents, the operative documents, the preliminary offering circular and/or any notices, announcements, advertisements, communications issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) (collectively, the "**Offer Related Documents**") was or has become untrue, incomplete, incorrect or misleading or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Offer Related Documents are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole, except for the information of the Underwriters for use in the Offer Related Documents, namely, the marketing name, legal name, logo and address of such Underwriters; or

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- (b) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the Prospectus, and not having been disclosed in the offering documents, constitutes an omission of material facts therefrom; or
- (c) either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Company and CareCapital Orthotech Limited or (ii) any of the representations, warranties and undertakings given by the Company and CareCapital Orthotech Limited in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete or misleading; or
- (d) any event, act or omission which gives or is likely to give rise to any liability of the Company and CareCapital Orthotech Limited pursuant to the indemnities given by the Company and CareCapital Orthotech Limited under the Hong Kong Underwriting Agreement; or
- (e) any breach of any of the obligations of the Company and CareCapital Orthotech Limited under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (f) any breach of, or any event rendering any of the warranties untrue or incorrect or misleading in any material respect; or
- (g) any expert, whose consent is required for the issue of the Prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears, has withdrawn its respective consent (other than the Joint Sponsor) prior to the issue of the Prospectus; or
- (h) any material adverse change or prospective material adverse change or development involving a prospective material adverse change in the assets, business, general affairs, management, shareholder's equity, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of the Company and its subsidiaries, as a whole; or
- (i) Admission (as defined in the Hong Kong Underwriting Agreement) is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the Admission is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (j) the Company has withdrawn the offering documents (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

UNDERWRITING

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that no further Shares or securities convertible into Shares (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except for:

- (a) the issue of shares, the listing of which has been approved by the Stock Exchange, pursuant to a share option scheme under Chapter 17 of the Listing Rules;
- (b) any capitalization issue, capital reduction or consolidation or sub-division of Shares;
- (c) issue of Shares or securities pursuant to the Global Offering (including any exercise of the Over-Allotment Option); and
- (d) any other applicable circumstances provided under Rule 10.08 of the Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders within the CareCapital Group has undertaken to the Stock Exchange and to us that, except pursuant to the Global Offering (including the Over-allotment Option), it will not, and shall procure that none of its close associates will, without the prior written consent of the Stock Exchange or unless otherwise permitted under the Listing Rules:

- (a) at any time in the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner, provided that the above shall not prevent each of the Controlling Shareholders using securities of the Company beneficially owned by each of them as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance) for a bona fide commercial loan.
- (b) at any time in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests, or encumbrances in respect of, any of the Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he/she would cease to be a Controlling Shareholder of our Company.

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Note 2 to Rule 10.07(2) of the Listing Rules provides that Rule 10.07 does not prevent a Controlling Shareholder from using the Shares beneficially owned by it/him/her as security (including a charge or pledge) in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan.

Further, pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to us that, within the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is 6 months from the Listing Date:

- (a) when it pledges or charges any Shares beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us and the Stock Exchange of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us and the Stock Exchange of such indications.

We will inform the Stock Exchange as soon as we have been informed of the above matters, if any, by our Controlling Shareholders and disclose such matters as soon as possible after being so informed.

The equity interests held by HH Investors in the CareCapital Holdings will be subject to a lock-up period of 12 months upon the Listing.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by the Company

1.2 The Company has, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option (if any)), at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six Month Period**”), it will not, and will procure that other members of the Group will not (and CareCapital Orthotech Limited shall procure that the Company will not itself and will procure that other members of the Group not to), without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other equity securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represents the right to receive, or any warrants or other rights to purchase any share capital or other equity securities of the Company or such other member of the Group, as applicable), or deposit any share capital or other equity securities of the Company with a depositary in connection with the issue of depositary receipts; or

UNDERWRITING

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of the Shares or any other equity securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other equity securities of the Company); or
- (c) enter into any transaction with the same economic effect as any transaction described in Clause (a) or (b) above; or
- (d) offer to or agree to do any of the foregoing or announce any intention to do any of the transactions specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of share capital or such other equity securities, in cash or otherwise (whether or not the issue of such share capital or other equity securities will be completed within the First Six Month Period), except permissible under Rule 10.08 of the Listing Rules. The Company further agrees that, in the event the Company is allowed to enter into any of the transactions described in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction during the period of six months commencing on the date on which the First Six Month Period expires (the “**Second Six Month Period**”), it will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of the Company will, create a disorderly or false market for any Shares or other securities of the Company.

Undertakings by CareCapital Orthotech Limited, one of our Controlling Shareholders

CareCapital Orthotech Limited hereby undertakes to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option and the Stock Borrowing Agreement), without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, it will not, and will procure that none of its Associates will:

- (a) at any time during the First Six-Month Period, (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of its share capital or other securities of the Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of such share capital or securities or any interest therein, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or (iv) offer to or agree to do any of the foregoing or announce any intention to do so, in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise; and

UNDERWRITING

- (b) at any time during the Second Six-Month Period, enter into any of the transactions specified in paragraph (a)(i), (a)(ii), (a)(iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company; and

- (c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in paragraph (a)(i), (a)(ii), (a)(iii) above or offers to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company, provided that, subject to strict compliance with any requirements of applicable Laws (including, without limitation and for the avoidance of doubt, the requirements of the Stock Exchange or of the SFC or of any other relevant Governmental Authority), nothing in this paragraph (c) and paragraph (b) above shall prevent CareCapital Orthotech Limited from using equity securities of the Company beneficially owned by it as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155) of the laws of Hong Kong).

Indemnity

Each of the Company and CareCapital Orthotech Limited has agreed to indemnify each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer including, among other things, as a result of the Company’s breach of the provisions of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters’ Interests in our Company

Except for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interest in our Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

The International Offering

In connection with the International Offering, it is expected that the Company will enter into the International Underwriting Agreement with the International Underwriters on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-Allotment Option, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to subscribe for or purchase or procure subscribers or purchasers for their respective proportions of the International Offer Shares which are not taken up under the International Offering. See the section headed “Structure and Conditions of the Global Offering — The International Offering.”

UNDERWRITING

Over-Allotment Option

The Company is expected to grant to the International Underwriters the Over-Allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters during the 30-day period from the last day for lodging of applications under the Hong Kong Public Offering, which will end on Thursday, July 8, 2021, to require the Company to issue and allot up to an aggregate of 2,524,400 additional Offer Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations in the International Offering, if any. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed. See the section headed “Structure and Conditions of the Global Offering — The International Offering — Over-Allotment Option.”

Commissions and Expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 3.5% of the Offer Price of all the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission and other fees, if any. For unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, the Company will pay an underwriting commission at the rate applicable to the International Offering to the relevant International Underwriters (but not the Hong Kong Underwriters). The International Underwriters are expected to receive an underwriting commission of 3.5% of the Offer Price of the International Offer Shares. In addition, the Company may at its sole discretion pay any one of all of the Underwriters an additional incentive fee of up to an aggregate of no more than 1.0% of the Offer Price for each Offer Shares.

Based on an Offer Price of HK\$160.00 per Share, being the mid-point of the Offer Price range, the fees and commissions, the Stock Exchange trading fee and the SFC transaction levy payable by the Company in connection with the offering of the Shares under the Hong Kong Public Offering and the International Offering, together with the legal and other professional fees, printing and other expenses payable by us in relation to the Global Offering, are estimated to amount to approximately HK\$197.9 million in aggregate (assuming the Over-Allotment Option is exercised in full). Such fees, commissions, the Stock Exchange trading fee, the SFC transaction levy and the fees and expenses of professional advisors and service providers engaged in relation to the Global Offering are payable and borne by us.

Joint Sponsors' Fee

An amount of US\$500,000 is payable by the Company as sponsor fee to each of the Joint Sponsors.

Over-Allotment and Stabilization

Details of the arrangements relating to the Over-Allotment Option and stabilization are set forth in the section headed “Structure and Conditions of the Global Offering.”

INDEPENDENCE OF THE JOINT SPONSORS

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

UNDERWRITING

ACTIVITIES BY SYNDICATE MEMBERS

The Underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group’s loans and other debt.

In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in “*Structure and conditions of the Global Offering.*” Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager through its affiliates or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

UNDERWRITING

- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to us and our affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This document is published in connection with the Hong Kong Public Offering as part of the Global Offering.

16,829,600 Offer Shares will be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of 1,683,000 Shares (subject to adjustment in Hong Kong as described in the paragraph headed “— *The Hong Kong Public Offering*” below; and
- (b) the International Offering of an aggregate of initially 15,146,600 Shares (subject to adjustment and the Over-Allotment Option) (a) in the United States to QIBs in reliance on Rule 144A or another available exemption; and (b) outside the United States in reliance on Regulation S, as described in the paragraph headed “— *The International Offering*” below.

Investors may either:

- (a) apply for Hong Kong Public Offer Shares under the Hong Kong Public Offering; or
- (b) apply for or indicate an interest for International Offer Shares under the International Offering,

but may not do both.

The Offer Shares will represent approximately 10.2% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-Allotment Option is not exercised. If the Over-Allotment Option is exercised in full, the Offer Shares will represent approximately 11.5% of the total Shares in issue immediately following the completion of the Global Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

The Company is initially offering 1,683,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering. The number of Shares offered under the Hong Kong Public Offering, subject to any adjustment of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 1.02% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-Allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “— *Conditions of the Global Offering*” below.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Allocation

Allocation of the Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

For allocation purposes only, the total number of the Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools, pool A (being an aggregate of 841,600 Shares) and pool B (being an aggregate of 841,400 Shares). The Hong Kong Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) or less. The Hong Kong Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Public Offer Shares in one (but not both) of the pools are undersubscribed, such unsubscribed Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for the Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Public Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 841,400 Hong Kong Public Offer Shares, being approximately 50% of the 1,683,000 Hong Kong Public Offer Shares initially available under the Hong Kong Public Offering are liable to be rejected.

Reallocation and clawback

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached (“**Mandatory Reallocation**”):

- (a) 1,683,000 Offer Shares available in the Hong Kong Public Offering, representing approximately 10% of the Offer Shares initially available under the Global Offering;

in the event that the International Offer Shares are fully subscribed or oversubscribed

- (b) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering such that the total number of Offer Shares initially available under the Hong Kong Public Offering will be 5,049,000 Offer Shares, representing approximately 30% of the Offer Shares initially available under the Global Offering;

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (c) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering such that the total number of Offer Shares initially available under the Hong Kong Public Offering will be 6,732,000 Offer Shares, representing approximately 40% of the Offer Shares initially available under the Global Offering; and
- (d) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering such that the total number of Offer Shares initially available under the Hong Kong Public Offering will be 8,414,800 Offer Shares, representing approximately 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may reallocate the Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

In addition to any Mandatory Reallocation which may be required, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Joint Sponsors may, at their discretion, reallocate Offer Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering. In the event that (i) the International Offer Shares are undersubscribed and the Hong Kong Public Offer Shares are fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offer Shares are fully subscribed or oversubscribed and the Hong Kong Public Offer Shares are fully subscribed or oversubscribed as to less than 15 times of the number of Hong Kong Public Offer Shares initially available under the Hong Kong Public Offering **provided that** the Offer Price would be set at the bottom end of the indicative Offer Price range, being HK\$147.00, up to 1,683,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased to 3,366,000 Offer Shares, representing approximately 20.00% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-Allotment Option), in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offer Shares under the International Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$173.00 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed “— *Pricing of the Global Offering*” below, is less than the Maximum Offer Price of HK\$173.00 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “*How to apply for the Hong Kong Public Offer Shares.*”

References in this document to applications, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

Subject to reallocation as described above, the International Offering will consist of an offering of initially 15,146,600 Shares, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering and approximately 9.14% of the total Shares in issue immediately after the completion of the Global Offering, assuming the Over-Allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States only in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “— *Pricing of the Global Offering*” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and the Shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered the Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

Reallocation and clawback

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of, amongst others, the clawback arrangement described in the paragraph headed “— *The Hong Kong Public Offering — Reallocation and clawback*” above, the exercise of the Over-Allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Over-Allotment Option

In connection with the Global Offering, the Company is expected to grant an Over-Allotment Option to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-Allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require the Company to issue and allot up to an aggregate of 2,524,400 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover over-allocations in the International Offering, if any. If the Over-Allotment Option is exercised in full, the additional Offer Shares will represent approximately 1.50% of the total Shares in issue immediately following the completion of the Global Offering and the exercise of the Over-Allotment Option. In the event that the Over-Allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, a decline in the market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager through its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Shares for a limited period after the Listing Date at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager through its affiliates of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-Allotment Option. The Stabilizing Manager through its affiliates may close out the covered short position by either exercising the Over-Allotment Option to purchase additional Shares or purchasing Shares in the open market. In determining the source of the Shares to close out the covered short position, the Stabilizing Manager through its affiliates will consider, among others, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-Allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of the Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, **provided that** they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager through its affiliates or any person acting for it to conduct any such stabilizing action, which if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager through its affiliates or any person acting for it, (b) may be discontinued at any time, and (c) is required to be brought to an end within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering. The number of the Shares that may be over-allocated will not exceed the number of the Shares that may be sold and transferred pursuant to the exercise of the Over-Allotment Option, namely, 2,524,400 Offer Shares, which is approximately 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-Allotment Option is exercised.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares;
- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any deduction in the market price of the Shares;
- (c) subscribing, or agreeing to subscribe, for the Shares to be sold and transferred pursuant to the exercise of the Over-Allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;
- (e) selling or agreeing to sell any Shares to liquidate any position established as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager through its affiliates, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

Prospective applications for investors in the Offer Shares should note that:

- (a) as a result of effecting transactions to stabilize or maintain the market price of the Shares, the Stabilizing Manager through its affiliates, or any person acting for it, may maintain a long position in the Shares;
- (b) the size of the long position, and the period for which the Stabilizing Manager through its affiliates, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager through its affiliates and is uncertain;
- (c) liquidation of any such long position by the Stabilizing Manager through its affiliates and selling in the open market may lead to a decline in the market price of the Shares;
- (d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period, which begins on the Listing Date, and is expected to expire on Thursday, July 8, 2021, being the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and their market price, could fall after the end of the stabilizing period. These activities by the Stabilizing Manager through its affiliates may stabilize, maintain or otherwise affect the market price of the Shares. As a result, the price of the Shares may be higher than the price that otherwise may exist in the open market;

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (e) any stabilizing action taken by the Stabilizing Manager through its affiliates, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilizing period; and
- (f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at a price at or below the Offer Price and therefore at or below the price paid by applicants for, or investors in, the Offer Shares.

An announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it may choose to borrow up to 2,524,400 Shares, representing approximately 15% of the Offer Shares, from CareCapital Orthotech Limited to cover over-allocations (being the maximum number of additional Shares which may be allotted and issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercising of the Over-allotment Option.

If such Stock Borrowing Arrangement is entered into, the borrowing of Shares will only be effected by the Stabilizing Manager or any person acting for it for settlement of over-allocations in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, **provided that** the requirements set out in Rule 10.07(3) of the Listing Rules are complied with, being that (a) the Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering; (b) the maximum number of Shares to be borrowed from CareCapital Orthotech Limited pursuant to the Stock Borrowing Agreement is the maximum number of Shares that may be issued upon full exercise of the Over-Allotment Option; (c) the same number of Shares so borrowed must be returned to CareCapital Orthotech Limited or its nominees, as the case may be, on or before the third business day following the earlier of (i) the last day for exercising the Over-Allotment Option, and (ii) the day on which the Over-Allotment Option is exercised in full or such earlier time as may be agreed in writing between the parties; (d) the stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements; and (e) no payments will be made to CareCapital Orthotech Limited by the Stabilizing Manager in relation to the stock borrowing arrangement.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investor indications of interest in acquiring International Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Tuesday, June 8, 2021 and in any event on or before Thursday, June 10, 2021, by agreement among the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Offer Price will not be more than HK\$173.00 per Offer Share and is expected to be not less than HK\$147.00 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the bottom end of the indicative Offer Price range stated in this document.**

The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of the Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this document at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be posted on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.angelalign.com) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this document, and any other financial information which may change as a result of such reduction.

In the absence of any such notice so published, the number of Offer Shares will not be reduced and the Offer Price, if agreed upon with the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this document. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received, and all unconfirmed applications will not be valid.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, **provided that** the number of Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

The final Offer Price for Offer Shares under the Global Offering, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Public Offer Shares and the results of allocation in the Hong Kong Public Offering are expected to be announced on Tuesday, June 15, 2021 through a variety of channels in the manner described in the section headed *“How to apply for the Hong Kong Public Offer Shares — D. Publication of results.”*

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarized in the section headed “*Underwriting*.”

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (i) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and such approval not having been withdrawn;
- (ii) the Offer Price having been duly agreed among the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

In each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this document.

If, for any reason, the Offer Price is not agreed among the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Thursday, June 10, 2021, the Global Offering will not proceed and will lapse.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.angelalign.com) on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in the section headed “*How to apply for the Hong Kong Public Offer Shares.*” In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Tuesday, June 15, 2021 but will only become valid certificates of title at 8:00 a.m. on Wednesday, June 16, 2021 **provided that** (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “*Underwriting — Underwriting arrangements and expenses — The Hong Kong Public Offering — Grounds for Termination*” has not been exercised at or before that time.

DEALING IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, June 16, 2021, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, June 16, 2021. The Shares will be traded in board lots of 200 Shares each and the stock code of the Shares will be 6699.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

IMPORTANT NOTICE TO INVESTORS:

FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the “HKEXnews > New Listings > New Listing Information” section, and our website at www.angelalign.com. If you require a printed copy of this document, you may download and print from the website addresses above.

The contents of the electronic version of the document are identical to the printed document as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Public Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Public Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this document is available online at the website addresses above.

If you have any question about the application online via the **HK eIPO White Form** Service for the Hong Kong Public Offer Shares, you may call the enquiry hotline of our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at +852 3907 7333 during:–

- (i) 9:00 am to 9:00 pm from Thursday, June 3, 2021 to Friday, June 4, 2021;
- (ii) 9:00 am to 6:00 pm from Saturday, June 5, 2021 to Sunday, June 6, 2021;
- (iii) 9:00 am to 9:00 pm on Monday, June 7, 2021; and
- (iv) 9:00 am to 12:00 noon on Tuesday June 8, 2021.

A. APPLICATIONS FOR HONG KONG PUBLIC OFFER SHARES

1. How To Apply

We will not provide any printed application forms for use by the public.

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

To apply for Hong Kong Public Offer Shares, you may:

- (1) apply online via the **HK eIPO White Form** service in the **IPO App** (which can be downloaded by searching “**IPO App**” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp) or at www.hkeipo.hk; or
- (2) electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf; or
 - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request.

If you apply through channel (1) above, the Hong Kong Public Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Public Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. Who Can Apply

You can apply for Hong Kong Public Offer Shares if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States (within the meaning of Regulation S), and are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- are not an existing Shareholder and/or his/her/its close associate;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- are not a core connected person of the Company and will not become a core connected person of the Company immediately upon completion of the Global Offering; and
- have not been allocated and have not applied for or indicated interest in any Offer Share under the International Offering.

If you apply for Hong Kong Public Offer Shares online through the **HK eIPO White Form** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If an application is made by a person under a power of attorney, the Company and the Joint Global Coordinators, as the Company's agent, may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service for the Hong Kong Public Offer Shares.

If you are applying for the Hong Kong Public Offer Shares online by instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if:

- you are an existing beneficial owner of shares in the Company and/or any of its subsidiaries;
- you are a Director or chief executive of the Company and/or any of the Company's subsidiaries;
- you are a connected person of the Company or will become a connected person of the Company immediately upon completion of the Global Offering;
- you are an associate of any of the above persons; or
- you have been allocated or have applied for or indicated an interest in any International Offer Shares or otherwise participated in the International Offering.

3. Applying For Hong Kong Public Offer Shares

Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, apply online through the **HK eIPO White Form** service in the **IPO App** or on the designated website at www.hkeipo.hk.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Minimum Application Amount and Permitted Numbers

You may apply through the **HK eIPO White Form** service or give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 200 Hong Kong Public Offer Shares. Instructions for more than 200 Hong Kong Public Offer Shares must be in one of the numbers set out in the table. You are required to pay the amount next to the number you select. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

No. of Hong Kong Public Offer Shares applied for	Amount payable on application	No. of Hong Kong Public Offer Shares applied for	Amount payable on application	No. of Hong Kong Public Offer Shares applied for	Amount payable on application	No. of Hong Kong Public Offer Shares applied for	Amount payable on application
	HK\$		HK\$		HK\$		HK\$
200	34,948.66	8,000	1,397,946.57	60,000	10,484,599.26	450,000	78,634,494.45
400	69,897.33	9,000	1,572,689.89	70,000	12,232,032.47	500,000	87,371,660.50
600	104,845.99	10,000	1,747,433.21	80,000	13,979,465.68	600,000	104,845,992.60
800	139,794.66	15,000	2,621,149.82	90,000	15,726,898.89	700,000	122,320,324.70
1,000	174,743.32	20,000	3,494,866.42	100,000	17,474,332.10	800,000	139,794,656.80
2,000	349,486.64	25,000	4,368,583.03	150,000	26,211,498.15	841,400*	147,029,030.29
3,000	524,229.96	30,000	5,242,299.63	200,000	34,948,664.20		
4,000	698,973.28	35,000	6,116,016.24	250,000	43,685,830.25		
5,000	873,716.61	40,000	6,989,732.84	300,000	52,422,996.30		
6,000	1,048,459.93	45,000	7,863,449.45	350,000	61,160,162.35		
7,000	1,223,203.25	50,000	8,737,166.05	400,000	69,897,328.40		

* Maximum number of Hong Kong Public Offer Shares you may apply for.

4. Terms And Conditions Of An Application

By applying through the application channels specified in this document, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this document, in the **IPO App** or on the designated website under the **HK eIPO White Form** service, and agree to be bound by them;
- (iv) confirm that you have received and read this document and have relied only on the information and representations contained in this document in making your application and will not rely on any other information or representations except those in any supplement to this document;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- (v) confirm that you are aware of the restrictions on the Global Offering set out in this document;
- (vi) agree that none of the Company, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, any of them or the Company's respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering (the "**Relevant Persons**") and the **HK eIPO White Form** Service Provider is or will be liable for any information and representations not in this document (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- (viii) agree to disclose to the Company, the Hong Kong Branch Share Registrar, the receiving bank and the Relevant Persons any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company nor the Relevant Persons will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this document, in the **IPO App** or on the designated website under the **HK eIPO White Form** service;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of HKSCC Nominees on the Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instruction and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- (xvi) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xvii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service by you or by any one as your agent or by any other person; and
- (xviii) (if you are making the application as an agent for the benefit of another person) warrant that
 - (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC; and
 - (ii) you have due authority to give **electronic application instructions** on behalf of that other person as their agent.

5. Applying Through The HK eIPO White Form Service

General

Individuals who meet the criteria in the paragraph headed “— 2. *Who Can Apply*” in this section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the **IPO App** or the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are in the **IPO App** or on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the **IPO App** or the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this document, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

If you have any questions on how to apply through the **HK eIPO White Form** service for the Hong Kong Public Offer Shares, please contact the telephone enquiry line of our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at +852 3907 7333 which is available on the following dates:

Thursday, June 3, 2021 — 9:00 a.m. to 9:00 p.m.
Friday, June 4, 2021 — 9:00 a.m. to 9:00 p.m.
Saturday, June 5, 2021 — 9:00 a.m. to 6:00 p.m.
Sunday, June 6, 2021 — 9:00 a.m. to 6:00 p.m.
Monday, June 7, 2021 — 9:00 a.m. to 9:00 p.m.
Tuesday, June 8, 2021 — 9:00 a.m. to 12:00 noon

Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application through the **HK eIPO White Form** service in the **IPO App** or at www.hkeipo.hk (24 hours daily, except on the last day for applications) from 9:00 a.m. on Tuesday, June 3, 2021 until 11:30 a.m. on Tuesday, June 8, 2021 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, June 8, 2021, the last day for applications, or such later time under the paragraph headed “— C. *Effect of bad weather and/or Extreme Conditions on the opening and closing of the application lists*” in this section.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

The Hong Kong Share Registrar would record all applications into its system and identify suspected multiple applications with identical names, identification document numbers and reference numbers according to the Best Practice Note on Treatment of Multiple/Suspected Multiple Applications (“**Best Practice Note**”) issued by the Federation of Share Registrars Limited.

With regard to the announcement of results of allocations under the section headed “Results of Applications Made by Giving Electronic Application Instructions to HKSCC via CCASS”, the list of identification document number(s) is not a complete list of successful applicants, only successful applicants whose identification document numbers are provided by CCASS are disclosed. Applicants who applied for the Offer Shares through their brokers can consult their brokers to enquire about their application results.

Since applications are subject to personal information collection statements, beneficial owner identification codes displayed are redacted. Applicants with beneficial names only but not identification document numbers are not disclosed due to personal privacy issue.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this document acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

6. Applying By Giving Electronic Application Instructions To HKSCC Via CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "*An Operating Guide for Investor Participants*" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares and an application is made by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this document;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the **electronic application instruction** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees name on the Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this document and agree to be bound by them;
- confirm that you have received and read a copy of this document and have relied only on the information and representations in this document in causing the application to be made, save as set out in any supplement to this document;
- agree that none of the Company or the Relevant Persons is or will be liable for any information and representations not contained in this document (and any supplement to it);
- agree to disclose to the Company, the Hong Kong Branch Share Registrar, the receiving bank and the Relevant Persons any personal data which they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Company, and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this document. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this document under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this document;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the results of the Hong Kong Public Offering;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Public Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this document.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Time for Inputting Electronic Application Instructions¹

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, June 3, 2021 – 9:00 a.m. to 8:30 p.m.
Friday, June 4, 2021 – 8:00 a.m. to 8:30 p.m.
Monday, June 7, 2021 – 8:00 a.m. to 8:30 p.m.
Tuesday, June 8, 2021 – 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, June 3, 2021 until 12:00 noon on Tuesday, June 8, 2021 (24 hours daily, except on Tuesday, June 8, 2021, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, June 8, 2021, the last day for applications or such later time as described in the paragraph headed “— *C. Effect of bad weather and/or Extreme Conditions on the opening and closing of the application lists*” in this section.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this document acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Personal Data

The following Personal Information Collection Statement applies to any personal data held by the Company, the Hong Kong Branch Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By giving **electronic application instructions** to HKSCC, you agree to all of the terms of the Personal Information Collection Statement below.

¹ These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Personal Information Collection Statement

This Personal Information Collection Statement informs the applicant for, and holder of, Hong Kong Public Offer Shares, of the policies and practices of the Company and the Hong Kong Branch Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Public Offer Shares to supply correct personal data to the Company or its agents and the Hong Kong Branch Share Registrar when applying for the Hong Kong Public Offer Shares or transferring the Hong Kong Public Offer Shares into or out of their names or in procuring the services of the Hong Kong Branch Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Public Offer Shares being rejected, or in delay or the inability of the Company or the Hong Kong Branch Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Public Offer Shares which you have successfully applied for and/or the dispatch of Share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Public Offer Shares inform the Company and the Hong Kong Branch Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund cheque and e-Auto Refund payment instruction(s), where applicable, verification of compliance with the terms and application procedures set out in this document and announcing results of allocation of the Hong Kong Public Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of the Shares including, where applicable, HKSCC Nominees;
- maintaining or updating the register of members of the Company;
- verifying identities of the holders of the Shares;
- establishing benefit entitlements of holders of the Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from the Company and its subsidiaries;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- compiling statistical information and profiles of the holder of the Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong Branch Share Registrar to discharge their obligations to holders of the Shares and/or regulators and/or any other purposes to which the holders of the Shares may from time to time agree.

Transfer of personal data

Personal data held by the Company and the Hong Kong Branch Share Registrar relating to the holders of the Hong Kong Public Offer Shares will be kept confidential but the Company and the Hong Kong Branch Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- the Company's appointed agents such as financial advisers, receiving banks and overseas principal share registrar;
- where applicants for the Hong Kong Public Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Company or the Hong Kong Branch Share Registrar in connection with their respective business operation;
- the Hong Kong Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Public Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

The Company and the Hong Kong Branch Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Public Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Hong Kong Public Offer Shares have the right to ascertain whether the Company or the Hong Kong Branch Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. The Company and the Hong Kong Branch Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to the Company and the Hong Kong Branch Share Registrar, at their registered address disclosed in the section headed "*Corporate information*" in this document or as notified from time to time, for the attention of the company secretary, or the Hong Kong Branch Share Registrar for the attention of the privacy compliance officer.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

7. Warning For Electronic Applications

The application for the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic applications. The Company, the Relevant Persons and the **HK eIPO White Form** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allocated any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems.

8. How Many Applications Can You Make

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange. “**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

B. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The maximum Offer Price is HK\$173.00 per Offer Share. You must pay the maximum Offer Price, brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% in full upon application for the Hong Kong Public Offer Shares under the terms set out in the paragraph “— *Minimum Application Amount and Permitted Numbers*” in this section. This means that for one board lot of 200 Hong Kong Public Offer Shares, you will pay HK\$34,948.66.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 200 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 200 Hong Kong Public Offer Shares must be in one of the numbers set out in the paragraph “— *Minimum Application Amount and Permitted Numbers*” in this section, or as otherwise specified in the **IPO App** or on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “*Structure and conditions of the Global Offering — Pricing of the Global Offering*” in this document.

C. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open or close if there is:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 8, 2021. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings and/or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, June 8, 2021 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed “Expected timetable” in this document, an announcement will be made in such event.

D. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Public Offer Shares on Tuesday, June 15, 2021 on the Company’s website at www.angelalign.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.angelalign.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Tuesday, June 15, 2021;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- from the “IPO Results” function in the **IPO App** and the designated results of allocations website at www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, June 15, 2021 to 12:00 midnight on Monday, June 21, 2021;
- from the allocation results telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, June 15, 2021, to Friday, June 18, 2021.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “*Structure and conditions of the Global Offering*” in this document.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

E. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG PUBLIC OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allocated to you:

- (i) If your application is revoked:

By applying through giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this document under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person’s responsibility for this document.

If any supplement to this document is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allocation of Hong Kong Public Offer Shares is void:

The allocation of Hong Kong Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offer Shares;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the **IPO App** or on the designated website at www.hkeipo.hk;
- your payment is not made correctly;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believes or believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

F. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$173.00 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering as set out in the section headed “*Structure and conditions of the Global Offering — Conditions of the Global Offering*” in this document are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Tuesday, June 15, 2021.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

G. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application.

