ANGELALIGN TECHNOLOGY INC.
時代天使科技有限公司
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 6699

2021 ANNUAL REPORT

用科技创造影响世界的微笑

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors
Ms. LI Huamin *(Chief Executive Officer)*
Mr. SONG Xin

Non-executive Directors
Mr. FENG Dai *(Chairman)*
Mr. HUANG Kun
Mr. HU Jiezhang

Independent Non-executive Directors
Mr. HAN Xiaojing
Ms. DONG Li
Mr. SHI Zi

Audit Committee
Ms. DONG Li *(Chairwoman)*
Mr. HAN Xiaojing
Mr. SHI Zi

Remuneration Committee
Mr. HAN Xiaojing *(Chairman)*
Ms. LI Huamin
Mr. HUANG Kun
Ms. DONG Li
Mr. SHI Zi

Nomination Committee
Mr. FENG Dai *(Chairman)*
Mr. SONG Xin
Mr. HAN Xiaojing
Ms. DONG Li
Mr. SHI Zi

Joint Company Secretaries
Mr. ZHU Lingbo
Ms. HO Wing Tsz Wendy

Authorized Representatives
Mr. HUANG Kun
Mr. ZHU Lingbo

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

Compliance Adviser
Somerley Capital Limited
20/F, China Building
29 Queen's Road Central
Hong Kong

Registered Office
Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

The Cayman Islands Principal Share Registrar and Transfer Office
Maples Fund Services (Cayman) Limited
Boundary Hall, Cricket Square
PO Box 1093, Grand Cayman
KY1-1102 Cayman Islands

Corporate Headquarters
7/F, Building No. 7, KIC Business Center
No. 500 Zhengli Road
Yangpu District
Shanghai, PRC

Principal Banks
China Minsheng Bank, Shanghai Branch
China CITIC Bank, Wuxi Huishan Sub-Branch
Bank of China, Shanghai KIC Science Park Sub-Branch

Hong Kong Legal Adviser
Wilson Sonsini Goodrich & Rosati
Suite 1509, 15/F, Jardine House
1 Connaught Place, Central
Hong Kong

Principal Place of Business in Hong Kong
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Hong Kong Branch Share Registrar
Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Website
www.angelalign.com

Stock Code
6699

CHAIRMAN'S LETTER

FENG Dai
Chairman of the Board of Directors

Dear shareholders, business partners and colleagues,

I would like to sincerely thank you for your consistent support for Angelalign, and wish all of you to keep safe and healthy as we overcome the COVID-19 pandemic together.

Clear aligners have been developed and marketed for more than 20 years in China, with Angelalign leading the effort from the very beginning, and now has become a popular treatment option. Angelalign has continuously improved its products and technical services, focusing on the needs of dental professionals and their clinical context. Today we are considered as "solution of choice" by a growing number of doctors and patients.

The pandemic has slowed down the growth of the economy, and the Chinese oral care market is no exception. Despite this environment, Angelalign has delivered strong 2021 results with revenue of RMB1,270 million, representing a year-on-year increase of 55.7%, and an adjusted net profit of RMB350 million, representing a year-on-year increase of 52.9%. Case shipments rose by 33.1% to 183,200, with a significant portion being complex cases. I would like to express my appreciation for Huamin and everyone at our company for their relentless efforts in delivering these strong results in the face of a challenging environment.

18 years after its founding, Angelalign had its IPO on the Hong Kong Stock Exchange, becoming the first publicly traded orthodontics company from China and an industry standard bearer. This responsibility also demands that we accelerate our growth and evolution. Last year, we saw a shift of our company culture from "execution focus" to "innovation focus". We further emphasized respecting different viewpoints, embracing fresh ideas, and encouraging ownership and proactive initiative. Our organization is blossoming with vitality, powered by our courage and passion to explore and innovate. After the IPO, we implemented a continuing equity incentive plan for outstanding employees and to attract talented professionals from various fields to ensure that everyone unites to develop our company.

With growing influence comes greater responsibility, which in turn calls for a greater commitment from the team. We have a well-defined goal for Angelalign – maintain leadership in clear aligner treatment in China, and serve the global orthodontic community so they can have superior choices for professional orthodontics solution. Five long-term directions underpin the realization of our goal.

Empowering Dental Professionals

As the leader in digital orthodontics in China, we attach great value to the input of key opinion leaders in orthodontics. We work to integrate their insights with our case database and technologies built over the years to develop better clear aligner solutions. Concurrently, through our clinical and technical services, we enable dental professionals to deliver better patient treatment and patient satisfaction. Through our education and training programs, we help to accelerate dental professionals' growth and development. We are also continuously developing digital tools to help dental professionals digitize their treatment process. From efficient acquisition of patient intraoral data, to seamless patient communication, to end-to-end case management – we empower doctors to improve efficiency and improve patient experience.

International Markets

Complex cases is our specialty and we have accumulated a large amount of complex-case know-how and experience over the past decade. Meanwhile, we offer a mature multi-product treatment system that has been proven by many years of practice. These solutions feature our intelligent manufacturing capabilities, stable delivery capability and excellent quality assurance system. All this together enables dental professionals worldwide to have a superior clear aligner option in Angelalign. By providing our products and services in the international markets, we hope to build a bridge among orthodontic professionals of different nations to exchange the best orthodontics ideas. The science of clear aligners can only advance with an open and multi-lateral system of ideas and solutions.

Continuous Innovation

Innovation is at the heart of corporate competitiveness. We invest close to 10% of our revenue in R&D, a significant level in the dental industry. Even as we continue to boost R&D in-house, we attach great importance to working with well-known dental schools and dental research institutes. Collaborating with our partners in China and internationally, we sponsored orthodontic research foundations and projects, including ones in basic materials research, and have obtained preliminary results.

In addition, we continue to leverage the resource network of our controlling shareholder, CareCapital Group, in both the upstream and downstream of the global dental industry to explore opportunities for innovation in orthodontic diagnosis and treatment, including setting up a limited partnership with CareCapital. It is important to understand upstream education and technology, and support downstream clinical services. This would enable us to improve the ultimate measure of our success, which is that our clinical customers treat patients who are happy with the outcome and refer their friends or family back to our clinical customer.

Access for All

Increasing access to clear aligners for economically underdeveloped markets and patients is also one of our core missions. We will continue to deepen our service to emerging markets, to drive access through cost-effective products, diverse channels, and better training. Our purpose is to enable more doctors in economically under-developed markets with the ability to carry out clear aligner treatment. Concurrently, we will continue to increase the breadth of solutions across all patient groups so they can all access high quality clear aligner treatment. We will continue to strengthen our specialized product lines to serve patients ranging from children to teenagers to adults.

Social Responsibility

Our social responsibility is to help safeguard public oral health through improved oral health awareness. Presently, we have developed an extensive range of training materials to help dental professionals improve diagnosis and treatment. We have also set up a team to expand learning opportunity for dentists in rural and underdeveloped areas. We are also concerned about children's oral health and early prevention. For example, we jointly launched the public welfare project "Angels Loves Smiling" with Shanghai Adream Charitable Foundation to improve oral health awareness among children in underdeveloped areas.

Of course, we also face many challenges. There will be ups and downs in the orthodontics market in China. Our multitudes of strategic initiatives may not necessarily bring us near-term returns. We should not overestimate the short-term return of our efforts in any single year, nor underestimate the results from three-to-five-years of accumulated initiatives.

Regardless of near-term challenges, the Angelalign team will focus steadfastly on our goals and stay true to our mission. We will continue to optimize our products, improve our clinical service capabilities, fulfill the needs of dental professionals, and strive to provide superior professional aligner solution options to the global clinical community.

Dai Feng

FENG Dai
Chairman of the Board of Directors

CHIEF EXECUTIVE OFFICER'S LETTER

LI Huamin (李華敏)
Founder, CEO, and Executive Director

Dear Shareholders,

Thank you for your appreciation, support and trust in Angelalign.

The year of 2021 marks the 18th anniversary of Angelalign's establishment, and we witnessed the historical moment when Angelalign was listed on the Hong Kong Stock Exchange and became a public company. Amid the complex and changing market environment, Angelalign, with its digitally-driven products and technological services, flexible operation management and strong team execution, achieved approximately 183,200 case shipments and served approximately 25,000 dental professionals in 2021, realizing high-quality growth and breakthroughs. The market leadership of Angelalign in the China's clear aligner market has been further solidified.

Committed to taking a long-term approach and relentlessly focusing on our customers

Over the past 18 years, Angelalign has stayed true to its mission while seeking changes amidst competition. Benefiting from the growth of people's wealth under China's economic boom and the increasing demand for orthodontic treatment resulting from patients' rising awareness of dental health and aesthetics, Angelalign has gradually explored a sustainable development path driven by the integration of medical intelligence and technology innovation, which is medical-centric and supplemented by digital technology. As such, Angelalign has become the leading clear aligner treatment solution provider in China.

Over the past 18 years, we have firmly believed in, and adopted the approach of, longtermism, upheld the customer-first philosophy, and immersed ourselves in digital orthodontics with a focus on the needs of doctors. Nowadays, we have accumulated profound knowledge of dentistry and assembled the largest medical designer team in China's dental service area; we have cultivated industry-leading and proprietary technological capabilities in five interdisciplinary fields, including clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies; and we have developed a comprehensive product portfolio to meet different patients' needs. Along the way, we have gradually established strong brand influence among doctors and patients and been working with doctors to improve the healthy development of digital orthodontics in China. Going forward, with the customer-first philosophy being the cornerstone of our development, we will continue to create value while serving doctors and grow together with them.

Continuous investment in R&D and innovation to realize medical-oriented intelligent technological services and empower doctors in all aspects

During the development of Angelalign, we have gradually established our mission to bring people confident smiles with technologies. We hope that the world of our doctors, patients, employees and shareholders is full of positivity and smiles. Driven by this mission, we will continue to firmly implement our corporate strategy of empowering dental professionals by digital technology-driven products and technological services throughout the entire clear aligner treatment process with the assurance of reliability, simplicity, efficiency and accuracy. We firmly believe that digitalization constitutes important industry reform and market opportunity for the orthodontics industry and the entire oral area.

Leveraging the digitalization and intelligence capabilities accumulated by Angelalign, we will continue to provide doctors with all-round medical and technological empowerment throughout the entire treatment process ranging from patient admission to treatment completion. For example, *iOrtho*, our open, multi-functional service platform, is compatible with various intraoral scanning devices, which facilitates the digital patient admission experience for doctors. With the combination of *ME*, our AI-based multimodal bio-data platform, and our medical designers, we are able to assist doctors in the diagnosis and treatment planning process, which in turn allows for predicted, tracked and quantified treatment results. Leveraging our intelligent manufacturing capabilities, we are able to produce customized clear aligners through a "mass customization" model and have standardized the production process, thereby providing doctors with high-quality and traceable products.

Adhere to our strategies and respond flexibly amid uncertainties in 2021

While we faced a series of challenges over the last year, such as weak consumption and the COVID-19 pandemic, we had been emphasizing on long-term business growth and, in the meantime, remained more agile in market forecast, developed responsive strategies promptly and concentrated all our efforts on seizing opportunities. In 2021, the emergence of Delta and Omicron variants of the COVID-19 pandemic and occasional regional resurgence of COVID-19 cases in different areas in China adversely affected the end patient traffic. While cooperating with the government's "dynamic clearance" anti-pandemic policy, we still ensured the orderly development of our production and operating activities and has made the following achievements in line with the company's strategic direction.

- In terms of product innovation, in 2021, we launched *masterControl S*, the next-generation adaptive polymer composite materials, and *angelAttach*, the accurate attachment controlling system, both of which have been applied in our product lines. We also launched the facial management solution for children based on the principle of early treatment for adolescents, which provides customized treatment plan and clear aligners for each child's individual characteristics.

- In terms of digital technological services, we expanded our business into sales of intraoral scanners to optimize the digital diagnosis and treatment experience for clinics and significantly improve the diagnosis and treatment efficiency for dental professionals. We introduced *Angelalign Zhimei* into our digital treatment planning platform to help dental professionals formulate more optimal and customized treatment plans. We have also upgraded the Intelligent Root System (IRS), which enables "what you see is what you get" and, thereby, facilitates dental professionals to conduct diagnosis and treatment in a more convenient and precise manner.

- In terms of intelligent manufacturing, the first construction phase of our Angelalign Chuangmei Center (時代天使創美基地) in Wuxi City has been successfully completed. We also completed the commissioning process of one established automated production line in the first quarter of 2022, which has been put into use based on demands of our products. In addition, we applied intelligent and innovative technologies to fully upgrade the information systems, technics and equipment of our existing automated production lines, in order to continuously improve the production efficiency and quality of our clear aligners.

Over the past year, we have borne significant fruits in the capital market. Following the successful listing on the Main Board of the Stock Exchange on June 16, 2021, the Shares of Angelalign have been included as a constituent in the Hang Seng Composite Index and FTSE Russell, which has demonstrated the capital market's recognition of our leading market position in the clear aligner industry, solid fundamentals and robust financial performance.

Outlook and acknowledgments

Looking forward, we have full confidence in the long-term growth of China's economy and the continuous improvement of resident consumption level, as well as China's clear aligner industry, which has currently low penetration rate yet enormous market opportunities. Since the beginning of 2022, the rapid spread of the Omicron virus strain has brought challenges to many places across the country. We quickly activated the emergency response mechanism in response to the pandemic, prioritizing the health and safety of all employees, focusing on pandemic prevention and control and providing all impacted employees with living necessities. We have also rapidly formulated various emergency plans and responsive measures to ensure orderly business operations and timely delivery of products. In addition, we have been continuously following the needs of our customers and empowering doctors with digital solutions to overcome the present difficulties in a spirit of unity. At present, the extent of the short-term impact of the COVID-19 pandemic on our business cannot be precisely estimated as there remain significant uncertainties surrounding the further development of the pandemic. However, we are determined to take a long view of our development and grasp certainty in the midst of uncertainty so as to continuously enhance our resilience, decision-making ability and execution ability and further enhance the Company's long-term competitiveness. As such, we will continue to adhere to the customer-first philosophy and our mission to bring people confident smiles with technologies, firmly implement the Company's strategies, strive to remain as a leader in China's digital orthodontics industry, and promote the improvement, upgrade and sustainable development of China's digital orthodontics ecosystem. Looking forward to 2022, we intend to maintain our market leadership with the following key strategies:

- continue to invest R&D resources in innovate digital orthodontics solutions based on the needs of doctors;
- refine medical empowerment and improve user experience to extend the outreach of our products and technological services to a wider user base;
- continue to upgrade intelligent manufacturing technology, increase production capacity and improve production efficiency;
- gradually facilitate China's digital orthodontics to reach out to the world; and
- take talents as the core factor of development, improve the enterprise organizational capability, and grow together with our employees.

Oral health is an important part of the overall health, which serves as a critical foundation for people to achieve common prosperity. In recent years, China has successively issued a series of governmental documents, such as the Healthy China Action (2019-2030) (健康中國行動(2019-2030年)) and the Healthy Oral Action Plan (2019-2025) (健康口腔行動方案(2019-2025年)), to explicitly put forward the goal of improving oral health and building a healthy China. Angelalign owes its growth and development over the past 18 years to society and to the era that we belong. As a leader in China's clear aligner industry, we will continue to create value for customers, expand the service outreach of doctors, promote rising awareness of oral health by all citizens, and support the implementation of the healthy China strategy in the long run. At the same time, in order to make contributions and better give back to social development and the industry, we will continue to actively devote ourselves to public welfare activities, such as Yulong Plan (育龍計劃), which cultivates future orthodontists in the clear aligner area, and the "Angel Loves Smiling (天使真愛笑)" public welfare project, which promote the concept of oral health among adolescents. We will also continue to popularize the clear aligner technology, promote the dental health awareness among children in underdeveloped areas, and help users of all income levels get access to premium and suitable clear aligner treatment.

I, on behalf of all colleagues of the Company, hereby would like to express my sincere gratitude to all shareholders, doctors, suppliers, distributors and other partners for their trust and support. We will seize the domestic and overseas clear aligner treatment markets with huge potential to create long-term value for our doctors, patients, employees and shareholders.

LI Huamin (李華敏)
Founder, CEO, and Executive Director

RESULTS HIGHLIGHTS

- Our revenue for the year ended December 31, 2021 was approximately RMB1,271.7 million, representing an increase of 55.7% from approximately RMB816.5 million for the year ended December 31, 2020.

- Our gross profit for the year ended December 31, 2021 was approximately RMB826.6 million, representing an increase of 43.8% from approximately RMB575.0 million for the year ended December 31, 2020.

- Our net profit for the year ended December 31, 2021 was approximately RMB285.6 million, representing an increase of 89.2% from approximately RMB150.9 million for the year ended December 31, 2020.

- Our adjusted EBITDA for the year ended December 31, 2021 was approximately RMB417.5 million, representing an increase of 40.7% from approximately RMB296.6 million for the year ended December 31, 2020.[1]

- Our adjusted net profit for the year ended December 31, 2021 was approximately RMB347.5 million, representing an increase of 52.9% from approximately RMB227.2 million for the year ended December 31, 2020.[1]

- We recorded net cash generated from operating activities of approximately RMB441.7 million for the year ended December 31, 2021, as compared with approximately RMB408.3 million for the year ended December 31, 2020.

- Our case shipments increased from approximately 137,600 in the year ended December 31, 2020 to approximately 183,200 in the year ended December 31, 2021.

- The number of dental professionals we served increased from approximately 19,900 in the year ended December 31, 2020 to approximately 25,000 in the year ended December 31, 2021.

- The Board has resolved to recommend the payment of a special final dividend of HKD1.22 per Share of the Company for the year ended December 31, 2021.

Note

(1) Adjusted EBITDA is defined 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 period with adjustments of non-recurring or non-operating items, including share-based payments and listing expenses. Adjusted net profit is defined as profit for the period adjusted by non-recurring or non-operating items, including share-based payments and listing expenses. Please refer to pages 19 and 20 of this report for more details.

Consolidated Statement of Profit or Loss (Selected Items)

	Year ended December 31,			
	2018	2019	2020	2021
	(RMB in thousands)			
Revenue	488,483	645,898	816,528	**1,271,677**
Cost of revenue	(176,765)	(228,756)	(241,479)	**(445,031)**
Gross profit	311,718	417,142	575,049	**826,646**
Selling and marketing expenses	(81,439)	(122,645)	(148,835)	**(236,516)**
Administrative expenses	(107,702)	(136,544)	(154,423)	**(183,185)**
Research and development expenses	(50,163)	(80,905)	(93,479)	**(123,094)**
Net losses of impairment on financial assets	(3,684)	(2,512)	(10,148)	**(245)**
Other income	4,608	8,804	22,625	**18,598**
Other expenses	—	(2,000)	(6,000)	**–**
Other gains – net	1,933	2,851	3,096	**16,070**
Operating profit	75,271	84,191	187,885	**318,274**
Finance income	1,223	1,791	4,153	**16,890**
Finance costs	(1,354)	(1,142)	(1,154)	**(1,230)**
Finance income – net	(131)	649	2,999	**15,660**
Share of results of investments accounted for using the equity method	(363)	(348)	347	**(1,850)**
Profit before income tax	74,777	84,492	191,231	**332,084**
Income tax expense	(16,591)	(16,827)	(40,299)	**(46,512)**
Profit for the year	58,186	67,665	150,932	**285,572**
Profit attributable to				
– Owners of the Company	59,758	68,837	150,689	**285,848**
– Non-controlling interests	(1,572)	(1,172)	243	**(276)**
	58,186	67,665	150,932	**285,572**

Consolidated Statement of Financial Position (Selected Items)

	As of December 31,			
	2018	2019	2020	2021
	(RMB in thousands)			
ASSETS				
Total non-current assets	99,687	197,214	206,431	**407,603**
Total current assets	372,813	655,575	1,003,708	**3,733,241**
Total assets	472,500	852,789	1,210,139	**4,140,844**
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital and share premium	—	—	486,669	**3,118,030**
Shares held for employee share scheme	(54,994)	(54,994)	(29,529)	**(4,393)**
Other reserves	240,034	307,823	(22,135)	**(27,545)**
Retained earnings	(18,530)	44,589	66,698	**232,978**
Non-controlling interests	(2,958)	(4,039)	(4,029)	**(4,338)**
Total equity	163,552	293,379	497,674	**3,314,732**
Liabilities				
Total non-current liabilities	59,792	88,337	36,747	**127,643**
Total current liabilities	249,156	471,073	675,718	**698,469**
Total liabilities	308,948	559,410	712,465	**826,112**
Total equity and liabilities	472,500	852,789	1,210,139	**4,140,844**

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

In 2021, we achieved robust business growth amid the market volatility and challenges. We recognized total revenue of RMB1,271.7 million, representing a year-over-year growth of 55.7%, of which 93.1%, 5.3% and 1.6% were generated from provision of clear aligner treatment solutions, sales of intraoral scanner and provision of other services, respectively. Our revenue generated from our core business, namely the clear aligner treatment solutions, has been remarkable, achieving a year-over-year growth of 48.2%, despite the impact of external headwinds. In addition, leveraging our refined operational management capabilities, we delivered sustainable earnings growth, with the net profit increasing by 89.2% year-over-year to RMB285.6 million, the adjusted EBITDA increasing by 40.7% year-over-year to RMB417.5 million, and the adjusted net income increasing by 52.9% year-over-year to RMB347.5 million.

Continuously penetrate into the digital orthodontics market and strengthen our diversified product portfolio

With a profound understanding of the medical principles and practices of digital orthodontics and insight into the needs of various dental professionals and patients in China, we have built a diversified product portfolio and currently market four lines of clear aligners with a variety of unique features that appeal to different user segments, including *Angelalign* that targets the mass market, *Angelalign Pro* that targets the high-end market, *Angelalign Kid* that focuses on early intervention for children, and *COMFOS* as a good value-for-money product.

In 2021, we achieved a full upgrade of each product line with a combination of new materials, technologies and solutions, thereby enabling dental professionals to deal with malocclusion cases of varying degrees of complexity. We launched *masterControl S*, the next-generation adaptive polymer composite materials, which can meet the clinical demand for clear aligners to achieve both comfort and precise control during the treatment. We released the newly developed *angelAttach*, our accurate-control attachment system, which ensures effective tooth movement control through the design and application of attachments in a more scientific and rational manner. We upgraded the Intelligent Root System (IRS), which helps dental professionals to accurately design the root relationship and realize safe and reliable treatment solutions. We launched an innovative facial management solution under *Angelalign Kid*, which covers the whole cycle of early intervention from prevention to treatment for children's teeth.

During the Reporting Period, we had 183,200 case shipments, representing a year-over-year increase of 33.1%. Specifically, the case shipments of *Angelalign*, *Angelalign Pro*, *Angelalign Kid* and *COMFOS* achieved a year-over-year growth rate of 10.4%, 52.5%, 116.0% and 56.2%, respectively. At the same time, as we have been exploring the lower tier emerging markets, which resulted in changes in product mix and channel structures, we recorded a slight decrease in the average selling price of our clear aligners, which amounted to approximately RMB7,300 in 2021 as compared to that of approximately RMB7,700 in 2020. The following table sets forth a breakdown of our sales volume by product line.

	Year ended December 31,	
	2021	2020
	(number of case shipments [1])	
Angelalign	**80,800**	73,200
Angelalign Pro	**48,800**	32,000
Angelalign Kid	**10,800**	5,000
COMFOS	**42,800**	27,400
Total	**183,200**	137,600

(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.

Optimize the digital treatment experience and achieve all-round empowerment with medical-centric intelligent technological services

To optimize the digital treatment experience, we expanded our business into sales of intraoral scanners in 2021 and promoted the application of intraoral scanning as the first step in the digital dental treatment. Leveraging the compatibility of *Make It* with all major intraoral scanners, which is a built-in case assessment support module of *iOrtho*, our cloud-based service platform, dental professionals can present to a prospective patient an image of his or her own current dentition next to the simulated post-treatment position through a dual view layout within minutes of intraoral scanning. The use of intraoral scanners allows dental professionals to significantly improve their communication efficiency with prospective patients and market our clear aligners more effectively.

Our profound knowledge of stomatology, proprietary intelligent technology and experienced medical design staff are the backbone of our ability to provide dental professionals with reliable treatment planning services. In 2021, on top of *A-Treat*, our digital treatment planning platform, we launched *Angelalign Zhimei*, a design optimization system that consolidates multiple intelligent computing and analysis tools. *Angelalign Zhimei* accommodates the specific demand of each dental professional through real-time integration of their input of customized parameters with medical rules and the accumulated expert plans embedded in our *A-Treat* system. In addition, our medical designer team refines the tooth movement in the treatment plans according to the characteristics of different cases to make it conform to the biomechanical mechanism, realizing achievable treatment outcomes. As a result, we usually present a safe, reliable and near-final treatment solution to dental professionals within three to four business days following the case submission, which improves the treatment efficiency.

Meanwhile, we believe that large-scale, systematic and continuous professional training in clear aligner treatment helps develop dental professionals' recognition of, and confidence in, Angelalign's services. In 2021, we continued to empower more Chinese dental professionals with varying levels of sophistication by further optimizing our training content and curriculum around the treatment process and core issues in clinical practice. During the Reporting Period, we served approximately 25,000 dental professionals, representing a year-over-year increase of 25.6%.

Integrate interdisciplinary capabilities in five major areas and continuously invest in R&D initiatives to make continuous breakthroughs in product and technology development

Benefiting from our long-term investment of R&D resources, we have established strong interdisciplinary R&D capabilities in five major areas, including clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies. Based on these interdisciplinary R&D capabilities, we have developed reliable technology and data platforms, including *masterForce*, *masterControl* and *ME*, an AI-based multimodal bio-data platform. In 2021, we achieved a series of innovative results in materials, technologies, software and equipment, which focus on product performance, clinical convenience, optimization of treatment planning and differentiation of products and technical services. Meanwhile, we have formulated the industry standard of "Dentistry — Diaphragm for Orthodontic Aligner" in collaboration with Peking University Hospital of Stomatology. We also obtained the approval from the National Standardization Technical Committee for Oral Materials and Instruments (SAC/TC99) (全國口腔材料和器械設備標準化技術委員會) for another industry standard project of "Dentistry — Dental Splint Bracketless Orthodontic Aligner" in 2021. During the Reporting Period, we incurred R&D expenses of RMB123.1 million, accounting for 9.7% of our revenue. As of December 31, 2021, we had registered 117 patents, and 16 software copyrights.

We have established good cooperation with many renowned stomatology schools and universities in China. We have proactively conducted industry-academia research cooperation and prioritized the application of scientific research results and other industrialization achievements. Over the recent years, we have set up special research funds for orthodontics with the Ninth People's Hospital, Shanghai Jiaotong University School of Medicine, Peking University Hospital of Stomatology, Sichuan University Huaxi Stomatology Hospital and Wuhan University Stomatological Hospital, respectively, to carry out joint R&D initiatives. We also conducted research on orthodontic materials with the State Key Laboratory of Molecular Engineering of Polymers of Fudan University, the preliminary research results of which has been accepted by *Regenerative Biomaterials*, an SCI journal published by the Oxford University Press.

Continue to enhance brand awareness and academic influence

As a leader in driving the development of China's clear aligner treatment industry, "Angelalign" has become the best known and the most trustworthy domestic brand among China's clear aligner treatment solution providers. In 2021, we continued to enhance brand awareness and academic influence of "Angelalign" through industry-academia research collaboration, academic sharing, popular science dissemination and charitable campaigns.

In June 2021, we organized and hosted the eighth *A-Tech Forum*, which gathered approximately 2,000 orthodontists, stomatologists and experts nationwide to exchange and share the most innovative ideas and the most advanced orthodontic technology and latest technology innovations of China's digital orthodontics industry. We also participated in a series of national dental academic activities, such as the International Orthodontic Conference (國際口腔正畸年會), the Dental South China International Expo (華南口腔展) and Shanghai Dental Exhibition (上海口腔展), to facilitate the sound, rapid and standard-based development of the industry and solidify the profound academic influence of "Angelalign" among industry experts.

We pay great attention to promoting popular science dissemination. For example, in 2021, we released the "Clear Aligner Material Challenge" video in collaboration with Guokr (果殼), a science and technology education platform, on social media platforms and content creation platforms to conduct professional evaluation and scientific introduction of clear aligners, providing a scientific reference basis for patients to choose clear aligners. The video has been widely disseminated in the dental industry and among the public, which we believe has further enhanced the influence of our medical-oriented, technological innovation-driven "Angelalign" brand.

With high-quality products and technological service capability, 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. In the Beijing 2022 Winter Olympic Games and the 2022 AFC Women's Asian Cup, a number of Chinese athletes who won gold medals smiled with "Angelalign" clear aligners.

Optimize scalable and intelligent mass customization capability to achieve lean manufacturing

We believe that our accumulated intelligent manufacturing capabilities, a "mass customization" model and scalable manufacturing capabilities are the solid foundation for our long-term business growth. Our Angelalign Chuangmei Center (時代天使創美基地) in Wuxi City comprises new manufacturing facilities and a research and development center with a gross floor area of approximately 126,000 square meters. We are equipping Angelalign Chuangmei Center and our existing manufacturing facilities with intelligent manufacturing technologies to better control the quality of our clear aligners, fulfill customer demand and orders more promptly, and achieve economies of scale. During the Reporting Period, the first phase of our Angelalign Chuangmei Center in Wuxi City was completed. We also completed the commissioning process of one established automated production line in the first quarter of 2022, which has been put into use based on demands of our products. The following table sets forth our production capacity, production volume and utilization rate for the years indicated.

	Year ended December 31,	
	2021	2020
	(unit in thousands, except for the percentages)	
Production capacity(1)	**36,000**	21,900
Production volume(2)	**27,300**	16,200
Utilization rate(3)	**75.8%**	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 year.

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

In addition, we applied intelligent and innovative technologies to upgrade the information systems, techniques and equipment of our existing automated production lines. For example, our manufacturing execution system (MES) has been digitally extended to enable the visual management of production process data, which further improves the quality and efficiency of production management. We have also deployed a next-generation intelligent hot-forming polymeric sheet system for clear aligners to control the production process by deploying real-time intelligent sensing devices, which minimizes equipment and process deviations. In addition, we have applied the computer vision technology to the online quality monitoring of key manufacturing processes to improve the reliability of production process and product quality. Additionally, we have enabled a fully automated outer packaging system to enhance the automation of the product outer packaging process, which significantly improves the production efficiency.

Establish a partnership to invest in innovative digital technologies and products in the global orthodontics market, facilitating our globalization process

In January 2022, we established a limited partnership, CareCapital Aligner Tech L.P., with our controlling shareholder, CareCapital Group, to invest in innovative digital technologies and products in the global orthodontics market. We believe that such partnership will enable us to leverage CareCapital Group's rich resources and investment expertise in the global dental value chain and, accordingly, further penetrate into the upstream and downstream of the global orthodontic industry chain, seek investment opportunities that are synergistic with our business, better achieve our goal of serving dental professionals and orthodontic patients, and obtain more resources and insights to facilitate our globalization process.

Enhance the internal control and compliance system to secure the long-term sustainable development of the Company

We pay great attention to our internal control and compliance systems. In the second half of 2021, we engaged an independent internal control consultant to review our internal control and risk management. The internal control consultant assisted us to further enhance our internal control and risk management at the corporate level (including corporate organizational structure, risk management system, internal control evaluation system and anti-fraud system) and the business operation level (including sales and collection, production and inventory, procurement and payment, financial reporting and disclosure, marketing, research and development, human resources, and information system management), which we believe secures our long-term sustainable development.

Outlook

Looking ahead, we have full confidence in the long-term growth of China's economy and the continuous improvement of resident consumption level, as well as the rapid growth of China's digital orthodontics market, which has currently low penetration rate yet enormous market opportunities. 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.

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; (5) solidify our market leading position by expanding sales network and enhancing brand awareness and academic influence; and (6) further penetrate emerging markets and expand into overseas markets.

Meanwhile, there remain significant uncertainties in 2022, considering the macroeconomic situation and the occasional regional resurgence of the COVID-19 pandemic. Should there be an escalation of the spread, China may again take strict emergency measures, including travel restrictions, mandatory cessations of business operations, including dental hospitals and clinics, mandatory quarantines, work-from-home and other alternative working arrangements, 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. The potential downturn brought by, 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. In addition, a general slowdown in economy 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 an adverse effect on our results of operations. In addition, we may be subject to uncertainties caused by evolving laws, regulations and governmental policies, including those relating to aesthetic medicine, private medical institutions, pricing guidance and group purchase schemes. We will continue to develop responsive strategies in a timely manner in response to uncertainties and challenges.

Financial Review

The following discussions are based on the financial information and notes set out in other sections of this report and should be read in conjunction with them.

Revenue

Our revenue increased by 55.7% from RMB816.5 million in the year ended December 31, 2020 to RMB1,271.7 million in the year ended December 31, 2021. The following table sets forth a breakdown of our revenue, both in absolute amounts and as a percentage of total revenue, by business line for the years indicated.

	Year ended December 31,			
	2021		2020	
	RMB'000	%	RMB'000	%
Clear aligner treatment solutions	**1,183,801**	**93.1**	799,005	97.9
Others				
Other services	**19,777**	**1.6**	17,523	2.1
Sales of intraoral scanners	**68,099**	**5.3**	—	—
Total	**1,271,677**	**100.0**	816,528	100.0

- *Clear aligner treatment solutions*. Our revenue generated from the provision of clear aligner treatment solutions increased by 48.2% from RMB799.0 million in the year ended December 31, 2020 to RMB1,183.8 million in the year ended December 31, 2021, primarily due to (1) the increase in the case shipments from approximately 137,600 in 2020 to 183,200 in 2021, 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. Our revenue could be affected by multiple factors, including the proportions of various product lines and sales channels, the average selling price of our product mix, and the proportions of new and existing case shipments in a given period. Our revenue is also affected by the frequency of delivery of clear aligners and the number of sets contained in each delivered batch, which are typically dependent on the product line involved and the complexity of the relevant treatment plan, subject to a number of factors, such as specific demand of our dental professionals and our production capacity in a given period.

- *Other services*. Revenue generated from other services primarily represented service fees generated by our dental clinics for the 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 the 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 the application of our solutions. Our revenue generated from other services increased by 12.9% from RMB17.5 million in the year ended December 31, 2020 to RMB19.8 million in the year ended December 31, 2021, primarily due to the steady increase in the business volume of other services during the period of regular prevention and control of the COVID-19 pandemic.

- *Sales of intraoral scanners*. 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. In the year ended December 31, 2021, we generated revenue of RMB68.1 million from the sales of intraoral scanners.

Cost of revenue

Our cost of revenue increased by 84.3% from RMB241.5 million in the year ended December 31, 2020 to RMB445.0 million in the year ended December 31, 2021, primarily due to (1) the increase in cost of raw materials and consumables used resulting from the increased number of new case shipments and the increased subsequent delivery of clear aligners for case shipments initiated in prior periods, and (2) the development of our newly launched business of selling intraoral scanners.

- *Clear aligner treatment solutions*. Our cost of revenue related to the provision of clear aligner treatment solutions increased by 63.4% from RMB229.1 million in the year ended December 31, 2020 to RMB374.3 million in the year ended December 31, 2021, primarily due to the increase in cost of raw materials and consumables used resulting from the increased number of new case shipments and the increased subsequent delivery of clear aligners for case shipments initiated in prior periods.

- *Other services*. Our cost of revenue related to the provision of other services increased by 16.1% from RMB12.4 million in the year ended December 31, 2020 to RMB14.3 million in the year ended December 31, 2021, primarily due to the increases in material costs and employee benefit expenses in line with the increased business volume of other services.

- *Sales of intraoral scanners*. As we have expanded our business to sell intraoral scanners to our customers since 2021, we recorded cost of revenue of RMB56.4 million.

Gross profit and gross profit margin

Our gross profit increased by 43.8% from RMB575.0 million in the year ended December 31, 2020 to RMB826.6 million in the year ended December 31, 2021. The gross profit margin for the year ended December 31, 2021 was 65.0%, as compared with 70.4% for the year ended December 31, 2020. The following table sets forth a breakdown of our gross profit and gross profit margin by business line for the years indicated.

	Year ended December 31,			
	2021		2020	
	Gross profit	**Gross profit margin (%)**	Gross profit	Gross profit margin (%)
	(RMB in thousands, except for the percentages)			
Clear aligner treatment solutions	**809,498**	**68.4**	569,877	71.3
Others				
Other services	**5,434**	**27.5**	5,172	29.5
Sales of intraoral scanners	**11,714**	**17.2**	—	—
Total	**826,646**	**65.0**	575,049	70.4

- *Clear aligner treatment solutions*. Our gross profit margin for the provision of clear aligner treatment solutions decreased from 71.3% in the year ended December 31, 2020 to 68.4% in the year ended December 31, 2021, primarily due to a slight decrease in the average selling price of our clear aligners resulting from the increased case shipments of *COMFOS* and seasonal promotions.

- *Other services*. Our gross profit margin for other services decreased from 29.5% in the year ended December 31, 2020 to 27.5% in the year ended December 31, 2021, primarily because we were granted deduction in our rental expenses and contribution of social insurance premiums in 2020 according to relevant government relief policies during the COVID-19 outbreak, which resulted in a decrease in our fixed cost in 2020 as compared with 2021.

- *Sales of intraoral scanners*. Our gross profit margin for the sales of intraoral scanners was 17.2% for the year ended December 31, 2021.

Selling and marketing expenses

Our selling and marketing expenses increased by 58.9% from RMB148.8 million in the year ended December 31, 2020 to RMB236.5 million in the year ended December 31, 2021, primarily due to the increases in employee benefit expenses and advertising and promotion expenses.

Administrative expenses

Our administrative expenses increased by 18.6% from RMB154.4 million in the year ended December 31, 2020 to RMB183.2 million in the year ended December 31, 2021, primarily due to the listing expenses we incurred in connection with our preparation for the Global Offering in 2021.

Research and development expenses

Our research and development expenses increased by 31.7% from RMB93.5 million in the year ended December 31, 2020 to RMB123.1 million in the year ended December 31, 2021, primarily due to the increase in employee benefit expenses as we engaged more research and development personnel for our product and technology development.

Net losses of impairment on financial assets

We recorded net losses on financial assets of RMB0.2 million in the year ended December 31, 2021, as compared with net losses of impairment on financial assets of RMB10.1 million in the year ended December 31, 2020, primarily due to the decrease in loss allowance provision for trade and other receivables.

Other income

We recorded other income of RMB18.6 million in the year ended December 31, 2021, as compared with RMB22.6 million in the year ended December 31, 2020, primarily due to the decreases in subsidies and incentives we received from local government authorities.

Other expenses

We recorded other expenses of RMB6.0 million and nil in the year ended December 31, 2020 and 2021, respectively, as we made a donation to China Oral Health Foundation in the year ended December 31, 2020.

Other gains – net

We had other gains – net of RMB16.1 million in the year ended December 31, 2021, as compared with other gains – net of RMB3.1 million in the year ended December 31, 2020, primarily due to the increases in (1) foreign exchange gains and (2) investment return from wealth management products we purchased with our internal resources other than the proceeds from the Global Offering.

Finance income
Our finance income increased significantly from RMB4.2 million in the year ended December 31, 2020 to RMB16.9 million in the year ended December 31, 2021, primarily due to the increase in the amount of interest income on our bank deposits, which mainly included the unutilized portion of the proceeds from our Global Offering.

Finance costs
Our finance costs remained stable at RMB1.2 million and RMB1.2 million in the year ended December 31, 2020 and 2021, respectively.

Share of results of investments accounted for using the equity method
We had a share of profit of investment accounted for using the equity method of RMB0.3 million for the year ended December 31, 2020, compared to a share of loss of investments accounted for using the equity method of RMB1.9 million for the year ended December 31, 2021.

Profit before income tax
As a result of the foregoing, we recorded profit before tax of RMB332.1 million in the year ended December 31, 2021, compared to RMB191.2 million in the year ended December 31, 2020.

Income tax expenses
Our income tax expenses increased by 15.4% from RMB40.3 million in the year ended December 31, 2020 to RMB46.5 million in the year ended December 31, 2021, primarily due to the increase in our taxable income.

Profit for the year
As a result of the above, our net profit increased by 89.2% from RMB150.9 million in the year ended December 31, 2020 to RMB285.6 million in the year ended December 31, 2021. The net profit margin for the year ended December 31, 2021 was 22.5%, as compared with 18.5% for the year ended December 31, 2020.

Non-IFRS measures
To supplement our consolidated financial statements which are presented in accordance with the IFRS, we also use adjusted EBITDA and adjusted net profit as additional financial measures, which are not required by, or presented in accordance with the 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 number of grants may not directly correlate with the underlying performance of our business operations. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does 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,	
	2021	2020
	(RMB in thousands)	
Profit for the year	**285,572**	150,932
Add:		
Income tax expenses	**46,512**	40,299
Profit before income tax	**332,084**	191,231
Add:		
(Finance income – net)	**(15,660)**	(2,999)
Depreciation of property, plant and equipment	**23,871**	17,521
Depreciation of right-of-use assets	**13,194**	11,077
Amortization of intangible assets	**2,094**	3,525
EBITDA	**355,583**	220,355
Add:		
Share-based payments	**26,454**	66,319
Listing expenses	**35,429**	9,958
Adjusted EBITDA	**417,466**	296,632
Profit for the year	**285,572**	150,932
Add:		
Share-based payments	**26,454**	66,319
Listing expenses	**35,429**	9,958
Adjusted net profit	**347,455**	227,209

Liquidity, capital resources and capital structure

In the year ended December 31, 2021, our primary use of cash is to fund our working capital requirements and other recurring expenses. We financed our capital expenditures and working capital requirements primarily through cash generated from our operating activities and the proceeds from the Global Offering.

We have continued to maintain a healthy and sound financial position, and have followed a set of funding and treasury policies to manage our capital resources and mitigate potential risks involved. Our current assets increased from approximately RMB1,003.7 million as of December 31, 2020 to approximately RMB3,733.2 million as of December 31, 2021, primarily due to the proceeds received from the Global Offering.

On June 16, 2021, we were successfully listed on the Main Board of the Stock Exchange. The aggregate net proceeds from our Global Offering, including the net proceeds from the full exercise of the over-allotment option under the Global Offering (the "**Over-allotment Option**") and after deduction of the underwriting fees and other related expenses, was approximately HKD3,139.0 million.

The following table sets forth our cash flows for the year indicated.

	Year ended December 31,	
	2021	2020
	(RMB in thousands)	
Net cash generated from operating activities	**441,713**	408,279
Net cash used in investing activities	**(182,050)**	(7,276)
Net cash generated from/(used in) financing activities	**2,523,244**	(23,333)
Net increase/(decrease) in cash and cash equivalents	**2,782,907**	377,670
Cash and cash equivalents at beginning of the year	**877,578**	504,697
Exchange losses on cash and cash equivalents	**(33,502)**	(4,789)
Cash and cash equivalents at the end of the year	**3,626,983**	877,578

Cash and cash equivalents

Our cash and cash equivalents primarily consisted of cash at banks. Our cash and cash equivalents increased from RMB877.6 million as of December 31, 2020 to RMB3,627.0 million as of December 31, 2021, primarily due to the proceeds received from the Global Offering.

Exposure to exchange rate fluctuation

Our business is principally conducted in RMB, and the majority of our assets is denominated in USD and RMB. Our non-RMB assets and liabilities primarily consist of bank deposits and 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.

We have not implemented any hedging arrangements. 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.

Capital expenditure

For the year ended December 31, 2021, our total capital expenditure amounted to approximately RMB200.7 million, which consisted primarily of purchases of property, plant and equipment in connection with the construction of our Chuangmei Center, as well as purchases of right-of-use assets and purchase of intangible assets.

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,	
	2021	2020
	(RMB in thousands)	
Property, plant and equipment	**100,622**	164,898
Intangible assets	**987**	8
Investments in joint venture	–	500
Total	**101,609**	165,406

Contingent liabilities

As of December 31, 2021, we did not have any material contingent liability, guarantee or any litigation or claim of material importance, pending or threatened against any member of the Group.

Future plans for material investments and capital assets

Save as disclosed in the Prospectus, as of December 31, 2021, we did not have other substantial future plans for material investments and capital assets.

Significant investments and acquisition of capital assets

In the year ended December 31, 2021, we did not hold any significant investments nor made any significant acquisition of capital assets.

Charge on group's assets

As of December 31, 2021, we had no charges on our assets.

Borrowings and gearing ratio

Gearing ratio represents the percentage of bank borrowings to total equity. As of December 31, 2021, we did not have any outstanding bank loans or other borrowings. Thus, as of December 31, 2021, gearing ratio was not applicable.

Key financial indicators

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

	As of/for the year ended December 31,	
	2021	2020
Profitability ratios		
Gross profit margin[(1)]	**65.0%**	70.4%
Net profit margin[(2)]	**22.5%**	18.5%
Adjusted net profit margin[(3)]	**27.3%**	27.8%
Liquidity ratios		
Current ratio[(4)]	**5.34**	1.49

(1) The calculation of gross profit margin is based on gross profit divided by revenue for the year indicated and multiplied by 100%.
(2) The calculation of net profit margin is based on net profit divided by revenue for the year indicated and multiplied by 100%.
(3) The calculation of adjusted net profit margin, a non-IFRS measure, is based on adjusted net profit divided by revenue for the year indicated and multiplied by 100%.
(4) The calculation of current ratio is based on current assets divided by current liabilities as of December 31, 2021.

DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive directors and non-executive directors

Mr. FENG Dai (馮岱), aged 46, is our chairman of the Board and a 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 has been appointed as the chairman of the Nomination Committee, effective from June 16, 2021. Mr. Feng joined our Group in May 2012. Currently, he also serves as chairman of certain of our subsidiaries, including Wuxi EA, Shanghai EA Medical Instruments Co., Ltd. (上海時代天使醫療器械有限公司) and Wuxi Fuchi Management Consulting Co., Ltd. (無錫富馳管理諮詢有限公司).

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.

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 49, 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 has been appointed as a member of the Remuneration Committee, effective from June 16, 2021. 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 a director or general manager of certain of our subsidiaries, including Wuxi EA, Shanghai EA Medical Instruments Co., Ltd. (上海時代天使醫療器械有限公司) and Wuxi Fuchi Management Consulting Co., Ltd. (無錫富馳管理諮詢有限公司).

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 39, 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 has been appointed as a member of the Remuneration Committee, effective from June 16, 2021. Mr. Huang joined our Group in January 2015. Currently, he also serves as a director of certain of our subsidiaries, including Wuxi EA, Shanghai EA Medical Instruments Co., Ltd. (上海時代天使醫療器械有限公司) and Wuxi Fuchi Management Consulting Co., Ltd. (無錫富馳管理諮詢有限公司).

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.

Mr. HU Jiezhang (胡杰章), aged 47, 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. Currently, he also serves as a director of certain of our subsidiaries, including Wuxi EA, Shanghai EA Medical Instruments Co., Ltd. (上海時代天使醫療器械有限公司) and Wuxi Fuchi Management Consulting Co., Ltd. (無錫富馳管理諮詢有限公司).

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 35, is our executive Director and chief commercial officer, and is primarily responsible for the overall strategy planning, corporate governance, business direction, and sales management of our Group. Mr. Song has been appointed as a member of the Nomination Committee, effective from June 16, 2021. 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 served as a director in certain of our subsidiaries, including Wuxi EA, Shanghai EA Medical Instruments Co., Ltd. (上海時代天使醫療器械有限公司) and Wuxi Fuchi Management Consulting Co., Ltd. (無錫富馳管理諮詢有限公司).

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 67, 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 has been appointed as the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee, respectively, effective from June 16, 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 is admitted to practicing law in the PRC and has more than 30 years of experience in the legal profession. 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 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 appointed as the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee, respectively, effective from June 16, 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 52, 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 appointed as a member of the Audit Committee, the Remuneration Committee and the Nomination Committee, respectively, effective from June 16, 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.

Senior Management

Ms. LI Huamin (李華敏), aged 49, is our executive Director and chief executive officer. Please refer to "Directors and Senior Management – Directors" for her biographical details.

Mr. TIAN Jie (田杰), aged 57, 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 Beijing EA Bio-tech Co., Ltd. (北京時代天使生物科技有限公司), Wuxi EA and Shanghai EA Medical Instruments Co., Ltd. (上海時代天使醫療器械有限公司).

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 35, is our executive Director and chief commercial officer. Please refer to "Directors and Senior Management – Directors" for his biographical details.

Mr. LIU Yu (劉彧), aged 39, 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 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.

Mr. ZHU Lingbo (朱凌波), aged 38, is our senior vice president, board secretary and a joint company secretary, and is primarily responsible for financing, investment, international business development, 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 since October 2020.

Mr. Zhu has more than 12 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.

Joint Company Secretaries

Mr. ZHU Lingbo (朱凌波) is our senior vice president, board secretary and a joint company secretary. Please refer to "Directors and Senior Management – Senior Management" for his biographical details.

Ms. HO Wing Tsz Wendy (何詠紫) was appointed as a joint company secretary of our Company in September 2021. Ms. Ho is currently an executive director of Corporate Services of Tricor Services Limited, Asia's leading Business Expansion Specialist. Ms. Ho has been providing corporate secretarial and compliance services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Ho has over 25 years of experience in the corporate secretarial and compliance service field. Ms. Ho is currently acting as the company secretary or joint company secretary of a few listed companies on the Stock Exchange. Ms. Ho is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

REPORT OF THE DIRECTORS

The Board is pleased to present this Directors' Report together with the consolidated financial statements of the Group for the year ended December 31, 2021.

Principal Activities

The Company was incorporated in the Cayman Islands on November 29, 2018, as an exempted company with limited liability under the Cayman Companies Act. The Company is an investment holding company. The Group is a leading clear aligner treatment solution provider in China, with its operations substantially conducted through its subsidiaries in China. The Company was listed on the Main Board of the Stock Exchange on June 16, 2021 with stock code 6699.

The activities and particulars of the Company's principal subsidiaries are set out in Note 35 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year ended December 31, 2021 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and Note 5 to the consolidated financial statements. There were no significant changes in the nature of the Company's principal activities during the Reporting Period.

Business Review and Results and Future Development

A review of the business of the Group during the Reporting Period is provided in the section headed "Management Discussion and Analysis – Business Overview" of this annual report. An analysis of the Group's performance during the Reporting Period is provided in the section headed "Management Discussion and Analysis – Financial Review" of this annual report.

The results of the Group for the Reporting Period are set out in the consolidated financial statements in this annual report.

The future development in the Company's business is provided in the sections headed "Management Discussion and Analysis – Business Overview" and "Management Discussion and Analysis – Outlook" of this annual report.

Principal Risks and Uncertainties Facing the Group

We are subject to market risks brought by, among others, uncertainties of the economic outlook, evolving regulations and policies and further development of COVID-19. Please refer to the section headed "Management Discussion and Analysis – Outlook" for more information.

Major Customers and Suppliers

For the Reporting Period,

(i) the Group's largest supplier accounted for 17.8% (2020: 35.4%) of its total purchases, and the five largest suppliers accounted for 61.4% of its total purchases (2020: 74.2%); and

(ii) the Group's largest customer accounted for 3.6% (2020: 3.3%) of its total sales, and the five largest customers accounted for 13.4% of its total sales (2020: 13.3%).

Save as two of our five largest customers, each of which is an entity controlled by CareCapital Group, none of the Directors or any of their close associates or any Shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers for 2021.

Key Relationships with its Employees, Customers and Suppliers

For details of relationship with the employees, customers and suppliers, please refer to "Major Customers and Suppliers," "Employee, Training and Remuneration Policies" and the "Environmental, Social and Governance Report" in this annual report.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in Note 12 to the consolidated financial statements.

Share Capital

On May 20, 2021, the Shareholders of the Company resolved to subdivide the Company's issued and unissued 5,000,000 Shares of US$0.01 par value each into 100 Shares of US$0.0001 par value each. As a result, the authorized share capital of the Company became US$50,000 divided into 500,000,000 Shares of US$0.0001 par value each, and the issued share capital of the Company was divided from 1,489,775 Shares of US$0.01 par value each to 148,977,500 Shares of US$0.0001 par value each.