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Tuesday, June 15, 2021. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, June 16, 2021, **provided that** the Global Offering has become unconditional in all respects at or before that time and the right of termination described in the section headed "*Underwriting*" has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.

Personal Collection

(i) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 or more Hong Kong Public Offer Shares through the **HK eIPO White Form** service, and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, June 15, 2021, or such other place or date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, it/they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares through the **HK eIPO White Form** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, June 15, 2021 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

(ii) *If you apply via Electronic Application Instructions to HKSCC*

Allocation of Hong Kong Public Offer Shares

- For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, June 15, 2021, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Public Offering in the manner specified in the paragraph headed "*D. Publication of Results*" in this section on Tuesday, June 15, 2021. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, June 15, 2021 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, June 15, 2021. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, June 15, 2021.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

H. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ANGELALIGN TECHNOLOGY INC., GOLDMAN SACHS (ASIA) L.L.C. AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of Angelalign Technology Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-63, which comprises the consolidated statements of financial position of the Group as at December 31, 2018, 2019 and 2020, the Company's statements of financial position as at December 31, 2018, 2019 and 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended December 31, 2018, 2019 and 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-63 forms an integral part of this report, which has been prepared for inclusion in the Prospectus of the Company dated June 3, 2021 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at December 31, 2018, 2019 and 2020 and the consolidated financial position of the Group as at December 31, 2018, 2019 and 2020 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES") AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to Note 30 to the Historical Financial Information which states that no dividends have been paid by the Angelalign Technology Inc. in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

June 3, 2021

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of the Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31,		
		2018	2019	2020
		RMB'000	RMB'000	RMB'000
Revenue	5	488,483	645,898	816,528
Cost of revenue	7	(176,765)	(228,756)	(241,479)
Gross profit		311,718	417,142	575,049
Selling and marketing expenses	7	(81,439)	(122,645)	(148,835)
Administrative expenses	7	(107,702)	(136,544)	(154,423)
Research and development expenses	7	(50,163)	(80,905)	(93,479)
Net impairment losses on financial assets	3.1(b)	(3,684)	(2,512)	(10,148)
Other income	6	4,608	8,804	22,625
Other expenses	6	–	(2,000)	(6,000)
Other gains – net	6	1,933	2,851	3,096
Operating profit		75,271	84,191	187,885
Finance income	9	1,223	1,791	4,153
Finance costs	9	(1,354)	(1,142)	(1,154)
Finance (costs)/income – net		(131)	649	2,999
Share of results of investments accounted for using the equity method	20	(363)	(348)	347
Profit before income tax		74,777	84,492	191,231
Income tax expense	10	(16,591)	(16,827)	(40,299)
Profit for the year		58,186	67,665	150,932
Profit attributable to				
– Owners of the Company		59,758	68,837	150,689
– Non-controlling interests		(1,572)	(1,172)	243
		58,186	67,665	150,932
Other comprehensive income				
<i>Items that may be subsequently reclassified to profit or loss</i>				
Currency translation differences		89	396	(1,241)
Total comprehensive income for the year		58,275	68,061	149,691
Total comprehensive income for the year attributable to:				
– Owners of the Company		59,823	69,231	149,681
– Non-controlling interests		(1,548)	(1,170)	10
		58,275	68,061	149,691
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)				
– Basic	11	0.49	0.59	1.26
– Diluted	11	0.43	0.50	1.04

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at December 31,		
		2018 RMB'000	2019 RMB'000	2020 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	12	55,046	84,338	105,299
Right-of-use assets	13	16,432	80,795	70,759
Intangible assets	14	13,692	9,330	6,188
Investments accounted for using the equity method	20	3,438	13,681	13,848
Prepayments for non-current assets	16	6,578	1,691	764
Deferred income tax assets	29	4,501	7,379	9,573
		<u>99,687</u>	<u>197,214</u>	<u>206,431</u>
Current assets				
Inventories	18	21,663	22,827	19,914
Trade and other receivables	16	107,423	97,816	101,693
Amounts due from related parties	35	27,712	30,235	4,523
Cash and cash equivalents	17	216,015	504,697	877,578
		<u>372,813</u>	<u>655,575</u>	<u>1,003,708</u>
Total assets		<u>472,500</u>	<u>852,789</u>	<u>1,210,139</u>
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital and premium	21	–	–	486,669
Shares held for employee share scheme	21	(54,994)	(54,994)	(29,529)
Other reserves	23	240,034	307,823	(22,135)
(Accumulated losses)/retained earnings	24	(18,530)	44,589	66,698
		<u>166,510</u>	<u>297,418</u>	<u>501,703</u>
Non-controlling interests		<u>(2,958)</u>	<u>(4,039)</u>	<u>(4,029)</u>
Total equity		<u>163,552</u>	<u>293,379</u>	<u>497,674</u>
Liabilities				
Non-current liabilities				
Amounts due to related parties	35	4,415	4,415	–
Contract liabilities	26	45,856	65,445	18,924
Lease liabilities	27	8,838	13,353	5,543
Deferred income	28	683	5,124	6,280
Deferred income tax liabilities	29	–	–	6,000
		<u>59,792</u>	<u>88,337</u>	<u>36,747</u>
Current liabilities				
Trade and other payables	25	128,650	205,881	238,587
Amounts due to related parties	35	1,775	1,876	5,940
Contract liabilities	26	109,151	238,898	399,692
Current income tax liabilities		1,503	14,496	22,274
Lease liabilities	27	7,995	9,517	8,625
Deferred income	28	82	405	600
		<u>249,156</u>	<u>471,073</u>	<u>675,718</u>
Total liabilities		<u>308,948</u>	<u>559,410</u>	<u>712,465</u>
Total equity and liabilities		<u>472,500</u>	<u>852,789</u>	<u>1,210,139</u>

STATEMENTS OF FINANCIAL POSITION

	Note	As at December 31,		
		2018	2019	2020
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Investment in a subsidiary	36(a)	–	–	447,971
Current assets				
Cash and cash equivalents	36(b)	–	–	42,674
Prepayments	36(c)	3,503	3,725	6,924
		3,503	3,725	49,598
Total assets		<u>3,503</u>	<u>3,725</u>	<u>497,569</u>
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital and premium	21	–	–	486,669
Other reserves	36(d)	(1)	(2)	4,056
Accumulated losses		(10,896)	(12,664)	(22,872)
Total (deficits)/equity		<u>(10,897)</u>	<u>(12,666)</u>	<u>467,853</u>
Liabilities				
Current liabilities				
Other payables	36(e)	14,383	16,312	29,457
Amounts due to related parties	36(f)	17	79	259
		14,400	16,391	29,716
Total liabilities		<u>14,400</u>	<u>16,391</u>	<u>29,716</u>
Total equity and liabilities		<u>3,503</u>	<u>3,725</u>	<u>497,569</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Note	Share capital and premium	Shares held for employee share scheme	Other reserves	Accumulated losses	Total	Non-controlling interests	Total equity
		RMB'000 (Note 21)	RMB'000 (Note 21)	RMB'000 (Note 23)	RMB'000 (Note 24)	RMB'000	RMB'000	RMB'000
Balance at January 1, 2018		–	(42,673)	210,054	(72,139)	95,242	(2,051)	93,191
Comprehensive income								
Profit for the year		–	–	–	59,758	59,758	(1,572)	58,186
Other comprehensive income								
– Currency translation differences		–	–	65	–	65	24	89
Total comprehensive income for the year . . .		–	–	65	59,758	59,823	(1,548)	58,275
Transactions with owners in their capacity as owners								
Issue of shares	21	–	–	–	–	–	–	–
Disposal of interests in subsidiaries without change of control	33	–	–	328	–	328	641	969
Equity-settled share-based payment transactions	22	–	(12,321)	23,438	–	11,117	–	11,117
Appropriation to statutory reserves	23	–	–	6,149	(6,149)	–	–	–
Total transactions with owners in their capacity as owners		–	(12,321)	29,915	(6,149)	11,445	641	12,086
Balance at December 31, 2018		–	(54,994)	240,034	(18,530)	166,510	(2,958)	163,552

	Attributable to owners of the Company						
	Share capital and premium	Shares held for employee share scheme	Other reserves	(Accumulated losses)/retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2019	-	(54,994)	240,034	(18,530)	166,510	(2,958)	163,552
Comprehensive income							
Profit for the year	-	-	-	68,837	68,837	(1,172)	67,665
Other comprehensive income							
- Currency translation differences	-	-	394	-	394	2	396
Total comprehensive income for the year ...	-	-	394	68,837	69,231	(1,170)	68,061
Transactions with owners in their capacity as owners							
Disposal of a subsidiary	-	-	-	-	-	89	89
Equity-settled share-based payment transactions	-	-	61,677	-	61,677	-	61,677
Appropriation to statutory reserves	-	-	5,718	(5,718)	-	-	-
Total transactions with owners in their capacity as owners	-	-	67,395	(5,718)	61,677	89	61,766
Balance at December 31, 2019	-	(54,994)	307,823	44,589	297,418	(4,039)	293,379

	Attributable to owners of the Company							
	Share capital and premium	Shares held for employee share scheme		Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000					
	(Note 21)	(Note 21)	(Note 23)	(Note 24)				
Balance at January 1, 2020	–	(54,994)	307,823	44,589	297,418	(4,039)	293,379	
Comprehensive income								
Profit for the year	–	–	–	150,689	150,689	243	150,932	
Other comprehensive income	–	–	(1,008)	–	(1,008)	(233)	(1,241)	
– Currency translation differences	–	–	(1,008)	–	(1,008)	10	149,691	
Total comprehensive income for the year	–	–	(1,008)	150,689	149,681	–	149,691	
Transactions with owners in their capacity as owners								
Issue of shares pursuant to Reorganization	21	486,669	(443,921)	–	42,748	–	42,748	
Transfer of shares held for employee share scheme upon vesting	22(b)	–	25,465	–	–	–	–	
Contributions from the shareholders of the Company pursuant to the Reorganization	22(b)	–	49,537	–	49,537	–	49,537	
Dividends declared	30	–	–	(104,000)	(104,000)	–	(104,000)	
Equity-settled share-based payment transactions	22	–	66,319	–	66,319	–	66,319	
Appropriation to statutory reserves	23	–	24,580	(24,580)	–	–	–	
Total transactions with owners in their capacity as owners		486,669	(328,950)	(128,580)	54,604	–	54,604	
Balance at December 31, 2020		486,669	(29,529)	66,698	501,703	(4,029)	497,674	

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended December 31,		
		2018	2019	2020
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash generated from operations	31(a)	168,498	411,174	431,840
Income tax paid		(23,913)	(8,842)	(23,561)
Net cash generated from operating activities		144,585	402,332	408,279
Cash flows from investing activities				
Purchases of property, plant and equipment		(35,938)	(39,779)	(41,285)
Purchases of intangible assets		(9,090)	(535)	(383)
Purchases of right-of-use assets for land		–	(59,413)	–
Proceeds from disposal of property, plant and equipment	31(a)	930	1,164	304
Disposal of a subsidiary, net of cash disposed of	34	–	(1,096)	–
Investment in an associate		(3,500)	(3,500)	–
Investment in a joint venture		–	(4,179)	–
Purchases of financial assets at fair value through profit or loss	19	(350,000)	(588,000)	(1,310,000)
Proceeds from disposals of financial assets at fair value through profit or loss	19	395,322	590,512	1,314,235
Proceeds from maturity of investment in financial bonds		20,000	–	–
Loans provided to related parties		(27,200)	–	(1,000)
Loans repaid by related parties		–	–	26,700
Loans repaid by third parties		5,240	–	–
Interest received		2,174	1,791	4,153
Net cash used in investing activities		(2,062)	(103,035)	(7,276)
Cash flows from financing activities				
Repurchase of shares held for employee share scheme	22	(50,579)	–	–
Issue of shares	21	–	–	42,748
Contribution from the shareholders of the Company	22(b)	–	–	49,537
Dividend paid	30	–	–	(104,000)
Payments for listing expenses		(2,019)	(1,147)	(585)
Loans from related parties		76	218	77
Repayment of loans to related parties		(208)	(53)	(242)
Principal elements of lease payments		(8,317)	(9,199)	(9,733)
Interests paid for leases liabilities		(780)	(1,123)	(1,135)
Net cash used in financing activities		(61,827)	(11,304)	(23,333)
Net increase in cash and cash equivalents		80,696	287,993	377,670
Cash and cash equivalents at beginning of the year		134,051	216,015	504,697
Exchange gains/(losses) on cash and cash equivalents		1,268	689	(4,789)
Cash and cash equivalents at the end of the year		216,015	504,697	877,578

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 GENERAL INFORMATION, GROUP REORGANIZATION AND BASIS OF PREPARATION****1.1 General information**

Angelalign Technology Inc. (the "Company") was incorporated in the Cayman Islands on November 29, 2018 as an exempted company with limited liability under the Companies Act, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the clear aligner treatment solutions including treatment planning services, manufacturing and marketing of clear aligners (the "Listing Business") in the People's Republic of China ("PRC").

CareCapital Group is the ultimate holder of the Group which controlled the Listing Business as to 67.1242% as at the date of this report through CareCapital Orthotech Limited ("CareCapital Orthotech" formerly known as Rico Investments Limited), a company incorporated in Hong Kong.

1.2 Reorganization

Prior to the Reorganization (as defined below), the Listing Business was primarily operated by Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司, "Wuxi EA"), a limited liability company incorporated in the PRC, and its subsidiaries, with its 67.7896% equity interests held by CareCapital Orthotech.

In preparation for the initial public offering and the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), a group reorganization was undertaken under which the Listing Business was transferred to the Company (the "Reorganization"). The Reorganization mainly involved the followings:

(a) Incorporation of the Company

On November 29, 2018, the Company was established as a listing vehicle in the Cayman Islands as an exempted company with limited liability. On the same date, the Company issued one share of the Company with par value of USD0.01 each to Mapcal Limited at nominal value, which was transferred to CareCapital Orthotech on the same date.

(b) Transfer of registered share capital of Shanghai Tianzhi Dental Clinic Co., Ltd. (上海天智口腔門診部有限公司, "Shanghai Tianzhi") and Shanghai Junxiao Dental Clinic Co., Ltd. (上海君笑口腔門診部有限公司, "Shanghai Junxiao") to independent third parties

To comply with the foreign investment restrictions on clinics and hospitals under the PRC laws and regulations after the Reorganization, the Group transferred 30% the registered share capital of Shanghai Tianzhi and Shanghai Junxiao, both of which are wholly-owned subsidiaries principally engaged in dental clinics business, to an independent third party at a consideration of RMB0.9 million and RMB69,000, respectively, which were determined after arm's length negotiation and completed in December 2018.

(c) Onshore Share Purchase by CareCapital Orthotech

On December 17, 2020, CareCapital Orthotech purchased from the non-controlling shareholders of Wuxi EA all the outstanding 32.2104% equity interest in Wuxi EA at an aggregate consideration of USD11.38 million. The consideration was based on the initial consideration paid by such shareholders for acquisition of their respective equity interests in Wuxi EA, and was fully paid in December 2020. After such acquisition, CareCapital Orthotech became the sole shareholder of Wuxi EA. In consideration, 32.2104% shares of the Company were allotted and issued to these non-controlling shareholders (Note 1.2(e)).

(d) Issuance of Shares to CareCapital Orthotech

On December 21, 2020, CareCapital Orthotech transferred 100% equity interest in Wuxi EA held by it to the Company. On the same date, the Company issued a total of 999,999 new shares of the Company with par value of USD0.01 each to CareCapital Orthotech at nominal value, as the consideration for such acquisition. After such issuance, CareCapital Orthotech owned an aggregate of 1,000,000 shares of the Company with par value of USD0.01 each. Since then, Wuxi EA became a wholly owned subsidiary of the Company.

(e) *Issuance of Shares to Offshore Holding Companies*

For the Reorganization, seven offshore holding companies were established or used by certain of the directors, senior management and employees for the purpose of holding their respective corresponding equity interests in Wuxi EA prior to the Reorganization.

On December 21, 2020, the Company issued to such entities an aggregate of 475,152 shares of the Company with par value of USD0.01 each to reflect the respective equity interests of the beneficial owners of such entities in Wuxi EA, who are directors, senior management or employees of the Company, representing 32.2104% shares, comprising 15.8798% shares, 7.9452% shares, 0.95% shares, 0.4862% shares, 0.2682% shares, 2.8083% and 3.8727% shares of the Company to Sky Honour Enterprises Limited, which is wholly owned by Ms. LI Huamin, Vast Luck Global Limited, which is wholly owned by Mr. CHEN Kai, Ascend Benefit Limited, which is wholly owned by Mr. SONG Xin, Noble Affluent Limited, which is wholly owned by Mr. HUANG Kun, Macro Synergy Limited, which is wholly owned by Mr. MAO Yibin and Novel Boom Limited and All Beautiful Limited, respectively. All the considerations were fully paid by the respective companies.

Upon the completion of the Reorganization on December 21, 2020, the Company became the holding company of the companies now comprising the Group. The Company was owned as to 67.7896% by CareCapital Orthotech, and 32.2104% by certain directors, senior management and employees of the Group.

Upon the completion of the Reorganization and as of the date of this report, the Company has direct or indirect interests in the following subsidiaries during the Track Record Period and up to the date of this report, all of which are limited liability companies:

Name of subsidiaries	Place and date of incorporation/establishment	Principal activities and place of operation	Registered/issued and paid up capital	Effective equity interest held					Note
				As at December 31,			At the date of this report		
				2018	2019	2020	2020		
Directly held by the Company									
Wuxi EA	PRC, February 10, 2010	Product design, manufacturing, research and development of clear aligner treatment solutions, PRC	USD26,000,000/ USD26,000,000	100%	100%	100%	100%	100%	(i)
Indirectly held by the Company									
Beijing EA Bio-Tech Co., Ltd.* (北京時代天使生物科技有限公司, "Beijing EA")	PRC, June 27, 2003	Manufacture of clear aligner treatment solutions, PRC	RMB19,300,000/ RMB19,300,000	100%	100%	100%	100%	100%	(i), (iv)
Shanghai EA Medical Instruments Co., Ltd.* (上海時代天使醫療器械有限公司)	PRC, September 5, 2011	Product design, sales and marketing, research and development of clear aligner treatment solutions, PRC	RMB30,000,000/ RMB30,000,000	100%	100%	100%	100%	100%	(i)
Shuyang EA Medical Instruments Co., Ltd.* (淮陽時代天使醫療器械有限公司)	PRC, January 6, 2017	Sales and marketing of clear aligner treatment solutions, PRC	RMB1,000,000/ RMB1,000,000	100%	100%	100%	100%	100%	(i)
Wuxi Fuchi Management Consulting Co., Ltd.* (無錫富馳管理諮詢有限公司, "Wuxi Fuchi")	PRC, July 14, 2016	Investment holdings, PRC	RMB10,000,000/ RMB10,000,000	100%	100%	100%	100%	100%	(iii)
Shanghai Tianzhi	PRC, May 21, 2013	Dental clinics, PRC	RMB3,000,000/ RMB3,000,000	70%	70%	70%	70%	70%	(i)
Shanghai Junxiao	PRC, November 12, 2010	Dental clinics, PRC	RMB230,000/ RMB230,000	70%	N/A	N/A	N/A	N/A	(iii), (v)
China Target Management Company Limited	Hong Kong, January 11, 2016	Trading of raw materials, Hong Kong	HK\$12,449,701/ HK\$12,449,701	100%	100%	100%	100%	100%	(ii)
Gecho Holding GmbH	Germany, February 19, 2016	Research and development of clear aligner treatment solutions, Germany	EUR25,000/ EUR25,000	100%	100%	100%	100%	100%	(iii)
Smile Development Group Limited	Cayman, June 8, 2016	Investment holdings, Cayman	USD50,000/ USD50,000	67%	67%	67%	67%	67%	(iii)

Name of subsidiaries	Place and date of incorporation/establishment	Principal activities and place of operation	Registered/issued and paid up capital	Effective equity interest held			Note
				As at December 31,		At the date of this report	
				2018	2019	2020	
Smile Development Corp	United States, June 20, 2016	Research and development of clear aligner treatment solutions, United States	USD0.1/USD0.1	67%	67%	67%	(iii)
Wuxi EA Bio-Tech Co., Ltd.* (無錫時代天使生物科技有限公司)	PRC, July 11, 2018	Manufacturing, research and development of clear aligner treatment solutions, PRC	RMB200,000,000/ RMB160,800,000	100%	100%	100%	(i)
Guangzhou Xuhong Technology Co., Ltd.* (廣州旭弘科技有限公司)	PRC, July 12, 2018	Product design of clear aligner treatment solutions, PRC	RMB4,285,710/ RMB3,000,000	70%	70%	70%	(i)

Notes:

- (i) The statutory financial statements for the years ended December 31, 2018, 2019 and 2020 were audited by BDO China Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所(特殊普通合伙)).
- (ii) The statutory financial statements for the year ended December 31, 2018 and 2019 were audited by Moore Stephens CPA Limited.
- (iii) No audited statutory financial statements were prepared for those subsidiaries during the Track Record Period as they were not required to issue audited financial statements under the local statutory requirements.
- (iv) On February 26, 2010, Wuxi EA entered into various agreements ("Contractual Arrangements") with, among others, Beijing EA and its then registered equity holders, under which all economic benefits arising from the business of Beijing EA are transferred to Wuxi EA to the extent permitted by the PRC laws and regulations. Beijing EA was controlled through Contractual Arrangements and the Group does not have legal ownership in equity of Beijing EA. On April 1, 2018, Wuxi EA executed the exclusive option agreement in favor of Beijing EA, and legally obtained 100% equity interest in Beijing EA.
- (v) On January 1, 2019, the Group relinquished control over Shanghai Junxiao by virtue of shareholders resolution with its then non-controlling shareholder, under which all the matters within the authority of the shareholders meeting of Shanghai Junxiao shall be determined by both shareholders, which means the Group is unable to solely control the shareholders meeting of Shanghai Junxiao. Accordingly, the Group has deconsolidated Shanghai Junxiao from the date that control ceases on January 1, 2019 and recognized the remaining 70% interest in Shanghai Junxiao as investment accounted for using the equity method (Note 34).

* The English names of the subsidiaries represent management's best efforts in translating their Chinese names as they do not have official English names.

All companies comprising the Group have adopted December 31, as their financial year-end date.

1.3 Basis of presentation

Immediately prior to and after the Reorganization, the Listing Business is held by and mainly conducted through Wuxi EA and its subsidiaries. Pursuant to the Reorganization, Wuxi EA and the Listing Business were transferred to and held by the Company. The Company has not been involved in any business prior to the Reorganization and does not meet the definition of a business. The Reorganization is merely a recapitalization of the Listing Business, with no change in management of such business and the ultimate owners of the Listing Business remain the same. Accordingly, the Group resulting from the Reorganization is regarded as a continuation of the Listing Business under Wuxi EA and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of Wuxi EA and its subsidiaries, with the assets and liabilities of the Group recognized and measured at the carrying amounts of the Listing Business under the consolidated financial statements of Wuxi EA for all periods presented. Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Group has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

IFRS 16 "Leases" which is effective for annual periods beginning on or after January 1, 2019, is consistently applied to the Group for the Track Record Period.

(a) *New standards and interpretations not yet adopted*

Up to the date of issuance of this report, the following issued new standards and amendments to existing standards are not yet effective and have not been early adopted by the Group:

		<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 9, International Accounting Standards ("IAS") 39, IFRS 7, IFRS 4 and IFRS 16	Interest rate benchmark (IBOR) reform – phase 2	January 1, 2021
Amendments to IFRS 3	Reference to the conceptual framework	January 1, 2022
Amendments to IAS 16	Property, plant and equipment – proceeds before intended use	January 1, 2022
Amendments to IAS 37	Onerous contracts – Cost of fulfilling a contract	January 1, 2022
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual improvements to IFRS Standards 2018 to 2020	January 1, 2022
IFRS 17	Insurance contracts	January 1, 2023
Amendments to IAS 1	Classification of liabilities as current or non-current	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the directors, no significant impact on the financial performance and positions of the Group is expected when they become effective.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statements of financial position respectively.

(a) Business combination

The Group applies the acquisition method to account for business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary or a business comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

(b) *Contractual Arrangements*

On February 26, 2010, Wuxi EA entered into the Contractual Arrangements with Beijing EA and its registered equity holders, which enable Wuxi EA and the Group to:

- Exercise effective control over Beijing EA;
- Exercise equity holders' voting rights of Beijing EA;
- Receive substantially all of the economic interests and returns generated by Beijing EA in consideration for the business support, technical and consulting services provided by Wuxi EA, at the Wuxi EA's discretion;
- Obtain an irrevocable and exclusive right to purchase all equity interests in Beijing EA from its registered equity holders at a nominal consideration unless the relevant government authorities request that another amount be used as the purchase consideration and in which case the purchase consideration shall be such amount. Where the purchase consideration is required by the relevant government authorities to be an amount other than a nominal amount, the registered equity holders of Beijing EA shall return the amount of purchase consideration they have received to Wuxi EA. At Wuxi EA's request, the registered equity holders of Beijing EA will promptly and unconditionally transfer their respective equity interests Beijing EA to Wuxi EA (or its designee within the Group) after Wuxi EA exercises its purchase right. In addition, the Beijing EA are not allowed to sell, transfer, or dispose any assets, or make any distribution to their equity holders without prior consent of the Wuxi EA; and
- Obtain pledges over the entire equity interests in Beijing EA from its registered equity holders to secure, among others, performance of their obligations under the Contractual Arrangements.

The Group does not have any equity interest in Beijing EA before April 1, 2018, the date when Wuxi EA acquired the 100% equity interest in Beijing EA. However, as a result of the Contractual Arrangement, the Group has rights to variable returns from its involvement with Beijing EA and has the ability to affect those returns through its power over Beijing EA and is considered to control Beijing EA. Consequently, the Company regards Beijing EA as indirect subsidiary from accounting perspectives.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Beijing EA and such uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Beijing EA. The directors, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

(c) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or retained earnings.

2.2.2 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates and joint arrangements

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost.

Under IFRS 11 “Joint Arrangements”, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint venture. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost.

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.8.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources, assessing performance of the operating segments, and has been identified as the executive directors of the Company that make strategic decisions.

2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the Historical Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company is Hong Kong dollar. The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group during the Track Record Period are within the PRC, the Group determined to present its Historical Financial Information in RMB.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of comprehensive income within “other gains – net”.

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for the statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction); and
- (iii) all resulting exchange differences are recognized in other comprehensive income.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation, net of any impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

	<u>Estimated useful lives</u>
Buildings	20 years
Plant and machinery	5-10 years
Transportation equipment	5 years
Furniture, fixtures and equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amounts. These are included in the consolidated statements of comprehensive income.

Construction-in-progress (the "CIP") represents plant and machinery and leasehold improvements under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalized borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to relevant categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

2.7 Intangible assets

(a) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

(b) Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives from 5 to 10 years, which are the shorter of their expected economic benefit life and their contractual periods. Costs associated with maintenance of software programme is recognized as expenses as incurred.

(c) Patents

Expenditure on acquired patents is capitalized at historical cost upon acquisition. These costs are amortized using the straight-line method over their estimated useful lives of 5 to 20 years, which are the shorter of their expected economic benefit life and their contractual periods.

(d) Research and development

Research expenditure is recognized as expenses as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique intangible asset controlled by the Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the intangible asset include employee costs and an appropriate portion of relevant overheads. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use.

Other development expenditures that do not meet those criteria are recognized as expenses as incurred. Development costs previously recognized as expenses are not recognized as an asset in a subsequent period.

During the Track Record Period, there were no development costs meeting these criteria and capitalized as intangible assets.

2.8 Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.9 Financial assets**2.9.1 Classification**

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.9.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.9.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statements of comprehensive income.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to the consolidated statement of comprehensive income and recognized in other gains/(losses) – net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) – net and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.
- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented in 'other gains/(losses) – net' in the period in which it arises.

2.9.4 Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see Note 3.1(b) for further details.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position where the Group currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the assets and settle the liabilities simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.11 Inventories

Inventories comprise of raw materials, work in progress and finished goods, which are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost is determined using the weighted average method. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.12 Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognized as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognized as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for services provided in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 16 for further information about the Group's accounting for trade receivables and Note 3.1(b) for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 Share capital and shares held for employee share scheme

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

The consideration paid by the Company for repurchasing its shares from shareholders for employee share scheme purpose, including any directly attributable incremental cost, is presented as "shares held for employee share scheme" and deducted from total equity.

2.16 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate. For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred in the subsequent periods, the grant is recognized as deferred income, and recognized in the profit or loss over the periods in which the related costs are incurred; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognized in the profit or loss.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting profit or loss nor taxable ones are affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.19 Employee benefits

(a) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statements of financial position.

(b) *Employment obligations*

Pension obligations

The Group only operate defined contribution pension plans. In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the governments.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) *Bonus plan*

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within one year and are measured at the amounts expected to be paid when they are settled.

2.20 Share-based payments

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments (including share options) is recognized as an expense with a corresponding increase in equity.

In terms of the shares, equity instruments awarded to employees, the total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions (for example, the entity's share price),
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period), and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holdings shares for a specific period of time).

Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

The grant by the Company of equity instruments over its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the parent entity accounts.

When the share options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period. Furthermore, if the entity modifies the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred (other than a cancellation of some or all the equity instruments granted).

2.21 Provisions

Provisions are recognized when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditures expected required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provisions due to passage of time is recognized as interest expense.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the goods or services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales between group companies. The Group recognizes revenue when it transfers control of the goods or services to a customer.

(a) Revenue from rendering clear aligner treatment solutions

The Group's clear aligner treatment solutions typically comprise deliverables including treatment planning service and clear aligners which were transferred to public hospitals and private dental clinics, the Group's customers, by batches. The above deliverables as a whole in each solution service contract represent one performance obligation to the Group's customers. Since the Group's clear aligner treatment solutions do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date, revenue in respect of clear aligner treatment solutions is recognized over time during the period of the contract by reference to the progress towards complete satisfaction of respective performance obligations. The progress towards complete satisfaction of the performance obligation is measured by reference to the value of deliverables transferred to the customer to date relative to the remaining deliverables promised under each contract, which best depicts the Group's performance in satisfying the performance obligation.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers goods or services to the customer, the Group presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

In addition to direct sales, the Group's clear aligner treatment solutions are also distributed to public hospitals and private dental clinics through third-party distributors. These distributors possess the requisite business licenses and permits to sell medical devices in Mainland China and have established relationships with public hospitals and private dental clinics within their regions, therefore they are treated as the vendors of public hospitals and private dental clinics. The Group recognized its revenue from rendering clear aligner treatment solutions based on the wholesale prices as agreed with distributors.