On June 16, 2021, the Company issued 16,829,600 new Shares at the offer price of HKD173.0 per Share by the Global Offering. On July 13, 2021, the Company further issued an aggregate of 2,524,400 new Shares as a result of the full exercise of the Over-allotment Option at the offer price of HKD173.0 per Share.

Details of movements in the share capital of the Company during the Reporting Period are set out in Note 21 to the consolidated financial statements.

Debentures

The Company did not issue any debentures during the Reporting Period.

Distributable Reserves

The Company's reserves available for distribution to its Shareholders as of December 31, 2021 amounted to RMB3,117.9 million. Movement in the Company's reserves for the year ended December 31, 2021 are set out in Note 36 to the consolidated financial statements of the Group included in this annual report.

Bank and Other Borrowings

As of December 31, 2021, the Group had not recorded any bank and other interest bearing borrowings.

Equity-Linked Agreements

Save as disclosed in the section headed "Share Award Schemes" below, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Reporting Period or subsisted at the end of the Reporting Period.

Directors and Senior Management

The Directors and senior management during the Reporting Period and up to the date of this Directors' Report were:

Executive Directors
Ms. LI Huamin
Mr. SONG Xin[(1)]
Mr. CHEN Kai[(2)]

Non-executive Directors
Mr. FENG Dai (Chairman of the Board)
Mr. HUANG Kun
Mr. HU Jiezhang

Independent Non-executive Directors[(3)]
Mr. HAN Xiaojing
Ms. DONG Li
Mr. SHI Zi

Senior Management
Ms. LI Huamin
Mr. TIAN Jie
Mr. SONG Xin
Mr. LIU Yu
Mr. ZHU Guolin[(4)]
Mr. ZHU Lingbo

(1) Mr. SONG Xin has been appointed as an executive Director, effective from April 21, 2021.
(2) Mr. CHEN Kai resigned on April 17, 2021 for personal reason. Mr. Chen has confirmed that he has no disagreement with the Board and that there are no matters in relation to his resignation that need to be brought to the attention of the shareholders of the Company.
(3) Each of Mr. HAN Xiaojing, Ms. DONG Li and Mr. SHI Zi has been appointed as an independent non-executive Director, effective from May 20, 2021.
(4) Mr. ZHU Guolin resigned in March 2022 for retirement to devote more time to his family and personal life. Mr. Zhu has confirmed that he has no disagreement with the Board and that there are no matters in relation to his resignation that need to be brought to the attention of the Shareholders of the Company.

Biographical Details of Directors and senior management are set out in "Director and Senior Management" of this annual report.

From the date of the Company's 2021 interim report on September 16, 2021 to the date of this annual report, there was no changes to information which are required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

Directors' Service Contracts

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 on May 20, 2021. We have issued letters of appointment to each of our independent non-executive Directors on May 20, 2021 and March 24, 2022, respectively. 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 May 20, 2021. The letters of appointment with each of our independent non-executive Directors are for an initial fixed term of three years since May 20, 2021. 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 the Directors has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Interest in Competing Business

Save as disclosed in the section headed "Relationship with our Controlling Shareholders – Non-competition Undertaking" in the Prospectus, none of the Directors were interested in any business which competes or is likely to compete with the businesses of the Group during the Reporting Period.

Significant Contracts

Save as disclosed in Note 33 to the consolidated financial statements of the Group included in this annual report, none of the Directors or their respective connected entities (as defined in the Listing Rules) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group subsisting during or at the end of the Reporting Period to which the Company or any of its subsidiaries was a party.

During the Reporting Period, save as disclosed in the section headed "Report of the Directors – Continuing Connected Transactions" of this annual report, the Group has not entered into any contract of significance with the controlling shareholders of the Company or any of their respective subsidiaries.

Continuing Connected Transactions

Among the related party transactions disclosed in Note 33 to the consolidated financial statements, the following transactions constitute continuing connected transactions for the Company under Rule 14A.31 of the Listing Rules and are required to be disclosed in this annual report in accordance with Rule 14A.71 of the Listing Rules. The Company confirmed that for the related party transactions falling under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the Listing Rules, it had complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. We set out below the information required to be disclosed in compliance with Chapter 14A of the Listing Rules.

Clear Aligners Purchase and Sales Framework Agreement

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**"), 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 Clear Aligners Purchase and Sales Framework Agreement has a term commencing from the date of signing to December 31, 2023. Please refer to "Connected Transactions" section in the Prospectus, the announcements of the Company dated October 21, 2021 and March 24, 2022 and the circular of the Company dated April 21, 2022 for details.

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 the general guide sales price of its clear aligner treatment products to distributors (including independent distributors) on an annual basis, mainly taking into account of the estimated gross profit of its products and services for such year and the estimated market demand in such year. Based on the general guide, We adjust the sales price to distributors (including independent distributors) with reference to their coverage regions, type of their end customers, market positions, sales volume and historical performance. The pricing policy for the transactions between CC Dental Group and us is subject to the same pricing policy provided by us to other independent distributors. 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 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.

In light of the rapid business growth of the Group, the annual caps for the transactions under the Clear Aligners Purchase and Sales Framework Agreement was revised to RMB40.0 million, RMB150.0 million and RMB210.0 million for the year of 2021, 2022 and 2023, respectively, among which, the revision of the annual caps for the year of 2022 and 2023 are still subject to the independent Shareholders' approval at the AGM.

CC Dental Group is controlled by CareCapital Group, the controlling shareholder of the Company. Mr. FENG Dai, the chairman and a non-executive Director of the Company, is the ultimate controlling person of CareCapital Group. Accordingly, CC Dental Group is a connected person of the Company under Rule 14A.07 of the Listing Rules and the transactions with CC Dental Group constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The 2021 revised annual cap under the Clear Aligners Purchase and Sales Framework Agreement is RMB40.0 million. The actual aggregate transaction amount incurred in accordance with the Clear Aligners Purchase and Sales Framework Agreement for the year ended December 31, 2021 was RMB39.9 million.

Intraoral Scanner Purchase and Sales Framework Agreement

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. Please refer to "Connected Transactions" section in the Prospectus for details.

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.

CC Dental Group is controlled by CareCapital Group, the controlling shareholder of the Company. Mr. FENG Dai, the chairman and a non-executive Director of the Company, is the ultimate controlling person of CareCapital Group. Accordingly, CC Dental Group is a connected person of the Company under Rule 14A.07 of the Listing Rules and the transactions with CC Dental Group constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Our Directors estimate that the annual caps for the transactions under the Intraoral Scanner Purchase and Sales Framework Agreement for the year of 2021, 2022 and 2023 shall be RMB13.2 million, RMB13.2 million and RMB19.8 million, respectively.

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 for the year ended December 31, 2021. The actual transaction amount incurred in accordance with the Intraoral Scanner Purchase and Sales Framework Agreement for the year ended December 31, 2021 was nil.

Annual review by independent non-executive Directors and the auditor

The independent non-executive Directors have reviewed the continuing connected transactions mentioned above pursuant to Rule 14A.55 of the Listing Rules and confirmed that the aforesaid continuing connected transactions:

(i) were entered into in the ordinary and usual course of business of the Group;

(ii) were on normal commercial terms or better to the Group; and

(iii) were in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company has been engaged to report on the continuing connected transactions of the Company in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their conclusions in respect of the aforesaid continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. The Company has provided a copy of the auditor's letter to the Stock Exchange. In respect of the aforesaid continuing connected transactions, the auditor of the Company has confirmed that:

(i) nothing has come to their attention that cause them to believe that the aforesaid continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that such transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to their attention that causes them to believe that the aforesaid continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing the aforesaid continuing connected transactions; and

(iv) with respect to the aggregate actual transaction amount of each of the aforesaid continuing connected transactions, nothing has come to their attention that causes them to believe that such actual transaction amounts have exceeded the relevant annual caps.

Internal control measures

The Company has adopted the following internal control and corporate governance measures to closely monitor connected transactions and ensure future compliance with the Listing Rules:

(1) the Company has adopted and implemented a management system on connected transactions and the Board and various internal departments of the Company are responsible for the control and daily management in respect of the continuing connected transactions. The Company has also engaged external independent internal control consultant to enhance our internal control system, including, among others, the system for monitoring connected transactions;

(2) the Board and various internal departments of the Company are 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) the Board and the finance department of the Company are regularly monitoring the connected transactions and the management of the Company will regularly review the pricing policies to ensure the connected transactions to be performed in accordance with the relevant agreements;

(4) the Company has engaged external independent auditor which will, and the independent non-executive Directors also 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) the Company will continue to 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 wavier submitted to the Stock Exchange in connection with the continuing connected transactions in this regard.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

Remuneration of Directors and Five Individuals with Highest Emoluments

Details of the emoluments of the Directors and five highest paid individuals are set out in Notes 8 and 37 to the consolidated financial statements.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors or other individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

Employees, Training and Remuneration Policies

As of December 31, 2021, we had 2,034 employees. The staff costs, which included Directors' emoluments and share-based payment expenses, were approximately RMB400.4 million in the year ended December 31, 2021.

Our employees' compensation includes basic salary, performance-based cash bonuses, incentive shares and other incentives. We determine our employees' compensation based on each employee's performance, qualifications, position and seniority.

We recognize the importance of keeping the Directors updated with the latest information of duties and obligations of a director of a company whose shares are listed on the Stock Exchange and the general regulatory and environmental requirements for such listed company. To meet this goal, we are committed to the continuing education and development of our Directors and employees.

The Directors and 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 Board has established the Remuneration Committee to review and recommend the remuneration and compensation packages of the Directors and senior management of the Company, and the Board, with the advice from the Remuneration Committee, will review and determine the remuneration and compensation packages taking into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management and performance of our Group.

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.

To incentivize its employees and promote the long-term growth of the Company, the Company has also conditionally adopted the pre-IPO share award schemes, the post-IPO share option scheme and the Post-IPO RSU Scheme to provide equity incentive to the Group's employees, directors and senior management. Please refer to "Report of the Directors – Share Award Schemes" in this annual report for details.

We provide pre-employment and regular continuing management and technical training to our employees, which we believe are effective in equipping them with the skill set and work ethics that we require.

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 Reporting Period.

Environmental Policies and Performance

It is our corporate and social responsibility in promoting a sustainable and environmental-friendly environment. We strive to minimize our environmental impact and to build our corporation in a sustainable way.

We are subject to environmental protection and occupational health and safety laws and regulations in China. In 2021, we complied with the relevant environmental and occupational health and safety laws and regulations in China in all material aspects and we did not have any incidents or complaints that had a material and adverse effect on our business, results of operations and financial condition.

The environmental, social and governance report of the Company prepared in accordance with Appendix 27 of the Listing Rules is set out in the section headed "Environmental, Social and Governance Report" of this annual report.

The Group's Subsidiaries and Facilities

A summary of the corporate information and the particulars of our subsidiaries are set out in Note 35 to the consolidated financial statements.

As of December 31, 2021, 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 20 leased properties with a total gross floor area of approximately 18,427 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.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As of December 31, 2021, to the best knowledge of the Directors, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Interest in the Company

Name of Director/ Chief Executive	Capacity/Nature of interest	Number of Shares held(1)	Approximate percentage of interest(1)
Mr. FENG Dai(2)	Interest in a company controlled	100,000,000 (L)	59.41%
Ms. LI Huamin(3)	Founder of a trust; Interest in a company controlled	23,657,300 (L)	14.05%
Mr. HUANG Kun(4)	Interest in a company controlled	717,200 (L)	0.43%
Mr. SONG Xin(5)	Interest in a company controlled	1,415,300 (L)	0.84%

The letter "L" denotes the person's long position in the Shares.

(1) The calculation is based on the total number of 168,331,500 Shares in issue as of December 31, 2021, without taking into account any Shares that may be issued under the Share Award Schemes.

(2) CareCapital Orthotech Limited is wholly-owned by CareCapital EA, Inc., which is in turn owned by CareCapital Dental Holdings Limited and CareCapital Moonstone Holdings Limited, a wholly-owned subsidiary of CareCapital Dental Holdings Limited. CareCapital Dental Holdings Limited is controlled by CareCapital Management Group LLC, which is wholly-owned by Mr. FENG Dai, the ultimate controlling person of CareCapital Group. As such, Mr. Feng is deemed to be interested in all the shareholding of the Company held by CareCapital Orthotech Limited.

(3) Sky Honour Enterprises Limited is controlled by Shore Lead Limited, a company wholly-owned by Ms. LI Huamin. Ms. LI Huamin is the founder and settlor of her family trust. As such, Ms. Li is deemed to be interested in all the shareholding of the Company held by Sky Honour Enterprises Limited.

(4) Noble Affluent Limited is wholly-owned by Mr. HUANG Kun, and thus Mr. Huang 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 is deemed to be interested in all the shareholding of the Company held by Ascend Benefit Limited.

Save as disclosed above, as of December 31, 2021, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or which would be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or which would be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As of December 31, 2021, to the best of knowledge of the Directors, the following persons, other than Directors or chief executive of the Company, had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity/Nature of interest	Number of shares held	Approximate percentage of interest[1]
CareCapital Orthotech Limited[2]	Beneficial Owner	100,000,000 (L)	59.41%
CareCapital EA, Inc.[2]	Interest in controlled corporation	100,000,000 (L)	59.41%
CareCapital Moonstone Holdings Limited[2]	Interest in controlled corporation	100,000,000 (L)	59.41%
CareCapital Dental Holdings Limited[2]	Interest in controlled corporation	100,000,000 (L)	59.41%
CareCapital Management Group LLC[2]	Interest in controlled corporation	100,000,000 (L)	59.41%
Sky Honour Enterprises Limited[3]	Beneficial Owner	23,657,300 (L)	14.05%
Shore Lead Limited[3]	Interest in controlled corporation	23,657,300 (L)	14.05%
Vast Luck Global Limited[4]	Beneficial Owner	10,411,400 (L)	6.19%
Jovial Day Global Limited[4]	Interest in controlled corporation	10,411,400 (L)	6.19%
Mr. CHEN Kai[4]	Founder of a trust; interest in controlled corporation	10,411,400 (L)	6.19%

The letter "L" denotes the person's long position in the Shares.

(1) The calculation is based on the total number of 168,331,500 Shares in issue as of December 31, 2021, without taking into account any Shares that may be issued under the Share Award Schemes.

(2) CareCapital Orthotech Limited is wholly-owned by CareCapital EA, Inc., which is in turn owned by CareCapital Dental Holdings Limited and CareCapital Moonstone Holdings Limited, a wholly-owned subsidiary of CareCapital Dental Holdings Limited. CareCapital Dental Holdings Limited is controlled by CareCapital Management Group LLC, which is wholly-owned by Mr. FENG Dai, a non-executive Director and the chairman of the Board of the Company and the ultimate controlling person of CareCapital Group. As such, Mr. Feng is deemed to be interested in all the shareholding of the Company held by CareCapital Orthotech Limited.

(3) Sky Honour Enterprises Limited is controlled by Shore Lead Limited, a company wholly-owned by Ms. LI Huamin, an executive Director of the Company. Ms. Li is the founder and settlor of her family trust. As such, Ms. Li is deemed to be interested in all the shareholding of the Company held by Sky Honour Enterprises Limited.

(4) Vast Luck Global Limited is controlled by Jovial Day Global Limited, a company wholly-owned by Mr. CHEN Kai. Mr. Chen is the founder and settlor of his family trust. As such, Mr. Chen is deemed to be interested in all the shareholding of the Company held by Vast Luck Global Limited.

Save as disclosed above, as of December 31, 2021, the Directors and the chief executive of the Company are not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be required to be recorded in the register to be kept by the Company pursuant to Section 336 of the SFO.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in this annual report during and at the end of the year ended December 31, 2021, neither the Company nor any of its subsidiaries was a party to any arrangement that would enable the Directors or any of their respective spouses or children under the age of 18 to acquire benefits by means of acquisition of the shares in, or debentures of, the Company or any other body corporate.

Purchase, Sale or Redemption of the Company's Listed Securities

Save as disclosed below, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities from the Listing Date to December 31, 2021:

- On July 13, 2021, the Company issued an aggregate of 2,524,400 new Shares as a result of the full exercise of the Over-allotment Option at the offer price of HKD173.0 per Share. Please refer to the Company's announcement dated July 8, 2021 in respect of the full exercise of the Over-allotment Option for more information.

Share Award Schemes

Pre-IPO share award schemes

The Shareholders have adopted and approved the Share Award Scheme I, Share Award Scheme II and Share Award Scheme III on December 21, 2020, as amended.

Summary of major terms of the Pre-IPO Share Award Schemes are as follows:

(i) Purposes of Pre-IPO Share Award Schemes

The purpose of the Pre-IPO Share Award Schemes is to, among others, 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, to provide such employees with the opportunity to participate in the growth and profitability of the Group, and to attract and retain talented personnel for the realization of the Group's long-term development goals.

(ii) Participants of Pre-IPO Share Award Schemes

The participants of Share Award Scheme I are senior management and core employees of the Group, determined by a committee or person as authorized by the Board (the "**ESOP Committee**") in its sole discretion with reference to the employee's working performance, contribution to the Company and other factors.

The participants of Share Award Scheme II and 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 participants of 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.

(iii) Maximum number of Shares

The aggregate numbers of Shares for all the restricted share units as the awards (the "**Awards**") pursuant to the Share Award Scheme I, Share Award Scheme II and Share Award Scheme III – Pool A are 19,069,300 Shares, 4,706,400 Shares and 5,289,900 Shares, respectively.

Unless further approval of the Board, the maximum number of Shares in respect of which options may be granted under the Share Award Scheme III-Pool B (the "**Options**") 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.

(iv) Limit for each participant

Under the Pre-IPO Share Award Schemes, there is no specific limit on the maximum number of share options which may be granted to a single eligible participant. As at the date of this report, the Company has granted Options for 300,000 Shares as underlying shares and the Company will not grant additional Options under the Share Award Scheme III – Pool B after the Listing.

(v) Remaining life of the schemes and outstanding awards

As at the date of this report, the Company has granted (1) awards for the purchase of a total of 19,069,300 Shares to eligible participants under the Share Award Scheme I; (2) awards for the purchase of a total of 4,706,400 Shares to eligible participants under the Share Award Scheme II; (3) awards for the purchase of a total of 5,289,900 Shares to eligible participants under the Share Award Scheme III – Pool A; and (4) options for the purchase of 300,000 Shares under the Share Award Scheme III – Pool B. As of the date of this report, all the Shares underlying the aforementioned awards have been issued and none of the Shares underlying the aforementioned options granted was issued. No further awards may be granted under the Pre-IPO Share Award Schemes after the Listing.

For more information on the Pre-IPO Share Award Schemes, please refer to "Appendix IV Statutory and General Information – D. Share Award Schemes" in the Prospectus.

Details of the Awards granted to Directors and senior management of the Company under the Pre-IPO Share Award Schemes are set out below.

Name of Director/ Senior Management	Date of Grant	Number of Shares underlying the RSUs as at January 1, 2021[(1)]	Number of Shares underlying the vested RSUs/exercised during the Reporting Period[(1)]	Number of Shares underlying the cancelled RSUs during the Reporting Period	Number of Shares underlying the lapsed RSUs during the Reporting Period	Number of Shares underlying the RSUs as at December 31, 2021[(1)]	Exercise Price
Mr. SONG Xin	October 1, 2017	282,274	282,274	—	—	—	—
	October 1, 2019	89,381	—	—	—	89,381	—
Mr. LIU Yu	October 1, 2017	248,896	248,896	—	—	—	—
	October 1, 2019	74,534	—	—	—	74,534	—
Mr. TIAN Jie	October 1, 2017	9,746	9,746	—	—	—	—

(1) As of the date of this annual report, all the Shares underlying the RSUs have been issued.

Name of Director/ Senior Management	Date of Grant	Number of Shares underlying the options as at January 1, 2021	Number of Shares underlying the vested/exercised options during the Reporting Period	Number of Shares underlying the cancelled options during the Reporting Period	Number of Shares underlying the lapsed options during the Reporting Period	Number of Shares underlying the options as at December 31, 2021	Exercise Price
Mr. ZHU Lingbo	October 9, 2020	300,000	120,000[(1)]	—	—	300,000	US$1.2 per share

(1) As of the date of this annual report, all the Shares underlying such options have not been issued.

Movements in the number of RSUs and options outstanding under the Pre-IPO Share Award Schemes are as follows:

	Number of RSUs[(1)]	Number of options[(1)]
Outstanding balance as of January 1, 2021	3,480,722	300,000
Granted	—	—
Forfeited, cancelled or lapsed	—	—
Vested/exercised	2,171,859	120,000
Outstanding balance as of December 31, 2021	1,308,863	300,000

(1) As of the date of this annual report, all the Shares underlying the RSUs have been issued and all the Shares underlying the options have not been issued.

Post-IPO share option scheme

The Post-IPO Share Option Scheme was conditionally approved and adopted by the Shareholders on May 20, 2021. The terms of Post-IPO Share Option Scheme are subject to Chapter 17 of the Listing Rules.

Summary of major terms of the Post-IPO Share Option Scheme are as follows:

(i) Purposes of Post-IPO Share Option Scheme

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 (the "**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.

(ii) Participants of Post-IPO Share Option Scheme

Participants of the Post-IPO Share Option Scheme included employees or directors of any member of the Group, and the number of share subscription will be determined by the Board.

(iii) Maximum number of Shares

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, representing 2.9% of the aggregate Shares in issue as of the date of this report. As of the date of this report, no option has been granted, vested, cancelled or lapsed since the adoption of the Post-IPO Share Option Scheme.

(iv) Limit for each participant

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. Where 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 scheme of the Company (including options exercised, cancelled and outstanding) to a participant who is a substantial Shareholder or an independent non-executive Director, or any of his or her associate in the 12-month period up to and including the date of grant, (1) representing in aggregate more than 0.1% of the total number of Shares in issue; and (2) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HKD5,000,000, the proposed grant of option must be approved by the Shareholders by poll in general meeting.

(v) Option period

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 participant who was granted the Options 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.

(vi) Grant and acceptance of Options

The Board shall, subject to and in accordance with the Post-IPO Share Option Scheme and the Listing Rules, be entitled to, at any time on any business day during the period of the Post-IPO Share Option Scheme, grant an Option to any eligible participant 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.

(vii) Subscription price

The 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, (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.

(viii) Remaining life of the Post-IPO Share Option Scheme and outstanding options

The Post-IPO Share Option Scheme will be valid and effective for a period of three years commencing on May 20, 2021. As of the date of this report, no option has been granted, vested, cancelled or lapsed since the adoption of the Post-IPO Share Option Scheme.

For further information of the Post-IPO Share Option Scheme, please refer to "Appendix IV Statutory and General Information – D. Share Award Schemes – 5. Post-IPO Share Option Scheme" in the Prospectus.

Post-IPO RSU scheme

The Post-IPO RSU Scheme (the "**Post-IPO RSU Scheme**") was conditionally approved and adopted by the Shareholders on May 20, 2021. The terms of Post-IPO RSU Scheme are not subject to Chapter 17 of the Listing Rules.

Summary of major terms of the Post-IPO RSU Scheme are as follows:

(i) Purposes of Post-IPO RSU Scheme

The purpose of the Post-IPO RSU Scheme is 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 to attract suitable personnel for further development of the Group.

(ii) Participants of Post-IPO RSU Scheme

Participants of the Post-IPO RSU Scheme included employees or directors of any member of the Group, and the number of share subscription will be determined by the Board.

(iii) Maximum number of Shares

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. As of the date of this report, an aggregate of 429,109 RSUs have been granted to certain Director and employees of the Group at nil consideration, among which, subject to the approval of independent shareholders at the AGM, 25,642 RSUs have been granted to Ms. LI Huamin, an executive Director and the chief executive officer of the Company. No RSU has been vested, cancelled or lapsed since the adoption of the Post-IPO RSU Scheme.

(iv) Remaining life of Post-IPO RSU Scheme and outstanding awards

Subject to the fulfillment of the conditions of the Post-IPO RSU Scheme and the termination clause, this Post-IPO RSU Scheme shall be valid and effective for a term of three years commencing on May 20, 2021. No RSUs were granted in the Reporting Period. As of the date of this report, an aggregate of 429,109 RSUs have been granted to certain Directors and employees of the Group at nil consideration, among which, subject to the approval of independent shareholders at the AGM, 25,642 RSUs have been granted to Ms. LI Huamin, an executive Director and the chief executive officer of the Company. No RSU has been vested, cancelled or lapsed since the adoption of the Post-IPO RSU Scheme.

For further information of the Post-IPO RSU Scheme, please refer to "Appendix IV Statutory and General Information – D. Share Award Schemes – 4. Post-IPO RSU Scheme" in the Prospectus as well as the Company's announcement dated March 25, 2022 and circular dated April 21, 2022 relating to the grant of RSUs.

Material Acquisitions and Disposals of Subsidiaries

For the year ended December 31, 2021, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Use of Proceeds from the Global Offering

The Shares of the Company were listed on the Main Board of the Stock Exchange on the Listing Date, whereby 16,829,600 new Shares were issued at the offer price of HKD173.0 each by the Company. On July 8, 2021, the Joint Global Coordinators, on behalf of the International Underwriters, fully exercised the Over-allotment Option at the offer price of HKD173.0, pursuant to which the Company issued an addition of 2,524,400 Shares. The aggregate net proceeds from the Global Offering, including the net proceeds from the full exercise of the Over-allotment Option and after deduction of the underwriting fees and other related expenses, was approximately HKD3,139.0 million. The net proceeds from the Global Offering (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in that same manner, proportion and the expected timeframe as set out in the Prospectus under the section headed "Future Plans and Use of Proceeds." The table below sets out the planned and actual applications of the net proceeds up to December 31, 2021.

	Net proceeds from the Global Offering	**Utilization up to December 31, 2021**	**Unutilized proceeds as of December 31, 2021**
		(HKD in millions)	
Funding the construction of Chuangmei Center	1,252.5	375.0	877.5
Strengthening our research and development capabilities and funding our in-house and collaborative R&D initiatives	574.4	56.8	517.6
Developing a flexible and scalable intelligent information technology system	339.0	22.1	316.9
Expanding our in-house sales team and providing sales personnel with training sessions	329.6	77.3	252.3
Funding marketing and branding activities	301.4	73.7	227.7
Optimizing medical services	194.6	44.4	150.2
Working capital and other general corporate purposes	147.5	—	147.5
Total	3,139.0	649.3	2,489.7

To the extent that the net proceeds have not been immediately utilized, the balance has been placed with banks. There has been no change in the intended use of net proceeds as previously disclosed in the Prospectus and the Group will apply the remaining net proceeds in the manner set out in the Prospectus, pursuant to which, the remaining proceeds are expected to be utilized within the next two years. The utilization of the net proceeds has been converted from RMB into HKD at an exchange rate of RMB1.0 to HKD1.2336 prevailing on December 31, 2021.

Litigation and Compliance

The Group is subject to various regulatory requirements and guidelines issued by regulatory authorities in China, such as laws and regulations relating to production and sales of medical devices in China. During the Reporting Period, the Group did not commit any material non-compliance of the laws and regulations, and did not experience any noncompliance incident, which taken as a whole, in the opinion of the Directors, is likely to have a material and adverse effect on our business, financial condition or results of operations.

Annual General Meeting

The AGM will be held on May 26, 2022. A notice convening the AGM will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.angelalign.com), and will be dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

Special Final Dividend

The Board has resolved to recommend the payment of a special final dividend (the "**Special Final Dividend**") of HKD1.22 per Share for the year ended December 31, 2021 to the Shareholders whose names appear on the register of members of the Company on Monday, June 6, 2022, subject to the approval of the Shareholders at the AGM. Once the relevant resolution is passed at the AGM, the proposed special final dividend is expected to be paid on or about on or around Friday, June 24, 2022.

To reward the Shareholders, the Board considers it appropriate to distribute the Special Final Dividend in recognition of Shareholders' support. The payment of the Special Final Dividend does not involve any reduction in the authorised or issued share capital of the Company nor does it involve any reduction in the nominal value of the Shares or result in any change in the trading arrangements in respect of the Shares. After taking into consideration of the existing cash flows and business development plan of the Group, the Directors consider that the Company has sufficient cash flows to pay the Special Final Dividend, and the payment of the Special Final Dividend will not have material adverse effect on the financial position of the Group. The Directors consider that the declaration and proposed payment of the Special Final Dividend is in the interests of the Company and its Shareholders as a whole.

The Shareholders are reminded that there is no assurance that a dividend will be proposed or declared in any subsequent periods. The Directors will review and assess from time to time in accordance with the dividend policy to determine the dividend payout (if any).

Closure of Register of Members

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, May 23, 2022 to Thursday, May 26, 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on Friday, May 20, 2022.

For determining the entitlement of Shareholders to receive the Special Final Dividend, the register of members of the Company will be closed from Wednesday, June 1, 2022 to Monday, June 6, 2022, both days inclusive, during which period no transfer of shares will be registered. To qualify for the Special Final Dividend, all share transfer documents accompanied by the corresponding share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. (Hong Kong time) on Tuesday, May 31, 2022.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the Cayman Companies Act which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's listed securities. If any of the Shareholders is unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares, he or she is advised to consult an expert.

Permitted Indemnity Provision

The Company has maintained appropriate liability insurance policies for its Directors and senior management since the Listing Date. Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director in defending any proceedings, whether civil or criminal, in which judgement is given in his/her favour, or in which he/she is acquitted.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as of the date of this annual report, the Company has maintained to comply with the minimum percentage prescribed in the conditions imposed in the waiver granted by the Stock Exchange from strict compliance with Rule 8.08(1) of the Listing Rules.

Audit Committee

As of the date of this annual report, the Audit Committee comprises three independent non-executive Directors, namely, Ms. DONG Li, Mr. HAN Xiaojing and Mr. SHI Zi, and Ms. DONG Li serves as the chairwoman of the Audit Committee. The Audit Committee has reviewed the annual results of the Group for the year ended December 31, 2021 and has recommended for the Board's approval thereof.

The Audit Committee has reviewed together with the management the accounting principles and policies adopted by the Group and the consolidated financial statements of the Group for the year ended December 31, 2021. The Audit Committee considered that the annual results of the Group are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

This annual report is based on the audited consolidated financial statements of the Group for the year ended December 31, 2021.

Auditor

The consolidated financial statements of the Group for the year ended December 31, 2021 have been audited by PricewaterhouseCoopers. A resolution for the re-appointment of PricewaterhouseCoopers as the auditors of the Company will be proposed at the AGM. PricewaterhouseCoopers has been appointed as auditor of the Company since the Listing Date.

Donation

During the year ended December 31, 2021, the Group made no charitable donations.

Compliance with Non-Competition Undertakings

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 (the "**Deed of Non-Competition**"), 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 of research and development, manufacture and marketing of clear aligners treatment solutions in China, subject to certain limited exceptions. For details of the Deed of Non-Completion, please refer to the section headed "Relationship with Controlling Shareholders – Non-Competition Undertaking" in the Prospectus.

The Company has received a written confirmation from CareCapital in respect of the compliance by them and their close associates with the terms of the Deed of Non-Competition. CareCapital have confirmed that they have complied with the undertaking under the Deed of Non-Competition during the period from the Listing Date to December 31, 2021.

The independent non-executive Directors have reviewed the Deed of Non-Competition and assessed whether CareCapital and their close associates have complied with the terms of the Deed of Non-Competition, and were satisfied that CareCapital has complied with his/its undertakings under the Deed of Non-Competition during the period from the Listing Date to December 31, 2021.

Corporate Governance

The Company is committed to maintaining high standards of corporate governance practices. From the Listing Date December 31, 2021, the Company had applied all the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules. Detailed information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 50 to 63 of this annual report.

Events after the Reporting Period

The Board has resolved to recommend the payment of a special final dividend of HKD1.22 per Share for the year ended December 31, 2021 to the Shareholders. Please refer to the section headed "Report of the Directors – Special Final Dividend" in this annual report for details.

In January 2022, the Company invested into a limited partnership, CareCapital Aligner Tech L.P., with the controlling shareholder, CareCapital Group, to invest in innovative digital technologies and products in the global orthodontics market, with investment amount of HKD100 million. Please refer to the announcement of the Company dated January 28, 2022 relating to the formation of partnership for more information.

As of the date of this annual report, save as disclosed above, there has been no significant event since the end of the Reporting Period that is required to be disclosed by the Company.

Appreciation

On behalf of the Board, I would like to express our sincere gratitude to customers, patients and business partners for their trust in our Company, our staff and management team for their diligence, dedication, loyalty and integrity, and our Shareholders for their continuous support.

By order of the Board of Directors
Angelalign Technology Inc.

Mr. FENG Dai
Chairman

Hong Kong
March 24, 2022

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report contained in the Company's annual report for the year ended December 31, 2021.

Corporate Governance Practices

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company has adopted the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance from the Listing Date.

Since the Listing Date and up to December 31, 2021, the Company had complied with all the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

The Board

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the Nomination Committee and the Remuneration Committee. The Board has delegated to these Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal action against the Directors, and will conduct annual review on such insurance coverage.

Board Composition and Diversity

The current composition of the Board is as follows:

Executive Directors

Ms. LI Huamin *(Chief Executive Officer)* (appointed on November 29, 2018)
Mr. SONG Xin (appointed on April 21, 2021)

Non-executive Directors

Mr. FENG Dai *(Chairman)* (appointed on November 29, 2018)
Mr. HUANG Kun (appointed on November 29, 2018)
Mr. HU Jiezhang (appointed on December 21, 2020)

Independent Non-executive Directors

Mr. HAN Xiaojing (appointed on May 20, 2021)
Ms. DONG Li (appointed on May 20, 2021)
Mr. SHI Zi (appointed on May 20, 2021)

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

During the period from the Listing Date to December 31, 2021, the Board has met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive Directors representing one-third of the Board. Each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules by written confirmation and the Company considers each of them to be independent.

We have adopted the Board Diversity Policy which sets out the approach to achieve diversity on our Board in order to enhance the quality of its performance. The Board Diversity Policy provides that our Company should endeavour 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. Pursuant to the Board Diversity Policy, we seek to achieve Board diversity through the consideration of a number of factors, including but not limited to professional experiences, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. Our Board and Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness and monitor and report annually in our corporate governance report about the implementation of the Board Diversity Policy.

The Nomination Committee and the Board has reviewed the diversity of the Board and the Board Diversity Policy for the Reporting Period. As of December 31, 2021, the diversity profile of the Board is analyzed as follows: The Directors have a balanced mix of experiences, including overall management, business development, information technology, legal, and finance experiences. The Board has also maintained a gender balance with two female Directors and six male Directors. Furthermore, the age of the Directors ranges from 35 years old to 67 years old. The education background of the Directors includes bio-technology, finance, auditing, information technology and business administration to law, with degrees awarded by education institutions in the PRC, Hong Kong and the United States.

At present, the Nomination Committee considered that the Board is sufficiently diverse. The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain continuous compliance by the Company with the board diversity requirement under the Listing Rules, including the gender diversity.

Save as disclosed in the biographies of the Directors as set out in the section headed "Directors and Senior Management" of this annual report, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Directors or chief executive.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and expertise to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the code provision under the CG Code requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as their identity and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

Induction and Continuous Professional Development

All newly appointed Directors would be provided with necessary induction and information to ensure that they have a proper understanding of the Company's operations and businesses as well as their responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide the Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

The Company encourages continuous professional development training for all the Directors to develop and refresh their knowledge and skills. The joint company secretaries of the Company update and provide the Directors with written training materials in relation to their roles, functions and duties from time to time.

According to the information provided by the Directors, the training received by the Directors during the year ended December 31, 2021 is summarized as follows:

Name of Directors	Nature of continuous professional development courses
Executive Directors	
Ms. LI Huamin	A
Mr. SONG Xin	A
Non-executive Directors	
Mr. FENG Dai *(Chairman)*	A
Mr. HUANG Kun	A
Mr. HU Jiezhang	A
Independent Non-executive Directors	
Mr. HAN Xiaojing	A
Ms. DONG Li	A
Mr. SHI Zi	A

Note:

A: attending training provided by lawyers or training related to the Company's business

Appointment and Re-Election of Directors

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 on May 20, 2021. We have issued letters of appointment to each of our independent non-executive Directors on May 20, 2021 and March 24, 2022, respectively. 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 May 20, 2021. The letters of appointment with each of our independent non-executive Directors are for an initial fixed term of three years since May 20, 2021. 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.

The Board 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.

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.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Board has delegated certain of its responsibilities and authority for selection and nomination of Directors to the Nomination Committee. The Nomination Committee is responsible for reviewing the Board's composition, and for making recommendations to the Board on the appointment, re-election and succession planning of Directors, and the Board will determine the relevant matters after taking into account of the recommendations.

The Company has adopted a Director Nomination Policy which is contained in the terms of reference of the Nomination Committee that sets out the selection criteria and process in relation to nomination of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to gender, age, cultural and educational background, professional experience or diversity needed in the future, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Nomination Committee shall:

(i) use open advertising or the services of external advisors to facilitate the search;

(ii) consider candidates from a wide range of backgrounds; and

(iii) consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position.

Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of no less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board meetings and Board Committee meetings, reasonable notice is generally given by the Company. The agenda and accompanying Board papers are dispatched at least three days before the Board meetings or Board Committee meetings to ensure that the Directors have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings shall be kept by the joint company secretary with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail on the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are open for inspection by all Directors.

During the period from the Listing Date to December 31, 2021, the Company held two Board meetings in total and the attendance of individual Director at the Board meetings are set out in the table below:

Directors	Number of Actual Attendance at Board Meetings/Number of Required Attendance at Board Meetings
Mr. FENG Dai	2/2
Ms. LI Huamin	2/2
Mr. HUANG Kun	2/2
Mr. HU Jiezhang	2/2
Mr. SONG Xin	2/2
Mr. HAN Xiaojing	2/2
Ms. DONG Li	2/2
Mr. SHI Zi	2/2

No general meeting was held by the Company during the period from the Listing Date up to December 31, 2021.

Compliance with the Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiries of all Directors, each of the Directors has confirmed that he or she has complied with the requirements as set out in the Model Code from the Listing Date to December 31, 2021.

Delegation by the Board

The Board reserves for its decision on all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense. Directors are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Functions

The Board confirmed that corporate governance should be the collective responsibility of the Directors, which includes:

(a) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(b) to review and monitor the training and continuous professional development of the Directors and senior management;

(c) to develop, review and monitor the codes of conduct and compliance manuals applicable to employees and the Directors;

(d) to develop and review the Company's corporate governance policies and practices, make recommendations and report on related issues to the Board; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Board Committees

Our Company has established three committees under the Board pursuant to the corporate governance practice requirements under the Listing Rules, including the Audit Committee, Remuneration Committee and Nomination Committee.

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Ms. DONG Li, Mr. HAN Xiaojing and Mr. SHI Zi. Ms. DONG Li, being the chairwoman of the Audit Committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company. The Audit Committee's duties and powers include, among others:

1. make recommendations to the Board on the appointment, re-appointment, and/or removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and consider any questions of resignation or dismissal of that auditor;

2. monitor the integrity of financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;

3. oversee the Company's financial reporting system, risk management and internal control procedures; and

4. perform the Company's corporate governance functions, including reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and the training and continuous professional development of Directors and senior management.

The Audit Committee has reviewed together with the management the accounting principles and policies adopted by the Group and the consolidated financial statements of the Group for the year ended December 31, 2021. The Audit Committee considered that the annual results of the Group are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

During the period from the Listing Date to December 31, 2021, the Audit Committee held two meetings to discuss and consider the following: (1) reviewing the interim financial statements, interim results announcement and interim report of the Group for the six months ended June 30, 2021; (2) recommending to the Board on the appointment of the auditor of the Company for the fiscal year ended December 31, 2021 and reviewing the report on the 2021 audit plan; and (3) reviewing the Company's financial reporting process, risk management, internal control system and internal audit function.

The attendance of these meetings by the Audit Committee members is set out in the table below:

Name of Directors	Number of attendance/ required attendance
Ms. DONG Li	2/2
Mr. HAN Xiaojing	2/2
Mr. SHI Zi	2/2

Nomination Committee

The Nomination Committee comprises a non-executive Director, namely Mr. FENG Dai, an executive Director, namely Mr. SONG Xin, and three independent non-executive Directors, namely Mr. HAN Xiaojing, Ms. DONG Li and Mr. SHI Zi. Mr. FENG Dai, chairman of the Board, is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company. The Nomination Committee's duties and powers include, among others:

1. review the structure, number and composition (including the skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's strategy;

2. identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. assess the independence of independent non-executive Directors;

4. make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer;

5. review the Board Diversity Policy and any measurable objectives for implementing such Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives; and

6. where the Board proposes a resolution to elect an individual as an independent non-executive Director at the general meeting, the reasons why the Board believe he/she should be elected and the reasons why the Board consider the individual to be independent should be set out in the circular to Shareholders and/or an explanatory statement accompanying the notice of the relevant general meeting.

The Nomination Committee assesses, selects, and recommends candidates for directors to the Board on criteria such as credibility, success, and experience in the Company's industry, time available to be invested, benefits of sectors represented by the candidates, and the diversity the candidates will bring to the Board. The recommendations of the Nomination Committee will then be put to the Board for decision.

No meeting of the Nomination Committee was held by the Company during the period from the Listing Date up to December 31, 2021.

Remuneration Committee

The Remuneration Committee comprises a non-executive Director, namely Mr. HUANG Kun, an executive Director, namely Ms. LI Huamin, and three independent non-executive Directors, namely Ms. DONG Li, Mr. SHI Zi and Mr. HAN Xiaojing. Mr. HAN Xiaojing is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company. The Remuneration Committee's duties and powers include, among others:

1. make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

3. determine, with delegated responsibility from the Board, the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

4. make recommendations to the Board on the remuneration of non-executive Directors;

5. consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group, assess performance of executive Directors, approve the terms of executive Directors and service contracts;

6. review and approve the compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

7. review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

8. ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration.

During the period from the Listing Date to December 31, 2021, the Remuneration Committee held two meetings to discuss and consider the following: (1) reviewing and approving the remuneration structure adjustment of the management and executive Directors; and (2) reviewing and approving the details of certain share incentive criteria.

Attendance of the members of the Remuneration Committee at the meetings is set out in the table below:

Name of Directors	Number of attendance/ required attendance
Mr. HAN Xiaojing	2/2
Ms. LI Huamin	2/2
Mr. HUANG Kun	2/2
Ms. DONG Li	2/2
Mr. SHI Zi	2/2

Remuneration of Directors and Senior Management

The remuneration of the Directors of the Company during the year ended December 31, 2021 is set out in Note 37 to the consolidated financial statements.

The remuneration of senior management of the Company for the year ended December 31, 2021 falls under the following bands:

Band of remuneration	Number of individuals
RMB1,000,001 to RMB5,000,000	four
Above RMB5,000,000	one

Directors' Responsibilities for Financial Reporting

The Directors acknowledge their responsibilities for the preparation of the financial statements for the year ended December 31, 2021 which give a true and fair view of the state of affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided the Board with such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the auditor regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report of this annual report.

Dividend Policy

The Company has adopted a dividend policy. The determination to pay dividends will be made at the discretion of the 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 the Directors may consider relevant. The 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 the Company being unable to pay its debts as they fall due in the ordinary course of business. The Company does not have a pre-determined dividend payout ratio and will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic environment.

The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

Risk Management and Internal Control

The Board acknowledges its responsibility to ensure a sound and effective risk management and internal control systems, maintaining timely and effective communication with the management in terms of the progress and achievements of relevant works. Under this framework, the management is primarily responsible for the design, implementation, and maintenance of internal controls, while the Board and the Audit Committee oversee the actions of the management and monitor the effectiveness of the controls that have been put in place.

The risk management and internal control systems are designed to achieve business objectives and safeguard assets against unauthorized use or disposition; to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and to ensure compliance with the Listing Rules, the relevant legislations and regulations. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance that there will be no material misrepresentation or losses.

The Board is responsible for evaluating the nature and extent of the risks the Group is willing to take in achieving strategic objectives and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems as well as overseeing management of the Group in the design, implementation and monitoring of the risk management and internal control systems. The Board periodically receives (at least once a year) reports from the Audit Committee regarding financial, operational and compliance controls, as well as the establishment, review and assessment of the internal control and risk management functions of the Group. All significant risks are reported to the Board. The Board will also evaluate the corresponding risks and the response plan. The Group would review, among other things, adequacy of resources, staff's qualifications and experience, training programs and budget of our accounting, internal control and financial reporting functions.

The Group' senior management and the Audit Committee is authorized by the Board to be in charge with the organization and implementation of the risk management and internal control systems of the Group and be responsible for establishing the risk management and internal control systems, standardizing the organization, authorization, responsibilities, procedures and methods of the risk management and internal control systems and also responsible for ongoing monitoring of the risk management and internal control systems of the Group, and makes periodic reports to the Board regarding the status of the risk management and internal control systems of the Group.

The day-to-day departmental operations are entrusted to individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time. Each department is also required to keep the Board informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis.

Furthermore, our internal audit and newly-established Internal Control Department have played an important role in monitoring the internal control and risk management of the Company.

The Company has established an information disclosure policy and regularly reminded the directors and employees of due compliance with all policies regarding inside information. To ensure adequate attention to whistleblowing, the Company has established a reporting mechanism to handle and discuss internal whistleblowing of financial, operational, internal control and fraud issues, where major internal control deficiencies or whistle-blowing issues will be submitted to the Audit Committee.

Briefing session and training are also held regularly for the Director, officers and employees to facilitate their understanding and compliance with the policy.

During the Reporting Period, we have voluntarily engaged an independent internal control consultant to further enhance our internal control system and risk management process. The internal control consultant helped us to identify inherent risks and perform review procedures over selected areas of our internal controls at both the entity-level and the business process level, including sales and receivables, production and inventory, procurement and payables, financial reporting and disclosure, marketing, research and development, budget, tax, expense, human resource, and general controls of information system, etc. The consultant has made recommendations for improvement and helped us to set up the control self-assessment system. The Board will continue to work with the management to discuss and follow-up on the status of remediation of the internal control weaknesses and to monitor the risks of the Group in the future.

For the year ended December 31, 2021, the Audit Committee and the Board had performed a review on the effectiveness of the Group's risk management and internal control system, including, but not limited to (i) the changes in the nature and extend of significant risk and the Company's ability to respond to changes in its business and the external environment; (ii) the scope and quality of management's ongoing monitoring of risk and the internal control systems; (iii) the extent and frequency of communication of monitoring results between the Audit Committee and the Board which enable them to assess the internal control of Company and the effectiveness of risk management; (iv) the significant control failures or weaknesses that have been identified; and (v) the effectiveness of the Company's processes for financial reporting and Listing Rules compliance. The scope of such review covers the adequacy of resources, qualification and experience of staff performing the Group's accounting and financial reporting functions and their attitude and training arrangement on the internal control of the Group. No significant areas of concern that might affect the financial, operational and compliance controls, and risk management functions of the Group were identified by the Audit Committee and the Board. The Board was of the view that the Company's risk management and internal control systems, including financial, operational and compliance controls, were effective and adequate during the Reporting Period.

Auditor's Remuneration

The auditor's approximate remuneration in respect of the audit and non-audit services provided to the Company for the year ended December 31, 2021 is as follows:

Type of services	Amount
	(RMB' 000)
Audit services	3,500
Non-audit services:	
– Tax advisory	2,583
– Environmental, social and corporate governance advisory	228
Total	**6,311**

Note: The services do not include those rendered by the auditor as reporting accountants in connection with the initial public offering of the Company during the year.

Joint Company Secretaries

Mr. ZHU Lingbo ("**Mr. Zhu**"), a joint company secretary, senior vice president and board secretary of the Company, is responsible for making recommendations to the Board on corporate governance matters, and ensuring compliance with the policies and procedures of the Board and applicable laws, rules and regulations.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. CHU Cheuk Ting (appointed in May 2021 and resigned in September 2021) and Ms. HO Wing Tsz Wendy ("**Ms. Ho**") (appointed in September 2021), representatives of Corporate Services of Tricor Services Limited (a corporate service provider), as another joint company secretary of the Company to assist Mr. Zhu in performing his duties as the company secretary of the Company. The primary corporate contact person of Ms. Ho at the Company is Mr. Zhu, one of the joint company secretaries of the Company. In connection with the joint company secretaries arrangement, the Company has been granted by the Stock Exchange a waiver from strict compliance with the qualification requirement of company secretary under the Listing Rule for Mr. Zhu, which shall last for three-year and will be revoked immediately if and when Ms. Ho 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 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.

During the year ended December 31, 2021, Mr. Zhu and Ms. Ho had undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Communication with Shareholders and Investor Relationship

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance, and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information on the Company for the Shareholders and investors to make informed investment decisions.

The annual general meeting provide opportunity for Shareholders to communicate directly with the Directors. The chairman of the Company and the chairmen of the Board Committees of the Company will attend the annual general meeting to answer Shareholders' questions. The auditor will also attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies, and auditor's independence.

To promote effective communication and to build an inter-relationship and communication channel between the Company and the Shareholders, the Company adopts a Shareholders' communication policy and maintains a website at www.angelalign.com, where the up-to-date information on the Company's business operations and developments, financial information, corporate governance practices, and other information are available for public access.

Shareholders' Rights

To safeguard the Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

The Articles of Association has been amended and restated with effect from the Listing Date.

Convening an Extraordinary General Meeting and Putting Forward Proposals

Any one or more Shareholder(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition 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, to require an extraordinary general meeting to be convened by the Company for the transaction of any business specified in such requisition; and such meeting shall be held within 21 days after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting to be held within a further 21 days, the requisitionist(s) himself/herself (themselves) or any of them representing more than one-half of the total voting rights of all of them may do so in the same manner 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 Board to convene such general meeting shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions in the Articles of Association or the Cayman Companies Acts for Shareholders to propose new resolutions at general meetings. Shareholders who wish to propose a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board may send their enquiries to the Office of the Board at the Company's headquarters through telephone at +86 (21) 5656 1919 and email at investors@angelalign.com.

Amendments to Constitutional Document

Save for the Articles of Association of the Company conditionally adopted on May 20, 2021 with effect from the Listing Date and the proposed amendments set out in the announcement of the Company dated March 24, 2022, there has been no change in the Articles of Association of the Company since the Listing Date and up to the date of this annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About the ESG Report

Angelalign Technology Inc. (the "**Company**") and its subsidiaries (the "**Group**" or "**We**") hereby release the Environmental, Social, and Governance (ESG) 2021 report (the "**ESG Report**") to present our ESG strategy, philosophy and practices.

Report scope

The ESG Report is an annual report dated from January 1, 2021 to December 31, 2021 (the "**Reporting Period**"). To ensure the completeness and coherence of the narrative, some of the contents may be beyond the above timeframes. Besides, the environmental KPIs (Key Performance Indicators) only cover our production center in Wuxi (無錫). Other information and KPIs disclosed in the ESG Report cover the Company and its subsidiaries, which is consistent with the coverage of the Annual Report.

Data description

The relevant data and cases of the ESG Report are from our internal statistical reports or official documents, and the amount of currency involved is denominated in RMB.

Reporting principle

The ESG Report is prepared in accordance with the requirements of "Environmental, Social and Governance Reporting Guide" (環境、社會及管治報告指引) ("**ESG Guide**") in Appendix 27 to the Main Board Listing Rules (主板上市規則) of The Stock Exchange of Hong Kong Limited, and in the following reporting principles:

- **Materiality:** We identify important ESG issues through stakeholder engagement and materiality assessment, and make targeted disclosures in the ESG Report;

- **Balance:** The ESG Report faithfully presents our environmental and social performance;

- **Quantitative:** The ESG Report has disclosed the standards, methods and sources of conversion factors used for reporting emissions and energy data;

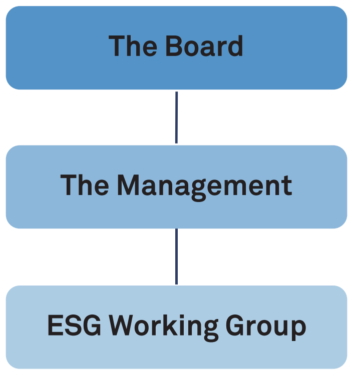
- **Consistency:** It is the first time that we have released the ESG Report. We have confirmed the statistical method of KPIs and explained it in the ESG Report. We will adopt the statistical method in subsequent years.