(b) Revenue from rendering other services

The Group's revenue from rendering other dental related services mainly represents revenue from dental clinic services. Revenue from dental clinic services to patient is recognized over time in the accounting period in which the related services have been rendered. The patient normally receives out-patient treatment which contains various treatment components. Dental clinic services include (i) rendering of orthodontic and cosmetic dentistry services and (ii) rendering of other dental services. The Group allocates the transaction price to each performance obligation on relative stand-alone selling price basis.

Revenue from rendering of orthodontic and cosmetic dentistry services is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs the services. The progress towards complete satisfaction of the service on the basis of the staff costs and cost of inventories, consumables and customised products expended relative to the total expected costs to complete the service.

Revenue from rendering other dental services is recognized when the services have been rendered. Such dental services are generally completed within a very short period of time and the Group recognized revenue when the Group has satisfied its performance obligation and the collection of the consideration is probable.

2.23 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets. Interest income on financial assets at amortized cost and financial assets at FVOCI calculated using the effective interest method is recognized in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.24 Leases

The Group leases various properties for operation. Rental contracts are typically made for fixed periods of 1 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Leases are recognized as right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.25 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The Group's businesses are principally conducted in RMB. The majority of assets is denominated in RMB. The majority of non-RMB assets and liabilities are bank deposits, trade payables and other payables denominated in USD. The Group is subject to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities which are denominated in non-RMB and net investment in foreign operations.

The Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates. Cash repatriation from the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group did not have other significant exposure to foreign exchange risk.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective dates of consolidated statements of financial position are as follows:

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Assets			
USD	25,292	58,636	82,831
Liabilities			
USD	6,992	4,091	3,405
Others	–	143	39
	6,992	4,234	3,444

As at December 31, 2018, 2019 and 2020, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the pre-tax profit would have been approximately RMB915,000, RMB2,727,000 and RMB3,971,000 higher/lower for the years ended December 31, 2018, 2019 and 2020, respectively.

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents, details of which have been disclosed in Note 17. The directors of the Company do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of interest-bearing assets are not expected to change significantly.

The Group's exposure to changes in interest rates is also attributable to its amounts due to related parties carried at fixed rates, details of which have been disclosed in Note 35. Amounts due to related parties carried at fixed rates expose the Group to fair value interest-rate risk.

The Group closely monitors trend of interest rate and its impact on the Group's interest rate risk exposure. The Group currently has not used any interest rate swap arrangements.

(b) Credit risk

The Group is exposed to credit risk in relation to its trade and other receivables, amounts due from related parties, financial assets at fair value through profit or loss and cash deposits at banks. The carrying amounts of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

The Group expects that there is no significant credit risk associated with financial assets at fair value through profit or loss and cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group's trade receivables are mainly from providing clear aligner treatment solutions to hospitals, clinics and distributors. The Group implemented policies to ensure that sales are made to customers with an appropriate financial strength and appropriate percentage of down payments. The Group also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers, without any single customer contributing material revenue.

For other financial assets at amortized cost, management makes periodic collective assessments as well as individual assessment on the recoverability of such receivables based on historical settlement records and past experience.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- actual or expected significant changes in the operating results of the debtor
- significant increases in credit risk on other financial instruments of the same debtor
- significant changes in the expected performance and behavior of the debtor, including changes in the payment status of debtors in the Group and changes in the operating results of the debtor

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

<u>Category</u>	<u>Group definition of category</u>	<u>Basis for recognition of expected credit loss provision</u>
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are more than 90 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are more than 3 years past due and there is no reasonable expectation of recovery	Asset is written off

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

(i) Trade receivables

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before December 31, 2018, 2019 and 2020 respectively and the corresponding historical credit losses experienced within these periods. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The loss allowance provision as at December 31, 2018, 2019 and 2020 is determined as follows, the expected credit losses below also incorporate forward looking information.

	Within 60 days	61 to 180 days	181 to 365 days	1 to 2 years	2 to 3 years	Over 3 years	Total
Trade receivables							
At December 31, 2018							
Expected loss rate . . .	–	1.51%	2.22%	11.39%	58.50%	100.00%	
Gross carrying amount (RMB'000)	14,719	17,066	36,678	5,136	4,205	1,578	79,382
Loss allowance provision							
(RMB'000)	–	(257)	(816)	(585)	(2,460)	(1,578)	(5,696)
At December 31, 2019							
Expected loss rate . . .	–	1.50%	3.67%	11.07%	55.87%	100.00%	
Gross carrying amount (RMB'000)	23,562	19,887	9,946	13,001	2,710	4,586	73,692
Loss allowance provision							
(RMB'000)	–	(299)	(365)	(1,439)	(1,514)	(4,586)	(8,203)
At December 31, 2020							
Expected loss rate . . .	–	1.50%	6.27%	19.14%	79.09%	100.00%	
Gross carrying amount (RMB'000)	26,703	17,341	12,214	16,004	10,666	5,819	88,747
Loss allowance provision							
(RMB'000)	–	(260)	(766)	(3,063)	(8,436)	(5,819)	(18,344)

The loss allowance provision for trade receivables as at December 31, 2018, 2019 and 2020 reconciles to the opening loss allowance for that provision as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
At the beginning of the year	2,460	5,696	8,203
Provision for loss allowance recognized in profit or loss	3,236	2,507	10,141
At the end of the year	5,696	8,203	18,344

(ii) Other financial assets at amortized cost

Other financial assets at amortized cost mainly include amounts due from related parties and other receivables which mainly include deposits receivables and loans to third parties.

As at December 31, 2018, 2019 and 2020, the internal credit rating of such receivables was performing. The Group has assessed that there is no significant increase of credit risk for other receivables. Thus, the Group used the 12 months expected credit losses model to assess credit loss of other receivables. The directors believe that there is no material credit risk inherent in the Group's outstanding balance of amounts due from related parties and no loss allowances were recognized.

The loss allowance provision for other receivables (excluding prepayments) as at December 31, 2018, 2019 and 2020 reconciles to the opening loss allowance for that provision as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
At the beginning of the year	183	110	78
Provision for loss allowance recognized in profit or loss	448	5	7
Receivables written off as uncollectable	(521)	–	–
Disposal of a subsidiary	–	(37)	–
At the end of the year	110	78	85

During the Track Record Period, the provision for loss allowances were recognized in profit or loss in “net impairment losses on financial assets” in relation to the impaired trade and other receivables.

(c) *Liquidity risk*

To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expects to fund the future cash flow needs through internally generated cash flows from operations.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position dates to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2018					
Lease liabilities	8,756	5,305	4,073	–	18,134
Amounts due to related parties	1,794	19	57	4,490	6,360
Trade and other payables excluding non-financial liabilities	57,815	–	–	–	57,815
Total	68,365	5,324	4,130	4,490	82,309
As at December 31, 2019					
Lease liabilities	10,627	8,745	5,321	–	24,693
Amounts due to related parties	1,895	19	57	4,472	6,443
Trade and other payables excluding non-financial liabilities	108,110	–	–	–	108,110
Total	120,632	8,764	5,378	4,472	139,246
As at December 31, 2020					
Lease liabilities	9,214	5,408	311	–	14,933
Amounts due to related parties	5,948	–	–	–	5,948
Trade and other payables excluding non-financial liabilities	100,771	–	–	–	100,771
Total	115,933	5,408	311	–	121,652

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statements of financial position.

As at December 31, 2018, 2019 and 2020, the Group maintained at net cash position.

3.3 Fair value estimation

The Group made judgements and estimates in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1, 2 and 3 during the years ended December 31, 2018, 2019 and 2020.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and expected rate of return.

As at December 31, 2018, 2019 and 2020, the Group had no level 1 and level 2 financial instruments.

(a) Financial instruments in level 3

The following table presents the changes in level 3 instruments during the Track Record Period, respectively.

	Wealth management products with variable return		
	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Balance at beginning of the year	43,000	–	–
Additions	350,000	588,000	1,310,000
Realized fair value gains recognized in profit or loss	2,322	2,512	4,235
Disposals	(395,322)	(590,512)	(1,314,235)
Balance at end of the year	–	–	–

The unobservable inputs are expected return rate and discounted rate. The higher the expected return rate, the higher the fair value; the higher the discounted rate, the lower the fair value. For the years ended December 31, 2018, 2019 and 2020, the expected annual return rate of the investments in wealth management products with range from 2.30% to 4.50%.

The carrying amounts of the Group's financial assets and liabilities, including cash and cash equivalents, amounts due from related parties, trade and other receivables (excluding prepayments) less allowance for impairment, trade and other payables (excluding non-financial liabilities) and amounts due to related parties approximated their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Revenue recognition

Revenue from rendering clear aligner treatment solutions is recognized over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed up to date. The Group cannot change or substitute the deliverables in each solution contract or redirect the deliverables in each solution contract for another use as the deliverables in each solution contract are designed and custom-made for each specific patient based on his or her own orthodontic needs and teeth position and thus the deliverables in each solution contract do not have an alternative use to the Group. However, whether there is an enforceable right to payment depends on the terms of sales contract and the interpretation of the applicable laws that apply to the contract. Such determination requires significant judgements. In assessing whether the Group has an enforceable right to payment for its revenue contracts, the Group has obtained legal counsel's opinion regarding the enforceability of the right to payment, including an assessment on the contractual terms as well as any legislation that could supplement or override those contractual terms, and conducted an evaluation of any existence of circumstances that could restrict the Group to enforce its right to payment for specific performance. Management uses judgements, based on legal counsel's opinion, to classify whether sales contracts into those with right to payment. Management will reassess their judgements on a regular basis to identify and evaluate the existence of any circumstances that could affect the Group's enforceable right to payment and the implication of accounting for solution contracts.

The Group recognizes revenue from rendering clear aligner treatment solutions over time by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. The progress towards complete satisfaction of the performance obligation is measured using output method by reference to the value of deliverables transferred to the customer to date relative to the remaining deliverables promised under each contract. Significant judgements and estimations are required in determining the accuracy of progress towards complete satisfaction of the performance obligation of each contract at the reporting date, including value of deliverables transferred to the customer and remaining number of deliverables promised in each contract. Changing in value estimates in future periods can have effect on the Group's revenue recognized. In making the estimation of value transferred to the customer, the Group relies on generally accepted prices negotiated with its customers; while the Group estimates the remaining number of deliverables which are expected to be transferred for each solution case based upon its historical experience and actual.

(b) Impairment of non-financial assets

The Group tests annually whether goodwill has suffered any impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. The recoverable amounts of CGUs have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgements and estimates.

Judgement is required to determine key assumptions adopted in the valuation models for impairment review purpose. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated statements of comprehensive income.

(c) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment and consequently the related depreciation charges. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(d) Expected credit loss for trade and other receivables

The loss allowances for receivables based on assumptions about risk of default and expected loss rates. The Group used judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.1(b).

(e) Current tax and deferred tax

The Group is subject to income taxes in the PRC and other jurisdictions. Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and provisions in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred income tax assets may be recovered. Deferred tax assets are recognized based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

In accordance with the corporate income tax laws in the PRC, a 10% withholding tax will be levied on the dividend declared by the companies established in the PRC to their foreign investors starting from January 1, 2008. During the year ended December 31, 2020, the directors of the Company reassessed the dividend policy of Wuxi EA, its intermediate holding company established in the PRC, based on the Group's current business plan and financial position, certain retained earnings generated by Wuxi EA would be distributed to the Company and as such, deferred tax liabilities in this respect was provided in the year ended December 31, 2020 to the extent that such earnings are estimated by the directors of the Company to be distributed in the foreseeable future.

5 REVENUE AND SEGMENT INFORMATION

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Revenue from external customers is recognized over time and is derived from the rendering of:			
– Clear aligner treatment solutions	464,949	628,059	799,005
– Other services	23,534	17,839	17,523
Total revenue	488,483	645,898	816,528

The CODM identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments. An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

As a result of this evaluation, the CODM consider that the Group's operations are operated and managed as a single operating segment; accordingly no segment information is presented.

Geographical information

The Company is domiciled in the Cayman Islands while most of the Group's revenue and operating profit were generated in Mainland China, and the Group's identifiable assets and liabilities were substantially located in Mainland China, no geographical information is presented in accordance with IFRS 8 "Operating Segments".

Information about major customers

Since none of the Group's provision of services to a single customer amounting to 10% or more of the Group's total revenue for the Track Record Period, no major customer information is presented in accordance with IFRS 8 "Operating Segments".

(a) Unsatisfied long-term contracts

The following table shows unsatisfied performance obligations resulting from fixed-price long-term contracts:

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Within 1 year	152,799	283,030	457,142
Over 1 year	109,504	120,835	77,086
	262,303	403,865	534,228

Management expects that unsatisfied performance obligations of approximately RMB457,142,000 as at December 31, 2020 will be recognized as revenue within 1 year. The remaining unsatisfied performance obligations of approximately RMB77,086,000 will be recognized in 1 to 3 years.

All other contracts are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6 OTHER INCOME, OTHER EXPENSES AND OTHER GAINS – NET

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Other income			
Government grants	4,608	8,804	22,625
Other expenses			
Donations	–	(2,000)	(6,000)
Other gains – net			
Realized fair value gain of wealth management products . . .	2,322	2,512	4,235
Net foreign exchange gains/(losses)	429	161	(1,044)
Losses on disposals of intangible assets	(44)	–	–
Losses on disposals of property, plant and equipment	(728)	(218)	(265)
Losses on disposal of a subsidiary (Note 34)	–	(81)	–
Gains on early termination of lease contracts	–	57	10
Others	(46)	420	160
	1,933	2,851	3,096

7 EXPENSES BY NATURE

Expenses included in cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses are analyzed below:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Changes in inventories of finished goods and working in progress	(84)	(2,750)	1,309
Raw materials and consumables used	82,703	111,314	124,895
Employee benefit expenses (Note 8)	174,301	284,357	327,459
Advertising and promotion expenses	36,548	40,254	44,663
Depreciation and amortization	20,251	28,373	32,123
Professional service and consulting fees	19,458	18,158	23,282
Entertainment expenses	10,646	7,732	3,776
Delivery costs	8,255	15,189	17,645
Travelling expenses	7,249	9,058	7,945
Short-term lease and variable lease expenses	13,083	21,673	6,994
Outsourcing costs	6,440	4,675	4,701
Taxes and surcharges	4,757	5,447	7,534
Office expenses	2,715	3,955	3,561
Utility costs	1,426	2,614	2,811
Auditor's remuneration	584	660	337
Recruitment expenses	3,963	3,303	4,418
Listing expenses	10,510	664	9,958
Impairment provision of property, plant and equipment . . .	3,344	–	–
Others	9,920	14,174	14,805
	416,069	568,850	638,216

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Salaries, wages and bonuses	124,469	175,456	225,922
Share-based compensation expenses (Note 22)	23,438	61,677	66,319
Pension costs – defined contribution plans (Note (a))	8,741	13,696	4,836
Other social security costs, housing benefits and other employee benefits	17,653	33,528	30,382
	<u>174,301</u>	<u>284,357</u>	<u>327,459</u>

- (a) Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the employee salary to the scheme to fund the retirement benefits of the employees.

According to policies issued by the Ministry of Human Resources and Social Security and local municipal departments, affected by Coronavirus Disease 2019 (COVID-19), social security relief policies have been successively implemented by local authorities. As such, the social insurance expenses for the period from February 2020 to December 2020 have been reduced or exempted accordingly.

- (b) Five highest paid individuals

For the years ended December 31, 2018, 2019 and 2020, the five individuals whose emoluments were the highest in the Group included 2, 3 and 2 directors, respectively, whose emoluments are reflected in the analysis shown in Note 8(c), while the emoluments payable to the remaining 3, 2 and 3 individuals, respectively, are as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Salaries, wages and bonuses	5,309	1,710	4,426
Pension costs – defined contribution plans	147	82	49
Other social security costs, housing benefits and other employee benefits	131	84	184
Share-based compensation expenses	3,560	5,718	6,819
	<u>9,147</u>	<u>7,594</u>	<u>11,478</u>

The five highest paid individuals fell within the following bands:

Emolument bands	Year ended December 31,		
	2018	2019	2020
HK\$2,500,001–HK\$3,000,000	1	–	–
HK\$3,500,001–HK\$4,000,000	2	–	–
HK\$4,000,001–HK\$4,500,000	–	2	2
HK\$4,500,001–HK\$5,000,000	–	–	1
	<u>3</u>	<u>2</u>	<u>3</u>

(c) Directors' emoluments

The remuneration paid or payable to the directors of the Company (including emoluments for services as employee/directors of the group entities prior to becoming the directors of the Company) during the years ended December 31, 2018, 2019 and 2020 was as follows.

Name	Fees	Salaries, wages and bonuses	Share-based compensation expenses	Pension costs – defined contribution plans	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2018						
Executive directors						
Ms. LI Huamin	–	1,774	5,209	48	47	7,078
Mr. CHEN Kai	–	1,687	4,044	48	47	5,826
Non-executive directors						
Mr. FENG Dai	–	–	–	–	–	–
Mr. HUANG Kun	–	1,096	991	48	47	2,182
Mr. HU Jiezhong	–	–	–	–	–	–
	–	4,557	10,244	144	141	15,086
Year ended December 31, 2019						
Executive directors						
Ms. LI Huamin	–	1,890	17,666	49	56	19,661
Mr. CHEN Kai	–	1,797	12,980	49	56	14,882
Non-executive directors						
Mr. FENG Dai	–	–	–	–	–	–
Mr. HUANG Kun	–	764	2,087	49	56	2,956
Mr. HU Jiezhong	–	–	–	–	–	–
	–	4,451	32,733	147	168	37,499
Year ended December 31, 2020						
Executive directors						
Ms. LI Huamin	–	2,119	23,578	4	57	25,758
Mr. CHEN Kai	–	2,016	20,237	4	57	22,314
Non-executive directors						
Mr. FENG Dai	–	–	–	–	–	–
Mr. HUANG Kun	–	–	2,150	–	–	2,150
Mr. HU Jiezhong	–	–	–	–	–	–
	–	4,135	45,965	8	114	50,222

- (i) Mr. FENG Dai was appointed as non-executive director of the Company and chairman of the Board of the Company on November 29, 2018. Ms. LI Huamin and Mr. CHEN Kai were appointed as the executive directors of the Company on November 29, 2018. Mr. HUANG Kun and Mr. HU Jiezhong were appointed as the non-executive directors on November 29, 2018 and December 21, 2020, respectively. The remuneration shown above represents remuneration received and receivable from the Group by these executive directors and

non-executive directors in their capacity as employees or/and directors of the companies now comprising the Group. Mr. CHEN Kai resigned as an executive director of the Company with effect from April 17, 2021. Mr. SONG Xin was appointed as the executive director of the Company on April 21, 2021.

- (ii) No directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as a compensation for loss of office as director during the Track Record Period.
- (iii) No retirement benefits were paid to or receivable by any directors in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertaking during the Track Record Period.
- (iv) No payment was made to directors as compensation for the early termination of the appointment during the Track Record Period.
- (v) No payment was made to the former employers of directors for making available the services of them as a director of the Company during the Track Record Period.
- (vi) Save as disclosed in Note 22 and Note 35, no loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by and entities connected with such directors at the end of or at any time during the Track Record Period.
- (vii) Save as disclosed in Note 22 and Note 35, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the Track Record Period.

9 FINANCE (COSTS)/INCOME – NET

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Finance income:			
Interest income on bank deposits	1,060	1,791	4,153
Interest income derived from loans to third parties	49	–	–
Interest income on financial bonds	114	–	–
	<u>1,223</u>	<u>1,791</u>	<u>4,153</u>
Finance costs:			
Interest expense on lease liabilities	(780)	(1,123)	(1,135)
Interest expense on amounts due to related parties	(574)	(19)	(19)
Finance (costs)/income – net	<u>(131)</u>	<u>649</u>	<u>2,999</u>

10 INCOME TAX EXPENSE

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Current income tax			
– PRC corporate income tax	15,536	18,043	34,108
– Hong Kong profits tax	373	1,759	2,388
	<u>15,909</u>	<u>19,802</u>	<u>36,496</u>
Deferred income tax (Note 29)			
– PRC corporate income tax	682	(2,975)	(2,197)
– Withholding tax on undistributed profits (Note (e))	–	–	6,000
	<u>682</u>	<u>(2,975)</u>	<u>3,803</u>
	<u>16,591</u>	<u>16,827</u>	<u>40,299</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the standard tax rate applicable to profit to the respective companies of the Group as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Profit before income tax	74,777	84,492	191,231
Tax calculated at respective statutory tax rates	21,363	20,518	49,133
Tax effects of:			
– Preferential income tax rates applicable to subsidiaries . . .	(6,154)	(7,656)	(18,833)
– Income not subject to tax	–	20	–
– Utilization of unrecognized tax losses	(15)	(2)	–
– Expenses not deductible for taxation purposes	6,682	11,807	12,040
– Tax losses not recognized for deferred income tax	747	–	10
– Super deduction for research and development expenditure	(6,123)	(7,826)	(7,964)
– Share of results of investments accounted for using the equity method	91	(34)	(87)
– Withholding income tax on undistributed profits	–	–	6,000
	16,591	16,827	40,299

(a) Cayman Islands income tax

Under the prevailing laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. In addition, no Cayman Islands withholding tax is payable on dividend payments by the Company to its shareholders.

(b) PRC corporate income tax (“CIT”)

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowance. The general PRC CIT rate is 25% during the Track Record Period.

The Company's subsidiary, Wuxi EA, was approved as High and New Technology Enterprise (“HNTE”) under the relevant tax rules and regulations of the PRC in 2014 and it has renewed the qualification of HNTE in 2017 and 2020, and accordingly, is subject to a reduced preferential CIT rate of 15% during the Track Record Period.

The Company's subsidiary, Shanghai EA, was approved as HNTE under the relevant tax rules and regulations of the PRC in 2019, and accordingly, is subject to a reduced preferential CIT rate of 15% for years ended December 31, 2019 and 2020.

According to the CIT laws and Detailed Implementation Rules, an enterprise is allowed to claim an additional deduction of 50% of research and development expenses incurred for the development of new technologies, new products and new craftsmanship from 2008 onwards. From 2018 to 2020, according to Caishui [2018] No. 99 (財稅[2018]99號), an extra 75% of the actual amount of research and development expenses can be deducted before tax.

(c) Hong Kong profit tax

The Hong Kong profits tax rate of the subsidiary of the Group incorporated in Hong Kong is 16.5%.

(d) Other overseas income tax

The Germany company income tax rate of the subsidiary of the Group incorporated in Germany is 15%. The United States corporate income tax rate of the subsidiary of the Group incorporated in United States is 21%. No provision for Germany company income tax and United States company income tax was made as the Group did not have any assessable income subject to Germany company income tax and United States company income tax during the Track Record Period.

(e) Withholding tax

According to the relevant regulations of the corporate income tax laws of the PRC, when a foreign investment enterprise in the PRC distributes dividends out of the profits earned from January 1, 2008 onwards to its overseas investors, such dividends are subject to withholding tax at a rate of 10%.

11 EARNINGS PER SHARE

For the purpose of computing basic and diluted earnings per share, ordinary shares issued in the Reorganization were assumed to have been issued and allocated on January 1, 2018 as if the Company has been established by then.

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the Track Record Period.

The weighted average number of ordinary shares has been retrospectively adjusted for the effect of the issuance of shares in connection with the Reorganization completed on December 21, 2020 and the share subdivision completed on May 20, 2021 whereby each ordinary share was subdivided into 100 ordinary shares (Note 21(a)(v)).

	Year ended December 31,		
	2018	2019	2020
Profit attributable to owners of the Company (RMB'000) . . .	59,758	68,837	150,689
Weighted average number of ordinary shares outstanding . . .	120,868,500	117,621,800	119,513,700
Basic earnings per share (in RMB)	0.49	0.59	1.26

For the purpose of calculating the weighted average number of ordinary shares outstanding, the number of shares shown below has taken the share subdivision into account as the share subdivision was deemed to be effective since January 1, 2018, and:

- (i) The following shares issued during the Reorganization are treated as if they had been in effect and issued on January 1, 2018:
 - 100 shares issued on November 29, 2018, the date of incorporation of the Company; and
 - 99,999,900 shares issued on December 21, 2020 to CareCapital Orthotech.
- (ii) Out of 47,515,200 shares issued on December 21, 2020 to offshore holding companies controlled by certain directors, senior management and employees of the Group:
 - 17,621,800 shares issued to Ms. LI Huamin and Mr. CHEN Kai reflecting their shareholdings in Wuxi prior to January 1, 2018 were treated as if they were outstanding on January 1, 2018; and
 - The remaining 19,876,200 shares, 6,382,100 shares and 3,635,100 shares issued to certain directors, senior management and employees of the Group reflecting their respective shareholdings in Wuxi EA, which were purchased by the Group from the then shareholders of Wuxi EA and were granted on December 22, 2016, December 28, 2017 and November 22, 2018 under the Employee Share Award Scheme but unvested (Note 22(b)), were treated as treasury stocks and therefore excluded from the calculation of weighted average number of ordinary shares from January 1, 2018, January 1, 2018 and November 22, 2018, respectively, out of which 7,512,900 shares vested on September 30, 2020 were treated as if they were outstanding on September 30, 2020.
- (iii) The 1,002,300 shares offered to Wuxi Jinhe Venture Investment Co., Ltd. (無錫市金禾創業投資有限公司, "Wuxi Jinhe") on December 31, 2020; and
- (iv) Out of the 460,000 shares offered to offshore holding companies controlled by certain directors, senior management and employees of the Group issued on December 31, 2020:
 - 211,700 unvested shares held on behalf on the Company were excluded from the calculation of weighted average number of ordinary shares; and
 - The remaining 248,300 shares were treated as outstanding on December 31, 2020.

(b) Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares.

The Group has two categories of potential ordinary shares in the Track Record Period which were the shares held for employee scheme (Note 21) and the share options granted to a senior management on October 9, 2020 (Note 22(b)).

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding shares held for employee scheme and share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and the vest of the shares held for employee scheme.

	Year ended December 31,		
	2018	2019	2020
Profit attributable to owners of the Company (RMB'000) . . .	59,758	68,837	150,689
Weighted average number of ordinary shares in issue	120,868,500	117,621,800	119,513,700
Adjustments for share options and awarded shares	16,716,400	20,437,900	25,925,600
Weighted average number of ordinary shares for diluted earnings per share	137,584,900	138,059,700	145,439,300
Diluted earnings per share (in RMB)	0.43	0.50	1.04

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Transportation equipment	Furniture, fixtures and equipment	Leasehold improvements	CIP	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2018							
Cost	1,903	29,967	1,102	1,184	11,432	5,206	50,794
Accumulated depreciation	(23)	(14,765)	(801)	(521)	(3,463)	–	(19,573)
Accumulated impairment	–	(1,357)	–	–	–	–	(1,357)
Net book amount	1,880	13,845	301	663	7,969	5,206	29,864
Year ended December 31, 2018							
Opening net book amount	1,880	13,845	301	663	7,969	5,206	29,864
Additions	–	19,152	1,197	1,427	6,442	11,561	39,779
Transfers	–	7,870	–	–	2,862	(10,732)	–
Disposals	–	(1,621)	(32)	(5)	–	–	(1,658)
Depreciation	(90)	(5,605)	(260)	(278)	(3,362)	–	(9,595)
Impairment	–	(3,344)	–	–	–	–	(3,344)
Closing net book amount	1,790	30,297	1,206	1,807	13,911	6,035	55,046
At December 31, 2018							
Cost	1,903	50,442	1,666	2,502	20,736	6,035	83,284
Accumulated depreciation	(113)	(15,917)	(460)	(695)	(6,825)	–	(24,010)
Accumulated impairment	–	(4,228)	–	–	–	–	(4,228)
Closing net book amount	1,790	30,297	1,206	1,807	13,911	6,035	55,046
Year ended December 31, 2019							
Opening net book amount	1,790	30,297	1,206	1,807	13,911	6,035	55,046
Additions	4,735	19,002	–	3,480	1,568	15,778	44,563
Transfers	–	6,050	–	–	14,820	(20,870)	–
Disposal of a subsidiary	–	(263)	–	–	(224)	–	(487)
Other disposals	–	(1,231)	–	(151)	–	–	(1,382)
Depreciation	(267)	(6,560)	(247)	(789)	(5,539)	–	(13,402)
Closing net book amount	6,258	47,295	959	4,347	24,536	943	84,338
At December 31, 2019							
Cost	6,638	72,984	1,666	5,467	36,881	943	124,579
Accumulated depreciation	(380)	(21,639)	(707)	(1,120)	(12,345)	–	(36,191)
Accumulated impairment	–	(4,050)	–	–	–	–	(4,050)
Closing net book amount	6,258	47,295	959	4,347	24,536	943	84,338

	Buildings	Plant and machinery	Transportation equipment	Furniture, fixtures and equipment	Leasehold improvements	CIP	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2020							
Opening net book amount	6,258	47,295	959	4,347	24,536	943	84,338
Additions	–	8,671	–	1,005	1,718	27,657	39,051
Transfers	–	3,590	–	–	1,044	(4,634)	–
Disposals	–	(413)	–	(156)	–	–	(569)
Depreciation	(306)	(8,851)	(324)	(1,050)	(6,990)	–	(17,521)
Closing net book amount	<u>5,952</u>	<u>50,292</u>	<u>635</u>	<u>4,146</u>	<u>20,308</u>	<u>23,966</u>	<u>105,299</u>
At December 31, 2020							
Cost	6,638	76,378	1,666	6,178	39,661	23,966	154,487
Accumulated depreciation	(686)	(25,190)	(1,031)	(2,032)	(19,353)	–	(48,292)
Accumulated impairment	–	(896)	–	–	–	–	(896)
Closing net book amount	<u>5,952</u>	<u>50,292</u>	<u>635</u>	<u>4,146</u>	<u>20,308</u>	<u>23,966</u>	<u>105,299</u>

Depreciation expenses were charged to the following categories in the consolidated statements of comprehensive income:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Cost of revenue	4,565	6,544	10,122
Selling and marketing expenses	65	864	353
Administrative expenses	4,016	4,682	5,500
Research and development expenses	949	1,312	1,546
	<u>9,595</u>	<u>13,402</u>	<u>17,521</u>

During the year ended December 31, 2018, the impairment losses for property, plant and equipment of certain 3D printers amounting to approximately RMB3,344,000 have been recognized in the consolidated statements of comprehensive income. The recoverable amounts of these assets in aggregate are RMB239,000 based on their fair values less costs of disposal. Factors leading to the impairment mainly include the Group's plan to retire or obsolete gradually of these devices according to the further mandatory replacement pursuant to an agreement entered into with a 3D printing solution supplier following the change in technology.

13 RIGHT-OF-USE ASSETS

	Office premises	Land use rights	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2018			
Cost	15,635	–	15,635
Accumulated depreciation	(6,768)	–	(6,768)
Net book amount	<u>8,867</u>	<u>–</u>	<u>8,867</u>
Year ended December 31, 2018			
Opening net book amount	8,867	–	8,867
Additions	15,903	–	15,903
Depreciation	(8,338)	–	(8,338)
Closing net book amount	<u>16,432</u>	<u>–</u>	<u>16,432</u>
At December 31, 2018			
Cost	25,327	–	25,327
Accumulated depreciation	(8,895)	–	(8,895)
Net book amount	<u>16,432</u>	<u>–</u>	<u>16,432</u>

	Office premises	Land use rights	Total
	RMB'000	RMB'000	RMB'000
Year ended December 31, 2019			
Opening net book amount	16,432	–	16,432
Additions	17,506	59,413	76,919
Early termination of lease contracts	(1,522)	–	(1,522)
Disposal of a subsidiary	(667)	–	(667)
Depreciation	(9,373)	(994)	(10,367)
Closing net book amount	<u>22,376</u>	<u>58,419</u>	<u>80,795</u>
At December 31, 2019			
Cost	38,781	59,413	98,194
Accumulated depreciation	(16,405)	(994)	(17,399)
Net book amount	<u>22,376</u>	<u>58,419</u>	<u>80,795</u>
Year ended December 31, 2020			
Opening net book amount	22,376	58,419	80,795
Additions	1,606	–	1,606
Early termination of lease contracts	(565)	–	(565)
Depreciation	(9,889)	(1,188)	(11,077)
Closing net book amount	<u>13,528</u>	<u>57,231</u>	<u>70,759</u>
At December 31, 2020			
Cost	27,833	59,413	87,246
Accumulated depreciation	(14,305)	(2,182)	(16,487)
Net book amount	<u>13,528</u>	<u>57,231</u>	<u>70,759</u>

Depreciation expenses were charged to the following categories in the consolidated statements of comprehensive income:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Cost of revenue	3,605	4,493	4,852
Selling and marketing expenses	782	858	780
Administrative expenses	3,608	4,173	4,509
Research and development expenses	343	843	936
	<u>8,338</u>	<u>10,367</u>	<u>11,077</u>

14 INTANGIBLE ASSETS

	Goodwill	Software	Patents	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2018					
Cost	320	8,005	1,570	–	9,895
Accumulated amortization	–	(3,477)	(1,004)	–	(4,481)
Net book amount	<u>320</u>	<u>4,528</u>	<u>566</u>	<u>–</u>	<u>5,414</u>
Year ended December 31, 2018					
Opening net book amount	320	4,528	566	–	5,414
Additions	–	6,966	–	3,674	10,640
Disposals	–	(44)	–	–	(44)
Amortization	–	(1,674)	(119)	(525)	(2,318)
Closing net book amount	<u>320</u>	<u>9,776</u>	<u>447</u>	<u>3,149</u>	<u>13,692</u>
At December 31, 2018					
Cost	320	14,343	1,570	3,674	19,907
Accumulated amortization	–	(4,567)	(1,123)	(525)	(6,215)
Net book amount	<u>320</u>	<u>9,776</u>	<u>447</u>	<u>3,149</u>	<u>13,692</u>
Year ended December 31, 2019					
Opening net book amount	320	9,776	447	3,149	13,692
Additions	–	329	–	206	535
Disposal of a subsidiary	(293)	–	–	–	(293)
Amortization	–	(2,180)	(177)	(2,247)	(4,604)
Closing net book amount	<u>27</u>	<u>7,925</u>	<u>270</u>	<u>1,108</u>	<u>9,330</u>
At December 31, 2019					
Cost	27	14,672	1,570	3,880	20,149
Accumulated amortization	–	(6,747)	(1,300)	(2,772)	(10,819)
Net book amount	<u>27</u>	<u>7,925</u>	<u>270</u>	<u>1,108</u>	<u>9,330</u>
Year ended December 31, 2020					
Opening net book amount	27	7,925	270	1,108	9,330
Additions	–	383	–	–	383
Amortization	–	(2,300)	(117)	(1,108)	(3,525)
Closing net book amount	<u>27</u>	<u>6,008</u>	<u>153</u>	<u>–</u>	<u>6,188</u>
At December 31, 2020					
Cost	27	15,055	1,570	3,880	20,532
Accumulated amortization	–	(9,047)	(1,417)	(3,880)	(14,344)
Net book amount	<u>27</u>	<u>6,008</u>	<u>153</u>	<u>–</u>	<u>6,188</u>

Amortization expenses were charged to the following categories in the consolidated statements of comprehensive income:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Cost of revenue	1,201	905	909
Selling and marketing expenses	253	363	367
Administrative expenses	564	749	801
Research and development expenses	300	2,587	1,448
	<u>2,318</u>	<u>4,604</u>	<u>3,525</u>

15 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Financial assets			
Financial assets at amortized cost			
Cash and cash equivalents	216,015	504,697	877,578
Amounts due from related parties	27,712	30,235	4,523
Trade and other receivables excluding non-financial assets	80,930	70,631	75,963
	<u>324,657</u>	<u>605,563</u>	<u>958,064</u>
Financial liabilities			
Financial liabilities at amortized cost			
Trade and other payables excluding non-financial liabilities	57,815	108,110	100,771
Amounts due to related parties	6,190	6,291	5,940
Lease liabilities	16,833	22,870	14,168
	<u>80,838</u>	<u>137,271</u>	<u>120,879</u>

16 TRADE AND OTHER RECEIVABLES

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Included in current assets			
Trade receivables (Note a)			
– Due from third parties	79,031	73,611	88,369
– Due from related parties	351	81	378
	<u>79,382</u>	<u>73,692</u>	<u>88,747</u>
Less: allowance for impairment of trade receivables	(5,696)	(8,203)	(18,344)
	<u>73,686</u>	<u>65,489</u>	<u>70,403</u>
Other receivables (Note b)			
– Deposits receivables	3,018	3,059	3,008
– Staff advances	759	208	3
– Deductible input value-added tax	4,468	3,579	13
– Consideration from disposals of interests in subsidiaries without change of control	969	969	969
– Others	2,608	984	1,665
	<u>11,822</u>	<u>8,799</u>	<u>5,658</u>
Less: allowance for impairment of other receivables	(110)	(78)	(85)
	<u>11,712</u>	<u>8,721</u>	<u>5,573</u>
Prepayments for			
– Taxes	7,120	9,605	3,169
– Suppliers	11,402	10,276	15,624
– Listing expenses	3,503	3,725	6,924
	<u>22,025</u>	<u>23,606</u>	<u>25,717</u>
	<u>107,423</u>	<u>97,816</u>	<u>101,693</u>
Included in non-current assets			
Prepayments for acquisition of a joint venture	3,000	–	–
Prepayments for property, plant and equipment	3,578	1,691	764
	<u>6,578</u>	<u>1,691</u>	<u>764</u>

- (a) Trade receivables mainly arise from rendering of clear aligner treatment solutions. The Group generally received advances prior to the rendering of services or sales, while certain customers are mainly given a credit term of 30 to 60 days.

The following is an ageing analysis of trade receivables presented based on invoice date:

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Within 60 days	14,719	23,562	26,703
61 to 180 days	17,066	19,887	17,341
181 to 365 days	36,678	9,946	12,214
1 to 2 years	5,136	13,001	16,004
2 to 3 years	4,205	2,710	10,666
Over 3 years	1,578	4,586	5,819
	<u>79,382</u>	<u>73,692</u>	<u>88,747</u>

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9. Movements in the provision for impairment of trade receivables during the Track Record Period are disclosed in Note 3.1(b).

The Group's trade receivables were denominated in RMB.

- (b) All other receivables were unsecured, interest-free and collectable on demand.

17 CASH AND CASH EQUIVALENTS

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Cash at banks	215,960	504,665	877,568
Cash on hand	55	32	10
Cash and cash equivalents	<u>216,015</u>	<u>504,697</u>	<u>877,578</u>

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

- (a) Cash and cash equivalents were denominated in the following currencies:

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
RMB	190,266	445,550	794,299
USD	25,726	59,082	83,245
Others	23	65	34
	<u>216,015</u>	<u>504,697</u>	<u>877,578</u>

18 INVENTORIES

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
At cost:			
Raw materials	20,962	19,376	17,772
Work in progress	499	617	755
Finished goods	202	2,834	1,387
	<u>21,663</u>	<u>22,827</u>	<u>19,914</u>

The costs of inventories recognized in the consolidated statements of comprehensive income are disclosed in Note 7.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Wealth management products			
Balance at the beginning of the year	43,000	–	–
Additions	350,000	588,000	1,310,000
Realized fair value gain	2,436	2,512	4,235
Disposals	(395,436)	(590,512)	(1,314,235)
Balance at the end of the year	–	–	–

20 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Joint ventures (Note a)	–	6,958	7,269
Associate (Note b)	3,438	6,723	6,579
	3,438	13,681	13,848

(a) Investments in joint ventures

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Balance at the beginning of the year	–	–	6,958
Addition	–	7,179	–
Share of results of the joint ventures	(301)	(133)	491
Reclassification as amounts due to related parties	301	(88)	(180)
At the end of the year	–	6,958	7,269

(b) Investment in an associate

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Balance at the beginning of the year	–	3,438	6,723
Additions	3,500	3,500	–
Share of results of an associate	(62)	(215)	(144)
At the end of the year	3,438	6,723	6,579

- (c) Set out below are the associate and joint ventures of the Group as at December 31, 2018, 2019 and 2020. The associate and joint ventures as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the Group's proportion of ownership interest is the same as the proportion of voting rights held by the Group. None of the following associate and joint ventures is material to the Group. There were no contingent liabilities relating to the Group's interest in the joint ventures and associate as at December 31, 2018, 2019 and 2020.

Name	Place of incorporation	Percentage of ownership interest attributable to the Group			Nature of relationship	Principal activities
		As at December 31,				
		2018	2019	2020		
Guangzhou Yuelu Oral Cavity Company Limited	Guangdong Province, the PRC	30%	30%	30%	Associate	Dental clinics
Wuxi Beifurui Education Consulting Company Limited ("Wuxi Beifurui")	Jiangsu Province, the PRC	50%	50%	50%	Joint venture	Provision of education Consultancy and training services
Guangzhou Shengshi Oral Outpatient Department Company Limited	Guangdong Province, the PRC	–	40%	40%	Joint venture	Dental clinics
Shanghai Junxiao (Note 1.2(v), Note 34)	Shanghai, the PRC	N/A	70%	70%	Joint venture	Dental clinics

21 SHARE CAPITAL AND PREMIUM AND SHARES HELD FOR EMPLOYEE SHARE SCHEME

(a) Share capital and premium

	Number of ordinary shares	Nominal value of ordinary shares	Share capital	Share premium	Total
		USD			
Authorized:					
Ordinary shares of USD0.01 each November 29, 2018 (date of incorporation) (i)	5,000,000	50,000	–	–	–
At December 31, 2018, 2019 and 2020	<u>5,000,000</u>	<u>50,000</u>	<u>–</u>	<u>–</u>	<u>–</u>
Issued:					
At November 29, 2018 (incorporation date of the Company)	–	–	–	–	–
Issuance of ordinary shares (i)	<u>1</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At December 31, 2018 and 2019	<u>1</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At January 1, 2020	1	–	–	–	–
Issuance of ordinary shares to CareCapital Orthotech (ii)	999,999	10,000	65	300,932	300,997
Issuance of ordinary shares to non-controlling shareholders of Wuxi EA prior to Reorganization (ii)	475,152	4,752	31	145,921	145,952
Issuance of ordinary shares to pre-IPO investor (iii)	10,023	100	1	39,719	39,720
Issuance of ordinary shares for the employee share scheme (iv)	<u>4,600</u>	<u>46</u>	<u>–</u>	<u>–</u>	<u>–</u>
At December 31, 2020	<u>1,489,775</u>	<u>14,898</u>	<u>97</u>	<u>486,572</u>	<u>486,669</u>

- (i) The Company was established in the Cayman Islands on November 29, 2018 with one ordinary share of a par value of USD0.01 allotted to Mapcal Limited. On the same day, such ordinary share was transferred to CareCapital Orthotech for a consideration of USD0.01.

- (ii) On December 21, 2020, as part of the Reorganization (Note 1.2), an aggregate of 999,999 ordinary shares with cash consideration of approximately RMB65,000 in total were issued to CareCapital Orthotech at nominal value. On December 21, 2020, the Company issued an aggregate of 475,152 ordinary shares with cash consideration approximately RMB2,963,000 in total to seven offshore holding companies used by certain directors, senior management and employees of the Group for the purpose holding their respective corresponding equity interests in Wuxi EA prior to the Reorganization. The exceed in the cash consideration of RMB3,028,000 over the equivalent nominal values of aforesaid 1,475,151 shares amounting to RMB2,932,000 were recognized in share premium. On the same day, the book value of Wuxi EA's net assets as at December 21, 2020, amounting to approximately RMB443,921,000, was transferred from capital reserves to share premium.
- (iii) On December 31, 2020, pursuant to the share purchase agreement dated December 21, 2020, Wuxi Jinhe agreed to subscribe for 10,023 ordinary shares of the Company with par value of USD0.01 each at the aggregate consideration of US dollar equivalent to RMB39,720,000.
- (iv) On December 31, 2020, the Company issued an aggregate of 4,600 new shares with par value of USD0.01 each to certain directors, senior management and employees of the Company for incentive purposes.
- (v) Pursuant to the written resolutions passed by the shareholders of the Company on May 20, 2021, the authorized share capital of the company was subdivided into 500,000,000 shares with a par value of US\$0.0001 each.

(b) Shares held for employee share scheme

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Balance at the beginning of the year	42,673	54,994	54,994
Additions	12,321	–	–
Transfer of shares held for employee share scheme upon vesting (Note 22(b)).	–	–	(25,465)
Balance at the end of the year	54,994	54,994	29,529

As at December 2018 and 2019, these shares representing 20.26% equity interests in Wuxi EA, are held by several limited liability partnerships for purpose of issuing shares under share incentive schemes (the “ESOP LLPs”) (Note 22(b)) and representing 15.02% equity interests in the Company held by several offshore holding companies used by certain directors, senior managements and employees of the Group for the purpose holding their respective corresponding equity interests in Wuxi EA prior to the Reorganization as at December 31, 2020.

On December 31, 2020, the Company issued an aggregate of 4,600 new shares with par value of USD0.01 each to certain directors, senior management and employees of the Company for incentive purposes, out of which 2,117 shares were unvested and held for employee share scheme, representing 0.14% equity interests in the Company.

22 SHARE-BASED PAYMENTS

The share-based compensation expenses recognized are as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Expenses arising from equity-settled share-based payment transactions	23,438	61,677	66,319

(a) Share-based payments to individuals

On December 22, 2016, CareCapital Orthotech, the then parent company of Wuxi EA, established Wuxi Fujia Management Advisory Company (Limited Partnership) (無錫富嘉管理諮詢企業(有限合夥), “Wuxi Fujia”), an equity awards entity in the form of limited liability partnerships and transferred 8.99% equity interests in Wuxi EA to Wuxi Fujia with consideration of approximately RMB24,690,000. On the same day, by way of subscribing for their partnership interests in Wuxi Fujia, Ms. LI Huamin and Mr. CHEN Kai, as senior management of Wuxi EA, acquired 8.99% equity interests in Wuxi EA in total from CareCapital Orthotech.

These equity interests awarded would be vested in 10 instalments over a 10-years requisite service period commencing from December 31, 2015. The fair value of these incentive interests at the grant date, which was determined by reference to the fair value of the equity interests of Wuxi EA determined by an external independent valuer, over respective cash consideration assumed by Ms. LI Huamin and Mr. CHEN Kai, were treated as share-based payment expenses and charged to the consolidated statements of comprehensive income over the vesting period.

On December 15, 2020, pursuant to a supplemental agreement entered into amongst CareCapital Orthotech, Ms. LI Huamin and Mr. CHEN Kai, the remaining required service periods will be canceled upon the Listing.

For the years ended December 31, 2018, 2019 and 2020, the Group recognized share-based payment expenses amounting to RMB601,000, RMB461,000 and RMB2,068,000, respectively, for the aforesaid share-based payments to individuals.

(b) Employee Share Award Scheme

Wuxi EA set up a share incentive scheme for the purpose of retaining talent, promoting the long-term sustainable development of the Group. Under the share incentive scheme, Wuxi EA entered into employee share award contracts with certain senior management and employees of the Group, (collectively, the "Incentive Targets") on December 22, 2016, December 28, 2017 and November 22, 2018 (collectively, the "Grant Dates"), respectively (collectively, the "Engagement Agreements").

Pursuant to the Engagement Agreements, certain ESOP LLPs which held equity interests in Wuxi EA directly, were set up. For the years ended December 31, 2016, 2017 and 2018, the ESOP LLPs acquired 20.26% equity interests in Wuxi EA in total from the then shareholders with consideration of approximately RMB21,041,000, RMB21,632,000 and RMB12,321,000, respectively (the "Predetermined Subscription Prices"). Pursuant to the Engagement Agreements, the Group has discretion to invite any employee of the Group to participate in the ESOP LLPs by subscribing for their partnership interest. The Incentive Targets are entitled to all the economic benefits generated by the ESOP LLPs with the required service period. As the general partner of the ESOP LLPs are designed by the Group for its benefit and the Group has discretion in determining the participating employees, the ESOP LLPs are therefore controlled and consolidated by the Group as structured entities and the equity interests in Wuxi EA held by the ESOP LLPs for the purpose of employee share incentives, amounting to RMB54,994,000, RMB54,994,000 and RMB29,529,000 as at December 31, 2018, 2019 and 2020, respectively, are recorded as "shares held for employee share scheme".

Pursuant to the Engagement Agreements, the Incentive Targets, through their interests in the ESOP LLPs, were granted 20.26% equity interests in Wuxi EA, at the Predetermined Subscription Prices (the "Onshore Awarded Shares"). These Onshore Awarded Shares are limited to be transferred or used in pledge within certain service periods. If an Incentive Target ceases to be employed by the Group within the service periods, the Incentive Target has to sell the Onshore Awarded Shares to designated persons at its original subscription price.

The Incentive Targets obtained above Onshore Share Awards at a price lower than their fair value on the respective Grant Dates, such transactions were considered as equity-settled share-based payment. The Group amortized this share-based compensation expense since the Grant Dates as the relevant services has been received since then and throughout the fulfillment of respective service periods.

On December 31, 2018, due to the Reorganization, the Company modified the employee share award scheme pursuant to which: (a) the subscription prices of the Onshore Awarded Shares were waived; and (b) the ESOP LLPs would transfer all their equity interests in Wuxi EA to CareCapital Orthotech with the considerations equal to the Predetermined Subscription Prices; and (c) the Company would issue an aggregate of 20.26% equity interests of the Company to the Incentive Targets with nominal share price as the replacement of the Onshore Share Awards. As such, the Group modified the terms of the employee share award scheme that are beneficial to the Incentive Targets. The incremental share-based compensation expenses, representing the excess of the fair value of the modified employee share award scheme on December 31, 2018 over the fair of the original employee share award scheme on December 31, 2018, were amortized within the respectively remaining service periods since December 31, 2018.

As mentioned in Note 1.2, on December 17, 2020, CareCapital Orthotech purchased these shares from the ESOP LLPs with cash consideration of RMB49,537,000, following which on December 21, 2020, the Company issued 298,934 shares with par value of USD0.01 each, representing 20.26% equity interests in the Company, to several offshore holding companies established or used by certain of the directors, senior management and employees for the purpose of holding their respective corresponding equity interests in Wuxi EA prior to the Reorganization. The consideration of RMB49,537,000 was credited to "capital reserves" account as contributions from shareholders of the Company. On the same day, 75,129 shares of the Company out of these 298,934 shares of the Company were vested, resulted from which the shares in Wuxi EA held for employee share scheme (Note 21(b)) amounting to RMB25,465,000 were debited from "share-based payment reserves" account.

On October 9, 2020, the Company granted 3,000 share options to a senior management, with exercise price of USD120 per share. Such options shall be vested in the following schedule: (i) 20% upon the Listing and (ii) each 20% on the last day of each year commencing from October 1, 2020.

On December 31, 2020, the Company further issued and allotted 4,600 shares with par value of USD0.01 each, representing 0.31% equity interests of the Company, to certain directors, senior management and employees of the Group with certain required service periods.

The fair value of incentive interests on the grant dates, being December 22, 2016, December 28, 2017, November 22, 2018 and October 9, 2020, as well as on the modification date being December 31, 2018, were determined by an external independent valuer based on Black-Scholes valuation model. The significant inputs into the model were listed below:

	As at December 22, 2016	As at December 28, 2017	As at November 21, 2018	As at December 31, 2018	As at October 9, 2020
Expected volatility	58.89%	57.96%	41.70%	36.89%	46.33%- 58.86%
Risk-free interest rate	3.16%	3.63%	3.26%	3.17%	2.80%- 3.34%
Expected option life	6.52 years	5.76 years	4.86 years	4.50-4.75 years	0.50-3.75 years

For the years ended December 31, 2018, 2019 and 2020, the Group recognized share-based payment expenses amounting to aggregate RMB22,837,000, RMB61,216,000 and RMB64,251,000, respectively, for the aforesaid share award scheme.

23 OTHER RESERVES

	Capital reserves	Statutory reserves	Share-based payment reserves	Currency translation reserves	Others	Total
	RMB'000 (Note (a))	RMB'000 (Note (b))	RMB'000 (Note (22))	RMB'000	RMB'000	RMB'000
Balance at January 1, 2018	197,695	1,105	11,593	(339)	–	210,054
Currency translation differences	–	–	–	65	–	65
Changes in ownership interests in subsidiaries without change of control (Note 33)	–	–	–	–	328	328
Share-based payments	–	–	23,438	–	–	23,438
Appropriation to statutory reserves	–	6,149	–	–	–	6,149
Balance at December 31, 2018	<u>197,695</u>	<u>7,254</u>	<u>35,031</u>	<u>(274)</u>	<u>328</u>	<u>240,034</u>
Balance at January 1, 2019	197,695	7,254	35,031	(274)	328	240,034
Currency translation differences	–	–	–	394	–	394
Share-based payments	–	–	61,677	–	–	61,677
Appropriation to statutory reserves	–	5,718	–	–	–	5,718
Balance at December 31, 2019	<u>197,695</u>	<u>12,972</u>	<u>96,708</u>	<u>120</u>	<u>328</u>	<u>307,823</u>
Balance at January 1, 2020	197,695	12,972	96,708	120	328	307,823
Currency translation differences	–	–	–	(1,008)	–	(1,008)
Contributions from the shareholders of the Company (Note 22(b))	49,537	–	–	–	–	49,537
Transferred to share premium during the Reorganization (Note 21(a)(ii))	(443,921)	–	–	–	–	(443,921)
Transfer of shares held for employee share scheme upon vesting (Note 22(b))	–	–	(25,465)	–	–	(25,465)
Share-based payments	–	–	66,319	–	–	66,319
Appropriation to statutory reserves	–	24,580	–	–	–	24,580
Balance at December 31, 2020	<u>(196,689)</u>	<u>37,552</u>	<u>137,562</u>	<u>(888)</u>	<u>328</u>	<u>(22,135)</u>

- (a) The capital reserves as at January 1, 2018 mainly consisted of the paid-in capital of Wuxi EA, amounting to RMB167,807,000 (equivalent to USD26,000,000), and the paid-in capital and capital reserves of Beijing EA, which was controlled by Wuxi EA through Contractual Arrangements. On April 1, 2018, Wuxi EA executed the exclusive option agreement in favor of Beijing EA, which was a part of the Contractual Arrangements, and legally obtained 100% equity interest in Beijing EA at nil consideration.

- (b) In accordance with the PRC Company Law and the articles of association of the Group's PRC subsidiaries, the PRC subsidiaries are required to appropriate 10% of their profits after tax, as determined in accordance with Accounting Standards for Business Enterprises and other applicable regulations, to the statutory surplus reserve until such reserve reaches 50% of its registered capital. The appropriation to the reserve must be made before any distribution of dividends to shareholders of the PRC subsidiaries. Apart from the statutory surplus reserve, discretionary surplus reserve can be appropriated according to the resolution of shareholders' meeting. The surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalized as the PRC subsidiaries' capital provided that the amount of surplus reserve remaining after the capitalization shall not be less than 25% of its capital.

24 (ACCUMULATED LOSSES)/RETAINED EARNINGS

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
At the beginning of the year	(72,139)	(18,530)	44,589
Profit for the year	59,758	68,837	150,689
Appropriation to statutory reserves	(6,149)	(5,718)	(24,580)
Dividends (Note 30)	–	–	(104,000)
At the end of the year	(18,530)	44,589	66,698

25 TRADE AND OTHER PAYABLES

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Trade payables (Note a)	26,942	60,910	34,024
Employee benefits payable	45,217	63,129	82,302
Other taxes payable	25,618	34,642	55,514
Consideration payables in relation with acquisition of a subsidiary (Note 35)	3,432	3,488	3,262
Accrued expenses payable	9,263	9,604	15,531
Deposits payable	5,086	9,829	17,443
Advertising and promotion expenses payable	3,989	5,255	13,955
Donations payable	–	2,000	4,000
Professional service fees payable	2,242	6,208	6,128
Reimbursement payable	2,298	3,397	2,688
Payables in relation with acquisition of property, plant and equipment	537	3,447	286
Others	4,026	3,972	3,454
	128,650	205,881	238,587

- (a) The credit period granted by suppliers mainly ranges from 30 to 60 days. The following is an ageing analysis of trade payables presented based on the invoice date:

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
0 to 60 days	21,875	52,328	28,027
61 to 180 days	5,036	6,194	3,566
181 to 365 days	10	236	685
Over 1 year	21	2,152	1,746
	26,942	60,910	34,024

(b) The carrying amount of the Group's trade payables is denominated in the following currencies:

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
RMB	11,777	60,158	34,024
USD	15,165	603	–
Others	–	149	–
	<u>26,942</u>	<u>60,910</u>	<u>34,024</u>

(c) As at December 31, 2018, 2019 and 2020, trade and other payables of the Group were interest-free and repayment on demand.

26 CONTRACT LIABILITIES

The Group has recognized the following revenue-related contract liabilities:

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Included in current liabilities			
Clear aligner treatment solutions	107,598	237,713	397,919
Other services	1,553	1,185	1,773
	<u>109,151</u>	<u>238,898</u>	<u>399,692</u>
Included in non-current liabilities			
Clear aligner treatment solutions	45,856	65,445	18,924

(a) Significant changes in contract liabilities

Contract liabilities of the Group mainly arose from the advance payments made by customers while the underlying goods or services are yet to be provided. Such liabilities increased as a result of the growth of the Group's business.

(b) Revenue recognized in relation to contract liabilities

The following table shows the revenue recognized during the Track Record Period relates to carried-forward contract liabilities.

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of the year			
– Clear aligner treatment solutions	91,973	107,598	237,713
– Other services	91	1,553	1,185
	<u>92,064</u>	<u>109,151</u>	<u>238,898</u>

29 DEFERRED INCOME TAX

(a) Deferred income tax assets

The analysis of deferred tax assets is as follows:

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
The balance comprises temporary differences attributable to:			
Net impairment on financial assets	1,451	1,684	3,267
Unused tax losses	619	2,330	2,809
Impairment for non-current assets	770	743	134
Deferred income	340	1,055	1,258
Others	1,321	1,567	2,105
	<u>4,501</u>	<u>7,379</u>	<u>9,573</u>

The movement in deferred income tax assets is as follows:

	Net impairment on financial assets	Unused tax losses	Impairment for non-current assets	Deferred income	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2018	648	2,711	339	225	1,260	5,183
Credited/(charged) to the consolidated statements of comprehensive income	803	(2,092)	431	115	61	(682)
As at December 31, 2018	<u>1,451</u>	<u>619</u>	<u>770</u>	<u>340</u>	<u>1,321</u>	<u>4,501</u>
As at January 1, 2019	1,451	619	770	340	1,321	4,501
Credited/(charged) to the consolidated statements of comprehensive income	242	1,779	(27)	715	266	2,975
Early termination of lease contracts	–	–	–	–	(19)	(19)
Disposal of a subsidiary	(9)	(68)	–	–	(1)	(78)
As at December 31, 2019	<u>1,684</u>	<u>2,330</u>	<u>743</u>	<u>1,055</u>	<u>1,567</u>	<u>7,379</u>
As at January 1, 2020	1,684	2,330	743	1,055	1,567	7,379
Credited/(charged) to the consolidated statements of comprehensive income	1,583	479	(609)	203	541	2,197
Early termination of lease contracts	–	–	–	–	(3)	(3)
As at December 31, 2020	<u>3,267</u>	<u>2,809</u>	<u>134</u>	<u>1,258</u>	<u>2,105</u>	<u>9,573</u>

Deferred income tax assets are recognized for tax losses carry-forward to the extent that the realization of the related tax benefits through the future taxable profits is probable. For the years ended December 31, 2018, 2019 and 2020, the Group did not recognize deferred income tax assets in respect of losses amounting to RMB3,570,000, RMB79,000 and RMB56,000, respectively, due to the unpredictability of future profit streams, that can be carried forward against future taxable income.

The expiry of the deductible tax losses that are not recognized as deferred income tax assets is analyzed below:

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Indefinite	<u>9,719</u>	<u>9,798</u>	<u>9,854</u>

(b) Deferred income tax liabilities

The analysis of deferred tax liabilities was as follows:

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
The balance comprises temporary differences attributable to:			
Withholding tax on undistributed profits	–	–	6,000

The movement in deferred income tax assets was as follows:

	Withholding tax on undistributed profits
	RMB'000
As at January 1, 2018, December 31, 2018 and 2019	–
As at January 1, 2020	–
Charged to the consolidated statements of comprehensive income	6,000
As at December 31, 2020	6,000

30 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation during the Track Record Period.