ESG Management

We are fully aware of the importance of sustainable development and actively integrate the ESG factor into our business strategy and daily operations.

ESG Governance structure

We have established a tertiary ESG governance structure consisting of the Board of Directors, the Management Team, and the ESG working group to implement and monitor ESG work from top to bottom.



Tertiary ESG Governance Structure of Angelalign

➢ ***The Board***

The Board of Directors is the ultimate decision-making body for ESG management, and its main responsibilities are as follows:

- Formulating ESG management policies and strategies;
- Assessing, prioritizing and managing material ESG risks and opportunities;
- Ensuring the establishment of appropriate and effective ESG risk management and internal control system that are aligned with actual business conditions;
- Setting ESG-related objectives and reviewing our performance against the objectives on a regular basis;
- Approving Annual ESG Report.

Since listing on June 16, 2021, the Board has held two panel discussions on ESG matters: in August, we engaged a third-party professional institution to share ESG management and advanced domestic and foreign practices with the Board, and carried out in-depth discussions in conjunction with our ESG issues; in December, we conducted an overall review of our ESG work and performance in 2021, assessed the importance of each ESG issue, reviewed the setting and implementation of ESG objectives, and formulated plans for ESG priorities for the coming year.

➢ ***The management***

The management is responsible for advancing ESG management and reporting. The main responsibilities include:

- Formulating ESG management policies and procedures, setting specific ESG indicators, and designating relevant persons and managers;
- Formulating the annual ESG plan, organizing the ESG working group to carry out ESG work, and providing guidance in this respect;
- Reviewing the report of the ESG working group on a regular basis, tracking the implementation of ESG work, and reporting it to the Board;
- Organizing and carrying out ESG-related communication, consultation and training activities to enhance the ESG awareness of all employees.

➢ ***ESG working group***

The ESG working group is comprised of main functional departments and is responsible for implementing the daily management of ESG work. The main responsibilities include:

- Implementing ESG management policies approved by management team, carrying out ESG management work, and reporting to the management team;
- Promoting the daily management of each indicator in the ESG Report;
- Collecting data and information on ESG KPIs on a regular basis and ensuring their completeness and accuracy;
- Preparing Annual ESG Reports.

Stakeholders Engagement

We firmly believe that effective stakeholder engagement holds the key to our long-term development. Our key stakeholders include governments and regulators, shareholders and investors, employees, clients, suppliers, communities and the media. Upholding the corporate value of "Client-first, Integrity, Conscientiousness, Cooperation and Innovation", we have actively established a diversified communication mechanism, including but not limited to online and offline communications, work visits, opinion surveys, and continuous and effective communication with internal and external stakeholders. The mechanism enables us to promptly understand and respond to various stakeholders' demands and expectations and understand their opinions and suggestions on our sustainable strategy and performance.

Stakeholders	Expectation and Concerns	Communication Channels
Governments and regulators	Compliance management Strict enforcement of regulatory requirements Anti-corruption	Investigation into institutions Matters reporting Official documents exchange
Shareholders and investors	Corporate governance R&D innovation Intellectual property	Information disclosure General meeting Reception Roadshow
Employees	Employee rights and benefits Remuneration and benefits Talent development Occupational health and safety	Employee satisfaction survey Employee training Internal announcements and mails of the company Employee care activities Employee publication
Clients	Product quality and safety Protection of consumer rights Compliance publicity	Client investigation Satisfaction survey Channel for complaints
Suppliers	Business ethics Win-win cooperation	Business visits Regular meetings Academic exchange conference
Communities and media	Contribution to community development Healthy community Raising public awareness	Public service Volunteer activity Media interview and communication

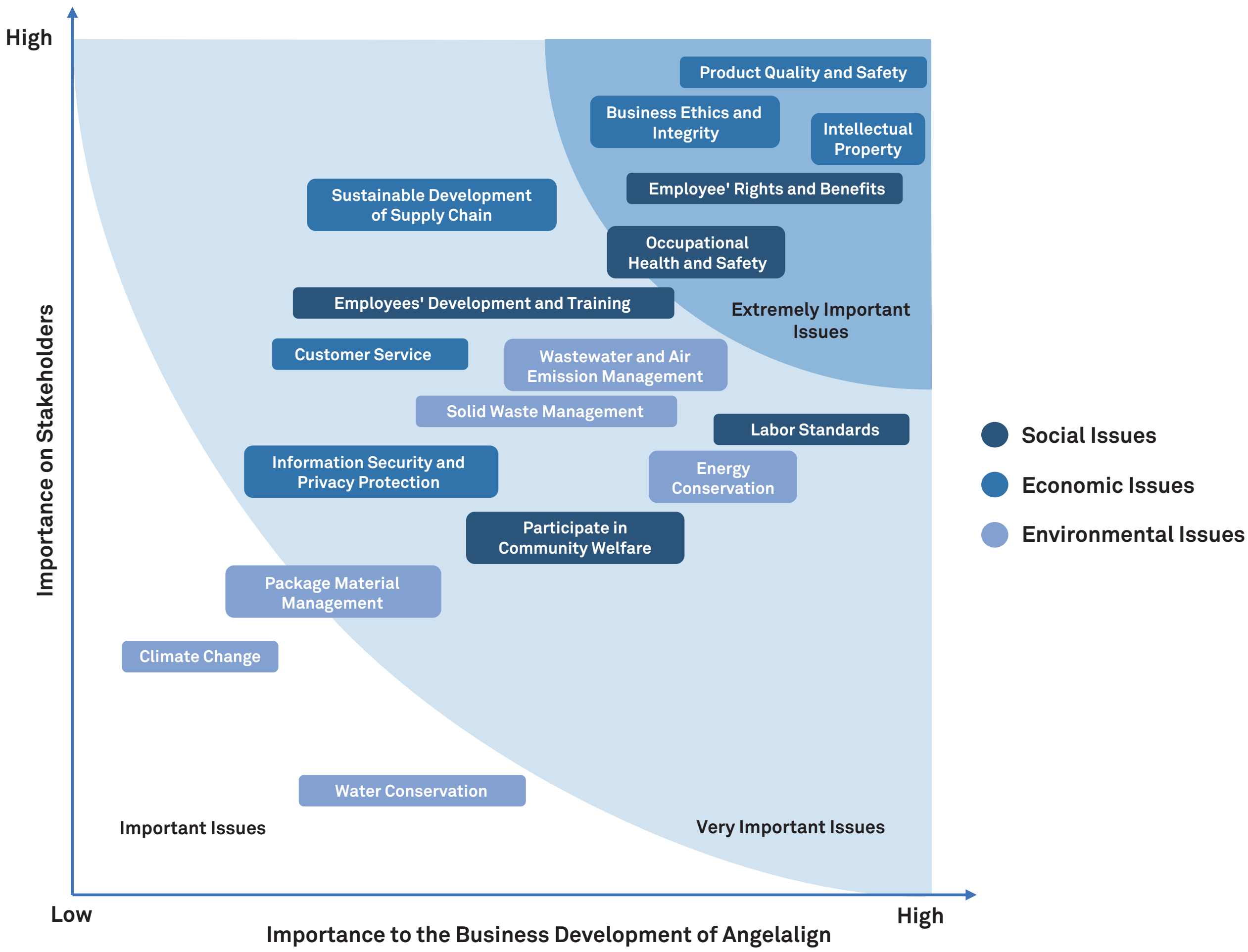
Materiality assessment

To clarify the key priorities of ESG work, according to the "materiality" principle specified in the ESG Guide, we took the following steps to conduct a materiality assessment, identify important ESG issues in 2021, and took them as the guide to our ESG work. The ESG Report also disclosed responses by the importance of each ESG issue:

Step 1 – Identifying ESG issues: According to the requirements of the ESG Guide, we identified 17 ESG issues relevant to us by comprehensively considering the characteristics of the industry as well as our operational characteristics and strategic direction;

Step 2 – Assessing the materiality: We invited key internal and external stakeholders to assess the materiality of ESG issues through online questionnaires; we conducted analysis from the two dimensions of "importance to the business development of Angelalign" and "impact on stakeholders" to form a materiality assessment matrix to prioritize ESG issues;

Step 3 – Verifying the assessment results: With reference to the opinions of the third-party, our management team discussed the materiality assessment results and reported them to the Board and finally determined the importance of each ESG issue.



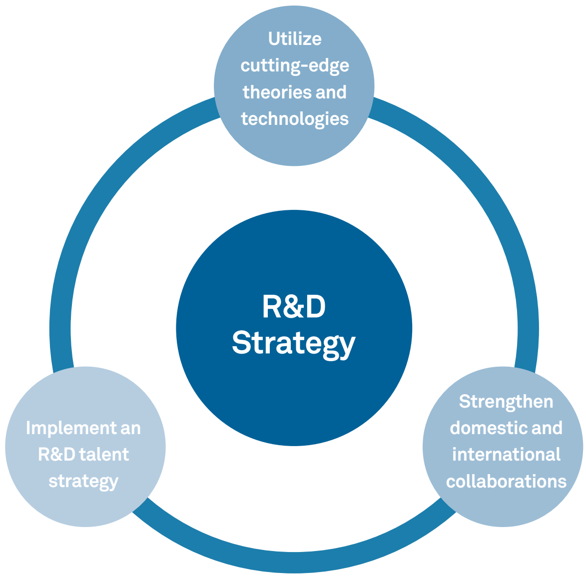
Materiality Assessment Results of Angelalign

Product Liability

We always practice the mission that "Bring people confident smiles with technologies", with the focus on product innovation, quality control, client service and responsible procurement, to offer clients better products and services.

Innovation-driven

As a technology-driven company, we always implement the "Three Major Research and Development ("**R&D**") Strategies", combine multidisciplinary R&D efforts, intensify investment in multi-disciplinary R&D, and seek continuous innovation and diversified clear aligner solutions to create value for clients.



Three major R&D strategies of Angelalign

Starting with platform construction and system design, we have established the Digital Stomatology Research Institute, developed various technologies and data platforms, and granted cash rewards and commendations to patent inventors in accordance with Provisions of the Measures for Patent Award of Angelalign (時代天使專利獎勵辦法). These moves aim to kindle the enthusiasm of the R&D team and inject a constant stream of impetus into technological innovation and development.

Intelligent manufacturing

We have established a 3D printing base for dental appliances, built automated production lines, which lays the foundation for mass production. Relying on advanced 3D printing technology, we customize high-quality, high-tolerance clear aligners under the "mass customization" model that minimizes human errors throughout production process. Our "mass customization" process generally includes four procedures:

1. 3D printing of teeth molds depicting the future position of the patient's teeth based on the approved treatment plan;

2. Aligner fabrication by pressure-forming polymeric sheets over each teeth mold;

3. Cutting, trimming and quality check of the clear aligners;

4. Sorting and packing of all finished aligners based on the designated identification codes in our automatic sorting system, and shipped to the prescribing dental professional of such patient.

To continuously improve the precision of product, we have composed a method to evaluate the precision of 3D printing for teeth molds and developed high-precision cutting technology for clear aligners based on six-axis robots. We also use the manufacturing execution system ("**MES**") to monitor in real-time the entire production process in which raw materials are converted into finished products, record important input data for each procedure, and integrate the MES with automated manufacturing equipment, so as to achieve flawless, agile manufacturing and enhance production efficiency.

In 2021, we had won a number of awards and honors, and been recognized by various authoritative organizations. Our production center in Wuxi has been awarded the titles of "Little Giant in Jiangsu Province" (江蘇省小巨人) and "2021 Provincial Key Industrial Internet Platform" (2021年度省重點工業互聯網平台) by the Industry and Information Technology Department of Jiangsu, and the title of "2021 Wuxi Smart Factory" (2021年無錫市智慧工廠) by the Wuxi Municipal Bureau of Industry and Information Technology.

Industry-academia-research cooperation

We carry out cooperation among industry, academia as well as research organizations and attach great importance to scientific achievements and the industrialized application. Since 2014, we have organized annually the A-Tech Forum, which invites authorities and experts from all over the world to witness cutting-edge development and technological innovation of digital orthodontics and exchange ideas on the latest development and technology of stomatology. A-Tech Forum has become the platform for orthodontists in the clear aligner area to exchange their ideas on the advanced R&D achievements.

2021 A-Tech Forum

In addition, since 2015, through the A+ Plan, we have cooperated with China's most renowned higher education institutions, dental hospitals, medical schools and other research institutions in promoting the innovation in invisible appliance products, technologies and materials. We have made ground-breaking innovations in a number of fields.

- Established ZJU-Angelalign Intelligent 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 promoting digital orthodontics and the application of artificial intelligence technologies in the dental and oral areas;

- 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;

- Established a Translation Medicine Research Platform on Oral Biomechanics and Artificial Intelligence (口腔力學生物學與人工智能轉化醫學研究平台) 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) to further explore the fundamental mechanisms of biomechanics in tooth movement, leveraging big data and artificial intelligence technologies;

- Established a digital orthodontic treatment and training center in collaboration with Sichuan University Huaxi Stomatology Hospital (四川大學華西口腔醫院);

- Established a digital orthodontics testing center in collaboration with Nanjing Stomatology Hospital (南京口腔醫院), etc.

Quality control

We attach great importance to the product quality. In strict compliance with Product Quality Law of the People's Republic of China (中華人民共和國產品質量法), the Provision for Supervision and Administration of Medical Devices (醫療器械生產監督管理辦法), Good Manufacturing Practice for Medical Devices (醫療器械生產質量管理規範) and other relevant laws and regulations, we implement quality control throughout the full cycle of raw material procurement, product design and development, production and sales to offer clients reliable products.

Based on the requirements of ISO9001 quality management system, ISO13485 medical device quality management system, Good Manufacturing Practice of Medical Products ("**GMP**") and other exporting countries' standards and regulations, we have built a product life cycle quality management system covering organization structure, product realization, resource provision, and continuous improvement that applicable to us. We ensured quality control in each link and tracked it throughout the entire process, laying the foundation for product quality assurance.

➢ ***Organization structure***

General manager	Formulate quality objectives, conduct management review, and keep improving the quality management system.
Management representative	Responsible for the planning of the quality management system to meet the requirements of the quality management system.
Head of each department	Develop a quality management plan that integrates product requirement confirmation, division of responsibilities and authorities, and document record filing.

➢ ***Product realization***

Product design and development	Refine the control requirements of the design and development process, put products into production after the design and development are reviewed, verified, confirmed and approved, and retain design and development documents for each medical device type or family.
Raw materials procurement	Lay down stringent regulations on supplier access audit, process audit, periodic evaluation, and audit withdrawal. For specific management measures, please refer to the section headed "Responsible procurement".
Production and service control	Regulate the overall requirements and implementation methods of production and service control, conduct strict monitoring and measurement of the production process, work out standards for product reception, standardized labeling and packaging, and clarify the relevant requirements for release, delivery and post-delivery.
Risk management	Implement the product risk management plan in the product design and development stage, estimate, assess, manage, monitor and record the potential risks of products, and continue to conduct risk assessment after products are launched, and archive the risk records.

➢ ***Resource provision***

Human resource	Based on technical development and business needs, organize employees to carry out quality training on a regular basis and evaluate the effectiveness of training to raise employees' awareness of quality risk management.
Infrastructure	Strengthen the daily maintenance and management of infrastructure including workshops, offices, production equipment, monitoring and measuring instruments, production tools, office supplies, software and supporting services, to lay a solid foundation for ensuring product quality.
Work environment	Specify the requirements for the working environment and clean areas to maintain the cleanliness required for the production process and ensure product quality in an all-round way.

➢ ***Continuous improvement***

To maximize product quality, we manage the entire product life cycle, and assess the effectiveness of the implementation of the quality management system by means of feedback collection, client complaint handling, internal audit, non-conforming product control, data statistical analysis, and corrective and preventive measures. With these measures, both the quality management system and product quality are improved.

We carry out the annual internal audit of the quality management system actively, and rectify any non-compliance as soon as it is discovered. We review non-conforming products in time and take corrective measures to prevent unintended use or delivery.

Customer service

We uphold the corporate value of "Client first, Integrity, Conscientiousness, Cooperation, Innovation", and pay close attention to clients' opinions and feedback, striving to offer clients satisfactory services. On the basis of complying with Law of the People's Republic of China on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法) and other laws and regulations, we have formulated relevant internal policies such as Angelalign Specification on Complaint Handling (時代天使投訴處理規範) and Policy on the Management of Product Recalls (產品召回管理制度), which standardize complaint handling, tracing and recall procedures. These policies serve as a guarantee that the problems reported by clients can be solved correctly, timely and effectively and the rights and interests of consumers can be protected.

Customer complaints handling

Various channels such as WeChat groups, client communication systems, corporate hotlines, and corporate client service emails keep us informed about client needs and expectations. According to the Angelalign Specification on Complaint Handling (時代天使投訴處理規範), we classify and manage the complaints by different dimensions such as the complaint severity, subject and potential risks, striving to respond to and handle all complaints in time.

Meanwhile, we regularly organize and hold complaint analysis meetings to summarize complaints in time and update complaint handling techniques, striving to improve service standards. We strengthen the business skills of employees and service quality, continuously refine the complaint management mechanism, and improve client satisfaction and trust.

During the Reporting Period, we received a total of 2,062 complaints, with a handling rate of 100%.

Product tracing and recall

We have established a comprehensive product tracing system where the production records of each batch of products can be traced back to raw materials, equipment, personnel and other information. In case of client complaints and adverse events, we are able to identify the cause and take measures quickly.

According to the Measures for the Administration of Medical Device Recalls (醫療器械召回管理辦法), we have formulated the Policy on the Management of Product Recalls (產品召回管理制度) stipulating the requirements and workflow of product recalls. Under the policy, when any form of product change or quality problem occurs, we are able to notify the clients in time and launch product recalls if necessary.

During the Reporting Period, we had no product subject to recalls for safety and health reasons.

Responsible procurement

Adhering to the procurement principles of efficiency, service and quality balance, we cooperate with upstream and downstream stakeholders actively to construct a healthy, safe, green and sustainable supply chain.

The Policy on Supplier Audit Management (供應商審核管理制度) and the Procurement Management Policy (採購管理制度) set forth corresponding management provisions on suppliers' approval, process audit, periodic evaluation, termination and other stages, to ensure the rationality and correctness of procurement objects and the standard ability of the procurement process.

As at the end of the Reporting Period, we had a total of 195 long-term cooperative suppliers. The following table shows the number of suppliers by region:

Region	Number
East China	148
South China	10
North China	22
Other regions	15

➢ ***Approval***

Quality is always at the center of our supplier selection. We classify suppliers by material type, service type and the degree of impact on final products, and manage suppliers with pertinence, to ensure that they are able to deliver satisfactory products and services.

In the screening stage, we require all potential suppliers to provide relevant documents such as business licenses and quality certification, and prioritize selecting reputable and environment-friendly suppliers in the industry. Furthermore, we conduct strict on-site audits on key suppliers whose products directly affect the quality, main features and performance indicators of final products. Only after the audits are approved, the suppliers can be included in the list of qualified suppliers.

➢ ***Process audit***

To ensure the quality of products and services provided by suppliers, we conduct process audits of purchased materials and services, and make on-site visits to suppliers as appropriate. The audit performance will be recorded in the Supplier Performance Appraisal Form (供應商績效評價表) or On-site Supplier Performance Appraisal Form (供應商現場審核檢查表).

➢ ***Periodic evaluation***

We conduct a comprehensive assessment of suppliers every year. We review and analyze the quality of the materials and services supplied, the technical level, and the delivery capacity based on the Supplier Performance Appraisal Form (供應商績效評價表) and fill in the Supplier Re-assessment Record Form (供方再評價記錄表). In case that the comprehensive score of the supplier performance appraisal is lower than our required value, we will formulate a supplier development plan based on suppliers' performance, put forward reasonable suggestions, and urge them to make rectifications within the prescribed time limit. In case that suppliers have material defects that may affect the quality of the purchased items, we will consider suspending the purchase and assess the risk to which products are exposed due to the use of the purchased items.

➢ ***Termination***

When a supplier is no longer suitable for quality reasons, its own reasons or other reasons, we will conduct a termination review with the supplier and delete it from the supplier list after approval.

Compliance Operation

We maintain the bottom line of business ethics while strictly complying with laws and regulations. We integrate the risk control measures including maintaining integrity and honesty, advertising, and information security into the entire operation process, and continuously improve the construction of the compliance system, to lay a solid foundation for our sustainable development.

Business ethics

Sticking to the concept of business integrity, we strictly comply with the laws and regulations on anti-corruption, anti-extortion and anti-fraud, including but not limited to Criminal Law of the People's Republic of China (中華人民共和國刑法), Anti-Unfair Competition Law of the People's Republic of China (中華人民共和國反不正當競爭法) and the Interim Provisions on Banning Commercial Bribery (關於禁止商業賄賂行為的暫行規定), to put an end to any form of corruption and bribery. During the Reporting Period, we had no corruption lawsuits.

We attach great importance to fostering incorruptible culture, while requiring the Board, the management and all employees to maintain a law-abiding, incorruptible, honest and self-disciplined personal conduct and work style. In addition to providing new employees with the anti-corruption and business ethics training every year, we issue the Monthly Compliance Questionnaire (月度合規問卷) to employees in key departments every month and require them to self-examine, so as to understand our core values and ethical bottom line. This further strengthens their compliance awareness and risk identification capabilities.

We advocate a corporate culture of integrity, honesty, fairness and impartiality. We have established a monitoring system for implementing systematic anti-bribery and anti-corruption procedures and policies, reduced the risk of violations of laws and regulations by employees and enterprises, and fostered a positive and transparent working atmosphere. We have signed the Integrity Practice Commitment (廉潔從業承諾書) with all employees, and specified in the Sunshine Practice Management Policy (陽光從業管理制度) that we prohibit any form of bribery, solicitation and acceptance of bribes by employees, requiring them to properly handle conflicts of interest. In addition, we maintain a high level of honesty and professional ethics for the cooperation with suppliers, and sign the Sunshine Agreement (陽光協議) with them to jointly build up anti-corruption defense line.

We set up reporting email addresses and telephone numbers to support real-name or anonymous reporting of illegal and dishonest acts, and keep the reporting information and the identity of the whistleblowers confidential. After receiving the report, the relevant departments will launch an investigation within three working days. Once the reported matter is verified, we will deal with it seriously, including but not limited to fines, demerits, termination of labor contracts, and handing it over to judicial authorities.

Responsible marketing

Fair dealing and truthful advertising are crucial to maintaining our reputation. We rigorously implement the requirements of relevant laws and regulations such as the Advertisement Law of the People's Republic of China (中華人民共和國廣告法) and the Interim Measures for the Administrative of Censorship of Advertisements on Drugs, Medical Devices, Dietary Supplements and Formula 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), to avoid misleading the clients due to exaggeration or false dissemination, protect clients' rights and interests, and maintain our brand image.

Advertising review process

We lay down and implement a strict advertising review process, which is controlled from two dimensions:

- All materials to be published by us shall be pre-reviewed and final-reviewed by legal department before use.

- We have strict requirements on promotional materials including those released by partners such as third-party platforms and self-media. The promotion and launch of all promotional materials shall be in accordance with our requirements before use.

In terms of brand logos, we always pay attention to the changes in the latest laws and regulations, and update and release the Opinions on the Use of Brand and Product Logos (品牌及產品標識使用意見) and Opinions on the Use of Technical Logos (技術類標識使用意見) based on the practice of the Company, to ensure the standardized and orderly use of brand logos.

Information security

We pay great attention to the protection of the information of our clients and business. On the basis of strictly abiding by Civil Code of the People's Republic of China (中華人民共和國民法典), Cybersecurity Law of the People's Republic of China (中華人民共和國網絡安全法), Personal Information Protection Law of the People's Republic of China (中華人民共和國個人信息保護法) and other laws and regulations, we have established a sound information security management system, and have been certified with ISO/IEC 27701 Privacy Information Management System and ISO/IEC 27001 Information Security Management System. Our core business systems have been certified as Grade III of Graded Protection of Information System (國家信息系統安全等級保護).

We have formulated the Regulations on Data Security Management (數據安全管理規定) to systematically regulate data generation and collection, storage, use, processing, preservation, transmission, destruction, and backup. We have also formulated the Regulations on the Security Management of Information Assets (信息資產安全管理規定) to divide information into different categories based on their importance and confidentiality, and specify the requirements for the acquisition, processing, transmission and storage of each category of information.

We put into practice the system of information security and privacy management, and ensure information security from all aspects, to avoid business interruption or loss caused by information system failure, data loss, and sensitive information leakage. Meanwhile, we have formulated relevant internal policies such as the Manual for Information Security and Privacy Management (信息安全和隱私管理手冊) and the Implementation Rules for Data Backup (數據備份實施細則), identified and assessed information risks, implemented dynamic management of information security and privacy, and standardized data backup and security management of information recovery. These efforts contribute to the confidentiality, integrity and availability of all types of data. On WeChat Mini Programs, apps and other online platforms, we publish the personal privacy protection policy in concise and clear language, and in a conspicuous manner to remind clients of reading the policy that expresses the purpose, method and scope of our collection and use of personal information as well as measures for personal privacy protection.

We require all employees to consciously implement various information security regulations and report information security incidents and security risks in time. We conduct pre-job training on data security for new employees, and require all employees to receive regular information security training, to improve their awareness of information security and strengthen the implementation of relevant information security policies.

Intellectual property

As an innovation-driven company, the protection of intellectual property is of paramount importance to us. Our intellectual property mainly includes trademarks, patents and copyrights. As of December 31, 2021, we had registered 319 trademarks, 117 patents and 16 software copyrights.