Pursuant to the resolutions of the shareholders' meeting of Wuxi EA held on January 17, 2020, dividends of RMB61,000,000 were declared by Wuxi EA to its shareholders, namely CareCapital Orthotech, Ningbo Meishan Bonded Port Area Yonghan Investment Management Partnership (Limited partnership) (寧波梅山保稅港區永翰投資管理合夥企業(有限合夥), "Ningbo Yonghan") and Ningbo Meishan Bonded Port Area Zhaomin Investment Management Partnership (Limited partnership) (寧波梅山保稅港區照敏投資管理合夥企業(有限合夥), "Ningbo Zhaomin"), which were subsequently paid in October 2020.

Pursuant to the resolutions of the shareholders' meeting of Wuxi EA held on November 10, 2020, dividends of RMB43,000,000 were declared and subsequently fully paid before year ended December 31, 2020, by Wuxi EA to its shareholders, namely CareCapital Orthotech, Ningbo Yonghan and Ningbo Zhaomin.

Pursuant to a resolution passed in the shareholders' meeting of the Company on April 10, 2021, dividends of USD15,230,000 (approximately RMB99,618,000) were declared to the Company's shareholders, which were fully paid up to April 20, 2021.

31 CASH FLOW INFORMATION

(a) Reconciliation of profit before income tax to cash generated from operations:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Profit before income tax	74,777	84,492	191,231
Adjustments for:			
Interest income (Note 9)	(1,223)	(1,791)	(4,153)
Interest expense (Note 9)	1,354	1,142	1,154
Gains on financial assets at fair value though profit or loss (Note 6)	(2,322)	(2,512)	(4,235)
Depreciation of property, plant and equipment (Note 12)	9,595	13,402	17,521
Depreciation of right-of-use assets (Note 13)	8,338	10,367	11,077
Amortization of intangible assets (Note 14)	2,318	4,604	3,525
Losses on disposal of property, plant and equipment (Note 6)	728	218	265
Gains on early termination of a lease contract (Note 6)	–	(57)	(10)
Net impairment losses on financial assets	3,684	2,512	10,148

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Impairment of property, plant and equipment (Note 12)	3,344	–	–
Share-based compensation expenses (Note 22) . . .	23,438	61,677	66,319
Share of results of investments accounted for using the equity method	363	348	(347)
Losses on disposal of intangible assets (Note 6) . .	44	–	–
Losses on disposal of a subsidiary (Note 6)	–	81	–
Operating cash flows before changes in working capital	124,438	174,483	292,495
Changes in working capital (excluding the effects of business combination):			
Inventories	(11,059)	(1,190)	2,913
Trade and other receivables	(56,629)	3,061	(15,047)
Trade and other payables	56,555	84,618	37,206
Contract liabilities	55,193	150,202	114,273
Cash generated from operations	168,498	411,174	431,840

In the consolidated statements of cash flows, proceeds from disposals of property, plant and equipment comprise:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Net book amount (Note 12)	1,658	1,382	569
Losses on disposal of property, plant and equipment (Note 6)	(728)	(218)	(265)
Proceeds from disposal of property, plant and equipment	930	1,164	304

(b) Non-cash transaction

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Acquisition of new lease contracts	15,903	17,506	1,606

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in the debt for each of the period presented.

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	216,015	504,697	877,578
Lease liabilities	(16,833)	(22,870)	(14,168)
Amounts due to related parties	(6,190)	(6,291)	(5,940)
Net cash	192,992	475,536	857,470

	Other assets	Liabilities from financing activities		Total
	Cash and cash equivalents	Lease liabilities	Amounts due to related parties	
	RMB'000	RMB'000	RMB'000	
Net debt as at January 1, 2018	134,051	(9,247)	(43,705)	81,099
Cash flows	80,696	8,317	50,711	139,724
Acquisition of new lease contracts	–	(15,903)	–	(15,903)
Purchase of shares held for employee share scheme	–	–	(12,321)	(12,321)
Interest payable	–	–	(574)	(574)
Reclassification from investments in joint ventures	–	–	(301)	(301)
Exchange differences	1,268	–	–	1,268
Net debt as at December 31, 2018	216,015	(16,833)	(6,190)	192,992
Net debt as at January 1, 2019	216,015	(16,833)	(6,190)	192,992
Cash flows	287,993	9,199	(165)	297,027
Acquisition of new lease contracts	–	(17,506)	–	(17,506)
Early termination of lease contracts	–	1,598	–	1,598
Interest payable	–	–	(19)	(19)
Reclassification to investments in joint ventures	–	–	88	88
Disposal of a subsidiary	–	672	–	672
Exchange differences	689	–	(5)	684
Net debt as at December 31, 2019	504,697	(22,870)	(6,291)	475,536
Net debt as at January 1, 2020	504,697	(22,870)	(6,291)	475,536
Cash flows	377,670	9,733	165	387,568
Acquisition of new lease contracts	–	(1,606)	–	(1,606)
Early termination of lease contracts	–	575	–	575
Interest payable	–	–	(19)	(19)
Reclassification to investments in joint ventures	–	–	180	180
Reclassification to other payable	–	–	12	12
Exchange differences	(4,789)	–	13	(4,776)
Net debt as at December 31, 2020	877,578	(14,168)	(5,940)	857,470

32 COMMITMENTS**(a) Commitments relating to short-term leases**

The Group has recognized right-of-use assets and lease liabilities for these leases, except for short-term leases, see Note 13 and Note 27 for further information.

The future aggregate minimum lease payments under non-cancellable short-term leases contracted for at the end of the year but not recognized as liabilities, are as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
No later than 1 year	281	503	285

(b) Capital commitments

The Group's capital expenditure contracted for at the end of the period but not yet incurred is as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	9,631	13,093	164,898
Intangible assets	908	–	8
Investment in a joint venture	500	500	500
	11,039	13,593	165,406

33 DISPOSAL OF OWNERSHIP INTEREST IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

During the year ended December 31, 2018, the Group disposed of its 30% interest in Shanghai Tianzhi and 30% interest in Shanghai Junxiao to a third party at cash consideration of RMB900,000 and RMB69,000, respectively. The excess in the Group's 30% equity interest in the net book liabilities of both Shanghai Tianzhi and Shanghai Junxiao over the consideration, amounting to RMB328,000 was credited to other reserves.

34 DISPOSAL OF A SUBSIDIARY

On January 1, 2019, pursuant to a shareholders resolution entered into by, Wuxi Fuchi, a wholly owned subsidiary of the Group, and a third party, who held 70% and 30% equity interest in Shanghai Junxiao, respectively, all the matters within the authority of the shareholders meeting of Shanghai Junxiao shall be determined by both shareholders, which means Wuxi Fuchi is unable to solely control the shareholders meeting of Shanghai Junxiao, and as a result the Group relinquished control over Shanghai Junxiao while it became a joint venture of the Group. Hence, approximately RMB81,000 of loss on disposal was recognized in the consolidated statements of comprehensive income.

On the date of the disposal, cash and cash equivalents of RMB1,096,000 was held by Shanghai Junxiao, which was shown as cash outflows in 2019.

35 RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties

Below is the summary of the Group's related parties during the Track Record Period:

Name of the related party	Relationship with the Group
Mr. FENG Dai	Director of the Company
Ms. LI Huamin	Director of the Company
CareCapital Orthotech	Parent Company
Wuxi Beifurui	Joint venture held by the Group
Shanghai Junxiao	Joint venture held by the Group (After January 1, 2019)
Nanning Tianshi Dental Hospital Company Limited ("Nanning Tianshi Hospital")	An entity significantly influenced by a close family member of Ms. Li Huamin (Before January 1, 2020)
Nanning Tianshi Shengtiandi Oral Cavity Company Limited ("Nanning Tianshi Shengtiandi")	An entity significantly influenced by a close family member of Ms. Li Huamin (Before January 1, 2020)
Shanghai Moer Dental Hospital Investment Management Company Limited ("Shanghai Moer Hospital")	An entity significantly influenced by Mr. FENG Dai
Ningbo Zhaomin	An entity controlled by a director of the Company
Ningbo Yonghan	An entity controlled by a director of the Company
Huizhou Dental Hospital	An entity controlled by CareCapital Group
Guiyang Jinxin Medical Instrument Co., Ltd. ("Guiyang Jinxin")	An entity controlled by CareCapital Group (After January 1, 2020)
Zhengzhou Smile Songbai Industrial Co., Ltd. ("Zhengzhou Smile")	An entity controlled by CareCapital Group (After January 1, 2020)
Changsha Minjian Medical Equipment Co., Ltd. ("Changsha Minjian")	An entity significantly influenced by CareCapital Group (After January 1, 2020)
Henan Red Sun Medical Instrument Co. Ltd. ("Henan Red Sun")	An entity controlled by CareCapital Group (After January 1, 2020)

(b) Transactions with related parties

During the Track Record Period, save as disclosed elsewhere in this report, the following is a summary of the significant transactions carried out between the Group and its related parties.

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Clear aligner treatment solutions			
Nanning Tianshi Hospital	1,271	708	–
Shanghai Moer Hospital	1,344	1,580	2,153
Nanning Tianshi Shengtiandi	485	249	–
Shanghai Junxiao	–	111	107
Huizhou Dental Hospital	605	1,011	1,010
Guiyang Jinxin	–	–	1,525
Zhengzhou Smile	–	–	14,950
Changsha Minjian	–	–	168
Henan Red Sun	–	–	2,799
	3,705	3,659	22,712
Interest expenses			
CareCapital Orthotech	535	–	–
Ningbo Yonghan	27	8	8
Ningbo Zhaomin	12	11	11
	574	19	19

(c) Key management compensation

The Group's key management includes executive directors of the Company. The compensation paid or payable to key management is disclosed in Note 8.

(d) Outstanding balances arising from sales/purchases of goods and services

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Trade and other receivables			
Nanning Tianshi Hospital	91	74	–
Shanghai Moer Hospital	6	7	7
Zhengzhou Smile	–	–	6
Changsha Minjian	–	–	222
Huizhou Dental Hospital	254	–	–
Guiyang Jinxin	–	–	143
	<u>351</u>	<u>81</u>	<u>378</u>
Trade and other payables			
CareCapital Orthotech*	3,432	3,488	3,262

* As at December 31, 2018, 2019 and 2020, the Group's payables due to CareCapital Orthotech represented consideration payables in relation with the Group's acquisition of the 100% equity interests in Shanghai EA prior to the Track Record Period.

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Contract liabilities			
Nanning Tianshi Hospital	93	453	–
Shanghai Moer Hospital	372	427	201
Nanning Tianshi Shengtiandi	201	–	–
Shanghai Junxiao	–	96	322
Huizhou Dental Hospital	–	314	482
Guiyang Jinxin	–	–	19
Zhengzhou Smile	–	–	11,227
Henan Red Sun	–	–	927
	<u>666</u>	<u>1,290</u>	<u>13,178</u>

As at December 31, 2018, 2019 and 2020, the balances were with trade nature, unsecured, interest-free, and collectable/repayable on demand.

(e) Amounts due from/to related parties

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
<i>Amounts due from related parties</i>			
Wuxi Beifurui	1,000	1,100	1,100
Nanning Tianshi Hospital	12	12	–
Ningbo Yonghan	23,500	23,500	–
Ningbo Zhaomin	3,200	3,200	–
Shanghai Junxiao	–	2,423	3,423
	<u>27,712</u>	<u>30,235</u>	<u>4,523</u>
	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
<i>Amounts due to related parties</i>			
CareCapital Orthotech	3,003	3,060	2,805
Ningbo Yonghan	1,441	1,448	1,456
Ningbo Zhaomin	1,123	1,134	1,145
Wuxi Beifurui	558	469	289
Ms. LI Huamin	53	–	77
Nanning Tianshi Hospital	12	12	–
Shanghai Junxiao	–	168	168
	<u>6,190</u>	<u>6,291</u>	<u>5,940</u>
Less: Non-current portion of amount due to CareCapital Orthotech, Ningbo Yonghan and Ningbo Zhaomin	<u>(4,415)</u>	<u>(4,415)</u>	<u>–</u>
Current portion	<u>1,775</u>	<u>1,876</u>	<u>5,940</u>

As at December 31, 2018, 2019 and 2020, RMB1,256,000, RMB1,256,000 and RMB1,256,000 out the above balances, respectively, were unsecured and bearing interest rate of 1.5% per annum with maturity of 10 years. The remaining balances were unsecured, interest-free, and collectable/repayable on demand. As at December 31, 2018, 2019 and 2020, the above balances were with non-trade nature and the directors of the Company expect to settle such amounts due to related parties prior to the Listing.

36 NOTES TO THE STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

(a) Investment in a subsidiary

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Deemed contribution (i)	–	–	443,921
Equity-settled share-based payment transactions	–	–	4,050
	<u>–</u>	<u>–</u>	<u>447,971</u>

(i) It represented the net asset value of Wuxi EA as at December 21, 2020 acquired by the Company pursuant to the Reorganization.

(b) Cash and cash equivalents

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Cash at banks	—	—	42,674

As at December 31, 2020, the Company's cash and cash equivalents were all denominated in USD.

(c) Prepayments

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Prepayments for listing expenses	3,503	3,725	6,924

(d) Other reserves

	Share-based payment reserves	Currency translation reserves	Total
	RMB'000	RMB'000	RMB'000
Balance at January 1, 2018	—	—	—
Currency translation differences	—	(1)	(1)
Balance at December 31, 2018	—	(1)	(1)
Balance at January 1, 2019	—	(1)	(1)
Currency translation differences	—	(1)	(1)
Balance at December 31, 2019	—	(2)	(2)
Balance at January 1, 2020	—	(2)	(2)
Currency translation differences	—	8	8
Equity-settled share-based payment transactions	4,050	—	4,050
Balance at December 31, 2020	4,050	6	4,056

(e) Other payables

	As at December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Amounts due to subsidiaries	14,383	16,301	29,457
Accrued expenses	—	11	—
	14,383	16,312	29,457

Amounts due to subsidiaries mainly represented listing expenses paid by subsidiaries on behalf of the Company.

(f) Amounts due to related parties

As at December 31, 2018, 2019 and 2020, amounts due to related parties amounting to RMB17,000, RMB79,000 and RMB259,000, respectively, were unsecured, interest-free, and repayable on demand.

37 CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at December 31, 2018, 2019 and 2020.

38 SUBSEQUENT EVENTS

Save as disclosed in other notes to the Historical Financial Information, there were no other material subsequent events took place after December 31, 2020.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to December 31, 2020 and up to the date of this report.

Save as disclosed in this report, no other dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to December 31, 2020.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the "Accountant's Report" set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the owners of the Company as of December 31, 2020 as if the Global Offering had taken place on December 31, 2020.

This unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at December 31, 2020 or at any future dates following the Global Offering.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at December 31, 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company as at December 31, 2020	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK\$ (Note 4)
Based on the Offer Price of HK\$147.00 per Offer Share . . .	495,515	1,923,863	2,419,378	14.59	17.67
Based on the Offer Price of HK\$173.00 per Offer Share . . .	495,515	2,268,920	2,764,435	16.67	20.19

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at December 31, 2020 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at December 31, 2020 of approximately RMB501,703,000 after deducting the Group's intangible assets attributable to the owners of the Company of approximately RMB6,188,000 as at December 31, 2020.
- (2) The estimated net proceeds from the Global Offering are based on 16,829,600 Offer Shares and the indicative Offer Price of HK\$147.00 per Offer Share and HK\$173.00 per Offer Share, being low and high end of the indicative Offer Price range, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB10,510,000, RMB664,000 and RMB9,958,000 which have been accounted for in the consolidated statements of comprehensive income for the years ended December 31, 2018 and 2019 and 2020, respectively).

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 165,807,100 Shares were in issue assuming that the Global Offering and the Share Sub-Division have been completed on December 31, 2020 but does not take into account of any Shares which may be allotted and issued by the Company pursuant to the exercise of the Over-allotment Option or the exercise of any options may be granted under the Share Award Scheme.
- (4) For the purpose of the unaudited pro forma adjusted consolidated net tangible assets per share, the translation of Renminbi amounts into Hong Kong dollars was at rate of RMB0.8258 to HK\$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that date.
- (5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2020. In particular, no adjustments were made to reflect the dividend of US\$15,230,000 (approximately RMB99,618,000) declared by the Company to its shareholders on April 10, 2021. Had such dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be HK\$16.94 and HK\$19.46, assuming the indicative Offer Price of HK\$147.00 per Offer Share and HK\$173.00 per Offer Share respectively.

B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Angelalign Technology Inc.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Angelalign Technology Inc. (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at December 31, 2020, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated June 3, 2021, in connection with the proposed global offering of the shares of the Company (the "Global Offering") (the "Unaudited Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed Global Offering on the Group's financial position as at December 31, 2020 as if the proposed Global Offering had taken place at December 31, 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the year ended December 31, 2020, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7, *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed Global Offering at December 31, 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) or standards and practices of any professional body in any other overseas jurisdiction and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, June 3, 2021

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on May 20, 2021 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed “Documents available for inspection.”

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on May 20, 2021 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US\$50,000 divided into 500,000,000 shares of US\$0.0001 each.

2.2 Directors*(a) Power to allot and issue Shares*

Subject to the provisions of the Companies Act and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Act and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Act expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Act and of the Articles of Association and to any regulation from time to time made by the Company in

general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
 - (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
 - (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.
- (g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may also by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class 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.

2.5 *Alteration of capital*

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) 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 its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Act; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, 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 the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Act.

2.6 Special resolution — majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Act or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

2.10 Auditors

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date. Where a general meeting is so postponed, the Company shall endeavour to cause a notice of such postponement to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of such meeting.

Where a general meeting is postponed:

- (a) the Company shall endeavour to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning or black rainstorm warning being in force on the day of the general meeting;
- (b) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and
- (c) only the business set out in the notice of the original meeting shall be transacted at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be transacted at the reconvened meeting, nor shall any accompanying documents be required to be recirculated. Where new business is to be transacted at such reconvened meeting, the Company shall give a fresh notice for such reconvened meeting in accordance with the Articles of Association.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) 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;

- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Act and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company 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 the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall 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 of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any 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 securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Act, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Act, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, 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 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN COMPANIES ACT AND TAXATION

1 Introduction

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 December 2018 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account.” At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;

- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company 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 the company should be wound up.

Claims against a company by its 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 the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

The undertaking is for a period of twenty years from 4 December 2018.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisors on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of Our Company**

Our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on November 29, 2018. Our registered office address is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws of the Cayman Islands and the Memorandum and Articles of Association. A summary of certain relevant provisions of its constitution and certain relevant aspects of the Cayman Companies Act is set out in Appendix III of this prospectus.

We have established a place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, and were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on January 29, 2019 under the same address. Mr. HUANG Kun has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company. The address for service of process is Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

As at the date of this prospectus, our Company's head office was located at 7/F, Building No. 7, KIC Business Center, No. 500 Zhengli Road, Yangpu District, Shanghai, China.

2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of US\$50,000.00, divided into 5,000,000 shares with par value of US\$0.01 each. The following changes in the share capital of our Company have taken place since our incorporation and up to the date of this prospectus:

- (a) On November 29, 2018, immediately after its incorporation, one ordinary share with a par value of US\$0.01 was allotted and issued to its initial subscriber, Mapcal Limited, who on the same day transferred the Share to CareCapital Orthotech Limited;
- (b) On December 21, 2020, an aggregate of 999,999 ordinary shares with par value of US\$0.01 each was issued and allotted to CareCapital Orthotech Limited; and an aggregate of 234,251, 117,204, 7,172, 3,956, 14,014, 41,427 and 57,128 ordinary shares was issued and allotted to Sky Honour Enterprises Limited, Vast Luck Global Limited, Noble Affluent Limited, Macro Synergy Limited, Ascend Benefit Limited, Novel Boom Limited and All Beautiful Limited, respectively;
- (c) On December 31, 2020, an aggregate of 10,023 ordinary shares with par value of US\$0.01 each was issued and allotted to Wuxi Jinhe Venture Investment Co., Ltd.; and an aggregate of 2,322, 1,162, 139, 411 and 566 ordinary shares were issued and allotted to Sky Honour Enterprises Limited, Vast Luck Global Limited, Ascend Benefit Limited, Novel Boom Limited and All Beautiful Limited, respectively; and
- (d) On May 20, 2021, each share in our issued and unissued share capital was subdivided into 100 shares of our Company with par value of US\$0.0001 each, following which the authorized share capital of our Company was US\$50,000 divided into 500,000,000 Shares with par value of US\$0.0001 each.

Immediately following the completion of the Global Offering and without taking into account any Shares that may be issued upon exercise of the Over-allotment Option and under the Share Award Schemes, our issued Shares will be 165,807,100 Shares, all fully paid or credited as fully paid, and 334,192,900 Shares will remain unissued.

Immediately following the completion of the Global Offering and assuming full exercise of the Over-allotment Option but without taking into account any Shares that may be issued under the Share Award Schemes, our issued Shares will be 168,331,500 Shares, all fully paid or credited as fully paid, and 331,668,500 Shares will remain unissued.

Save as disclosed above and in this prospectus, there has been no alteration in the share capital of our Company during the two years preceding the date of this prospectus.

3. Written Resolutions of the Shareholders of Our Company Passed on May 20, 2021

Pursuant to the written resolutions passed by the Shareholders on May 20, 2021:

- (a) each of our issued and unissued shares of US\$0.01 par value was approved to be subdivided into 100 Shares of our Company with par value of US\$0.0001 each, such that the authorized share capital of our Company was US\$50,000 divided into 500,000,000 Shares with par value of US\$0.0001 each;
- (b) conditional on (1) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and such grant and permission not having been subsequently revoked prior to the commencement of dealings in the Shares on the Stock Exchange, (2) the Offer Price being fixed on the Price Determination Date and (3) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein (unless and to the extent such conditions are validly waived on or before such dates and times as specified in the Underwriting Agreements) or otherwise:
 - (i) the Memorandum and the Articles with effect upon the Listing Date;
 - (ii) the Global Offering was approved and our Directors were authorized to allot and issue the new Shares pursuant to the Global Offering;
 - (iii) the granting of the Over-allotment Option was approved;
 - (iv) the proposed Listing was approved and our Directors were authorized to implement the Listing;
 - (v) a general unconditional mandate was granted to our Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options (including but not limited to warrants, bonds, debentures, notes and other securities convertible into Shares) which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed conditionally or unconditionally to be allotted by our Directors, excluding the Shares which may be issued pursuant to (a) a rights issue, (b) any scrip dividend scheme or similar arrangement providing for the allotment and issuance of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, (c) the exercise of any subscription or conversion rights attaching to any warrants or securities which are convertible into Shares or in issue prior to the date of passing the relevant resolution or (d) a specific authority granted by the Shareholders in general meeting, or (e) the Shares that may be issued under the Share Award Schemes, shall not exceed the aggregate of (1) 10% of the total nominal value of the share capital of our Company in issue immediately following the completion of and the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares which may be issued under the Share Award Schemes) and (2) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph (vi) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of the conclusion of our next annual general meeting, the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting or the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting (the “Applicable Period”);

- (vi) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose Shares with a total nominal value of not more than 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares which may be issued under the Share Award Schemes), such mandate to remain in effect during the Applicable Period;
- (vii) the general unconditional mandate mentioned in paragraph (v) above be extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (vi) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of our Company's share capital in issue immediately following completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares which may be issued under the Share Award Schemes); and
- (viii) the Post-IPO RSU Scheme and the Post-IPO Option Scheme as described in detail in the section headed “– D. Share Award Schemes” in this Appendix, was approved and adopted, effective upon the Listing Date and an annual mandate under the Post-IPO RSU Scheme to issue and allot up to 1% of the number of shares immediately upon the completion of the Global Offering and assuming no exercise of the Over-allotment option and without taking into account any Shares that may be issued under the Share Award Schemes, was approved and granted to the Board.

4. Our Subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in Note 1.2 to the Accountant's Report set out in Appendix I to this prospectus.

5. Changes in the Share Capital of Our Subsidiaries

The following sets out changes in share capitals of subsidiaries of our Company during the two years immediately preceding the date of this prospectus:

(1) *Wuxi EA*

On December 17, 2020, Ningbo Meishan Bonded Port Area Zhaomin Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區照敏投資管理合夥企業(有限合夥)), Ningbo Meishan Bonded Port Area Yonghan Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區永翰投資管理合夥企業(有限合夥)), Ningbo Meishan Bonded Port Area Minggong Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區名功投資管理合夥企業(有限合夥)), Ningbo Meishan Bonded Port Area Jiemin Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區捷敏投資管理合夥企業(有限合夥)), Ningbo Meishan Bonded Port Area Junyu Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區鈞宇投資管理合夥企業(有限合夥)), Ningbo Meishan Bonded Port Area Fanjia Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區凡佳投資管理合夥企業(有限合夥)) and Ningbo Meishan Bonded Port Area Mingjia Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區名加投資管理合夥企業(有限合夥)) transferred their 3.5833%, 8.3628%, 2.0000%, 6.4800%, 4.3201%, 3.4269% and 4.0373% equity interests, respectively, in Wuxi EA to CareCapital Orthotech. After the transfer, Wuxi EA is wholly owned by CareCapital Orthotech.

On December 21, 2020, CareCapital Orthotech transferred 100% equity interests in Wuxi EA held by it to our Company.

(2) *Shanghai Tianzhi Dental Clinic Co., Ltd.* (上海天智口腔門診部有限公司)

On November 25, 2020, YANG Wenmi (楊雯霽) transferred 30% equity interests in Shanghai Tianzhi Dental Clinic Co., Ltd. held by her to LIU Xiaohui (劉曉暉). After the transfer, Shanghai Tianzhi Dental Clinic Co., Ltd. was wholly owned as to 70% by Wuxi Fuchi Management Consulting Co., Ltd. (無錫富馳管理諮詢有限公司) and as to 30% by LIU Xiaohui.

Save as disclosed above, there have been no changes in the share capital of any of the subsidiaries of our Company within two years immediately preceding the date of this prospectus.

6. Repurchases of Our Own Securities

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) *Shareholders' Approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our then Shareholders on May 20, 2021, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares which may be issued under the Share Award Schemes), such mandate to expire at the conclusion of our next annual general meeting, the date by which our next annual general meeting is required by the Cayman Companies Act or by our Articles of Association or any other applicable laws of the Cayman Islands to be held or when revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever first occurs.

(ii) *Source of Funds*

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Listing Rules and the Companies Act. We are not permitted to repurchase our Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. As a matter of Cayman law, any purchases by the Company may be made out of profits or out of proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Memorandum and Articles of Association and subject to the Cayman Companies Act. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit

of our share premium account or out of capital, if so authorized by the Memorandum and Articles of Association and subject to the Cayman Companies Act.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(vi) Status of Repurchased Shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be canceled and destroyed. Under the laws of the Cayman Islands, unless, prior to the purchase the directors of the Company resolve to hold the shares purchased by the Company as treasury shares, shares purchased by the Company shall be treated as canceled and the amount of the Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorized share capital under the Cayman Companies Act.

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Connected Persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core "connected person," that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their close associates and a core connected person is prohibited from knowingly selling his securities to the company.

(b) Reasons for Repurchases

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and the Shareholders. Repurchases may, depending on the market conditions, funding arrangement and other circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by our Directors at the relevant time having regard to the circumstances then pertaining. Repurchase of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of Repurchases

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and the Articles of Association of our Company and the Listing Rules and the applicable laws of the Cayman Islands.

A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by our Company may be made out of the profits of our Company or out of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Act, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Cayman Companies Act, out of capital.

There could be a material adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate were to be carried out in full at any time during the share repurchase period. However, our Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the Repurchase Mandate, on the basis of 165,807,100 Shares in issue immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the Share Award Schemes, could accordingly result in up to approximately 16,580,710 Shares being repurchased by our Company during the period prior to:

- (a) the conclusion of our next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditional or subject to conditions; or
- (b) the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (c) the date when the Repurchase Mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If, as a result of any repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase in the Shareholders' interests, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% or less as waived by the Stock Exchange of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:



- (a) the share subscription agreement dated December 21, 2020 entered into between the Company and Wuxi Jinhe Venture Investment Co., Ltd. (無錫市金禾創業投資有限公司) (“Wuxi Jinhe”), pursuant to which Wuxi Jinhe agrees to purchase for and the Company agrees to sell an aggregate of 10,023 ordinary shares with par value of US\$0.01 each of the Company at an aggregate consideration denominated in USD equivalent to RMB39,720,000;
- (b) the Hong Kong Underwriting Agreement; and
- (c) the deed of non-competition dated May 20, 2021 entered into by and among our Company, Mr. FENG Dai, CareCapital Management Group LLC, CareCapital Dental Holdings Limited, CareCapital Moonstone Holdings Limited, CareCapital EA, Inc. and CareCapital Orthotech Limited (松柏正畸技術有限公司) relating to certain non-competition undertakings in favor of the Company, details of which are set out in the section headed “Relationship with Our Controlling Shareholders — Non-Competition Undertaking” in this prospectus.






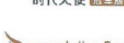








2. Our Material Intellectual Property Rights



As of the Latest Practicable Date, we have registered the following intellectual property rights which are material in relation to our business.

(a) Trademarks

As of the Latest Practicable Date, we have registered the following trademarks which are material to our business:

No.	Trademark	Registered Owner	Class	Registration Number	Place of Registration	Registration Date	Expiry Date
1	EA时代天使	Wuxi EA	9	12938132	PRC	December 21, 2014	December 20, 2024
2	EA时代天使	Wuxi EA	10	12938170	PRC	December 21, 2014	December 20, 2024
3	EA时代天使	Wuxi EA	35	12938150	PRC	December 21, 2014	December 20, 2024
4	EA时代天使	Wuxi EA	5	12938104	PRC	March 28, 2015	March 27, 2025
5	EA时代天使	Wuxi EA	44	12938042	PRC	December 21, 2014	December 20, 2024
6	 ANGELALIGN 时代天使	Wuxi EA	35	12869850	PRC	November 21, 2014	November 20, 2024
7	 ANGELALIGN 时代天使	Wuxi EA	9	12869794	PRC	December 14, 2014	December 13, 2024
8	 ANGELALIGN 时代天使	Wuxi EA	5	12869773	PRC	April 7, 2015	April 6, 2025
9	 ANGELALIGN 时代天使	Wuxi EA	10	12869825	PRC	December 14, 2014	December 13, 2024
10	 ANGELALIGN 时代天使	Wuxi EA	44	12869974	PRC	December 14, 2014	December 13, 2024
11	 angelalign时代天使	Wuxi EA	16	34768273	PRC	December 7, 2019	December 6, 2029
12	 angelalign时代天使	Wuxi EA	17	34753915	PRC	July 21, 2019	July 20, 2029
13	 angelalign时代天使	Wuxi EA	1	34747161	PRC	August 28, 2019	August 27, 2029
14	 angelalign时代天使	Wuxi EA	40	34766902	PRC	September 7, 2020	September 6, 2030
15	 angelalign时代天使	Wuxi EA	18	34759714	PRC	September 7, 2020	September 6, 2030
16	 angelalign时代天使	Wuxi EA	41	34757524	PRC	September 7, 2020	September 6, 2030
17	 angelalign时代天使	Wuxi EA	10	34746302	PRC	September 7, 2020	September 6, 2030
18	 angelalign时代天使	Wuxi EA	9	34749302	PRC	September 28, 2020	September 27, 2030
19	时代天使	Wuxi EA	44	8313296	PRC	October 7, 2011	October 6, 2021
20	时代天使	Wuxi EA	5	8313300	PRC	June 7, 2011	June 6, 2021
21	时代天使	Wuxi EA	10	5377520	PRC	May 14, 2009	May 13, 2019
22	ANGELALIGN	Wuxi EA	44	7368017	PRC	October 21, 2010	October 20, 2020
23	ANGELMIND	Wuxi EA	41	34756291	PRC	July 14, 2019	July 13, 2029
24	ANGELMIND	Wuxi EA	9	34765779	PRC	October 21, 2019	October 20, 2029
25		Wuxi EA	44	35466488	PRC	October 14, 2019	October 13, 2029
26		Wuxi EA	5	35480027	PRC	December 28, 2019	December 27, 2029
27		Wuxi EA	10	35478222	PRC	December 21, 2019	December 20, 2029
28		Wuxi EA	35	35483196	PRC	January 7, 2020	January 6, 2030
29		Wuxi EA	40	35474592	PRC	October 7, 2019	October 6, 2029
30		Wuxi EA	10	35464949	PRC	December 7, 2019	December 6, 2029
31		Wuxi EA	44	35463706	PRC	September 14, 2019	September 13, 2029

No.	Trademark	Registered Owner	Class	Registration Number	Place of Registration	Registration Date	Expiry Date
32		Wuxi EA	40	34760873	PRC	October 21, 2019	October 20, 2029
33		Wuxi EA	35	34749456	PRC	December 7, 2019	December 6, 2029
34		Wuxi EA	10	34750976	PRC	December 21, 2019	December 20, 2029
35		Wuxi EA	35	34757482	PRC	December 7, 2019	December 6, 2029
36		Wuxi EA	10	34765585	PRC	May 14, 2020	May 13, 2030
37		Wuxi EA	40	34765288	PRC	October 21, 2019	October 20, 2029
38	COMFOS	Beijing EA	35	26590542	PRC	September 14, 2018	September 13, 2028
39	COMFOS	Beijing EA	44	26597516	PRC	September 14, 2018	September 13, 2028
40		Shanghai EA	1	34759488	PRC	September 14, 2019	September 13, 2029
41		Shanghai EA	44	34770532	PRC	September 14, 2019	September 13, 2029
42		Shanghai EA	9	34773362	PRC	December 7, 2019	December 6, 2029
43		Shanghai EA	10	34761374	PRC	September 14, 2019	September 13, 2029
44		Shanghai EA	10	34764808	PRC	September 7, 2019	September 6, 2029
45		Shanghai EA	42	34747346	PRC	September 7, 2019	September 6, 2029
46		Shanghai EA	9	34751568	PRC	November 28, 2019	November 27, 2029
47	iOrtho	Shanghai EA	35	42376387	PRC	November 28, 2020	November 27, 2030
48	iOrtho	Shanghai EA	38	34764914	PRC	June 28, 2019	June 27, 2029
49	iOrtho	Shanghai EA	41	34754045	PRC	July 14, 2019	July 13, 2029
50	iOrtho	Shanghai EA	44	34772709	PRC	June 28, 2019	June 27, 2029
51	AngelButton	Shanghai EA	10	38698938	PRC	March 7, 2020	March 6, 2030
52	AngelButton	Shanghai EA	40	38690234	PRC	March 14, 2020	March 13, 2030
53	AngelButton	Shanghai EA	42	38697447	PRC	March 7, 2020	March 6, 2030
54	AngelButton	Shanghai EA	44	38696633	PRC	March 7, 2020	March 6, 2030
55		Shanghai EA	10	34746904	PRC	September 14, 2019	September 13, 2029

No.	Trademark	Registered Owner	Class	Registration Number	Place of Registration	Registration Date	Expiry Date
56		Shanghai EA	17	34746953	PRC	September 14, 2019	September 13, 2029
57		Shanghai EA	1	34763517	PRC	September 14, 2019	September 13, 2029

(b) Domain Names

As of the Latest Practicable Date, we have registered the following domain names which are material to our business:

No.	Domain Names	Registrant	Registration Date	Expiry Date
1	ea-angel.cn	Wuxi EA	November 11, 2011	February 26, 2023
2	ea-angel.com.cn	Wuxi EA	November 11, 2011	February 26, 2023
3	shidaits.com.cn	Wuxi EA	February 20, 2012	April 1, 2023
4	comfosalign.net	Wuxi EA	December 19, 2018	December 19, 2021
5	comfosalign.com	Wuxi EA	January 24, 2017	January 24, 2023
6	comfosalign.com.cn	Wuxi EA	December 19, 2018	December 19, 2021
7	comfosalign.cn	Wuxi EA	December 19, 2018	December 19, 2021
8	angelalign.com.cn	Wuxi EA	December 19, 2018	December 19, 2021
9	comfos.cn	Shanghai EA	July 30, 2014	July 30, 2022
10	comfos.com.cn	Shanghai EA	July 30, 2014	July 30, 2022
11	shidaits.cn	Shanghai EA	April 1, 2010	April 1, 2023
12	angelalign.net	Shanghai EA	May 7, 2016	May 8, 2022
13	angelalign.com	Shanghai EA	May 7, 2016	May 8, 2022
14	51jiaozheng.com	Shanghai EA	February 25, 2011	November 23, 2023
15	51jiaozhi.com	Shanghai EA	February 25, 2011	November 23, 2023
16	angelalign.net	Shanghai EA	May 7, 2016	May 8, 2022
17	comfos.net	Shanghai EA	July 30, 2014	July 30, 2022
18	ea-angel.com	Shanghai EA	February 26, 2010	February 26, 2023
19	ea-angel.net	Shanghai EA	November 11, 2011	February 26, 2023
20	shidaits.com	Shanghai EA	April 1, 2010	April 1, 2023
21	shidaits.net	Shanghai EA	February 20, 2012	April 1, 2023

(c) Patents

As of the Latest Practicable Date, we have registered the following patents which are material to our business:

No.	Patent	Category	Patentee	Registration Number	Place of Registration	Grant Date
1	Orthodontic device, accessory and manufacturing method (牙齒矯治器、附件裝置及製造牙齒矯治器的方法)	Invention	Wuxi EA	ZL201310227191.0	PRC	January 22, 2019
2	Orthodontic system suitable for mixed dentition and its manufacturing method (適用於混合牙列的牙齒矯治系統及其製造方法)	Invention	Shanghai EA	ZL201410340024.1	PRC	December 24, 2019

No.	Patent	Category	Patentee	Registration Number	Place of Registration	Grant Date
3	Composite orthodontic system (複合型牙齒矯治器系統)	Utility model	Shanghai EA	ZL201420622283.9	PRC	October 24, 2014
4	Dental instrument (牙科器械)	Utility model	Wuxi EA	ZL201821371863.X	PRC	July 19, 2019
5	Shell-shaped dental device and accessory (殼狀牙科器械及附件)	Utility model	Wuxi EA	ZL201821488698.6	PRC	September 27, 2019
6	Traction buckle (牽引扣)	Utility model	Wuxi EA	ZL201920780938.8	PRC	April 7, 2020
7	Tooth load measuring system (牙齒受力測量系統)	Utility model	Wuxi EA	ZL201820841746.9	PRC	May 15, 2020
8	Shell-shaped orthodontic appliance (殼狀牙齒正畸矯治器)	Utility model	Wuxi EA Biotec	ZL201921776358.8	PRC	August 21, 2020
9	Shell-shaped orthodontic appliance and system for repositioning teeth (殼狀牙齒正畸矯治器以及用於重新定位牙齒的系統)	Utility model	Wuxi EA Biotec	ZL201922235583.7	PRC	September 11, 2020
10	Shell-shaped orthodontic appliance (殼狀牙齒正畸矯治器)	Utility model	Wuxi EA Biotec	ZL201921685369.5	PRC	October 9, 2020
11	Shell-shaped dental instrument and traction structure (殼狀牙科器械及其牽引結構)	Utility model	Wuxi EA	ZL202020144912.7	PRC	October 16, 2020
12	Shell-shaped dental instrument system and traction structure (殼狀牙科器械系統及其牽引結構)	Utility model	Wuxi EA	ZL202020144927.3	PRC	October 16, 2020
13	Shell-shaped dental instrument system (殼狀牙科器械系統)	Utility model	Wuxi EA	ZL202020144914.6	PRC	November 17, 2020
14	Shell-shaped dental instrument (殼狀牙科器械)	Utility model	Wuxi EA	ZL202020144910.8	PRC	December 8, 2020

(d) Copyrights

As of the Latest Practicable Date, we have registered the following software copyrights which are material to our business:

No.	Copyrights	Version	Registration Number	Place of Registration	Registered Owner	Registration Date
1	Huiyin digital restoration software (暉銀數字化修復軟件)	V1.0	2017SR431520	PRC	Wuxi EA	August 8, 2017
2	Huiyin case management system software (暉銀病例管理系統軟件)	V1.0	2017SR431526	PRC	Wuxi EA	August 8, 2017
3	Case data management system software (病例數據管理系統軟件)	1.0	2017SR431515	PRC	Wuxi EA	August 8, 2017
4	Huiyin digital platform software (暉銀數字化平台軟件)	1.0	2017SR431517	PRC	Wuxi EA	August 8, 2017
5	Huiyin teeth segmentation software (暉銀牙齒切分軟件)	V2.2	2017SR431518	PRC	Wuxi EA	August 8, 2017

No.	Copyrights	Version	Registration Number	Place of Registration	Registered Owner	Registration Date
6	Huiyin digital segmentation software (暉銀數字化切牙軟件)	V2.2	2017SR576218	PRC	Wuxi EA	October 19, 2017
7	Angelalign case management system (時代天使病例管理系统)	2.0	2016SR005571	PRC	Wuxi EA	January 8, 2016
8	Angelalign computerized orthodontic case assessment support and treatment planning system software (時代天使正畸計算機輔助診斷設計系統軟件)	V5.3	2015SR073129	PRC	Wuxi EA	May 4, 2015
9	Angelalign computerized orthodontic case assessment support and treatment planning system (時代天使正畸計算機輔助診斷設計系統)	1.0	2010SR037785	PRC	Wuxi EA	July 29, 2010
10	Angelalign orthodontic treatment planning software for kids (時代天使青少年口腔正畸設計軟件)	V1.0	2014SR188643	PRC	Shanghai EA	December 5, 2014
11	Angelalign orthodontic treatment planning software (時代天使口腔正畸設計軟件)	V6.2	2014SR081793	PRC	Shanghai EA	June 20, 2014
12	Orthodontic case management system (正畸病例管理系统)	V1.0	2020SR0590149	PRC	Shanghai EA	June 9, 2020
13	Angelalign MasterForce platform wearing force application simulation software (時代天使MasterForce平台佩戴施力仿真軟件)	V20200524	2020SR1180920	PRC	Shanghai EA	September 28, 2020
14	Angelalign MasterForce platform heating simulation software (時代天使MasterForce平台加熱仿真軟件)	V20200524	2020SR1180005	PRC	Shanghai EA	September 28, 2020
15	Angelalign MasterForce platform sheet simulation software (時代天使MasterForce平台壓膜仿真軟件)	V20200524	2020SR1184590	PRC	Shanghai EA	September 29, 2020
16	Angelalign Masterforce platform cooling and resilience simulation software (時代天使MasterForce平台冷卻回彈仿真軟件)	V20200524	2020SR1180307	PRC	Shanghai EA	September 28, 2020

Save as aforesaid, as at the Latest Practicable Date, there were no other trade or service marks, patents, designs, intellectual or industrial property rights which were material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests of our Directors and the Chief Executive of Our Company*

Immediately following the completion of the Global Offering as well as assuming the Share-Subdivision is completed and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes, the interests or short positions of our Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed, will be as follows:

<u>Name of Director</u>	<u>Nature of Interest</u>	<u>Number of Shares held⁽¹⁾</u>	<u>Approximate percentage of Interest⁽¹⁾</u>
Mr. FENG Dai ⁽²⁾	Interest in a company controlled	100,000,000(L)	60.3110%
Ms. LI Huamin ⁽³⁾	Interest in a company controlled	23,657,300(L)	14.2680%
Mr. HUANG Kun ⁽⁴⁾	Interest in a company controlled	717,200(L)	0.4326%
Mr. SONG Xin ⁽⁵⁾	Interest in a company controlled	1,415,300(L)	0.8536%

The letter “L” denotes the person’s long position in the Shares.

- (1) The calculation is based on the total number of 165,807,100 Shares in issue immediately after the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares that may be issued under the Share Award Schemes).
- (2) See “Substantial Shareholders” in this prospectus for details.
- (3) See “Substantial Shareholders” in this prospectus for details.
- (4) Noble Affluent Limited is wholly-owned by Mr. HUANG Kun, and thus Mr. HUANG Kun is deemed to be interested in all the shareholding of the Company held by Noble Affluent Limited.
- (5) Ascend Benefit Limited is wholly-owned by Mr. SONG Xin, and thus Mr. SONG Xin is deemed to be interested in all the shareholding of the Company held by Ascend Benefit Limited.

(b) Interests of the Substantial Shareholders

<u>Name of Shareholder</u>	<u>Name of associated corporation</u>	<u>Nature of interest</u>	<u>Registered Capital</u>	<u>Approximate percentage of shareholding interest</u>
Ningbo Wuling Investment Management LLP (寧波五嶺投資管理合夥企業(有限合夥)) ⁽¹⁾	Guangzhou Xuhong Technology Co., Ltd. (廣州旭弘科技有限公司)	Beneficial interest	RMB1,285,710	30.0%
LIU Xiaohui	Shanghai Tianzhi Dental Clinic Co., Ltd. (上海天智口腔門診部有限公司)	Beneficial interest	RMB900,000	30.0%
Kitchining, Ian David	Smile Development Group	Beneficial interest	N/A	33.0%

(1) The general partner of Ningbo Wuling Investment Management LLP is LING Hongwang, an independent third party except for his interests in Ningbo Wuling Investment Management LLP.

(2) LIU Xiaohui is an independent third party except for his interests in Shanghai Tianzhi Dental Clinic Co., Ltd.

(3) Kitchining, Ian David is an independent third party except for his interests in Smile Development Group.

Save as disclosed in “Substantial Shareholders,” immediately following the completion of the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes, our Directors or chief executive are not aware of any other person (other than a Director or chief executive of our Company) who will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries.

2. Directors’ Service Contracts and Letters of Appointment

Each of our executive Directors has entered into a service contract with our Company on May 20, 2021, and we have issued letters of appointment to each of our non-executive Directors and each of our independent non-executive Directors on May 20, 2021. The service contracts with each of our executive Directors and the letters of appointment with each of our non-executive Directors are for an initial fixed term of three years commencing from the date of such agreement. The letters of appointment with each of our independent non-executive Directors are for an initial fixed term of three years. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of our Directors has entered, or has proposed to enter, into a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors' Remuneration

The aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances, share-based compensation and other allowances and benefits in kind and discretionary bonuses) paid to our Directors for the years ended December 31, 2018, 2019 and 2020 were approximately RMB15.1 million, RMB37.5 million and RMB50.2 million, respectively.

Save as disclosed above, no other payments have been made or are payable, in respect of the years ended December 31, 2018, 2019 and 2020, by any of member of our Group to any of our Directors.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of our Directors for the year ending December 31, 2021 to be approximately RMB21.9 million.

4. Disclaimers

- (a) Save as disclosed in the section headed "Our History and Corporate Development," none of our Directors nor any of the persons listed in "— E. Other Information — 5. Qualification of Experts" below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) Save in connection with the Underwriting Agreements, none of our Directors nor any of the persons listed in "— E. Other Information — 5. Qualification of Experts" below is materially interested in any contract or arrangement with our Group subsisting at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to the business of our Group as a whole;
- (c) Save in connection with Underwriting Agreements, none of the persons listed in "— E. Other Information — 5. Qualification of Experts" below has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (d) Save as disclosed in this Appendix, none of our Directors has entered or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (e) None of our Directors, their respective associates (as defined under the Listing Rules), or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in our Company's five largest customers and five largest suppliers.

D. SHARE AWARD SCHEMES**1. Share Award Scheme I**

The following is a summary of the principal terms of Share Award Scheme I adopted on December 21, 2020, as amended on December 31, 2020. Share Award Scheme I is not subject to the provisions of Chapter 17 of the Listing Rules as it does not involve the grant of options by our Company to subscribe for new shares.

(a) Purposes

The purposes of Share Award Scheme I are (i) to motivate senior managers, core employees and other participants through the establishment of an incentive mechanism for sharing interests and risks among shareholders, senior managers and core employees; (ii) to provide such employees with the opportunity to participate in the growth and profitability of our Group; and (iii) to attract and retain talented personnel for the realization of the Group's long-term development goals.

(b) Number of Shares

The aggregate number of shares for all the Awards (as defined below) pursuant to the Share Award Scheme I is 19,069,300 Shares, subject to adjustment pursuant to paragraph (i) below, representing approximately 12.80% of the issued share capital of our Company immediately prior to the completion of the Global Offering and approximately 11.50% of the issued share capital of our Company immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes).

As of the Latest Practicable Date, all the incentive Shares granted to the Participants (as defined below) under the Share Award Scheme I were issued and are held by certain companies (the "ESOP Entities") beneficially owned by such Participants, including Sky Honour Enterprises Limited, Vast Luck Global Limited, Ascend Benefit Limited, Novel Boom Limited and All Beautiful Limited. See "Our History and Corporate Development" for more information of such entities.

(c) Participants; Awards

The participants of Share Award Scheme I are senior management and core employees of the Group (the "Participants"). Subject to laws, regulations, normative documents, agreements and the provisions of the Articles of Association, the Participants shall be determined by the ESOP Committee in its sole discretion with reference to the employee's working performance, contribution to the Company and other factors.

The Share Award Scheme I gives the Participants restricted share units as the awards (the "Awards"). The incentive Shares for such Awards are held by certain holding companies incorporated in the BVI with limited liability. After the Awards are granted, all the Participants will be the shareholders of such allocated holding companies and indirectly beneficially own the incentive Shares based on the terms and conditions set forth in the Share Award Scheme I.

(d) Administration

The Share Award Scheme I shall be subject to the administration of the Board or a committee or person as authorized by the Board (the "ESOP Committee"). The ESOP Committee shall have the full power to administrate the Share Award Scheme I, including, among others, approving, construing and modifying the provisions of such scheme and determining or adjusting the grant and the cancellation of Awards, the exercise conditions and other terms in relation to Awards granted thereto. The Board acts as the ESOP Committee.

Each of the sole director of the ESOP Entities, the board of directors or a committee or person as authorized shall act as the administrator of each ESOP Entity (the “Administrator”). The Administrator shall be generally determined and appointed by the Participants as shareholders of such ESOP Entities. The Administrator shall be responsible for the management of incentive Shares held by the corresponding ESOP Entities in accordance with the terms and conditions of Share Award Scheme I and the instructions of ESOP Committee as set forth below. The Board acts as the ESOP Committee. The sole director of each ESOP Entity has been appointed as the Administrator of each ESOP Entity.

(e) Rights and Restrictions attached to the Awards

The Awards are personal to each Participant and are not assignable or transferable. The Participants shall not have the right in any way to sell, transfer, charge, mortgage, encumber or create any interest in favor of any other person over or in relation to any Awards, except as otherwise pre-approved by the ESOP Committee.

The incentive Shares and shares of the ESOP Entities beneficially owned by the Participants shall be subject to certain lock-up periods as set forth in paragraph (f) below. Prior to the expiration of the lock-up period, the Participants agree to authorize and proxy each Administrator to exercise all the rights attached to the incentive Shares and shares of ESOP Entities in accordance with the instructions of ESOP Committee, except for the right to receive economic benefits, the voting rights and the Administrator determination rights, which shall be exercised and enjoyed by the Participants as shareholders of such ESOP Entities and the beneficial owners of the incentive Shares. All proceeds from disposal of incentive Shares, after deducting the necessary fees, taxes and unpaid capital contributions or debts, if any, shall be distributed to the Participants.

Each Participant can exercise his or her right within a period of ten (10) years starting from the date on which incentive Shares are granted. If Shares are listed after expiry of the lock-up period, the Participants will dispose of and exercise all the rights attached to their incentive Shares in their own discretion subject to compliance with, among others, applicable laws and regulations and stock exchange rules.

Pursuant to certain voting proxy deed dated May 20, 2021 by and between the Participants, Novel Boom Limited and All Beautiful Limited, respectively, the Participants, Novel Boom Limited and All Beautiful Limited have appointed the board of directors of the Company (the “Board”) as their respective attorneys-in-fact and proxy to exercise all of their voting rights attached to the incentive Shares entitled by such Participants under the Pre-IPO Share Award Schemes, for a period commencing from the Listing and ending on the date when such Participant ceases to beneficially own any of such incentive Shares.

(f) Vesting Condition

The incentive Shares shall be subject to a lock-up period commencing from the date of grant of the Awards to the date that is the later of (i) expiry of the mandatory lock-up period under applicable laws and regulations or (ii) the date of initial public offering of the Shares. During the vesting period, the Participants shall not dispose or transfer any of the incentive Shares or shares of ESOP Entities, while the Participants shall still have the rights to receive economic benefits, exercise the voting rights and determine the Administrator.

Upon and after expiry of the lock-up period, in compliance with relevant laws, regulations and regulatory documents, the disposal of Shares by each Participant shall be subject to certain further restrictions: (1) within one year, the number of disposed Shares shall not exceed 50% of the total number of incentive Shares held by him or her under the Share Award Scheme I; (2) within two years, the number of disposed Shares shall not exceed 80% of the total number of incentive Shares held by him or her under the Share Award Scheme I; and (3) after two years, all the incentive Shares held by him or her under the Share Award Scheme I are free to be disposed of.

(g) Capital Contributions

The consideration for the incentive Shares subscribed by the ESOP Entities are the nominal value, which shall be jointly borne by and paid by the Participants. As of the Latest Practicable Date, all the considerations for the incentive Shares under the Share Award Scheme I were fully paid by the Participants.

(h) Lapse of Awards

During the vesting period, if the Participants cease to be eligible for any of the following reasons, the Participants shall transfer all the shares of the ESOP Entities held by him/her and the corresponding incentive Shares to a transferee designated by the ESOP Committee at the same consideration paid by him/her: (1) expiry of employment, including termination of the contract and non-renewal of the contract, (2) voluntary resignation, (3) inability for performing the employment contract, (4) layoff, (5) retirement or illness and the selected person is unwilling to hold the Awards, and (6) death or incapacitation and the beneficiary designated by the selected person refuses to inherit the Awards.

(i) Reorganization of Capital Structure

In the event of any alteration in the capital structure of the Company, such as capitalization issue, rights issue, consolidation, sub-division and reduction of the share capital of the Company, Administrators shall make equitable adjustments in the same proportion to the number of incentive Shares. When the event of any material capital transactions has occurred, such as mergers, acquisitions and divisions, the ESOP Committee has the power to make adjustments that it considers appropriate to the number of incentive Shares.

(j) Distributions

All proceeds from dividends or disposal of Shares, after deducting the necessary fees and taxes, shall be distributed to the Participants. The Shares disposal plan, profit distribution plan and profit distribution schedule shall be determined by the ESOP Committee in its sole discretion, based on the principle of maximizing the shareholders' interests.

(k) Duration

The Share Award Scheme I shall be valid and effective for a period of ten (10) years commencing on the date of adoption of such scheme. After the Listing, no new Awards shall be granted, except that the outstanding Awards granted shall in all other respects remain in full force and effect.

(l) Interpretation or Amendment

The ESOP Committee has the right to make supplementary provisions. Any interpretation made by the ESOP Committee shall be final and binding. Any alternation, amendment or termination to the Share Award Scheme I shall be approved by ESOP Committee.

(m) Details of the Awards granted

Details of the Awards granted under the Share Award Scheme I are set out below.

<u>Name of the Grantees</u>	<u>Position held in our Group</u>	<u>Name of the corresponding ESOP Entity</u>	<u>Number of incentive Shares represented by Awards</u>	<u>Approximate percentage of shareholding immediately following the completion of the Global Offering⁽¹⁾</u>
<i>Directors, Senior Management and Connected Persons</i>				
Ms. LI Huamin . . .	Executive Director and chief executive officer	Sky Honour Enterprises Limited	10,843,900	6.54%
Mr. CHEN Kai . . .	Former director of the Company	Vast Luck Global Limited	6,436,100	3.88%
Mr. TIAN Jie	Chief medical officer	Novel Boom Limited	1,197,544	0.72%
Mr. SONG Xin . . .	Executive Director and chief commercial officer	Ascend Benefit Limited	196,830	0.12%
<i>Other Employees</i>				
21 employees	N/A	Novel Boom Limited; All Beautiful Limited	394,926	0.24%

(1) Assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes.

All the Awards granted under the Share Award Scheme I are fully vested and are subject to certain lock-up and disposal restrictions set out in paragraph (f) above. No grant of Awards under the Share Award Scheme I will cause any dilution of the shareholding of our Shareholders after the Listing.

2. Share Award Scheme II

The following is a summary of the principal terms of Share Award Scheme II adopted on December 21, 2020, as amended on December 31, 2020. The Share Award Scheme II is not subject to the provisions of Chapter 17 of the Listing Rules as it does not involve the grant of options by our Company to subscribe for new shares.

(a) Purposes

The purposes of Share Award Scheme II are (i) to motivate senior managers, core employees and other participants through the establishment of an incentive mechanism for sharing interests and risks among shareholders, senior managers and core employees; (ii) to provide such employees with the opportunity to participate in the growth and profitability of our Group; and (iii) to attract and retain talented personnel for the realization of the Group's long-term development goals.

(b) Number of Shares

The aggregate number of Shares for all the Awards (as defined below) pursuant to the Share Award Scheme II is 4,706,400 Shares, subject to adjustment pursuant to paragraph (i) below, representing approximately 3.16% of the issued share capital of our Company immediately prior to the completion of the Global Offering and approximately 2.84% of the issued share capital of our Company immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes). No grant of such Awards under the Share Award Scheme II will cause any dilution of the shareholding of our Shareholders after the Listing.

As of the Latest Practicable Date, all the incentive Shares granted to the Participants (as defined below) under the Share Award Scheme II were issued and are held by certain companies (the “ESOP Entities”) beneficially owned by such Participants, including Sky Honour Enterprises Limited, Vast Luck Global Limited, Ascend Benefit Limited, Novel Boom Limited and All Beautiful Limited. See “Our History and Corporate Development” for more information of such entities.

(c) Participants; Awards

The participants (the “Participants”) to be granted with the Awards under the Share Award Scheme II shall be determined by the ESOP Committee and shall: (1) be a senior manager, director of a department or core employee of the Company or its subsidiaries; (2) have positive contribution to the Company with outstanding working performance; and (3) be currently working for the Company or its subsidiaries with a signed employment contract.

The Share Award Scheme II gives the Participants restricted share units as the awards (the “Awards”). The incentive Shares for such Awards are held by certain holding companies incorporated in the BVI with limited liability. After the Awards are granted, all the Participants will be the shareholders of such allocated holding companies and indirectly beneficially own the incentive Shares based on the terms and conditions set forth in the Share Award Scheme II.

(d) Administration

The Share Award Scheme II shall be subject to the administration of the Board or a committee or person as authorized by the Board (the “ESOP Committee”). The ESOP Committee shall have the full power to administrate the Share Award Scheme II, including, among others, approving, construing and modifying the provisions of such scheme and determining or adjusting the grant and the cancellation of Awards, the exercise conditions and other terms in relation to Awards granted thereto.

Each of the sole director of the ESOP Entities, the board of directors or a committee or person as authorized shall act as the administrator of each ESOP Entity (the “Administrator”). The Administrator shall be generally determined and appointed by the Participants as shareholders of such ESOP Entities. The Administrator shall be responsible for the management of incentive Shares held by the corresponding ESOP Entities in accordance with the terms and conditions of Share Award Scheme II and the instructions of ESOP Committee as set forth below. The Board acts as the ESOP Committee. The sole director of each ESOP Entity has been appointed as the Administrator of each ESOP Entity.

(e) Rights and Restrictions attached to the Awards

The Awards are personal to each Participant and are not assignable or transferable. The Participants shall not have the right in any way to sell, transfer, charge, mortgage, encumber or create any interest in favor of any other person over or in relation to any Awards, except as otherwise pre-approved by the ESOP Committee.

The incentive Shares and shares of ESOP Entities beneficially owned by the Participants shall be subject to certain vesting conditions as set forth in paragraph (f) below. Prior to the vesting of the incentive Shares, the Participants shall authorize and proxy each Administrator to exercise all the rights attached to the incentive Shares and shares of ESOP Entities in accordance with the instructions of ESOP Committee, except for the right to receive economic benefits, the voting rights and the Administrator determination rights, which shall be exercised and enjoyed by the Participants as shareholders of such ESOP Entities and the beneficial owners of the incentive Shares. All proceeds from disposal of incentive Shares, after deducting the necessary fees, taxes and unpaid capital contributions or debts, if any, shall be distributed to the Participants.

Each Participant can exercise his or her right within a period of ten (10) years starting from the date on which incentive Shares are granted. If Shares are listed after expiry of the vesting period, the Participants will dispose of and exercise all the rights attached to their incentive Shares in their own discretion subject to compliance with, among others, applicable laws and regulations and stock exchange rules.