The Legal Department is in charge of intellectual property management, responsible for formulating and implementing relevant policies for intellectual property management, and management of intellectual property. We have established an intellectual property protection system through a combination of contractual restrictions, confidentiality procedures and intellectual property registration. According to Patent Law of the People's Republic of China (中華人民共和國專利法), Trademark Law of the People's Republic of China (中華人民共和國商標法) and other relevant laws and regulations on intellectual property and trademarks, we have enacted the Control Procedures for the Acquisition of Intellectual Property (知識產權獲取控制程序), the Control Procedures for the Maintenance of Intellectual Property(知識產權維護控制程序), the Procedures for the Dispute Resolution of Intellectual Property (知識產權爭議產權處理程序), the Measures for Trademark Management (商標管理辦法) and other relevant internal policies, to promote standard, systematic and refined use and management of intellectual property.

Green Operation

Protecting the ecological environment is one of the Group's key responsibilities. We strictly comply with Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), Law of People's Republic of China on Environmental Impact Appraisal (中華人民共和國環境影響評價法), Environmental Protection Tax Law of the People's Republic of China (中華人民共和國環境保護稅法) and other environment-related laws and regulations, and have set up a Safety and Environmental Protection Department to manage our environmental affairs. Aiming at "strengthening green operations, promoting energy conservation and emission reduction, reducing resource consumption and ensuring compliance with emissions", we actively fulfill our environmental protection responsibilities, promote energy conservation and emission reduction, and integrate the concept of sustainable development into our daily production and operations.

Conserving resources

The main resources in our production include electricity, water and packaging materials. In order to reasonably improve the utilization of resources and reduce the waste of available energy and resources, we have developed Energy and Water Conservation Management System (節能節水管理制度) to regulate the use of resources and advocate the construction of a conservation-oriented enterprise.

In line with the principle of environmental protection and conservation, and taking into account the customers' experience, we constantly improve our product packaging design to optimize the use of packaging materials and reduce pollution to the environment.

We actively upgrade our production equipment in an effort to effectively reduce energy consumption in the production process, and actively promote a green office in order to reduce the environmental impact generated in our daily operations by taking measures including but not limited to:

- Holding waste classification publicity and education activities;
- Encouraging employees to reduce the use of disposable tableware;
- Using LED energy-saving lights in office areas;
- Promoting the double-sided use of office paper to effectively avoid waste;
- Posting initiatives to conserve water and electricity in prominent locations.

Our key performance indicators for the use of resources during the Reporting Period are as follows:

Use of Resources	2021
Electricity (MWh)	5,557.1
Total indirect energy (MWh)	5,557.1
Total energy consumption (MWh)	5,557.1
Energy consumption intensity (MWh/RMB mn in sales revenue)	4.4
Total water consumption (t)	27,002.6
Total water consumption intensity (t/RMB mn in sales revenue)	21.3
Total packaging materials (t)	307.5
Cartons (t)	259.2
Plastic (t)	48.3
Packaging materials intensity (t/RMB mn in sales revenue)	0.2

Notes:

1. Our water sources are all municipal water, so we are assured of obtaining adequate and suitable water.

2. Since there are no other environment and natural resources involved in our operations, A3 (The Environment and Natural Resources) and A3.1 (Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them) are not applicable.

Emission reduction

In accordance with Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Water Pollution Prevention and Control Law of the People's Republic of China (中華人民共和國水污染防治法), Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境噪聲污染防治法) and other relevant laws and regulations, we strictly control the emissions of wastewater, air emission, solid waste and noise, and regularly employ third party professional testing institutions to evaluate the emission levels, so as to reduce the negative impact on the environment as much as possible on the basis of ensuring that the emission standards are met.

Wastewater and air emission management

Our wastewater is mainly generated from production. We have built a wastewater treatment station on our premises, where all our production wastewater shall be treated to meet the standards before being discharged into the municipal sewerage network.

Our main air emission are non-methane hydrocarbons ("**NMHC**") from the cleaning process and particulate matter from the grinding process, all of which are treated to the standard by air emission treatment facilities and then discharged. In order to keep track of the operation status of our air emission treatment facilities in a timely and accurate manner, we have installed "monitoring and alarm devices" on such facilities, which are connected to cell phones to enable abnormalities to be detected in a timely manner and corresponding measures to be taken at the first time.

Meanwhile, in order to reduce the production and emission of NMHC, in addition to regular maintenance of the air emission treatment facilities, we continue to explore new materials and technologies, and carry out a series of improvement measures in the two major directions of "source control" and "facility upgrades":

- **Source control:** Using low volatility cleaning agents instead of high volatility cleaning fluids to reduce NMHC generation and emission;

- **Facility upgrades:** Installing "secondary activated carbon" air emission treatment facilities and using high-performance activated carbon to improve the collection and treatment efficiency of NMHC;

Our key performance indicators for wastewater and air emission for the Reporting Period are as follows:

Emissions	2021
Wastewater volume (t)	21,618.1
NMHC (t)	0.3
Particulate matter (t)	0.1

Note: Our total emissions of NMHC and particulate matter are equal to the emission rates of NMHC and particulate matter multiplied by the operating hours of the waste treatment facilities during the Reporting Period where the emission rates were tested by a third-party professional testing institutions.

Waste management

Our solid waste is mainly derived from hazardous and non-hazardous wastes generated in the production and R&D processes. By formulating and implementing systems such as the Solid Waste Management System (固體廢物管理制度) and Solid Waste Operation Guideline (固體廢物作業指導書), we have clarified and standardized the waste disposal process and methods. When disposing of waste, relevant responsible personnel are required to write down the material name, packaging specifications, chemical nature, composition and content, waste form and other elements in a conspicuous position, and strictly classify and store the waste in designated special waste storage rooms. After that, we entrust professional service organizations which have a hazardous waste treatment qualification certificate to collect and treat the hazardous waste uniformly. For non-hazardous waste, we outsource the treatment.

Our key performance indicators for hazardous and non-hazardous waste emissions for the Reporting Period are as follows:

Waste	2021
Total hazardous wastes (t)	592.0
Cleaning waste liquid (t)	511.3
Activated carbon (t)	48.1
Resin drum (t)	32.6
Hazardous waste intensity (t/RMB mn in sales revenue)	0.5
Total non-hazardous waste (t)	233.0
Photocuring model (t)	205.2
Gypsum model (t)	27.8
Non-hazardous waste intensity (t/RMB mn in sales revenue)	0.2

Note: Our hazardous waste types and emissions are derived from the Circulate Forms for Transferring Hazardous Wastes (危險廢物轉運聯單).

Noise management

We strictly comply with Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境噪聲污染防治法) and Emission Standard for Industrial Enterprises Noise at Boundary (工業企業廠界環境噪聲排放標準), regularly monitor the noise conditions and take various timely and effective sound insulation measures to ensure that the noise generated from production workshops and workplaces meets the emission standards, to reduce and prevent the impact of noise on the environment.

Climate change

Global climate change is a constraint to our sustainable growth. We keep a close eye on the impact of climate change trends and the evolution of domestic and international regulations on our industry and businesses.

In order to cope with operational risks arising from extreme weather and natural disasters such as typhoons, heavy rains and floods, we have formulated the Extreme Weather Emergency Response Plan (極端天氣應急預案) to effectively prevent and control the adverse effect brought by possible severe weather in order to ensure the safety of personnel and minimize losses to the maximum extent. During the Reporting Period, we have not experienced any significant impact on our business operations or financial performance as a result of climate change or extreme weather conditions.

Our greenhouse gas emissions are primarily from electricity consumption in our production centers (Scope 2: Energy indirect greenhouse gas emissions). During our production and operations, we strive to improve energy efficiency to reduce greenhouse gas emissions.

Our key performance indicators for greenhouse gas emission for the Reporting Period are as follows:

Greenhouse gas emissions	**2021**
Energy indirect greenhouse gas emissions (Scope 2) (t CO2e)	3,909.4
Total greenhouse gas emissions (t CO2e)	3,909.4
Greenhouse gas emission intensity (t CO2e/RMB mn in sales revenue)	3.1

Note: Greenhouse gas accounting is presented in terms of carbon dioxide equivalents, and the carbon dioxide emission factors of our purchased power are derived from the average carbon dioxide emission factors of the East China regional power grid in China Regional Power Grid Average Carbon Dioxide Emission Factors in 2012 (2012年中國區域電網平均二氧化碳排放因子).

Caring for Employees

Regarding talents as the root of our development, we are committed to providing all our employees with competitive remuneration and benefits, comprehensive and diversified training systems, clear and smooth promotion mechanisms and a harmonious working atmosphere to attract and retain talents.

Recruitment and resignment

We strictly abide by Labor Law of the People's Republic of China (中華人民共和國勞動法), Labor Contract Law of the People's Republic of China (中華人民共和國勞動合同法) and other laws and regulations, and make provisions in our Employee Handbook (員工手冊) for recruitment and hiring, attendance and leave, compensation and benefits, promotion, performance appraisal, equal opportunity, diversity, and anti-discrimination.

We ensure the diversity of talents introduction through various recruitment channels such as campus, internet, headhunting and internal recommendation. On the one hand, we have formulated Recruitment Management System (招聘管理制度)and continue to optimize external recruitment channels and processes based on actual experience in order to improve the efficiency and quality of external recruitment; on the other hand, we have issued Internal Recommendation System (內部推薦制度) to encourage serving employees to recommend suitable candidates.

We consistently promote an equal and fair working atmosphere. When hiring employees, we prohibit any form of discrimination in terms of race, color, religion, gender, sexual orientation, ethnicity, nationality, age, marital status, disability, etc.

We strictly prohibit the employment of child labor and forced labor. In order to ensure that employment is in compliance with Provisions on the Prohibition of Using Child Labor (禁止使用童工規定), our human resources department checks valid identification to confirm the age of applicants when hiring, and conducts background checks on candidates for positions in accordance with the Recruitment Management System to prevent the misuse of child labor.

We strictly follow the procedures for departure (including resignation and dismissal) in accordance with the laws and regulations related to labor contracts to ensure that the rights and interests of employees are not violated.

As at December 31, 2021, we had 2,034 employees, all of whom were full-time.

Employees category		Number of employees	Employee turnover rate
Gender	Male	1,006	12.6%
	Female	1,028	15.0%
Age groups	＜30 years old	1,229	14.0%
	30-40 years old	743	13.3%
	≧40 years old	62	17.3%
Geographical Region	Shanghai	435	13.7%
	Wuxi	984	16.2%
	Other regions	615	10.0%

Note: Employee turnover rate = the number of employees leaving employment during the Reporting Period/(the total number of employees in the Reporting Period + the number of employees leaving employment during the Reporting Period), and the statistical range of the number of leaving employment includes voluntary departures and those who retire and terminate their employment relationship.

Welfare and care

According to the characteristics of different positions and geographical areas, we have established a market competitive remuneration and welfare system based on basic salary, post salary, allowance and performance bonus to attract and retain outstanding talents. In order to better tie performance with business management, we have formulated the Management Measures for Performance Appraisal and Bonus Payment (績效考核及獎金發放管理辦法) to conduct regular performance appraisals for employees in each position and to commend those with excellent performance in various forms, including cash rewards. In parallel, we continue to improve the assessment mechanism and indicators to make performance assessment more scientific and reasonable.

We advocate a "method- and efficiency-oriented working mode", and do not, in principle, encourage employees to work overtime. All employees are entitled to national statutory holidays, annual leave, bereavement leave, wedding leave, maternity leave, personal leave, sick leave and other paid leave.

We care for our employees in a variety of ways, including but not limited to holiday gifts, high-temperature allowance, transportation allowance and afternoon tea. In order to enrich the cultural life of employees and create a pleasant working atmosphere, we actively organize various activities such as holiday activities, staff birthday parties, care for women activities, and annual gathering, in an effort to deepen the communication between staff in various departments, improve team cohesion, and enhance the employees' sense of identity and belonging.

Running around Taihu Lake in Wuxi

Employee birthday party

Talents development and cultivation

To facilitate the formation of talents team and boost business development, we have formulated and implemented the Employee Promotion Policy (員工晉升政策), built a dual-track job ranking system for both the management and the professionals, and clarified the criteria, evaluation and promotion process of different career development channels.

Making it our mission to "provide opportunities and room for the sustainable development of employees", we have built a diversified training system for our employees. Aside from establishing the Training Management System (培訓管理制度), we also offer a wide range of online and offline training opportunities and encourage employees to actively participate in them according to their actual needs. At present, a training mechanism based on the two systems of induction training and on-the-job training has been formed. By integrating internal and external resources, we provide employees with opportunities to improve their professionalism, enhance their professional skills, and help them grow together with us.

Induction training	In order to help employees get familiar with our rules and regulations and corporate culture, quickly integrate into our cultural atmosphere and adapt to working environment, we arrange business training and company rules and regulations training for each new recruit from on boarding day to the end of the probationary period, with a focus on business philosophy, systems and procedures, job responsibilities and other major contents, to accelerate employees' role reversal.
On-the-job training	On-the-job training is conducted by each department according to the actual work needs by developing specific annual training plans and providing flexible and practical business training for in-service employees. External trainings will be organized when necessary to sharpen employees' professional skills and enable them to provide better services to clients. On-the-job training falls in various forms, such as cross-training, business improvement training and training on new specifications and technologies.

On-the-job training for employees

During the Reporting Period, the coverage rate of online and offline employee trainings was 100%, with a total of 114,569 hours of centralized trainings being organized.

Trainings Category	Indicator	2021 Average training hours
Gender	Male	58.1
	Female	54.6
Rank	Management	12.5
	General staff	58.8

Guarding the well-being of employees

In order to create a reassuring working environment for our employees, we have established a sound employee safety management system in accordance with Work Safety Law of the People's Republic of China (中華人民共和國安全生產法), Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法) and other relevant laws and regulations, and in line with the characteristics of our operations. From 2019 to 2021, we did not have any work-related injuries or deaths of employees. During the Reporting Period, we lost a total of 64 working days due to work-related injuries, of which 25 days were due to traffic accidents.

Safety production management

In implementing the safety production policy of "safety first, precaution crucial, and comprehensive management", we have formulated Safety Production Responsibility System (安全生產責任制) to strictly regulate the safety production behaviors and established the Safety and Occupational Health Committee consisting of the Vice President, Safety and Environmental Protection Department and managers of each department to implement and strengthen the supervision and management of safety risks and employees' health in all aspects.

At the same time, we have formulated the Safety Hazard Investigation and Management System (安全隱患排查治理制度) to strictly implement the Safety Production Responsibility System (安全生產責任制), divided accident hazards into general and major categories. We also organized specific staff to carry out investigations of potential accident hazards and management in each production and key areas, covering the eight steps of hazards investigation, hazards registration, hazards report, deadline for rectification, rectification requirements, review and acceptance, accountability, and file establishment for closed-loop management.

The main occupational disease hazards faced by our employees are dust, noise, ionizing radiation, and ethyl acrylate. Based on the principle of "people-oriented, life first", we have installed scientific and effective occupational disease protection devices at workplaces for employees who are exposed to the above occupational hazards, provide them with personal protective equipment in line with national and industry standards, organize regular health checkups and occupational disease checkups for them, and keep abreast of employees' physical conditions to ensure their health.

Safety training drills

We conduct safety education and training and emergency drills for all employees as planned, and strengthen the publicity work on emergency rescue laws, regulations, accident prevention, risk avoidance, disaster avoidance, firefighting, general knowledge of self-rescue and mutual rescue, in order to improve the awareness and emergency response capability of employees and ensure the safety of themselves, as well as equipment, facilities and assets.

Combined with the characteristics of our operations, we put forward clear safety training requirements for main persons in charge, safety management personnel, special equipment operators, special operators and other employees. For other employees, we have built a three-level safety education and training system of "plant – department – group".

Level	Main training content
Plant	• Responsibilities and obligations of employees under the PRC Work Safety Law (中華人民共和國安全生產法) • Safety management regulations and systems • Accident emergency response process • Main hazard sources and safety protection measures • Basic knowledge of production safety and accident case sharing
Department	• Safety regulations and procedures of this department/workshop • The layout and working environment of this department/workshop • Main sources of danger, possible injuries and protective measures of this department/workshop • Main occupational hazards and protective measures in the workshop • Lessons learned from historical accident cases in the department/workshop
Group	• Post operation procedures (theory and field practice) • Safety production duties of the post and labor discipline • Risk points, protective measures and safety precautions of the post; occupational hazards and protective measures • Personal protective equipment requirements for the post • Emergency stop and disposal process for accident/incident scenarios

Safety training

Fire emergency drills

Pandemic prevention and control measures

According to the situation of prevention and control of the COVID-19 pandemic and the management requirements of regular pandemic prevention and control, we have formulated Guidelines for Pandemic Prevention and Control (防疫工作指引), and established leading groups for pandemic prevention and control throughout the Group and at the department level for joint efforts to eliminate potential pandemic risks.

A series of specific measures have been adopted for the long-term fight against COVID-19, including but not limited to:

- Paying close attention to the latest developments of the pandemic, dynamics of medium and high risk areas and policy requirements of pandemic prevention and control, and strengthening personnel testing for prevention and control;
- Strictly controlling personnel entering and leaving, asking all employees to wear masks, and implementing the requirements of temperature measurement and code checking;
- Minimizing business trips according to the needs of the pandemic prevention and control, and executing necessary trips after obtaining approval;
- Keeping the windows of workshops and office premises open for ventilation;
- Performing regular disinfections on public areas and providing disinfectant hand sanitizer and alcohol for employees to use;
- Distributing pandemic prevention materials such as masks and disinfectant solution;
- Advocating employees to actively vaccinate against COVID-19.

Public Welfare

In order to give full play to our professionalism as well as advantages and to give back to the society with practical actions, we have taken the initiative to engage in various public welfare and charity activities, striving to contribute to the goal of common prosperity.

Yulong Plan (育龍計劃)

To promote the healthy development of China's clear aligner industry, we continue to empower and cultivate orthodontic talents. In September 2019, we actively responded to the policy of China's Oral Health Action Plan (2019-2025) (健康口腔行動方案(2019-2025)) and partnered with the China Oral Health Foundation (中國牙病防治基金會) on the three-year "Yulong Plan" project, which provides clinical skills training on standardized clear aligner technology for master and doctoral students of orthodontic specialty in dental colleges and universities on an annual basis. Through the project, we build a guiding growth education platform, and help cultivate next generation practical dental clinical orthodontic talents for the state.

The project includes the three parts of "standardized training", "postgraduate training", and "Yulong Training Fund", which supports the project implementation unit, project implementation mentor, and project implementation postgraduate students, respectively. Through standardized theoretical training, rich learning opportunities, clinical practice, and incentive measures, the project helps trainees master the standardized clear aligner clinical diagnosis and treatment ability.

As of December 31, 2021, the "Yulong Plan" has covered to 55 dental colleges and universities.

"Yulong Plan" project

Champion Smile Program (冠軍微笑計劃)

Since 2017, we have been working with the General Administration of Sports of China (國家體育總局) on the Champion Smile Program to provide athletes and coaches with professional services in oral care and orthodontics for their oral health and empower their smiles.

Champion Smile Program

We collaborated with outstanding partners across the country to establish the champion cooperation clinic, providing oral examination services for several sports teams in the training base of the General Administration of Sports of China (國家體育總局). In June 2018, we officially set up the Smiling Champions Club (微笑冠軍俱樂部) together with the Training Bureau of the General Administration of Sports of China (國家體育總局訓練局) to enable more national team athletes to enjoy long-term, convenient, efficient, professional and systematic oral protection services. Up to now, nearly 1,000 athletes and coaches in national teams have received services under our Champion Smile Program.

Angel Loves Smiling (天使真愛笑)

By integrating our advantages in products, technologies and services, while uniting with various social agencies and public welfare organizations, we are determined to initiate the public welfare projects of children's oral health. In 2021, we jointly launched the "Angel Loves Smiling" public welfare project with the Shanghai Adream Charitable Foundation (上海真愛夢想公益基金會) to reach the less developed areas through both online and offline channels, striving to effectively improve the status quo of local children's lack of oral care knowledge and ignoring of oral health. The project is expected to cover more than 30,000 students in 30 schools in the future.

"Angel Loves Smiling" project

We have invited a number of authoritative children's dental experts to record video series about children's dental knowledge from the perspectives of breaking bad oral habits, dental anomalies correction and parents' awareness of prevention and treatment. We use simple and easy-to-understand expressions in an effort to improve the oral health literacy of children and parents. The videos will be released to the schools cooperating with the Adream Charity Foundation (上海真愛夢想公益基金會), the partner dental institutions and Weibo account of the Company, to widely reach the school-age youths and children.

To further shape an atmosphere of exploring oral health knowledge, the program also plans to carry out offline viewing activities and distribute oral care kits to the participating children, teaching them the correct way to use the kits and helping them to develop good oral care habits.

By combining concepts and practices, the "Angel Loves Smiling" program is expected to significantly raise the oral health awareness of children in less developed areas.

Outlook

In the future, we will continue to take technological innovation as the driving force, actively participate in public welfare, pursue low-carbon and green operations, and strive to achieve the integration of economic, social and environmental benefits. While continuously creating value for customers, we will also continue to make contribution on the development of China's oral industry and the common prosperity of the people.

Appendix: ESG Index

Aspects	Description	Corresponding chapters
A1	**Emissions**	Green Operation
General Disclosures	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Green Operation
A1.1	The types of emissions and respective emissions data.	Emission reduction
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions and intensity.	Climate change
A1.3	Total hazardous waste produced and intensity.	Emission reduction
A1.4	Total non-hazardous waste produced and intensity.	Emission reduction
A1.5	Description of emissions target(s) set and steps taken to achieve them.	Green Operation Emission reduction
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Green Operation Emission reduction
A2	**Use of Resources**	Green Operation
General Disclosures	Policies on the efficient use of resources, including energy, water and other raw materials.	Conserving resources
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Conserving resources
A2.2	Water consumption in total and intensity.	Conserving resources
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Green Operation Conserving resources
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency targets(s) set and steps taken to achieve them.	Green Operation Conserving resources
A2.5	Total packaging material used for finished products and with reference to per unit produced.	Conserving resources

Aspects	Description	Corresponding chapters
A3	**Environment and Natural Resources**	Green Operation
General Disclosures	Policies on minimizing the issuer's significant impacts on the environment and natural resources.	Green Operation
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Green Operation
A4	**Climate Change**	Climate change
General Disclosures	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate change
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Climate change
B1	**Employment**	Caring for Employees
General Disclosures	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Caring for Employees
B1.1	Total workforce by gender, employment type, age group and geographical region.	Recruitment and resignment
B1.2	Employee turnover rate by gender, age group and geographical region.	Recruitment and resignment
B2	**Health and Safety**	Guarding the well-being of employees
General Disclosures	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Guarding the well-being of employees
B2.1	Number and rate of work-related fatalities in each of the past three years including the reporting year.	Guarding the well-being of employees
B2.2	Lost days due to work injury.	Guarding the well-being of employees
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Guarding the well-being of employees

Aspects	Description	Corresponding chapters
B3	**Development and Training**	Talent development and cultivation
General Disclosures	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Talent development and cultivation
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Talent development and cultivation
B3.2	The average training hours completed per employee by gender and employee category.	Talent development and cultivation
B4	**Labor Standards**	Recruitment and separation
General Disclosures	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	Recruitment and resignment
B4.1	Description of measures to review employment practices to avoid child and forced labor.	Recruitment and resignment
B4.2	Description of steps taken to eliminate such practices when discovered.	Recruitment and resignment
B5	**Supply Chain Management**	Responsible procurement
General Disclosures	Policies on managing environmental and social risks of the supply chain.	Responsible procurement
B5.1	Number of suppliers by geographical region.	Responsible procurement
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Responsible procurement
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Responsible procurement
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Responsible procurement

Aspects	Description	Corresponding chapters
B6	**Product Responsibility**	Product Responsibility
General Disclosures	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility Compliance operation
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Customer services
B6.2	Number of products and service related complaints received and how they are dealt with.	Customer services
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual property
B6.4	Description of quality assurance process and recall procedures.	Quality control Customer services
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Information security
B7	**Anti-Corruption**	Business ethics
General Disclosures	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Business ethics
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Business ethics
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Business ethics
B7.3	Description of anti-corruption trainings provided to directors and staff.	Business ethics
B8	**Community Investment**	Public Welfare
General Disclosures	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Public Welfare
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	Public Welfare
B8.2	Resources contributed (e.g. money or time) to the focus area.	Public Welfare

DEFINITION

"AGM"	the annual general meeting of the Company to be held on May 26, 2022 or any adjournment thereof
"Articles of Association" or "Articles"	our memorandum and articles of association, as adopted by special resolution passed on 20 May 2021 and effective on 16 June 2021
"Audit Committee"	the audit committee of the Board
"Board Committees"	collectively, the Audit Committee, the Remuneration Committee and the Nomination Committee
"Board of Directors" or "Board"	the board of directors of our Company
"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
"Cayman Companies Act"	the Companies Act (As Revised) of the Cayman Islands as amended, supplemented, or otherwise modified from time to time
"CC Dental"	Shanghai CareCapital Dental Devices Co., Ltd. (上海松佰牙科器械有限公司)
"CC Dental Group"	CC Dental and its subsidiaries and associates
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"China," "Mainland China" or "PRC"	People's Republic of China, excluding, for the purposes of this report and for geographical reference only and except where the context requires otherwise, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Company," "our Company," "Angelalign," "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)
"controlling shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"COVID-19"	an infectious disease caused by a newly discovered coronavirus (severe acute respiratory syndrome coronavirus)

"Director(s)"	the director(s) of our Company
"Global Offering"	the Hong Kong public offering and the international offering of the Company
"HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"IPO"	initial public offering
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	June 16, 2021, on which the Shares were listed 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
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board
"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 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
"Prospectus"	the prospectus of the Company dated June 3, 2021
"R&D"	research and development
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	the lawful currency of the PRC
"Reporting Period"	the year ended December 31, 2021
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time