Pursuant to certain voting proxy deed dated May 20, 2021 by and between the Participants, Novel Boom Limited and All Beautiful Limited, respectively, the Participants, Novel Boom Limited and All Beautiful Limited have appointed the board of directors of the Company (the "Board") as their respective attorneys-in-fact and proxy to exercise all of their voting rights attached to the incentive Shares entitled by such Participants under the Pre-IPO Share Award Schemes, for a period commencing from the Listing and ending on the date when such Participant ceases to beneficially own any of such incentive Shares.

(f) Vesting Condition

The Awards under Share Award Scheme II shall be subject to a vesting period of four (4) years starting from the date of grant. Unless as otherwise indicated, the Participants shall remain to be employed by the Group and shall not dispose of any incentive Shares or shares of the ESOP Entities held under the Share Award Scheme II.

If the employment relationship between the Participants and the Group terminates within the first three (3) years of the vesting period regardless of reasons, such Participants shall transfer all the shares of ESOP Entities held by him/her and the beneficial interests in the corresponding incentive Shares to a transferee designated by the ESOP Committee, at the same consideration payable or paid by him/her. If the employment relationship between the Participants and the Group terminates in the last one (1) year of the vesting period regardless of reasons, such Participants shall transfer 25% of shares held in holding companies and the beneficial interests in the corresponding incentive Shares to a transferee designated by ESOP Committee, at the same consideration payable or paid by him/her.

After expiry of the vesting period, if the Shares is not listed and the Participants intend to transfer their shares in the ESOP Entities, such person shall file a written application to the ESOP Committee within 20 business days after the end of the first quarter of the year. Such shares shall be transferred to a transferee designated by the ESOP Committee at the consideration calculated based on formula in the Share Award Scheme II.

(g) Capital Contributions

The consideration for the incentive Shares subscribed by the ESOP Entities are the nominal value, which shall be jointly borne by and paid by the Participants. As of the Latest Practicable Date, all the considerations for the incentive Shares under the Share Award Scheme II were fully paid by the Participants.

(h) Lapse of Awards

During the vesting period, if the Participants cease to be eligible for any of the following reasons, the Participants shall transfer all the shares of the ESOP Entities held by him/her and the corresponding incentive Shares to a transferee designated by the ESOP Committee at the same consideration paid by him/her: (1) expiry of employment, including termination of the contract and non-renewal of the contract, (2) voluntary resignation, (3) inability for performing the employment contract, (4) layoff, (5) retirement or illness and the selected person is unwilling to hold the Awards, and (6) death or incapacitation and the beneficiary designated by the selected person refuses to inherit the Awards.

(i) Reorganization of Capital Structure

In the event of any alteration in the capital structure of the Company, such as capitalization issue, rights issue, consolidation, sub-division and reduction of the share capital of the Company, Administrators shall make equitable adjustments in the same proportion to the number of incentive Shares.

When the event of any material capital transactions has occurred, such as mergers, acquisitions and divisions, the ESOP Committee has the power to make adjustments that it considers appropriate to the number of incentive Shares.

(j) Distributions

All proceeds from dividends or disposal of Shares, after deducting the necessary fees and taxes, shall be distributed to the Participants. The Shares disposal plan, profit distribution plan and profit distribution schedule shall be determined by the ESOP Committee in its sole discretion, based on the principle of maximizing the shareholders' interests.

(k) Duration

The Share Award Scheme II shall be valid and effective for a period of ten (10) years commencing on the date of adoption of such scheme. After the Listing, no new Awards shall be granted, except that the outstanding Awards granted shall in all other respects remain in full force and effect.

(l) Interpretation or Amendment

The ESOP Committee has the right to make supplementary provisions. Any interpretation made by the ESOP Committee shall be final and binding. Any alternation, amendment or termination to the Share Award Scheme II shall be approved by ESOP Committee.

(m) Details of the Awards granted

Details of the Awards granted under the Share Award Scheme II are set out below.

<u>Name of the Grantees</u>	<u>Position held in our Group</u>	<u>Name of the corresponding ESOP Entity</u>	<u>Number of incentive Shares represented by Awards</u>	<u>Approximate percentage of shareholding immediately following the completion of the Global Offering⁽¹⁾</u>
<i>Directors and Senior Management</i>				
Mr. SONG Xin . . .	Executive Director and chief commercial officer	Ascend Benefit Limited	744,911	0.45%
Mr. LIU Yu	Chief marketing officer	Novel Boom Limited	744,811	0.45%
Mr. ZHU Guolin . .	Chief financial officer	Novel Boom Limited	595,949	0.36%
<i>Other Employees</i>				
40 employees	–	Novel Boom Limited; All Beautiful Limited	2,620,729	1.58%

(1) Assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes.

All the Awards granted under the Share Award Scheme II shall vest on September 30, 2021, unless the ESOP Committee shall otherwise determine and so notify the Participants pursuant to the Share Award Scheme II. No grant of such Awards under the Share Award Scheme II will cause any dilution of the shareholding of our Shareholders after the Listing.

3. Share Award Scheme III

The following is a summary of the principal terms of Share Award Scheme III adopted on December 21, 2020, as amended on December 31, 2020 and January 26, 2021. Share Award Scheme III consists of restricted share units pool (“Share Award Scheme III — Pool A”) and options pool (“Share Award Scheme III — Pool B”), both of which are not subject to the provisions of Chapter 17 of the Listing Rules as no options will be granted by our Company to subscribe for new shares after the Listing.

Share Award Scheme III — Pool A

(a) Purposes

The purposes of Share Award Scheme III — Pool A are (i) to motivate senior managers, core employees and other participants through the establishment of an incentive mechanism for sharing interests and risks among shareholders, senior managers and core employees; (ii) to provide such employees with the opportunity to participate in the growth and profitability of our Group; and (iii) to attract and retain talented personnel for the realization of the Group’s long-term development goals.

(b) Number of Shares

The aggregate number of Shares for all the Awards (as defined below) pursuant to the Share Award Scheme III — Pool A is 5,289,900 Shares, subject to adjustment pursuant to paragraph (l) below, representing approximately 3.55% of the issued share capital of our Company immediately prior to the completion of the Global Offering and approximately 3.19% of the issued share capital of our Company immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes). No grant of such Awards under the Share Award Scheme III — Pool A will cause any dilution of the shareholding of our Shareholders after the Listing.

As of the Latest Practicable Date, all the incentive Shares granted to the Participants (as defined below) under the Share Award Scheme III — Pool A were issued and are held by certain companies (the “ESOP Entities”) beneficially owned by such Participants including Sky Honour Enterprises Limited, Vast Luck Global Limited, Ascend Benefit Limited, Novel Boom Limited and All Beautiful Limited. See “Our History and Corporate Development” for more information of such entities.

(c) Participants; Awards

The participants (the “Participants”) to be granted with Awards under the Share Award Scheme III — Pool A shall be determined by the ESOP Committee and shall: (1) be a senior manager, director of a department or core employee of the Company or its subsidiaries; (2) have positive contribution to the Company with outstanding working performance; and (3) be currently working for the Company or its subsidiaries with a signed employment contract.

The Share Award Scheme III — Pool A gives the Participants restricted share units as the awards (the “Awards”). The incentive Shares for such Awards are held by certain holding companies incorporated in the BVI with limited liability. After the Awards are granted, all the Participants will be the shareholders of such allocated holding companies and indirectly beneficially own the incentive Shares based on the terms and conditions set forth in the Share Award Scheme III — Pool A.

(d) Administration

The Share Award Scheme III — Pool A shall be subject to the administration of the Board or a committee or person as authorized by the Board (the “ESOP Committee”). The ESOP Committee shall have the full power to administrate the Share Award Scheme III — Pool A, including, among others, approving, construing and modifying the provisions of such scheme and determining or adjusting the grant and the cancellation of Awards, the exercise conditions and other terms in relation to Awards granted thereto.

Each of the sole director of the ESOP Entities incentive Shares, the board of directors or a committee or person as authorized shall act as the administrator of each ESOP Entity (the “Administrator”). The Administrator shall be generally determined and appointed by the Participants as shareholders of such ESOP Entities. The Administrator shall be responsible for the management of incentive Shares held by the corresponding ESOP Entities in accordance with the terms and conditions of Share Award Scheme III — Pool A and the instructions of ESOP Committee as set forth below. The Board acts as the ESOP Committee. The sole director of each ESOP Entity has been appointed as the Administrator of each ESOP Entity.

(e) Rights and Restrictions attached to the Awards

The Awards are personal to each Participant and are not assignable or transferable. The Participants shall not have the right in any way to sell, transfer, charge, mortgage, encumber or create any interest in favor of any other person over or in relation to any Awards, except as otherwise pre-approved by the ESOP Committee.

The incentive Shares and shares of ESOP Entities beneficially owned by the Participants shall be subject to certain vesting conditions as set forth in paragraph (f) below. Prior to the vesting of the incentive Shares, the Participants shall authorize and proxy each Administrator to exercise all the rights attached to the incentive Shares and shares of ESOP Entities in accordance with the instructions of ESOP Committee, except for the right to receive economic benefits, the voting rights and the Administrator determination rights, which shall be exercised and enjoyed by the Participants as shareholders of such ESOP Entities and the beneficial owners of the incentive Shares. All proceeds from disposal of incentive Shares, after deducting the necessary fees, taxes and unpaid capital contributions or debts, if any, shall be distributed to the Participants.

Each Participant can exercise his or her right within a period of ten (10) years starting from the date on which incentive Shares are granted. If Shares are listed after expiry of the vesting period, the Participants will dispose of and exercise all the rights attached to their incentive Shares in their own discretion subject to compliance with, among others, applicable laws and regulations and stock exchange rules.

Pursuant to certain voting proxy deed dated May 20, 2021 by and between the Participants, Novel Boom Limited and All Beautiful Limited, respectively, the Participants, Novel Boom Limited and All Beautiful Limited have appointed the board of directors of the Company (the “Board”) as their respective attorneys-in-fact and proxy to exercise all of their voting rights attached to the incentive Shares entitled by such Participants under the Pre-IPO Share Award Schemes, for a period commencing from the Listing and ending on the date when such Participant ceases to beneficially own any of such incentive Shares.

(f) Vesting Condition

The Awards under Share Award Scheme III — Pool A shall be subject to a vesting period of four (4) years starting from the date of grant. Unless as otherwise indicated, the Participants shall remain to be employed by the Group and shall not dispose of any incentive Shares or shares of the ESOP Entities held under the Share Award Scheme III — Pool A. If the employment relationship between the Participants and the Group terminates within the first three (3) years of the vesting period regardless of reasons, such Participants shall transfer all the shares of ESOP Entities held by him/her and the beneficial interests in the corresponding incentive Shares to a transferee designated by the ESOP Committee, at the same consideration payable or paid by him/her. If the employment relationship between the Participants and the Group terminates in the last one (1) year of the vesting period regardless of reasons, such Participants shall transfer 25% of shares held in ESOP Entities and the beneficial interests in the corresponding incentive Shares to a transferee designated by ESOP Committee, at the same consideration payable or paid by him/her.

After expiry of the vesting period, if the Shares is not listed and the Participants intend to transfer their shares in the ESOP Entities, such person shall file a written application to the ESOP Committee within 20 business days after the end of the first quarter of the year. Such shares shall be transferred to a transferee designated by the ESOP Committee at the consideration calculated based on formula in the Share Award Scheme III — Pool A.

(g) Capital Contributions

The consideration for the incentive Shares subscribed by the ESOP Entities are the nominal value, which shall be jointly borne by and paid by the Participants. As of the Latest Practicable Date, all the considerations for the incentive Shares under the Share Award Scheme III — Pool A were fully paid by the Participants.

(h) Lapse of Awards

During the vesting period, if the Participants cease to be eligible for any of the following reasons, the Participants shall transfer all the shares of the ESOP Entities held by him/her and the corresponding incentive Shares to a transferee designated by the ESOP Committee at the same consideration paid by him/her: (1) expiry of employment, including termination of the contract and non-renewal of the contract, (2) voluntary resignation, (3) inability for performing the employment contract, (4) layoff, (5) retirement or illness and the selected person is unwilling to hold the Awards, and (6) death or incapacitation and the beneficiary designated by the selected person refuses to inherit the Awards.

(i) Reorganization of Capital Structure

In the event of any alteration in the capital structure of the Company, such as capitalization issue, rights issue, consolidation, sub-division and reduction of the share capital of the Company, Administrators shall make equitable adjustments in the same proportion to the number of incentive Shares.

When the event of any material capital transactions has occurred, such as mergers, acquisitions and divisions, the ESOP Committee has the power to make adjustments that it considers appropriate to the number of incentive Shares.

(j) Distributions

All proceeds from dividends or disposal of Shares, after deducting the necessary fees and taxes, shall be distributed to the Participants. The Shares disposal plan, profit distribution plan and profit distribution schedule shall be determined by the ESOP Committee in its sole discretion, based on the principle of maximizing the shareholders' interests.

(k) Duration

The Share Award Scheme III — Pool A shall be valid and effective for a period of ten (10) years commencing on the date of adoption of such scheme. After the Listing, no new Awards shall be granted, except that the outstanding Awards granted shall in all other respects remain in full force and effect.

(l) Interpretation or Amendment

The ESOP Committee has the right to make supplementary provisions. Any interpretation made by the ESOP Committee shall be final and binding. Any alternation, amendment or termination to the Share Award Scheme III — Pool A shall be approved by ESOP Committee.

(m) Details of the Awards granted

Details of the Awards granted under the Share Award Scheme III — Pool A are set out below.

<u>Name of the Grantees</u>	<u>Position held in our Group</u>	<u>Name of the corresponding ESOP Entity</u>	<u>Number of incentive Shares represented by Awards</u>	<u>Approximate percentage of shareholding immediately following the completion of the Global Offering⁽¹⁾</u>
<i>Directors, Senior Management and Connected Persons</i>				
Mr. CHEN Kai . . .	Former director of the Company	Vast Luck Global Limited	417,100	0.25%
Mr. SONG Xin . . .	Executive Director and chief commercial officer	Ascend Benefit Limited	473,566	0.29%
Mr. LIU Yu	Chief marketing officer	Novel Boom Limited	325,305	0.20%
Mr. TIAN Jie	Chief medical officer	Novel Boom Limited	38,984	0.02%
Mr. ZHU Guolin . .	Chief financial officer	Novel Boom Limited	29,794	0.02%
<i>Other Employees</i>				
70 employees	—	Novel Boom Limited; All Beautiful Limited	4,005,151	2.42%

(1) Assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes.

For the Awards granted under the Share Award Scheme III — Pool A as of the Latest Practicable Date to the respective individuals, they shall vest as follows, unless the ESOP Committee shall otherwise determine and so notify the Participants pursuant to the Share Award Scheme III — Pool A.

- (a) as to 75.5% of the Awards on September 30, 2021; and
- (b) as to 24.5% of the Awards on September 30, 2023.

No grant of such Awards under the Share Award Scheme III — Pool A will cause any dilution of the shareholding of our Shareholders after the Listing.

Share Award Scheme III – Pool B**(a) Purposes**

The purposes of Share Award Scheme III – Pool B are to reward senior managers, core employees and other participants who have contributed to the Group and to encourage such participants to work towards enhancing the value of the Company and the Shares for the benefit of the Company and its shareholders as a whole.

(b) Participants

The participants (the “Participants”) to be granted with options (“Options”) under the Share Award Scheme III – Pool B shall be determined by the Board and shall be employees, executives, officers or directors (including independent non-executive directors) of the Company or any of the subsidiaries of the Group, any advisors, consultants, agents, suppliers, customers, distributors or such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group.

(c) Administration

The Share Award Scheme III – Pool B shall be subject to the administration of the Board, which shall have the rights to determine, interpret or effectuate all the matters arising from or in relation to this scheme and the decisions of which shall, save as otherwise provided in this scheme, be final and binding on all parties to this scheme.

(d) Grant and acceptance of options

The Board shall, subject to and in accordance with the provisions of this scheme and the Listing Rules, be entitled to, at any time on any business day during the Scheme Period set forth in paragraph (e) below, grant an Option to any eligible Participant (“Grantee”) whom the Board may in its absolute discretion select, based on such conditions as it may think fit, including, without limitation, any minimum period for which an Option must be held before it can be exercised and/or any performance targets which must be achieved before an Option can be exercised.

The acceptance period for an offer of an Option shall be 14 business days from the Offer Date.

(e) Scheme period

This scheme shall be valid and effective for a period (“Scheme Period”) commencing on the date of adoption of the Scheme and ending on the earlier of the tenth anniversary or immediately upon the Listing (both dates inclusive).

(f) Scheme limit

Unless further approval of the Board, the maximum number of Shares in respect of which Options may be granted hereunder shall be the number of shares as determined and approved by the Board from time to time (the “Scheme Limit”). As at the date (“Offer Date”) of offering any proposed Options, the maximum number of Shares in respect of which Options may be granted is such number of Shares less the aggregate of the following Shares as at that Offer Date: (a) the number of Shares which have been issued and allotted pursuant to the exercise of any Options; and (b) the number of cancelled Shares.

(g) Exercise price

The exercise price shall be determined by the Board, at which a Grantee may subscribe for Shares on the exercise of an Option, which shall set forth in the option agreement of such Option.

(h) Exercise of Options

The Option may be exercisable during the period to be notified by the Board to each Grantee provided that such period of time shall not exceed a period of ten years commencing on the date upon which such Option is deemed to be granted and accepted.

An Option shall be exercised in whole or in part, by the Grantee by giving notice in writing to the Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given. Within 10 business days after receipt of the notice and the remittance and, where appropriate, receipt of certain certificate as the case may be in capital restructuring event, the Company shall allot and issue the relevant number of Shares to the Grantee credited as fully paid and issue to the Grantee certificates in respect of the Shares so allotted.

Subject as hereinafter provided and to any restrictions applicable under the applicable laws and regulations, an Option may be exercised by a Grantee at any time or times during the exercise period provided that:

- (a) in the event of the Grantee ceasing to be an eligible Participant for any reason other than on his/her death, ill-health, injury, disability or the termination of his/her relationship with the Company and/or any of the subsidiaries on one or more of the grounds specified in the scheme, the Grantee may exercise the Option up to his/her entitlement at the date of cessation of being an eligible Participant (to the extent not already exercised) within the period of three month (or such longer period as the Board may determine) following the date of such cessation (which date shall be, in relation to a Grantee who is an eligible Participant by reason of his/her employment with the Company or any of the subsidiaries, the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not);
- (b) in the case of the Grantee ceasing to be an eligible Participant by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his/her relationship with the Company and/or any of the subsidiaries set forth in the scheme has occurred, the Grantee or the personal representative(s) of the Grantee shall be entitled within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an eligible Participant or death to exercise the Option in full (to the extent not already exercised);
- (c) if a general offer (whether by way of takeover offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror), the Company shall use its best endeavours to procure that such offer is extended to all the Grantees (on the same terms mutatis mutandis, and assuming that they shall become, by the exercise in full of the options granted to them, shareholders of the Company). If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes, or is declared unconditional, the Grantee (or his/her legal personal representative(s)) shall be entitled to exercise his/her option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional;

- (d) if, pursuant to the companies law, a compromise or arrangement between the Company and its members and/or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all the Grantees (together with a notice of the existence of the provisions of this paragraph) on the same day as it dispatches to members and/or creditors of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each Grantee shall be entitled to exercise all or any of his/her Options in whole or in part at any time prior to 12 noon (Hong Kong time) on the business day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting. With effect from the date of such meeting, the rights of all Grantees to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Shares issued as a result of the exercise of Options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of the Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court) the rights of the Grantees to exercise their respective Options shall with effect from the date of the making of the order by the relevant court be restored in full) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any Grantee as a result of the aforesaid suspension; and
- (e) in the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it dispatches such notice to each member of the Company give notice thereof to all Grantees and thereupon, each Grantee (or in the case of the death of the Grantee, his/her personal representative(s)) shall be entitled to exercise all or any of his/her Options at any time not later than two Business Days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid and register the grantee as holder thereof.

(i) Rights of Grantees

An Option shall be personal to the Grantee and shall not be assignable or transferable. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest whether legal or beneficial in favor of any third party over or in relation to any Option held by him or any offer relating to the grant of an Option made to him or attempt to do so (save that the Grantee may nominate a nominee in whose name the Shares issued pursuant to this scheme may be registered). Any breach of the foregoing shall entitle the Company to cancel any outstanding Options or any part thereof granted to such Grantee.

(j) Ranking of shares

No dividends shall be payable in relation to Shares that are the subject of Options that have not been exercised. The Shares to be allotted upon the exercise of an Option shall not carry voting rights until completion of the registration of the Grantee (or such other person nominated by the Grantee) as the holder thereof. Subject as aforesaid, the Shares to be allotted and issued upon the exercise of an Option shall be subject to all the provisions of the Articles and shall rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of the Company as attached to the fully-paid Shares in issue on the date of issue and rights in respect of any dividend or other distributions paid or made on or after the date of issue. Shares issued on the exercise of an Option shall not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

(k) Lapse of option

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (f) The date of expiry of the Option as may be determined by the Board;
- (g) the expiry of any of the periods referred to in paragraph (h)(a), (h)(b), (h)(c), (h)(d) or (h)(e);
- (h) the date on which the scheme of arrangement of the Company referred to in paragraph (h)(d) above becomes effective;
- (i) the date of commencement of the winding-up of the Company (as determined in accordance with the Companies Act);
- (j) the date on which the Grantee ceases to be an eligible Participant by reason of the termination of his/her relationship with the Company and/or any of its subsidiaries on any one or more of the following grounds:
 - (i) that he/she has been guilty of serious misconduct;
 - (ii) that he/she has been convicted of any criminal offence involving his/her integrity or honesty or in relation to an employee of the Company and/or any of its subsidiaries; or
 - (iii) that he/she has become insolvent, bankrupt or has made arrangements or compositions with his/her creditors generally.

A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship of a Grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; and

- (k) the date on which the Options are cancelled in accordance with paragraph (n) below.

(l) Capital restructuring

In the event of any alteration in the capital structure of the Company whilst any Option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer (if there is a price dilutive element), sub-division, consolidation of shares, or reduction of capital of the Company in accordance with applicable laws and regulatory requirements whilst any Option remains exercisable, such corresponding alterations (if any) shall be made (except on an issue of securities of the Company as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment) in:

- (a) the number of Shares subject to any Options already granted so far as unexercised and remain exercisable; and/or
- (b) the exercise price, as the Board shall at the request of the Company or any Grantee, certify in writing either generally or as regards any particular Grantee, to be in their opinion fair and reasonable, provided that any such alterations shall be made on the basis that a Grantee shall have the same proportion of the equity capital of the Company as that to which he was entitled to subscribe had he exercised all the Options held by him immediately before such alterations and the aggregate Exercise Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event and that no such alterations shall be made if the effect of such alterations would be to enable a Share to be issued at less than its nominal value. The capacity of the Board, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on the Company and the Grantees.

(m) Cancellation of options

Any cancellation of Options granted in accordance with this scheme but not exercised must be approved by the Grantee concerned in writing. In the event that the Board elects to cancel any Options and issue new ones to the same Grantee, the issue of such new Options may only be made with the available unissued Options (excluding the canceled Options) within the Scheme Limit.

(n) Alteration and termination of this scheme

The terms and conditions of this Scheme and the regulations for the administration and operation of this Scheme (provided that the same are not inconsistent with this Scheme) may be altered in any respect by resolution of the Board except that any change of the Scheme Limit must be made with the prior approval of the shareholders of the Company in general meeting at which any persons to whom or for whose benefit the Shares may be issued under this Scheme and their respective affiliates shall abstain from voting, provided that no alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration or to reduce the proportion of the equity capital to which any person was entitled pursuant to such Option prior to such alteration except with: (i) the consent in writing of Grantees holding in aggregate Options which if exercised in full on the date immediately preceding that on which such consent is obtained would entitle them to the issue of three-fourths in nominal value of all Shares which would fall to be issued upon the exercise of all Options outstanding on that date; or (ii) the sanction of a Special Resolution.

Our Company by resolution in general meeting may at any time resolve to terminate the operation of the this scheme and in such event no further Options shall be offered but the provisions of this Scheme shall remain in force to the extent necessary to give effect to the exercise of any Option granted prior to the termination or otherwise as may be required in accordance with the provisions of this scheme and Options granted prior to such termination shall continue to be valid and exercisable in accordance with this scheme.

(o) Outstanding Options

As of the Latest Practicable Date, the Options outstanding under the Share Award Scheme III – Pool B were options granted to Mr. ZHU Lingbo, our senior vice president and a joint company secretary, with rights to subscribe for an aggregate of 300,000 new Shares upon exercise of such options, representing approximately 0.20% of the issued share capital of our Company immediately prior to the completion of the Global Offering and approximately 0.18% of the issued share capital of our Company immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes). Such Options were granted on October 9, 2020, and shall vest in the following schedule: (i) 20% upon the Listing and (ii) each 20% on the last day of each year commencing from October 1, 2020. The exercise price of such Options was US\$1.2 per Share. See “Corporate Information” and “Directors and Senior Management” for more information.

No consideration is paid for grant of such Options. The Company will not grant additional Options under the Share Award Scheme III – Pool B after the Listing. Assuming full vesting and exercise of all options granted under the Share Award Scheme III – Pool B, the shareholding of our Shareholders immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option) would be diluted by 0.18%.

4. Post-IPO RSU Scheme

The following is a summary of the principal terms of the Post-IPO RSU Scheme approved on May 20, 2021. The Post-IPO RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the Post-IPO RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

(a) Purposes of the Post-IPO RSU Scheme

The purposes of the Post-IPO RSU Scheme are: (i) to recognize the contributions by grantees and to give incentives thereto in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

(b) Conditions and Present Status

The Post-IPO RSU Scheme shall take effect conditional upon (i) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the new Shares underlying the Awards (as defined below) which may be granted pursuant to the Post-IPO RSU Scheme; and (ii) the commencement of trading of the Shares on the Stock Exchange.

(c) Awards

An award of RSUs under the Post-IPO RSU Scheme (“Award”) gives a selected person (as set out in paragraph (e) below) in the Post-IPO RSU Scheme a conditional right when the granted RSUs vest to obtain Shares as determined by the Board or its authorized committee or person (the “Administrator”) in its absolute discretion.

(d) Post-IPO RSU Mandate Limit

The maximum aggregate number of Shares underlying all grants of RSUs pursuant to the Post-IPO RSU Scheme will not exceed 1,658,071 Shares, representing approximately 1% of the number of Shares in issue on the Listing Date (assuming no exercise of the Over-allotment Option

and without taking into account any Shares to be issued pursuant to the Share Award Schemes) (“Post-IPO RSU Mandate Limit”). This Post-IPO RSU Mandate Limit may be refreshed from time to time pursuant to paragraph (e) and (f).

(e) Annual Mandate

At each annual general meeting of the Company, the Company shall propose and the Shareholders shall consider and, if thought fit, pass an ordinary resolution approving a mandate, specifying:

- (i) the maximum number of new Shares that may underlie the Awards granted pursuant to the Post-IPO RSU Scheme during the Applicable Period; and
- (ii) that the Board has the power to allot and issue Shares, procure the transfer of Shares and otherwise deal with Shares pursuant to the vesting of any Awards that are granted pursuant to the Post-IPO RSU Scheme as and when the Awards vest.

The mandate shall remain in effect during the period from the passing of the ordinary resolution granting the mandate until the earliest of (the “Applicable Period”):

- (i) the conclusion of the next annual general meeting;
- (ii) the expiry of the period within which the Company is required by any applicable laws or by the Articles of the Company to hold the next annual general meeting; and
- (iii) the date on which such mandate is varied or revoked by an ordinary resolution of the Shareholders at a general meeting.

(f) Refresh of the Post-IPO RSU Mandate Limit

This Post-IPO RSU Mandate Limit may be refreshed from time to time subject to prior approval from our Shareholders, but in any event, the total number of Shares that may underlie RSUs granted under the Post-IPO RSU Scheme following the date of approval of the refreshed limit (“New Approval Date”) must not exceed 1% of the number of Shares in issue as of the New Approval Date. Shares underlying the Awards granted under the Post-IPO RSU Scheme (including those outstanding, lapsed, canceled or vested Awards) prior to the New Approval Date will not be counted for the purpose of determining the maximum aggregate number of Shares that may underlie the Awards granted following the New Approval Date.

(g) Selected Persons

The Administrator may select existing employees, Directors or officers of the Group to be granted with RSUs under the Post-IPO RSU Scheme pursuant to the Post-IPO RSU Scheme.

(h) Duration

Subject to the fulfillment of the conditions of the Post-IPO RSU Scheme and the termination clause in paragraph (y), this Post-IPO RSU Scheme shall be valid and effective for a term of three years commencing on the Adoption Date (or such earlier date as the Board may decide) (the “Post-IPO RSU Scheme Period”), after which period no further Awards shall be granted or accepted, but the provisions of the Post-IPO RSU Scheme shall remain in full force and effect in order to give effect to the vesting and exercise of RSUs granted and accepted prior to the expiration of the Post-IPO RSU Scheme Period.

(i) Administration

This Post-IPO RSU Scheme shall be subject to the administration of the Administrator in accordance with the rules of the Post-IPO RSU Scheme. The Administrator has the power to construe and interpret the rules of the Post-IPO RSU Scheme and the terms of the Awards granted thereunder. Any decision of the Administrator made in accordance with the rules of the Post-IPO RSU Scheme shall be final and binding, provided in each case that such decision is made in accordance with the Articles and any applicable laws.

(j) Appointment of Post-IPO RSU Trustee

The Administrator has the sole and absolute right to appoint any RSU trustee from time to time to administrate the granting, vesting and exercise of Awards granted to the grantees pursuant to the Post-IPO RSU Scheme.

(k) Grant of Awards

After the Administrator has selected the grantees, it will inform the RSU trustee of the name(s) of the person(s) selected, the number of Shares underlying the Awards to be granted to each of them, the vesting schedule and other terms and conditions (if any) that the RSUs are subject to as determined by the Administrator.

Subject to limitations and conditions of the Post-IPO RSU Scheme, the Administrator shall grant and deliver to each of the selected persons an offer of grant of Award(s) by way of a letter, which shall attach an acceptance notice, subject to the conditions that the Administrator thinks fit.

(l) Acceptance of Awards

If the selected person intends to accept the offer of grant of Award(s) as specified in the grant letter, he or she is required to sign the acceptance notice and return it to the Company within the period and in a manner prescribed in the grant letter. Upon the receipt from the selected person of a duly executed acceptance notice, the Award(s) are granted to such person, who becomes a grantee pursuant to the Post-IPO RSU Scheme.

To the extent that the offer of grant of Award(s) is not accepted by any selected person within the time period or in a manner prescribed in the grant letter, it shall be deemed that such offer has been irrevocably declined and thus the RSUs has immediately lapsed.

(m) Restrictions on grants

The Administrator shall not grant any RSUs to any selected person in any of the following circumstances:

- (1) the requisite approvals for such grant from any applicable regulatory authorities have not been obtained;
- (2) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of Award(s) or in respect of the Post-IPO RSU Scheme, unless the Administrator determines otherwise;
- (3) the grant would result in a breach by the Group or any of its directors or senior management of any applicable laws, regulations or rules;

- (4) the grant would result in breach of the Post-IPO RSU Mandate Limit or other rules of the Post-IPO RSU Scheme; or
- (5) after inside information (as defined under the SFO) has come to the Company's knowledge until the Company has announced such information. In particular, during the period commencing one month immediately preceding the earlier of:
 - (i) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
 - (ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement.

(n) Grant to Directors

If any Award is proposed to be granted to a Director, it shall not be granted on any day on which the financial results of the Company are published and during the period of: (i) 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and (ii) 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(o) Grants to Connected Persons

Any grant of an Award to any Director, chief executive or substantial shareholder of the Company, any of their respective associates, or any other connected person, shall be subject to the prior approval of the independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee of such Awards) and shall otherwise be subject to compliance with the requirements of the Listing Rules including Chapter 14A of the Listing Rules.

(p) Rights attached to Awards

A grantee does not have any contingent interest in any Shares underlying Awards unless and until these Shares are actually transferred to the grantee from the RSU trustee. Furthermore, a grantee may not exercise any voting right in respect of the Shares underlying the Award prior to their vesting and exercise and, unless otherwise specified by the Administrator in its sole discretion in the grant letter to the grantee, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the Awards.

(q) Rights attached to Shares

Any Shares transferred to a grantee in respect of any RSUs shall be subject to the provisions of the Articles and will rank pari passu with the fully paid Shares in issue on the date of the transfer or, if that date falls on a day when the register of members of the Company is closed, the first day of the reopening of the register of members, and accordingly will entitle the grantee to participate in all dividends or other distributions paid or made on or after the date of transfer or, if that date falls on a day when the register of members of the Company closed, the first day of the reopening of the register of members.

(r) Awards to be personal to grantees

Awards granted pursuant to this Post-IPO RSU Scheme shall be personal to each grantee and shall not be assignable or transferrable, except assignment or transfer from each grantee to a company wholly-owned by him or between two companies both of which are wholly-owned by him. Notwithstanding the above, the grantees are prohibited from selling, transferring, assigning, charging, mortgaging, encumbering, hedging or creating any interest in favor of any other person over or in relation to any property held by the RSU trustee on trust for the grantees, Awards, Shares underlying any Awards or any interest or benefits therein.

(s) Vesting

- (1) The Administrator has the sole discretion to determine the vesting schedule and vesting criteria (if any) for any grant of Award(s) to any grantee, which may also be adjusted and re-determined by the Administrator from time to time. The RSU trustee shall administer the vesting of Awards granted to each grantee pursuant to the vesting period and vesting criteria (if any) determined by the Administrator.
- (2) Upon fulfillment or waiver of the vesting period and vesting criteria (if any) applicable to each of the grantees, a vesting notice will be sent to the grantee by the Administrator, or by the RSU trustee under the authorization and instruction by the Administrator confirming (a) the extent to which the vesting period and vesting criteria have been fulfilled or waived, and (b) the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of these Shares) the grantee will receive, provided that:
 - (a) the Awards shall be vested based on the vesting schedule and vesting criteria (if any) set forth in the grant letter. For avoidance of doubt, if the vesting of any portion of the granted Awards is conditional upon both vesting schedule and performance based vesting criteria (if any), then failure by the grantee to fulfill any of the vesting conditions by their due date will render such portion of the granted Awards unvested and un-exercisable; and
 - (b) subject to the occurrence of the events set out in paragraph (u)(2), any portion of the Awards which has already vested pursuant to its applicable vesting schedule and vesting criteria (if any) shall continue to be vested until it is exercised by the relevant grantee of such Awards pursuant to the terms of the Post-IPO RSU Scheme.
- (3) Awards held by a grantee that are vested as evidenced by the vesting notice may be exercised (in whole or in part) by the grantee (or his or her legal personal representative(s) in the case of death or incapacitation) serving an exercise notice in writing on the RSU trustee and copied to the Company.
- (4) In an exercise notice, the grantee (or his or her legal personal representative(s) in the case of death or incapacitation) shall request the RSU trustee to, and the Administrator shall direct and procure the RSU trustee to within five (5) business days, transfer the Shares underlying the Awards exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the grantee which the Company has allotted and issued to the RSU trustee as fully paid up Shares or which the RSU trustee has either acquired by purchasing existing Shares or by receiving existing Shares from any Shareholder, subject to the grantee (or his or her legal personal representative(s) in the

case of death or incapacitation) paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU trustee or as the RSU trustee directs.

- (5) The grantee shall serve the exercise notice within three (3) months after receiving the vesting notice, provided that in the event that the grantee ceases to be an eligible person (as the case may be) by reason of death or incapacitation (provided that none of the events which would be a ground for termination of his or her employment under paragraph (u)(2) prior to his or her death or incapacitation), the legal personal representative(s) of this grantee shall be entitled within a period of three (3) months from the date of death or incapacitation (or such longer period as the Administrator may determine) to exercise the Awards in whole or in part (to the extent which have become vested and exercisable and not already exercised prior to such date of death or incapacitation). The RSU trustee will not hold the Shares underlying the Awards vested for the grantee after this three (3) months period. If the exercise notice is not served during this three (3) months period or the Shares underlying the Awards exercised cannot be transferred to the grantee (or his or her legal personal representative(s) in the case of death or incapacitation) pursuant to paragraph (s)(4) due to the grantee (or his or her legal personal representative(s) in the case of death or incapacitation) not being able to provide sufficient information to effect the transfer, the Awards vested or exercised (as the case may be) shall lapse unless otherwise agreed by the Administrator at its absolute discretion.
- (6) Notwithstanding anything herein to the contrary, an Award may not be exercised unless such exercise (including, without limitation, the method of payment of exercise price, where applicable, for such Shares) is in compliance with all applicable laws (including, without limitation, the Listing Rules), as they are in effect on the date of exercise. No Shares shall be transferred to the grantee (or his or her legal personal representative(s) in the case of death or incapacitation) pursuant to the exercise of an Award unless such transfer and such exercise comply with all applicable laws (including, without limitation, the Listing Rules).

(t) Acceleration of vesting

The Administrator has the sole discretion to determine, at any time, to accelerate the vesting of any Award granted to any grantee for various considerations as set out below.

(i) Rights on a takeover

In the event a general offer by way of takeover, merger or otherwise in a like manner (other than by way of scheme of arrangement set out as below) is made to all the shareholders of the Company (or shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and the general offer to acquire the Shares is approved and the offer becomes or is declared unconditional in all respects prior to the vesting, the Award(s) of the grantee will vest immediately to the extent specified in a notice given by the Company.

(ii) Rights on a scheme of arrangement

In the event a general offer for Shares by way of scheme of arrangement is made by any person to all the shareholders of the Company and has been approved by the necessary number of shareholders at the requisite meetings prior to the vesting, the Awards of the grantee will vest immediately to the extent specified in a notice given by the Company.

(iii) Rights on a compromise or arrangement

If a compromise or arrangement between the Company and its shareholders or creditors is proposed in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies and a notice is given by the Company to its shareholders to convene a general meeting to consider and if thought fit approve such compromise or arrangement prior to the vesting, the Awards of the grantee will vest immediately to the extent specified in a notice given by the Company.

(iv) Rights on a voluntary winding-up

In the event that an effective resolution is passed during the Post-IPO RSU Scheme Period for voluntarily winding-up of the Company (other than for the purposes of a reconstruction, amalgamation or scheme of arrangement as set out above), prior to the vesting, the Awards of the grantee will vest immediately to the extent specified in a notice given by the Company provided that all unexercised Awards must be exercised and effected by no later than one business day before the day of the proposed general meeting to be convened for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company (or to pass written resolutions of the shareholders to the same effect).

(u) Lapse of Awards

(1) If at any time, a grantee:

- (i) ceases to be an eligible person (as the case may be) by reason of death or incapacitation;
- (ii) ceases to be an Eligible Person by reason of (1) non-renewal of his or her employment contract (including post-retirement employment) upon expiry, (2) voluntary resignation, (3) retirement without post-retirement employment, (4) layoff, or (5) discontinuance of relevant business segment or other internal reorganization;
- (iii) ceases to be a Director upon rotation; or
- (iv) makes any attempt or takes any action to sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favor of any other person over or in relation to any Awards or any interests or benefits pursuant to the Awards,

then any unvested Award will automatically lapse immediately, PROVIDED THAT none of the events set out under paragraph (u)(2) below.

- (2) If at any time, a grantee (i) has been guilty of serious misconduct or has found to have seriously breached the terms of employment or services during his or her employment or services (regardless of whether such employment contract or services has already been terminated), including without limitation, violation of the Company's rules and policies, or (ii) has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or (iii) has been convicted of any criminal offense involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at law or pursuant to any applicable laws or under the grantee's

service contract with the Group, or (iv) has breached any non-compete and/or non-solicitation obligations, or has committed other misconducts which seriously damage the interests, image or reputation of the Company, or (v) has breached any confidentiality agreement or invention assignment agreement between such grantee and the Company (or any affiliate of the Company) or unauthorized use or disclosure of any proprietary information or trade secrets of the Company or any other party to whom such grantee owes an obligation of nondisclosure as a result of his or her relationship with the Company; then all unvested Awards and vested but unexercised Awards shall automatically lapse and such grantee shall have no claim whatsoever in respect of the Awards or the underlying Shares.

(v) *Cancellation of RSUs*

The Administrator may at its sole discretion cancel any RSU that has not vested or lapsed, provided that:

- (i) the Company or its appointees pay to the grantee an amount equal to the fair value of the Shares underlying the Awards at the date of the cancellation as determined by the Administrator, after consultation with its auditors or an independent financial adviser appointed by the Administrator;
- (ii) the Company or its appointees provides to the grantee a replacement RSU of equivalent value to the RSU to be canceled; or
- (iii) the Administrator makes any arrangement as the grantee may agree in order to compensate him for the cancellation of the RSU.

(w) *Reorganization of Capital Structure*

In the event of any alteration in the capital structure of the Company, such as capitalization issue, rights issue, consolidation, sub-division and reduction of the share capital of the Company, the Administrator shall make equitable adjustments that it considers appropriate, at its sole discretion, to the number of Shares underlying the outstanding Awards or to the amount of equivalent value.

(x) *Amendment*

The terms of the Post-IPO RSU Scheme may be altered, amended or waived in any respect by the Board provided that such alteration, amendment or waiver shall not affect any subsisting rights of any grantee thereunder. Any alteration, amendment or waiver to the Post-IPO RSU Scheme of a material nature shall be approved by the shareholders of the Company. The Board shall have the right to determine whether any proposed alteration, amendment or waiver is material and such determination shall be conclusive.

(y) *Termination*

The Post-IPO RSU Scheme may be terminated at any time prior to the expiry of the Post-IPO RSU Scheme Period by the Board provided that such termination shall not affect any subsisting rights of any grantee thereunder. For the avoidance of doubt, no further Awards shall be granted after the Post-IPO RSU Scheme is terminated but in all other respects the provisions of the Post-IPO RSU Scheme shall remain in full force and effect. No further RSUs shall be granted after such termination; however, all Awards granted prior to such termination and not vested on the date of termination shall

remain valid. In such event, the Administrator shall notify the RSU trustee and all grantees of such termination and how the Shares held by the RSU trustee on trust and other interests or benefits in relation to the outstanding RSUs shall be dealt with.

5. Post-IPO Share Option Scheme

The following is a summary of the principal terms of the Post-IPO Share Option Scheme approved by the resolutions of our Shareholders passed on May 20, 2021:

(a) Purpose

The purpose of this Post-IPO Share Option Scheme is to attract, retain and motivate employees, Directors and such other Participant, and to provide a means of compensating them through the grant of options pursuant to the terms of the Post-IPO Share Option Scheme (“Options”) for their contribution to the growth and profits of our Group, and to allow such employees, Directors and other persons to participate in the growth and profitability of our Group.

(b) Conditions and Present Status

The Post-IPO Share Option Scheme shall take effect conditional upon (i) the Listing Committee of the Stock Exchange granting approval of the Post-IPO Share Option Scheme, and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the Options; and (ii) the commencement of dealing in the Shares on the Stock Exchange.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Post-IPO Share Option Scheme. No option is expected to be granted under the Post-IPO Share Option Scheme prior to the Listing Date.

(c) Eligible Participants

On and subject to the terms of the Post-IPO Share Option Scheme, the Board shall be entitled at any time to offer to grant to any Director of our Company appointed or proposed to be appointed prior to the Listing Date, or any director of any of the subsidiaries, or any employee (whether full time or part time) of our Company or its subsidiaries, including any officer or executive Director (“Participants”) as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, an Option to subscribe for such number of Shares as the Board may determine at the Subscription Price. The basis of eligibility of any of the class of Participants to the grant of any Options shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group.

(d) Offer and Grant of Options

No offer of grant of Option shall be made after inside information has come to the knowledge of the Company until (and including) the trading day after such inside information has been published in accordance with the Listing Rules. In particular, no option may be granted during the period of one (1) month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company’s results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement.

An offer of the grant of an Option (“Offer”) shall be deemed to have been accepted and the Option to which such offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of offer duly signed by the Participant (“Grantee”) with the number of Shares in respect of which such offer is accepted clearly stated therein, together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company. Such remittance shall in no circumstances be refundable. Once accepted, the Option is granted as from the Offer Date.

(e) Subscription Price

The subscription price (“Subscription Price”) shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option), but in any case the Subscription Price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a Business Day (“Offer Date”), (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) Business Days immediately preceding the date of grant, and (c) the nominal value of a Share.

(f) Maximum number of Shares and entitlement of a Participant

- (a) The maximum number of Shares underlying all the options that may be granted under the Post-IPO Share Option Scheme is 4,974,213 Shares (the “Scheme Mandate Limit”), representing 3% of the aggregate of the Shares in issue on the Listing Date assuming no exercise of the Over-allotment Options and taking into no account of any Shares that may be issued under the Share Award Schemes.
- (b) The overall limit on the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Post-IPO Share Option Scheme and other share option schemes of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 30% of the Shares in issue from time to time.
- (c) The Shares which may be issued upon exercise of all Options to be granted under the Post-IPO Share Option Scheme and other share option schemes of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares in issue on the Listing Date assuming no exercise of the Over-allotment Options and taking into no account of any Shares that may be issued under the Share Award Schemes (“Mandatory Mandate Limit”). Options lapsed in accordance with the terms of the Post-IPO Share Option Scheme shall not be counted for the purpose of calculating this Mandatory Mandate Limit.
- (d) Our Company may seek approval of our Shareholders in general meeting for refreshing the Scheme Mandate Limit. However, the Scheme Mandate Limit as refreshed shall not exceed 3% of the total number of Shares in issue as at the date of the approval of our Shareholders, and the Shares which may be issued upon exercise of all Options to be granted under the Post-IPO Share Option Scheme and other share option schemes of the Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 10% of the total number of Shares in issue as at the date of the approval of our Shareholders. Options previously granted under the Post-IPO Share Option Scheme or any other share option schemes of our Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) (including Options outstanding, canceled, lapsed or exercised in accordance with the terms of the Post-IPO Share Option Scheme or any other share option scheme of our Company) will not be counted for the purpose of calculating the limit as “refreshed.”

A circular containing the information required under the Listing Rules shall be sent to our Shareholders in connection with the meeting at which their approval will be sought.

- (e) Our Company may seek separate approval by our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit or the Mandatory Mandate Limit (as refreshed) provided the Grantee(s) of such Option(s) must be specifically identified by our Company before such approval is sought. A circular containing a generic description of the specified Grantees who may be granted such Options, the number and terms of the Options to be granted, the purpose of granting such Options to the Grantees with an explanation as to how the terms of Options serve such purpose and other information required under the Listing Rules shall be sent to our Shareholders.
- (f) The total number of Shares issued and to be issued upon exercise of the Options granted to each Participant (including exercised, canceled and outstanding Options) in any 12-month period shall not exceed 1% of the Shares in issue (the “Individual Limit”). Any further grant of Options to an Participant which would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Participant (including exercised, canceled and outstanding Options) in the 12-month period up to and including the date of such further grant exceeding the Individual Limit shall be subject to our Shareholders’ approval in general meeting with such Participant and his or her close associates (as defined under the Listing Rules, or his or her associate if the Participant is a connected person) abstaining from voting. A circular containing the information required under the Listing Rules shall be sent to our Shareholders. The number and terms (including the Subscription Price) of the Options to be granted to such Participant must be fixed before our Shareholders’ approval is sought and the date of the meeting of the Board for proposing such further grant of Option should be taken as the date of grant for the purpose of calculating the Subscription Price.

(g) *Grant of Options to Connected Persons*

- (a) Any grant of Options to a Participant who is a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or their respective associates shall be subject to approval by the independent non-executive Directors of our Company (excluding the independent non-executive Director who is the Grantee).
- (b) Where our Board proposes to grant any Option to a Participant who is a substantial shareholder (with the meaning as ascribed under the Listing Rules) of our Company or an independent non-executive Director of our Company, or any of their respective associates would result in our Shares issued and to be issued upon exercise of all options already granted and to be granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company (including options exercised, canceled and outstanding) to him in the 12-month period up to and including the proposed Offer Date of such grant (the “Relevant Date”):
 - (i) representing in aggregate more than 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the total number of Shares in issue on the Relevant Date; and
 - (ii) having an aggregate value, based on the closing price of our Shares as stated in the Stock Exchange’s daily quotation sheet on the Relevant Date, in excess of HK\$5,000,000 (or such other higher amount as may from time to time be specified by the Stock Exchange),

such proposed grant of Options must be approved by our Shareholders (voting by way of poll). In such a case, our Company shall send a circular to our Shareholders containing all those terms as required under the Listing Rules. The Participant concerned and all other connected persons of our Company must abstain from voting in favor of the resolution at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his/her intention to do so has been stated in the circular to be sent to our Shareholders in connection therewith.

(h) Exercise of Options

An Option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each Grantee as being the period during which an Option may be exercised and in any event, such period shall not be longer than three years from the date upon which any particular Option is granted in accordance with the Post-IPO Share Option Scheme (“Option Period”).

(i) Vesting

Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules to which the Post-IPO Share Option Scheme may be subject, including the Listing Rules or regulations of any stock exchange on which the Shares may be listed and quoted. Furthermore, the Shares to be issued and allotted to a Grantee pursuant to the exercise of any Option under the Post-IPO Share Option Scheme may or may not, at the discretion of the Board, be subject to any retention period.

(j) Performance Target and Minimum Period before Exercise

Unless otherwise determined by our Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is no general requirement for any performance target that needs to be achieved by the Grantee before an Option can be exercised nor any minimum period for which an Option must be held before the Option can be exercised.

(k) Options are personal to the Grantee

An Option shall be personal to the Grantee and shall not be assignable or transferable. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favor of any third party over or in relation to any Option, except for the transmission of an Option on the death or incapacitation of the Grantee to his personal representative(s) according to the terms of the Post-IPO Share Option Scheme Rights on death or incapacitation:

- (a) in the event of the Grantee ceasing to be an employee (whether full time or part time) of our Company or its subsidiaries, including any executive Director (“Eligible Employee”), by reason of non-renewal of his or her employment contract upon termination, or retirement, or internal reorganization, or if the Grantee is a Director, the cessation as a Director upon rotation, the Grantee shall be entitled within a period of three (3) months from the date of cessation of employment which shall be the last actual working day with our Company or the relevant subsidiary to exercise any Option in whole or in part (to the extent which has become exercisable but not yet exercised prior to such date of cessation). In the event of the Grantee ceasing to be an Eligible Employee for any reason other than those stated above or his or her death or the termination of his or her employment on one or more of the grounds specified in the Post-IPO Share Option Scheme, the Grantee may exercise the Option in accordance with the provisions of the

Post-IPO Share Option Scheme up to his or her entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, or such longer period following the date of cessation as the Board may determine; and

- (b) in the event that the Grantee ceases to be a Participant (as the case may be) by reason of death or incapacitation (provided that none of the events which would be a ground for termination of his or her employment arises prior to his or her death or incapacitation), the legal personal representative(s) of this Grantee shall be entitled within a period of twelve (12) months from the date of death or incapacitation (or such longer period as the Board may determine) to exercise the Option in whole or in part (to the extent which has become exercisable and not already exercised prior to such date of death or incapacitation).

(l) Voluntary winding-up of our Company

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or her legal personal representative(s)) shall be entitled to exercise all or any of his or her or its Options (to the extent which has become exercisable and not already exercised) at any time not later than three (3) Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid, which Shares shall rank pari passu with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.

(m) Rights on take-over

In the event of a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of our Shares (or all such holders other than the offer or and/or any person controlled by the offer or and/or any person acting in association or concert with the offeror), our Company shall use all reasonable endeavors to procure that such offer is extended to all the Grantees on the same terms, mutatis mutandis, and assuming that they will become, by exercise in full of the Options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a Grantee shall be entitled to exercise his Option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company in exercise of his Option at any time before the close of such offer (or any revised offer).

(n) Rights on a compromise or arrangement

In the event of a compromise or arrangement between our Company and its creditors (or any class of them) or between our Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such scheme or arrangement, and thereupon any Grantee (or her legal personal representative(s)) may forthwith and until the expiry of the period commencing with such date and

ending with the earlier of the date falling two (2) months thereafter and the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his or her or its Option (to the extent which has become exercisable and not already exercised), but the exercise of the Option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. Our Company may thereafter require such Grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his or her or its Option so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(o) Voluntary winding-up of our Company

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or her legal personal representative(s)) shall be entitled to exercise all or any of his or her or its Options (to the extent which has become exercisable and not already exercised) at any time not later than three (3) Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid, which Shares shall rank pari passu with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.

(p) Rights on a compromise or arrangement

In the event of a compromise or arrangement between our Company and its creditors (or any class of them) or between our Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such scheme or arrangement, and thereupon any Grantee (or her legal personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two (2) months thereafter and the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his or her or its Option (to the extent which has become exercisable and not already exercised), but the exercise of the Option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. Our Company may thereafter require such Grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his or her or its Option so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(q) Effects of alterations to capital structure

In the event of any alteration in the capital structure of our Company while any Option remains exercisable, whether by way of capitalization of profits or reserves, rights issue or other similar offer of securities to holders of Shares, consolidation, subdivision or reduction or similar reorganization of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), such corresponding alterations (if any) shall be made in (a) the number or nominal amount of Shares subject to the Option so far as unexercised, and/or (b) the Subscription Price, and/or (c) the method of exercise of the Option, as the auditors or the financial advisor of our Company retained for such purpose shall certify in writing to the Board to

be in their opinion fair and reasonable, provided that any alteration shall be made on the basis that the proportion of the issued share capital of our Company to which a Grantee is entitled after such alteration shall remain the same as that to which he or she or it was entitled before such alteration and that the aggregate Subscription Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but so that no such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value and no such adjustment will be required in circumstances where there is an issue of Shares or other securities of our Group as consideration in a transaction.

(r) Lapse of Options

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period;
- (b) the date of the expiry of the periods for exercising the Option;
- (c) the date on which the offer (or as the case may be, revised offer) closes;
- (d) the date of the commencement of the winding-up of our Company;
- (e) the date when the proposed compromise or arrangement becomes effective;
- (f) the date on which the Grantee ceases to be an Eligible Employee by reason of the termination of his or her employment on any one or more of the grounds that he or she voluntarily resigns, or has been guilty of misconduct or has found to have breached the terms of employment during his or her employment (regardless of whether such employment contract has already been terminated) leading to a material loss or damage to our Group, or his or her employment has terminated by reason of the failure of such employment to pass the annual evaluation, or has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at law or pursuant to any applicable laws or under the Grantee's service contract with our Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that employment of a Grantee has or has not been terminated shall be conclusive and binding on the Grantee;
- (g) the date on which the Grantee commits a breach or the Options are canceled in accordance with the Share Option Scheme; or
- (h) if the Board at its absolute discretion determines that the Grantee (other than an Eligible Employee) has committed any breach of any contract entered into between the Grantee on the one part and any member of our Group on the other part or that the Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his or her or its creditors generally, the Board shall determine that the outstanding Options granted to the Grantee (whether exercisable or not) shall lapse. In such event, his or her or its Options will lapse automatically and will not in any event be exercisable on or after the date on which the Board has so determined.

(s) Ranking of Share allotted upon exercise of Options

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Memorandum and Articles of Association of our Company for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue.

(t) Duration

The Post-IPO Share Option Scheme will be valid and effective for a period of three years commencing on the date on which the Post-IPO Share Option Scheme is conditionally adopted by resolution of our Shareholders.

(u) Cancellation of Options granted

Subject to the consent from the relevant Grantee, our Board may at its discretion cancel Options previously granted to and yet to be exercised by a Grantee with the relevant Grantees abstaining from voting.

(v) Termination

Our Company may terminate the operation of the Post-IPO Share Option Scheme at any time by resolution of the Board or resolution of our Shareholders in general meeting and in such event no further Option will be offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the Options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Post-IPO Share Option Scheme.

(w) Amendment

Subject to the provisions of the Post-IPO Share Option Scheme, the Board may amend any of the provisions of the Post-IPO Share Option Scheme (including without limitation to amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Post-IPO Share Option Scheme, which are not found in the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any Grantee at that date). Those specific provisions of the Post-IPO Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of the selected participants, and no changes to the authority of the Board or the administrator of the Post-IPO Share Option Scheme in relation to any alteration of the terms of the Post-IPO Share Option Scheme shall be made, without the prior approval of the Shareholders. Any alterations to the terms and conditions of the Post-IPO Share Option Scheme which are of a material nature, or any change to the terms of Options granted, must also, to be effective, be approved by the Shareholders, except where the alterations take effect automatically under the existing terms of the Post-IPO Share Option Scheme. The Post-IPO Share Option Scheme so altered must comply with the applicable provisions of the Listing Rules.

E. OTHER INFORMATION**1. Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

No member of our Group was engaged in any litigation or arbitration of material importance, and no litigation or arbitration of material importance was known to our Directors to be pending or threatened by or against our Group, that would have a material adverse effect on its business, financial condition or results of operations.

3. Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and without taking into account of any Shares that may be issued under the Share Award Schemes), and the Shares to be issued under the Share Award Schemes. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Please refer to “Underwriting — Independence of the Joint Sponsors” for details regarding the independence of the Joint Sponsors.

The aggregate fees payable to the Joint Sponsors are US\$1.0 million and are payable by our Company.

4. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since December 31, 2020 (being the date on which the latest audited consolidated financial statements of our Group was made up).

5. Qualification of Experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in this prospectus:

Name	Qualification
Goldman Sachs (Asia) L.L.C.	A corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO
China International Capital Corporation Hong Kong Securities Limited	A corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (Advising on Futures Contracts) and Type 6 (advising on Corporate Finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountants Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588)
Han Kun Law Offices	Legal advisors to our Company as to PRC law
Maples and Calder (Hong Kong) LLP	Legal advisors to our Company as to Cayman Islands laws
China Insights Industry Consultancy Limited	Industry consultant

6. Consents of Experts

Each of the experts as referred to in “E. Other Information — 5. Qualification of Experts” in this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or opinion (as the case may be) and references to their names included in the form and context in which they respectively appear.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

7. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor is any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

8. Preliminary Expenses

The preliminary expenses incurred by our Company were approximately US\$6,000 and were fully paid by us.

9. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

10. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Miscellaneous

- (a)
 - (i) Within the two years immediately preceding the date of this prospectus, save as disclosed in the section headed “Our History and Corporate Development” in this prospectus, neither we nor any of our subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - (ii) No share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) Save as in connection with the Underwriting Agreements, within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
 - (iv) Within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commission to the Underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of our subsidiaries;
 - (v) No founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
 - (vi) There is no arrangement under which future dividends are waived or agreed to be waived.
- (b) Our Directors confirm that:
 - (i) since December 31, 2020 (being the date on which the latest audited consolidated financial statements of our Group was made up), there has been no material adverse change in our financial or trading position or prospects;
 - (ii) there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this prospectus; and
 - (iii) our Company has no outstanding convertible debt securities or debentures.

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of **GREEN** Application Form;
- (b) copies of each of the material contracts referred to in “Statutory and General Information — B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in “Statutory and General Information — E. Other Information — 6. Consents of Experts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Wilson Sonsini Goodrich & Rosati, Suite 1509, 15/F, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the Accountant’s Report in respect of the historical financial information of our Group for the three years ended December 31, 2020 and the report on the unaudited pro forma financial information, from PricewaterhouseCoopers, the texts of which are set out in Appendices I and II to this prospectus, respectively;
- (c) the audited consolidated financial statements of our Group for the three years ended December 31, 2020;
- (d) the legal opinions issued by Han Kun Law Offices, our PRC Legal Advisors, in respect of certain aspects of our Group and the property interests of our Group;
- (e) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our Cayman legal advisors, in respect of certain aspects of the Cayman Companies Act referred to in Appendix III to this prospectus;
- (f) the material contracts referred to in “Statutory and General Information — B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus;
- (g) the written consents referred to in “Statutory and General Information — E. Other Information — 6. Consents of Experts” in Appendix IV to this prospectus;
- (h) service contracts and letters of appointment referred to in “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 2. Directors’ Service Contracts and Letters of Appointment” in Appendix IV to this prospectus;
- (i) the rules of the Share Award Schemes and a full list of all the grantees under the Share Award Schemes;
- (j) the Cayman Companies Act; and
- (k) the CIC Report.

The background is a deep blue gradient with abstract, wavy, glowing lines that resemble data streams or fiber optic paths. Scattered throughout are binary digits (0s and 1s) in a lighter blue color, some appearing to float or move across the frame. The overall aesthetic is futuristic and technological.

ANGELALIGN TECHNOLOGY INC.
時代天使科技有限公司