"Share(s)"	ordinary share(s) in the share capital of the Company with a par value of US$0.0001 each
"Shareholder(s)"	holder(s) of our Share(s)
"Share Award Schemes"	the Pre-IPO Share Award Schemes and the Post-IPO Share Award Schemes
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"USD" or "US$"	US dollars, the lawful currency of the United States
"United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Angelalign Technology Inc.
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Angelalign Technology Inc. (the "Company") and its subsidiaries (the "Group") which are set out on pages 105 to 184, comprise:

- the consolidated statement of financial position as at December 31, 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to measurement of revenue from rendering of clear aligner treatment solutions.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of revenue from rendering of clear aligner treatment solutions	
Refer to Note 2.22(a), Note 4(a) and Note 5 to the consolidated financial statements. For the year ended December 31, 2021, revenue of the Group from rendering of clear aligner treatment solutions amounted to RMB1,183,801,000, representing approximately 93% of the Group's total revenue. Revenue from rendering of clear aligner treatment solutions is recognised over time by reference to the progress towards complete satisfaction of respective performance obligations during the reporting period. The progress towards complete satisfaction of the performance obligation is measured using output method by reference to the value of deliverables transferred (i.e. treatment planning service provided and clear aligners delivered) to customers to date relative to the remaining value of deliverables promised under each contract. The value of deliverables was determined with reference to the standalone contract price of treatment planning service and clear aligners and the estimated total number of clear aligners to be provided under each contract, which is estimated based on the historical number of clear aligners delivered for completed cases.	To address this key audit matter, we performed audit procedures as follows: (i) Understood, evaluated and tested on sample basis the key internal controls over the recognition of revenue from rendering of clear aligner treatment solutions and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and other inherent risk factors. (ii) Assessed the reasonableness of management's judgements and estimates used to determine the value of deliverables transferred to customer and the estimated total number of clear aligners applied in the output method with reference to the terms of contracts with customers, standalone contract price of treatment planning service and clear aligners in each contract, historical experience and actual number of clear aligners delivered for completed cases. (iii) Tested the actual number of clear aligners delivered for the completed cases on sample basis by tracing to the sales contracts and delivery notes to test the reliability of historical data used.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter (Continued)	How our audit addressed the Key Audit Matter (Continued)
Significant management's judgements and estimation were required in determining the accuracy of the progress towards complete satisfaction of the performance obligation of each contract at the reporting date, including value of deliverables transferred to customer and estimated total number of clear aligners promised in each contract, which are subject to high degree of estimation uncertainty. Therefore, measurement of revenue from rendering of clear aligner treatment solutions is considered a key audit matter.	(iv) Compared the total number of clear aligners actually delivered for completed cases against management's prior estimations to assess the reasonableness of management's historical estimation on the estimated total number of clear aligners to be delivered. (v) Tested, on sample basis, the treatment planning service provided and number of clear aligners delivered to customers in the year by tracing to the supporting documents, such as the sales contracts, dental professionals' acceptance records and delivery notes. (vi) Checked the mathematical accuracy of the calculation of the progress towards complete satisfaction of the performance obligation. Based on the results of the work performed above, we found management's judgements and estimates involved in measurement of revenue from rendering of clear aligner treatment solutions were supported by available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michael W.H. Chan.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, March 24, 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Revenue	5	**1,271,677**	816,528
Cost of revenue	7	**(445,031)**	(241,479)
Gross profit		**826,646**	575,049
Selling and marketing expenses	7	**(236,516)**	(148,835)
Administrative expenses	7	**(183,185)**	(154,423)
Research and development expenses	7	**(123,094)**	(93,479)
Net losses of impairment on financial assets	3.1 (b)	**(245)**	(10,148)
Other income	6	**18,598**	22,625
Other expenses	6	**–**	(6,000)
Other gains – net	6	**16,070**	3,096
Operating profit		**318,274**	187,885
Finance income	9	**16,890**	4,153
Finance costs	9	**(1,230)**	(1,154)
Finance income – net	9	**15,660**	2,999
Share of results of investments accounted for using the equity method	20	**(1,850)**	347
Profit before income tax		**332,084**	191,231
Income tax expense	10	**(46,512)**	(40,299)
Profit for the year		**285,572**	150,932
Profit attributable to			
– Owners of the Company		**285,848**	150,689
– Non-controlling interests		**(276)**	243
		285,572	150,932
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Exchange differences on translation of the Company		**(29,695)**	–
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of subsidiaries		**(2,360)**	(1,241)
		(32,055)	(1,241)
Total comprehensive income for the year		**253,517**	149,691
Total comprehensive income for the year attributable to:			
– Owners of the Company		**253,826**	149,681
– Non-controlling interests		**(309)**	10
		253,517	149,691

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Note	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
– Basic	11	**1.93**	1.26
– Diluted	11	**1.79**	1.04

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**248,310**	105,299
Right-of-use assets	13	**85,649**	70,759
Intangible assets	14	**8,304**	6,188
Investments accounted for using the equity method	20	**14,631**	13,848
Prepayments for non-current assets	16	**36,667**	764
Deferred income tax assets	29	**14,042**	9,573
		407,603	206,431
Current assets			
Inventories	18	**28,246**	19,914
Trade and other receivables	16	**78,012**	101,693
Amounts due from related parties	33	**–**	4,523
Cash and cash equivalents	17	**3,626,983**	877,578
		3,733,241	1,003,708
Total assets		**4,140,844**	1,210,139
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	21	**110**	97
Share premium	21	**3,117,920**	486,572
Shares held for employee share scheme	21	**(4,393)**	(29,529)
Other reserves	22	**(27,545)**	(22,135)
Retained earnings	24	**232,978**	66,698
		3,319,070	501,703
Non-controlling interests		**(4,338)**	(4,029)
Total equity		**3,314,732**	497,674
Liabilities			
Non-current liabilities			
Contract liabilities	26	**80,126**	18,924
Lease liabilities	27	**15,543**	5,543
Deferred income	28	**31,974**	6,280
Deferred income tax liabilities	29	**–**	6,000
		127,643	36,747

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Current liabilities			
Trade and other payables	25	**299,191**	238,587
Amounts due to related parties	33	**–**	5,940
Contract liabilities	26	**370,762**	399,692
Current income tax liabilities		**12,309**	22,274
Lease liabilities	27	**14,744**	8,625
Deferred income	28	**1,463**	600
		698,469	675,718
Total liabilities		**826,112**	712,465
Total equity and liabilities		**4,140,844**	1,210,139

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The financial statements on pages 105 to 184 were approved by the Board of Directors on March 24, 2022 and were signed on its behalf.

Ms. LI Huamin

Director

Mr. HUANG Kun

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company							
		Share capital RMB'000	Share premium RMB'000	Shares held for employee share scheme RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2021		97	486,572	(29,529)	(22,135)	66,698	501,703	(4,029)	497,674
Comprehensive income									
Profit for the year		–	–	–	–	285,848	285,848	(276)	285,572
Other comprehensive income									
– Currency translation differences		–	–	–	(32,022)	–	(32,022)	(33)	(32,055)
Total comprehensive income for the year		–	–	–	(32,022)	285,848	253,826	(309)	253,517
Transactions with owners in their capacity as owners									
Share issued in the Initial Public Offerings ("IPO")	21(a)	11	2,403,275	–	–	–	2,403,286	–	2,403,286
Share issuance costs	21(a)	–	(119,286)	–	–	–	(119,286)	–	(119,286)
Shares issued upon over-allotment options exercised	21(a)	2	363,756	–	–	–	363,758	–	363,758
Share issuance cost of over-allotment	21(a)	–	(16,397)	–	–	–	(16,397)	–	(16,397)
Transfer of share held for employee share scheme upon vesting	21(b)	–	–	25,136	(25,136)	–	–	–	–
Contributions from the shareholders of the Company	33(e)	–	–	–	5,344	–	5,344	–	5,344
Equity-settled share-based payment transactions	23	–	–	–	26,454	–	26,454	–	26,454
Appropriation to statutory reserves	22	–	–	–	19,950	(19,950)	–	–	–
Dividend declared		–	–	–	–	(99,618)	(99,618)	–	(99,618)
Total transactions with owners in their capacity as owners		13	2,631,348	25,136	26,612	(119,568)	2,563,541	–	2,563,541
Balance at December 31, 2021		110	3,117,920	(4,393)	(27,545)	232,978	3,319,070	(4,338)	3,314,732

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Shares held for employee share scheme RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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									
– Currency translation differences		–	–	–	(1,008)	–	(1,008)	(233)	(1,241)
Total comprehensive income for the year		–	–	–	(1,008)	150,689	149,681	10	149,691
Transactions with owners in their capacity as owners									
Issue of shares pursuant to Reorganization	21(a)	97	486,572	–	(443,921)	–	42,748	–	42,748
Transfer of shares held for employee share scheme upon vesting	21(b)	–	–	25,465	(25,465)	–	–	–	–
Contributions from the shareholders of the Company pursuant to Reorganization	23(b)	–	–	–	49,537	–	49,537	–	49,537
Dividends declared		–	–	–	–	(104,000)	(104,000)	–	(104,000)
Equity-settled share-based payment transactions	23	–	–	–	66,319	–	66,319	–	66,319
Appropriation to statutory reserves	22	–	–	–	24,580	(24,580)	–	–	–
Total transactions with owners in their capacity as owners		97	486,572	25,465	(328,950)	(128,580)	54,604	–	54,604
Balance at December 31, 2020		97	486,572	(29,529)	(22,135)	66,698	501,703	(4,029)	497,674

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	**509,130**	431,840
Income tax paid		**(67,417)**	(23,561)
Net cash generated from operating activities		**441,713**	408,279
Cash flows from investing activities			
Purchases of property, plant and equipment		**(195,551)**	(41,285)
Purchases of intangible assets		**(4,210)**	(383)
Proceeds from disposal of property, plant and equipment	31(a)	**643**	304
Investments in joint ventures	20	**(2,922)**	–
Purchases of financial assets at fair value through profit or loss	19	**(300,000)**	(1,310,000)
Proceeds from disposals of financial assets at fair value through profit or loss	19	**301,816**	1,314,235
Settlement of consideration in relation with acquisition of a subsidiary		**(3,239)**	–
Loans provided to related parties		**–**	(1,000)
Loans repaid by related parties		**4,523**	26,700
Interest received	9	**16,890**	4,153
Net cash used in investing activities		**(182,050)**	(7,276)
Cash flows from financing activities			
Issue of ordinary shares pursuant to Reorganisation	21(a)	**–**	42,748
Contribution from the shareholders of the Company	22	**–**	49,537
Issue of ordinary shares pursuant to the IPO	21(a)	**2,403,286**	–
Issue of new ordinary shares pursuant to the over-allotment	21(a)	**363,758**	–
Payments for listing expenses		**(115,430)**	(585)
Payments for listing expenses of over-allotment	21(a)	**(16,397)**	–
Dividend paid	30	**(99,618)**	(104,000)
Loans from related parties		**17**	77
Repayment of loans from related parties		**(156)**	(242)
Consideration from disposals of interests in subsidiaries without change of control	16	**969**	–
Principal elements of lease payments		**(11,955)**	(9,733)
Interest paid of lease liabilities	9	**(1,230)**	(1,135)
Net cash generated from/(used in) financing activities		**2,523,244**	(23,333)
Net increase in cash and cash equivalents		**2,782,907**	377,670
Cash and cash equivalents at beginning of the year		**877,578**	504,697
Exchange losses on cash and cash equivalents		**(33,502)**	(4,789)
Cash and cash equivalents at the end of the year		**3,626,983**	877,578

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information and basis of presentation

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 (As Revised) of the Cayman Islands. The address of its registered office is Maples Corporate Services Limited, PO Box 309, Upland 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 Company which controlled the business of the Group through CareCapital Orthotech Limited ("CareCapital Orthotech"), a company incorporated in Hong Kong.

The Company completed its IPO and listed its shares on the Main Board of the Stock Exchange of Hong Kong Limited ("HKSE") on June 16, 2021 (the "Listing").

The consolidated financial statements for the year ended December 31, 2021 is presented in Renminbi ("RMB") and rounded to nearest thousand yuan, unless otherwise stated, and was approved for issue by the Board of Directors on March 24, 2022.

1.2 Basis of presentation

To prepare for the Listing on the Main Board of HKSE, the Company became the holding company of the Group via a reorganization ("Reorganization") which was completed on December 21, 2020, and details of which have been set out in the Accountant's Report included in the prospectus of the Company dated June 3, 2021.

Immediately prior to and after the Reorganization, the Listing Business is held by and mainly conducted through 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. 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 the 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 the Group for all periods presented. Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group.

2.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards ("IFRS") and Hong Kong Companies Ordinance Cap.622 ("HKCO")

The consolidated financial statements of the Group have been prepared in accordance with all applicable IFRS and the disclosure requirements of the HKCO.

(b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (financial assets at "FVPL"), which is carried at fair value.

(c) New and amendments standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing January 1, 2021:

- Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(d) New standards, amendments to standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for December 31, 2021 reporting period and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting period and on foreseeable future transactions.

		Effective for accounting periods beginning on or after
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
Accounting Guideline 5 (Revised)	Merger accounting for common control combinations	January 1, 2022
Amendments to IAS 1	Classification of liabilities as current or non-current	January 1, 2023
IFRS 17	Insurance contract	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 IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associates or joint ventures	To be determined

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

Subsidiaries are all entities (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.

The acquisition method of accounting is used to account for business combination by the Group.

Inter-company 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.

2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (Note 2.2.4), after initially being recognized at cost.

2.2.3 Joint arrangements

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 ventures only.

Interests in joint ventures are accounted for using the equity method (Note 2.2.4), after initially being recognized at cost in the consolidated statement of financial position.

2.2.4 Equity method

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 ("OCI") of the investee in OCI. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.2 Principles of consolidation and equity accounting (continued)

2.2.4 Equity method (continued)

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 2.10.

2.2.5 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 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.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the Consolidated financial statements 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 ("HKD"). The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the majority of and operations of the Group are located in the PRC, the Group determined to present its Consolidated financial statements 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 profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(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 OCI.

2.5 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 as follows:

	Estimated useful lives
Buildings	20 years
Plant and machinery	5-10 years
Transportation equipment	5 years
Furniture, fixtures and equipment	3-5 years

The leasehold improvements are depreciated over the lease term.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

Construction-in-progress ("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.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amounts. These are included in profit or loss.

2.6 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.6 Intangible assets (continued)

(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.

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.

Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use.

During the year, there were no development costs meeting these criteria and capitalized as intangible assets.

2.7 Impairment of non-financial assets

Goodwill and 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 the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.8 Financial assets

2.8.1 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.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, 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.

2.8.2 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.

2.8.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at 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.

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. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in the consolidated statement of comprehensive income when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- 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 income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Other gains – net". Interest income from these financial assets is included in "Other income" using the effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

2.8.3 Measurement (continued)

Debt instruments (continued)

- 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 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 legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.10 Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses associated with its assets carried at amortised cost and debt investment at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e., the present value of all cash shortfalls) over the expected life of the financial assets.

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 assets. The provision matrix is determined based on historical observed default rates over the expected life of the contract assets and trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables from third parties, related parties and non-controlling interests are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

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 and other 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 hat 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.16 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grants 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. The amounts are unsecured. Trade and other payables are presented as current liabilities unless payment is not due within 12 months or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables 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 year 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 and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.18 Current and deferred income tax (continued)

(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 year 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 OCI or directly in equity. In this case, the tax is also recognized in OCI or directly in equity, respectively.

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (e.g., the Research and Development Tax Incentive regime in Oneland or other investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognized for unclaimed tax credits that are carried forward as deferred tax assets.

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 year 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.19 Employee benefits (continued)

(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 year 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

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 year, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.20 Share-based payments (continued)

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 year. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

(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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

(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.

(c) Revenue from sales of intraoral scanners

Revenue from the sales of intraoral scanners is recognized in time when control of the intraoral scanners has been transferred, being when the intraoral scanners is installed and accepted by the customers.

2.23 Interest income

Interest income is recognized using the effective interest method.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.24 Leases (continued)

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, initially measured using the index or rate as at the commencement date,
- 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 cannot be readily determined, 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.

If a readily observable amortizing loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.24 Leases (continued)

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.

Cash payments for the principal portion of the lease liabilities are presented as cash flows from financing activities and cash payments for the interest portion are consistent with presentation of interest payments.

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 year but not distributed at the end of the year.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

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, 2021 RMB'000	As at December 31, 2020 RMB'000
Assets		
USD	**2,652,577**	82,831
Liabilities		
USD	**6,496**	3,405
Others	**169**	39
	6,665	3,444

As at December 31, 2021, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the pre-tax profit would have been approximately RMB132,304,000 higher/lower for the year ended December 31, 2021 (2020: RMB3,971,000 higher/lower).

(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 33. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group is exposed to credit risk in relation to its trade and other receivables 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 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 the year. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

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:

Category	Group definition of category	Basis for recognition of expected credit loss provision
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(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 the end of the reporting period 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 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, 2021							
Expected loss rate	**0.00%**	**1.51%**	**2.35%**	**15.54%**	**73.72%**	**100.00%**	
Gross carrying amount (RMB'000)	**12,127**	**6,436**	**6,345**	**9,830**	**9,551**	**9,765**	**54,054**
Loss allowance provision (RMB'000)	**–**	**(97)**	**(149)**	**(1,528)**	**(7,041)**	**(9,765)**	**(18,580)**
At December 31, 2020							
Expected loss rate	0.00%	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, 2021 reconciles to the opening loss allowance for that provision as follows:

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
At the beginning of the year	**18,344**	8,203
Provision for loss allowance recognized in profit or loss	**236**	10,141
At the end of the year	**18,580**	18,344

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Other financial assets at amortized cost

Other financial assets at amortized cost are other receivables which mainly include deposits receivables.

As at December 31, 2021, 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, 2021 reconciles to the opening loss allowance for that provision as follows:

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
At the beginning of the year	**85**	78
Provision for loss allowance recognized in profit or loss	**9**	7
At the end of the year	**94**	85

During the year, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(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 RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
As at December 31, 2021				
Lease liabilities	**16,153**	**9,524**	**6,900**	**32,577**
Trade and other payables excluding non-financial liabilities	**143,927**	**–**	**–**	**143,927**
Total	**160,080**	**9,524**	**6,900**	**176,504**
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, 2021, the Group maintained at net cash position (2020: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Financial risk management (continued)

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.

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's policies are to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the year. There were no transfers between levels 1, 2 and 3 during the year ended December 31, 2021.

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, 2021, the Group had no level 1 and level 2 financial instruments (2020: none).

(a) Financial instruments in level 3

The following table presents the changes in level 3 instruments during the year.

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Wealth management products with variable return		
Balance at the beginning of the year	**–**	–
Additions	**300,000**	1,310,000
Realized fair value gains recognized in profit or loss	**1,816**	4,235
Disposals	**(301,816)**	(1,314,235)
Balance at the end of the year	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Financial risk management (continued)

3.3 Fair value estimation (continued)

(a) Financial instruments in level 3 (continued)

The unobservable inputs are expected return rate and discount rate. The higher the expected return rate, the higher the fair value; the higher the discount rate, the lower the fair value. For the year ended December 31, 2021, the expected annual return rate of the investments in wealth management products with range from 1.32% to 3.41% (2020: 2.42% to 3.55%).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Critical accounting estimates and judgements (continued)

(a) Revenue recognition (continued)

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) 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 the year. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.1(b).

(c) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Revenue and segment information

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Revenue from external customers is recognized over time and is derived from the rendering of:		
– Clear aligner treatment solutions	**1,183,801**	799,005
– Other services	**19,777**	17,523
Revenue from external customers is recognized at a point in time and is derived from:		
– Sales of intraoral scanners	**68,099**	–
Total revenue	**1,271,677**	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 and Hong Kong, 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 year, no major customer information is presented in accordance with IFRS 8 "Operating Segments".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Revenue and segment information (continued)

(a) Unsatisfied long-term contracts

The following table shows unsatisfied performance obligations resulting from fixed-price long-term contracts:

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Within 1 year	**410,099**	457,142
Over 1 year	**146,363**	77,086
	556,462	534,228

Management expects that unsatisfied performance obligations of approximately RMB410,099,000 as at December 31, 2021 will be recognized as revenue within 1 year. The remaining unsatisfied performance obligations of approximately RMB146,363,000 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, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Other income		
Government grants	**18,598**	22,625
Other expenses		
Donations	**–**	(6,000)
Other gains – net		
Net foreign exchange gains/(losses)	**12,129**	(1,044)
Realized fair value gains of wealth management products	**1,816**	4,235
Losses on disposals of property, plant and equipment	**(96)**	(265)
Others	**2,221**	170
	16,070	3,096

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Changes in inventories of finished goods and work in progress	**(131)**	1,309
Raw materials and consumables used and other inventories	**255,419**	124,895
Employee benefit expenses (Note 8)	**400,366**	327,459
Advertising and promotion expenses	**98,939**	44,663
Listing expenses	**35,429**	9,958
Depreciation and amortization	**39,159**	32,123
Professional service and consulting fees	**29,807**	23,282
Delivery costs	**30,889**	17,645
Short-term lease and variable lease expenses	**10,733**	6,994
Taxes and surcharges	**8,154**	7,534
Outsourcing costs	**23,282**	4,701
Office expenses	**6,270**	3,561
Travelling expenses	**7,007**	7,945
Entertainment expenses	**4,096**	3,776
Utility costs	**4,368**	2,811
Auditor's remuneration		
– Audit services	**3,500**	337
– Non-audit services	**2,811**	–
Recruitment expenses	**4,636**	4,418
Others	**23,092**	14,805
	987,826	638,216

8. Employee benefit expenses (including directors' emoluments)

(a) Employee benefit expenses are analysed as follows:

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Salaries, wages and bonuses	**304,933**	225,922
Share-based compensation expenses (Note 23)	**26,454**	66,319
Pension costs – defined contribution plans	**20,569**	4,836
Other social security costs, housing benefits and other employee benefits	**48,410**	30,382
	400,366	327,459

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Employee benefit expenses (including directors' emoluments) (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the include three (2020: two) directors whose emoluments are reflected in the analysis shown in Note 37(a). The emoluments payable to the remaining two (2020: three) individuals during the year are as follows:

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Salaries, wages and bonuses	**2,532**	4,426
Pension costs – defined contribution plans	**113**	49
Other social security costs, housing benefits and other employee benefits	**132**	184
Share-based compensation expenses	**2,645**	6,819
	5,422	11,478

The emoluments fell within the following bands:

Number of individuals

	Year ended December 31, 2021	Year ended December 31, 2020
Emolument bands		
HKD2,500,001 – HKD3,000,000	**1**	–
HKD3,500,001 – HKD4,000,000	**1**	–
HKD4,000,001 – HKD4,500,000	**–**	2
HKD4,500,001 – HKD5,000,000	**–**	1
	2	3

During the year ended December 31, 2021, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Finance income – net

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Finance income:		
Interest income on bank deposits	16,890	4,153
Finance costs:		
Interest expense on lease liabilities (Note 27)	(1,230)	(1,135)
Interest expense on amounts due to related parties	–	(19)
Finance income – net	15,660	2,999

10. Income tax expense

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Current income tax		
– PRC corporate income tax	53,402	34,108
– Hong Kong profits tax	3,585	2,388
	56,987	36,496
Deferred income tax (Note 29)		
– PRC corporate income tax	(4,475)	(2,197)
– Withholding tax on undistributed profits	(6,000)	6,000
	(10,475)	3,803
	46,512	40,299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Income tax expense (continued)

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, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Profit before income tax	**332,084**	191,231
Tax calculated at respective statutory tax rates	**87,677**	49,133
Tax effects of:		
– Preferential income tax rates applicable to subsidiaries	**(34,395)**	(18,833)
– Expenses not deductible for taxation purposes	**4,348**	12,040
– Tax losses not recognized for deferred income tax	**42**	10
– Super deduction for research and development expenditure	**(13,423)**	(7,964)
– Share of results of investments accounted for using the equity method	**463**	(87)
– Withholding income tax on distributed profits	**1,800**	6,000
	46,512	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 year ended December 31, 2021.

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 year ended December 31, 2021.

The Company's subsidiary, Shanghai EA Medical Instruments Co., Ltd (上海時代天使醫療器械有限公司, "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 the year ended December 31, 2021.

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 2021, according to [2021] No. 13 (財稅[2021] 13號), an extra 100% of the amount of research and development expenses can be deducted before tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Income tax expense (continued)

(c) Hong Kong profit tax

The Hong Kong profits tax rate of the subsidiary of the Group incorporated in Hong Kong is 16.5%.

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 year.

(d) 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%. As at December 31, 2021, the retained earnings of the Group's PRC subsidiaries not yet remitted to holding companies incorporated outside the PRC, for which no deferred income tax liability had been provided, were approximately RMB319,548,000 (2020: RMB24,867,000). Such earnings are expected to be retained by the PRC subsidiaries for reinvestment purposes and would not be remitted to their overseas holding companies in the foreseeable future based on management's best estimates of the Group's overseas funding requirements.

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, 2020.

(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 year ended December 31, 2021.

	Year ended December 31, 2021	Year ended December 31, 2020
Profit attributable to owners of the Company (RMB'000)	**285,848**	150,689
Weighted average number of ordinary shares outstanding	**147,932,400**	119,513,700
Basic earnings per share (in RMB)	**1.93**	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 (Note 21(a)(iv)) into account as the share subdivision was deemed to be effective since January 1, 2020, and:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Earnings per share (continued)

(a) Basic earnings per share (continued)

(i) The following shares issued during the Reorganization are treated as if they had been in effect and issued on January 1, 2020:

- 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 EA prior to January 1, 2020 were treated as if they were outstanding on January 1, 2020; and

- The remaining 29,893,400 shares issued to certain directors, senior management and employees of the Group in aggregate 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 (Note 23(b)). These shares were treated as treasury stocks before vesting and therefore excluded from the calculation of weighted average number of ordinary shares from January 1, 2020. Subsequently, 7,512,900 shares vested in 2020 and 21,084,500 shares vested in 2021. These vested shares were treated as if they were outstanding from their respective vested day.

(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.

(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. 248,350 shares were treated as if they were outstanding from December 31, 2020. Subsequently, 198,800 shares vested in 2021.

(v) The shares of the Company were listed on the HKSE on June 16, 2021, whereby 16,829,600 new shares were issued by the Company.

(vi) On July 13, 2021, the Company issued 2,524,400 additional new ordinary shares of USD0.0001 each at HKD173.0 per share pursuant to an over-allotment option granted in conjunction with the IPO.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Earnings per share (continued)

(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 three categories of potential ordinary shares in the year ended December 31, 2021 which were the shares held for employee scheme (Note 23), the share options granted to a senior management on October 9, 2020 (Note 23(b)) and the over-allotment option granted with the IPO of the Company.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) 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, 2021	Year ended December 31, 2020
Profit attributable to owners of the Company (RMB'000)	**285,848**	150,689
Weighted average number of ordinary shares in issue	**147,932,400**	119,513,700
Adjustments for share options and awarded shares	**11,647,500**	25,925,600
Weighted average number of ordinary shares for diluted earnings per share	**159,579,900**	145,439,300
Diluted earnings per share (in RMB)	**1.79**	1.04

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Property, plant and equipment

	Buildings RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	CIP RMB'000	Total RMB'000
At January 1, 2020							
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
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	5,952	50,292	635	4,146	20,308	23,966	105,299
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	5,952	50,292	635	4,146	20,308	23,966	105,299

	Buildings RMB'000	**Plant and machinery RMB'000**	**Transportation equipment RMB'000**	**Furniture, fixtures and equipment RMB'000**	**Leasehold improvements RMB'000**	**CIP RMB'000**	**Total RMB'000**
Year ended December 31, 2021							
Opening net book amount	**5,952**	**50,292**	**635**	**4,146**	**20,308**	**23,966**	**105,299**
Additions	**–**	**57,313**	**454**	**3,972**	**654**	**105,228**	**167,621**
Transfers	**–**	**–**	**–**	**–**	**6,768**	**(6,768)**	**–**
Disposals	**–**	**(401)**	**(16)**	**(322)**	**–**	**–**	**(739)**
Depreciation	**(305)**	**(12,741)**	**(256)**	**(1,307)**	**(9,262)**	**–**	**(23,871)**
Closing net book amount	**5,647**	**94,463**	**817**	**6,489**	**18,468**	**122,426**	**248,310**
At December 31, 2021							
Cost	**6,638**	**128,495**	**1,790**	**9,490**	**47,083**	**122,426**	**315,922**
Accumulated depreciation	**(991)**	**(34,032)**	**(973)**	**(3,001)**	**(28,615)**	**–**	**(67,612)**
Closing net book amount	**5,647**	**94,463**	**817**	**6,489**	**18,468**	**122,426**	**248,310**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Property, plant and equipment (continued)

Depreciation expenses were charged to the following categories in the consolidated statement of comprehensive income:

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Cost of revenue	**13,583**	10,122
Selling and marketing expenses	**565**	353
Administrative expenses	**8,049**	5,500
Research and development expenses	**1,674**	1,546
	23,871	17,521

13. Right-of-use assets

	Office premises RMB'000	**Land use rights** RMB'000	**Total** RMB'000
At January 1, 2020			
Cost	38,781	59,413	98,194
Accumulated depreciation	(16,405)	(994)	(17,399)
Net book amount	22,376	58,419	80,795
Year ended December 31, 2020			
Opening net book amount	22,376	58,419	80,795
Addition	1,606	–	1,606
Early termination of lease contracts	(565)	–	(565)
Depreciation	(9,889)	(1,188)	(11,077)
Closing net book amount	13,528	57,231	70,759
At December 31, 2020			
Cost	27,833	59,413	87,246
Accumulated depreciation	(14,305)	(2,182)	(16,487)
Net book amount	13,528	57,231	70,759
Year ended December 31, 2021			
Opening net book amount	**13,528**	**57,231**	**70,759**
Additions	**28,900**	**–**	**28,900**
Early termination of lease contracts	**(816)**	**–**	**(816)**
Depreciation	**(12,006)**	**(1,188)**	**(13,194)**
Closing net book amount	**29,606**	**56,043**	**85,649**
At December 31, 2021			
Cost	**58,365**	**59,413**	**117,778**
Accumulated depreciation	**(28,759)**	**(3,370)**	**(32,129)**
Net book amount	**29,606**	**56,043**	**85,649**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Right-of-use assets (continued)

Depreciation expenses were charged to the following categories in the consolidated statement of comprehensive income:

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Cost of revenue	**6,202**	4,852
Selling and marketing expenses	**614**	780
Administrative expenses	**5,926**	4,509
Research and development expenses	**452**	936
	13,194	11,077

14. Intangible assets

	Goodwill RMB'000	**Software** RMB'000	**Patents** RMB'000	**Others** RMB'000	**Total** RMB'000
At January 1, 2020					
Cost	27	14,672	1,570	3,880	20,149
Accumulated amortization	–	(6,747)	(1,300)	(2,772)	(10,819)
Net book amount	27	7,925	270	1,108	9,330
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	27	6,008	153	–	6,188
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	27	6,008	153	–	6,188
Year ended December 31, 2021					
Opening net book amount	**27**	**6,008**	**153**	**–**	**6,188**
Additions	**–**	**4,210**	**–**	**–**	**4,210**
Amortization	**–**	**(2,010)**	**(84)**	**–**	**(2,094)**
Closing net book amount	**27**	**8,208**	**69**	**–**	**8,304**
At December 31, 2021					
Cost	**27**	**19,265**	**1,570**	**3,880**	**24,742**
Accumulated amortization	**–**	**(11,057)**	**(1,501)**	**(3,880)**	**(16,438)**
Net book amount	**27**	**8,208**	**69**	**–**	**8,304**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Intangible assets (continued)

Depreciation expenses were charged to the following categories in the consolidated statement of comprehensive income:

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Cost of revenue	470	909
Selling and marketing expenses	59	367
Administrative expenses	1,144	801
Research and development expenses	421	1,448
	2,094	3,525

15. Financial instruments by category

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Financial assets		
Financial assets at amortized cost		
Cash and cash equivalents	3,626,983	877,578
Amounts due from related parties	–	4,523
Trade and other receivables excluding non-financial assets	41,732	75,963
	3,668,715	958,064
Financial liabilities		
Financial liabilities at amortized cost		
Trade and other payables excluding non-financial liabilities	143,927	100,771
Amounts due to related parties	–	5,940
Lease liabilities	30,287	14,168
	174,214	120,879

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Trade and other receivables

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Included in current assets		
Trade receivables (Note (a))		
– Due from third parties	52,430	88,369
– Due from related parties (Note 33(d))	1,624	378
	54,054	88,747
Less: allowance for impairment of trade receivables	(18,580)	(18,344)
	35,474	70,403
Other receivables (Note (b))		
– Deposits receivables	5,853	3,008
– Deductible input value-added tax	14,979	13
– Consideration from disposals of interests in subsidiaries without change of control	–	969
– Others	499	1,668
	21,331	5,658
Less: allowance for impairment of other receivables	(94)	(85)
	21,237	5,573
Prepayments for		
– Taxes	2,091	3,169
– Suppliers	19,210	15,624
– Share issuance costs	–	6,924
	21,301	25,717
	78,012	101,693
Included in non-current assets		
Prepayments for property, plant and equipment	36,667	764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Trade and other receivables (continued)

(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 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, 2021 RMB'000	As at December 31, 2020 RMB'000
Within 60 days	**12,127**	26,703
61 to 180 days	**6,436**	17,341
181 to 365 days	**6,345**	12,214
1 to 2 years	**9,830**	16,004
2 to 3 years	**9,551**	10,666
Over 3 years	**9,765**	5,819
	54,054	88,747

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Cash and cash equivalents

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Cash at banks	3,626,978	877,568
Cash on hand	5	10
Cash and cash equivalents	3,626,983	877,578

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, 2021 RMB'000	As at December 31, 2020 RMB'000
RMB	972,647	794,299
USD	2,652,986	83,245
Others	1,350	34
	3,626,983	877,578

18. Inventories

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
At cost:		
Raw materials	25,973	17,772
Work in progress	929	755
Finished goods	1,344	1,387
	28,246	19,914

The costs of inventories recognized in the consolidated statements of comprehensive income are disclosed in Note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Financial assets at FVPL

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Wealth management products		
Balance at the beginning of the year	–	–
Additions (Note a)	300,000	1,310,000
Realized fair value gains recognized in profit or loss	1,816	4,235
Disposals	(301,816)	(1,314,235)
Balance at the end of the year	–	–

(a) During the year, the Group subscribed three wealth management products with initial subscription price of RMB100,000,000 each, from three commercial banks. All of the wealth management products matured during the year.

20. Investments accounted for using the equity method

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Joint ventures (Note a)	8,229	7,269
Associate (Note b)	6,402	6,579
	14,631	13,848

(a) Investments in joint ventures

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Balance at the beginning of the year	7,269	6,958
Addition	2,922	–
Share of results of the joint ventures	(1,673)	491
Reclassification as amounts due to related parties	(289)	(180)
At the end of the year	8,229	7,269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Investments accounted for using the equity method (continued)

(b) Investment in an associate

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Balance at the beginning of the year	**6,579**	6,723
Share of results of an associate	**(177)**	(144)
At the end of the year	**6,402**	6,579

(c) Set out below are the associate and joint ventures of the Group. 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, 2021.

Name	Place of incorporation	Percentage of ownership interest attributable to the Group As at December 31, 2021	2020	Nature of relationship	Principal activities
Guangzhou Yuelu Oral Cavity Company Limited	Guangdong Province, the PRC	**30%**	30%	Associate	Dental clinics
Wuxi Beifurui Education Consulting Company Limited ("Wuxi Beifurui")	Jiangsu Province, the PRC	**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 Clinic Co., Ltd. ("Shanghai Junxiao")	Shanghai, the PRC	**70%**	70%	Joint venture	Dental clinics

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 USD	Share capital RMB'000	Share premium RMB'000
Issued:				
At January 1, 2020	1	–	–	–
Issuance of ordinary shares to CareCapital Orthotech (i)	999,999	10,000	65	300,932
Issuance of ordinary shares to non-controlling shareholders of Wuxi EA prior to Reorganization (i)	475,152	4,752	31	145,921
Issuance of ordinary shares to Wuxi Jinhe (ii)	10,023	100	1	39,719
Issuance of ordinary shares for the employee share scheme (iii)	4,600	46	–	–
At December 31, 2020	1,489,775	14,898	97	486,572
At January 1, 2021	**1,489,775**	**14,898**	**97**	**486,572**
Share subdivision on May 20, 2021 (iv)	**147,487,725**	**–**	**–**	**–**
Shares issued in the IPO (v)	**16,829,600**	**1,683**	**11**	**2,403,275**
Share issuance costs (vi)	**–**	**–**	**–**	**(119,286)**
Shares issued upon over-allotment (vii)	**2,524,400**	**252**	**2**	**363,756**
Share issuance cost of over-allotment (vii)	**–**	**–**	**–**	**(16,397)**
At December 31, 2021	**168,331,500**	**16,833**	**110**	**3,117,920**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Share capital and premium and shares held for employee share scheme (continued)

(a) Share capital and premium (continued)

(i) On December 21, 2020, as part of the Reorganization, 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.

(ii) 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.

(iii) 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.

(iv) On May 20, 2021, the shareholders of the Company resolved that the Company's issued and unissued 5,000,000 shares of a par value of USD0.01 each be subdivided into 100 shares of USD0.0001 par value each. As a result, the authorized share capital of the Company became USD50,000 divided into 500,000,000 shares of USD0.0001 par value each, and the issued share capital of the Company was divided from 1,489,775 shares to 148,977,500 shares.

(v) The shares of the Company were listed on the HKSE on June 16, 2021, whereby 16,829,600 new shares were issued at the offer price of HKD173.0 each by the Company for a total cash consideration of approximately HKD2,911,521,000 (equivalent to approximately RMB2,403,286,000). The corresponding share capital amount was approximately RMB11,000 and share premium arising from the issuance was approximately RMB2,403,275,000.

(vi) The share issuance costs paid and payable mainly include share underwriting commissions, lawyers' fees, reporting accountants' fee and other related costs, which were incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB119,286,000 were treated as a deduction against the share premium arising from the issuance.

(vii) On July 13, 2021, the Company issued 2,524,400 additional new ordinary shares of USD0.0001 each at HKD173.0 per share pursuant to an over-allotment option granted in conjunction with the IPO. Gross proceeds from the issue are approximately HKD436,721,000 (equivalent to approximately RMB363,758,000). The underwriting commissions attributable to the issuance of the new shares amounting to RMB16,397,000 were treated as a deduction against the share premium arising from the issuance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Share capital and premium and shares held for employee share scheme (continued)

(b) Shares held for employee share scheme

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Balance at the beginning of the year	**29,529**	54,994
Transfer of shares held for employee share scheme upon vesting (Note 23(b))	**(25,136)**	(25,465)
Balance at the end of the year	**4,393**	29,529

22. Other reserves

	Capital reserves RMB'000	Statutory reserves RMB'000 (Note (a))	Share-based payment reserves RMB'000 (Note (23))	Currency translation reserves RMB'000	Others RMB'000	Total RMB'000
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 23(b))	49,537	–	–	–	–	49,537
Transferred to share premium during the Reorganization (Note 21(a)(i))	(443,921)	–	–	–	–	(443,921)
Transfer of shares held for employee share scheme upon vesting (Note 23(b))	–	–	(25,465)	–	–	(25,465)
Share-based payments	–	–	66,319	–	–	66,319
Appropriation to statutory reserves (Note(a))	–	24,580	–	–	–	24,580
Balance at December 31, 2020	(196,689)	37,552	137,562	(888)	328	(22,135)
Balance at January 1, 2021	**(196,689)**	**37,552**	**137,562**	**(888)**	**328**	**(22,135)**
Currency translation differences	**–**	**–**	**–**	**(32,022)**	**–**	**(32,022)**
Contributions from the shareholders of the Company (Note 33(e))	**5,344**	**–**	**–**	**–**	**–**	**5,344**
Transfer of shares held for employee share scheme upon vesting (Note 23(b))	**–**	**–**	**(25,136)**	**–**	**–**	**(25,136)**
Share-based payments	**–**	**–**	**26,454**	**–**	**–**	**26,454**
Appropriation to statutory reserves (Note(a))	**–**	**19,950**	**–**	**–**	**–**	**19,950**
Balance at December 31, 2021	**(191,345)**	**57,502**	**138,880**	**(32,910)**	**328**	**(27,545)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Other reserves (continued)

(a) 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.

23. Share-based payments

The share-based compensation expenses recognized are as follows:

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Expenses arising from equity-settled share-based payment transactions	**26,454**	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 statement 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 year ended December 31, 2021, the Group recognized share-based payment expenses amounting to RMB746,000 (2020: RMB2,068,000), for the aforesaid share-based payments to individuals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Share-based payments (continued)

(b) Employee Share Award Scheme

(i) Prior to 2018, 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.

Pursuant to the share incentive scheme, certain limited liability partnerships for purpose of issuing share incentive schemes (the "ESOP LLPs") which held equity interests in Wuxi EA directly, were set up. Prior to 2018, the ESOP LLPs acquired 20.26% equity interests in Wuxi EA in total from the then shareholders under the share incentive scheme.

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 amounting to RMB25,465,000 were debited from "share-based payment reserves" account. As at December 31, 2020, equity interest of the Company held under the share award scheme amounting to RMB29,529,000 are recorded as "shares held for employee share scheme". For the year ended December 31, 2021, 21,084,500 shares of the Company, which are after the effect of share subdivision as described in Note 21(a)(iv), were vested, resulted from which the shares held for employee share scheme amounting to RMB25,136,000 were transferred and debited from "share-based payment reserves" account upon vesting.

(ii) 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. Effective from May 20, 2021, these share options were subdivided into 300,000 shares with exercise price of USD1.2 per share.

(iii) 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. Effective from May 20, 2021, these shares were subdivided into 460,000 shares with par value of USD0.0001 each.

For the year ended December 31, 2021, the Group recognized share-based payment expenses amounting to RMB25,708,000 (2020: RMB64,251,000) for the aforesaid share award schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Retained earnings

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
At the beginning of the year	66,698	44,589
Profit for the year	285,848	150,689
Appropriation to statutory reserves	(19,950)	(24,580)
Dividends (Note 30)	(99,618)	(104,000)
At the end of the year	232,978	66,698

25. Trade and other payables

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Trade payables (Note (a))	79,550	34,024
Employee benefits payable	85,864	82,302
Other taxes payable	69,400	55,514
Consideration payables in relation with acquisition of a subsidiary (Note 33)	–	3,262
Accrued expenses payable	10,370	15,531
Deposits payable	21,314	17,443
Advertising and promotion expenses payable	16,230	13,955
Donations payable	4,000	4,000
Professional service fees payable	3,154	6,128
Reimbursement payable	109	2,688
Payables in relation with acquisition of property, plant and equipment	8,259	286
Others	941	3,454
	299,191	238,587

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. Trade and other payables (continued)

(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, 2021 RMB'000	As at December 31, 2020 RMB'000
0 to 60 days	65,932	28,027
61 to 180 days	12,914	3,566
181 to 365 days	166	685
Over 1 year	538	1,746
	79,550	34,024

(b) The carrying amount of the Group's trade payables is denominated in the following currencies:

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
RMB	72,986	34,024
USD	6,395	–
EUR	169	–
	79,550	34,024

(c) As at December 31, 2021, trade and other payables of the Group were interest-free and repayment on demand (2020: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. Contract liabilities

The Group has recognized the following revenue-related contract liabilities:

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Included in current liabilities		
Clear aligner treatment solutions	369,443	397,919
Other services	1,319	1,773
	370,762	399,692
Included in non-current liabilities		
Clear aligner treatment solutions	80,126	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. During the year, current contract liabilities decreased due to increase in production capacity, which resulted in increased delivery of clear aligners. Non-current contract liabilities increased due to increase in number of contracts entered with customers, which resulted in increase in advanced payments received.

(b) Revenue recognized in relation to contract liabilities

The following table shows the revenue recognized during the year relates to carried-forward contract liabilities.

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of the year		
– Clear aligner treatment solutions	397,919	237,713
– Other services	1,773	1,185
	399,692	238,898

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Lease liabilities

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Minimum lease payments due		
– Within 1 year	16,153	9,214
– Between 1 and 2 years	9,524	5,408
– Between 2 and 5 years	6,900	311
	32,577	14,933
Less: future finance charges	(2,290)	(765)
Present value of lease liabilities	30,287	14,168
Within 1 year	14,744	8,625
Between 1 and 2 years	8,851	5,247
Between 2 and 5 years	6,692	296
	30,287	14,168

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Interest expense (included in finance costs-net)	1,230	1,135
Variable terms lease expenditure for equipment	10,158	5,895
Short-term lease expenditure for office premises, dormitories and equipment	575	1,099
	10,733	6,994
Cash outflow for lease payments	13,185	10,868
Cash outflow for short-term lease and variable terms lease	9,544	16,689
	22,729	27,557

The Group leases various properties and equipment to operate its businesses and these lease liabilities were measured at net present value of the lease payments during the lease terms that are not yet paid. No extension options are included in such property and equipment leases across the Group.

Some devices leases contain variable payment terms that are linked to the production of aligners. Variable lease payments that depend on production of aligner are recognized in profit or loss in the period in which the condition that triggers those payments occurs. For the year ended December 31, 2021, a 5% increase in production of clear aligners in the Group with such variable lease contracts would lead to the increase of total lease payments by approximately RMB508,000 (2020: RMB294,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. Deferred income

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Government grants		
– To be realized within 12 months	**1,463**	600
– To be realized after more than 12 months	**31,974**	6,280
	33,437	6,880

The Group's deferred income mainly represents government grants received from governmental authorities in relation to the construction of Chuangmei Center in Wuxi City and certain plant and equipment. The Group's deferred income is credited to profit or loss over the estimated useful lives of the related assets to match the depreciation expense of assets.

29. Deferred income tax

(a) Deferred income tax assets

The analysis of deferred tax assets is as follows:

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
The balance comprises temporary differences attributable to:		
Net impairment on financial assets	**3,777**	3,267
Unused tax losses	**1,622**	2,809
Impairment for non-current assets	**–**	134
Deferred income	**7,498**	1,258
Others	**1,145**	2,105
	14,042	9,573

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. Deferred income tax (continued)

(a) Deferred income tax assets (continued)

The movement in deferred income tax assets is as follows:

	Net impairment on financial assets RMB'000	Unused tax losses RMB'000	Impairment for non-current assets RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
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	3,267	2,809	134	1,258	2,105	9,573
As at January 1, 2021	**3,267**	**2,809**	**134**	**1,258**	**2,105**	**9,573**
Credited/(charged) to the consolidated statements of comprehensive income	**510**	**(1,187)**	**(134)**	**6,240**	**(954)**	**4,475**
Early termination of lease contracts	**–**	**–**	**–**	**–**	**(6)**	**(6)**
As at December 31, 2021	**3,777**	**1,622**	**–**	**7,498**	**1,145**	**14,042**

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 year ended December 31, 2021, the Group did not recognize deferred income tax assets in respect of losses amounting to RMB198,000 (2020: RMB56,000), 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, 2021 RMB'000	As at December 31, 2020 RMB'000
Indefinite	**10,052**	9,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. Deferred income tax (continued)

(b) Deferred income tax liabilities

The analysis of deferred tax liabilities is as follows:

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
The balance comprises temporary differences attributable to:		
Withholding income tax on profits to be distributed in future	**–**	6,000

The movement in deferred income tax assets is as follows:

	Withholding income tax on profits to be distributed in future RMB'000
As at January 1, 2020	–
Charged to the consolidated statements of comprehensive income	6,000
As at December 31, 2020	6,000
As at January 1, 2021	**6,000**
Credited to the consolidated statements of comprehensive income	**(6,000)**
As at December 31, 2021	**–**

30. Dividends

The Board has recommended the payment of special final dividend of HKD1.22 per share for the year ended December 31, 2021 which is subject to the approval by the shareholders at the forthcoming annual general meeting of the Company.

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 then shareholder of the Company, which were fully paid in April 20, 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. Cash flow information

(a) Reconciliation of profit before income tax to cash generated from operations:

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Profit before income tax	332,084	191,231
Adjustments for:		
Interest income (Note 9)	(16,890)	(4,153)
Interest expense (Note 9)	1,230	1,154
Gains on financial assets at fair value through profit or loss (Note 6)	(1,816)	(4,235)
Depreciation of property, plant and equipment (Note 12)	23,871	17,521
Depreciation of right-of-use assets (Note 13)	13,194	11,077
Amortization of intangible assets (Note 14)	2,094	3,525
Losses on disposal of property, plant and equipment (Note 6)	96	265
Gains on early termination of a lease contract (Note 6)	(10)	(10)
Net impairment losses on financial assets (Note 3.1(b))	245	10,148
Share-based compensation expenses (Note 23)	26,454	66,319
Share of results of investments accounted for using the equity method (Note 20)	1,850	(347)
Operating cash flows before changes in working capital	382,402	292,495
Changes in working capital (excluding the effects of business combination):		
Inventories	(8,332)	2,913
Trade and other receivables	24,385	(15,047)
Trade and other payables	78,403	37,206
Contract liabilities	32,272	114,273
Cash generated from operations	509,130	431,840

In the consolidated statements of cash flows, proceeds from disposals of property, plant and equipment comprise:

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Net book amount (Note 12)	739	569
Losses on disposal of property, plant and equipment (Note 6)	(96)	(265)
Proceeds from disposal of property, plant and equipment	643	304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. Cash flow information (continued)

(b) Non-cash transaction

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Acquisition of new lease contracts	**28,900**	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 year presented.

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Cash and cash equivalents	**3,626,983**	877,578
Lease liabilities	**(30,287)**	(14,168)
Amounts due to related parties	**–**	(5,940)
Net cash	**3,596,696**	857,470

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. Cash flow information (continued)

(c) Net debt reconciliation (continued)

	Other assets	Liabilities from financing activities		
	Cash and cash equivalents RMB'000	Lease liabilities RMB'000	Amounts due to related parties RMB'000	Total RMB'000
Net debt as at January 1, 2020	504,697	(22,870)	(6,291)	475,536
Cash flows	377,670	10,868	165	388,703
Acquisition of new lease contracts	–	(1,606)	–	(1,606)
Early termination of lease contracts	–	575	–	575
Interest payable	–	(1,135)	(19)	(1,154)
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
Net debt as at January 1, 2021	**877,578**	**(14,168)**	**(5,940)**	**857,470**
Cash flows	**2,782,907**	**13,185**	**139**	**2,796,231**
Acquisition of new lease contracts	**–**	**(28,900)**	**–**	**(28,900)**
Early termination of lease contracts	**–**	**826**	**–**	**826**
Interest payable	**–**	**(1,230)**	**–**	**(1,230)**
Exemption of debt	**–**	**–**	**5,512**	**5,512**
Reclassification to investments in joint ventures	**–**	**–**	**289**	**289**
Exchange differences	**(33,502)**	**–**	**–**	**(33,502)**
Net debt as at December 31, 2021	**3,626,983**	**(30,287)**	**–**	**3,596,696**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
No later than 1 year	**218**	285

(b) Capital commitments

The Group's capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Property, plant and equipment	**100,622**	164,898
Intangible assets	**987**	8
Investment in a joint venture	**–**	500
	101,609	165,406

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. Related party transactions

(a) Names and relationships with related parties

Below is the summary of the Group's related parties during the year ended December 31, 2021:

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
Shanghai Moer Dental Hospital Investment Management Company Limited ("Shanghai Moer Hospital")	An entity significantly influenced by Mr. FENG Dai (Before January 1, 2021)
Ningbo Meishan Bonded Port Area Zhaomin Investment Management Partnership (Limited partnership) ("Ningbo Zhaomin")	An entity controlled by a director of the Company
Ningbo Meishan Bonded Port Area Yonghan Investment Management Partnership (Limited partnership) ("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
Zhengzhou Smile Songbai Industrial Co., Ltd. ("Zhengzhou Smile")	An entity controlled by CareCapital Group
Changsha Minjian Medical Equipment Co., Ltd. ("Changsha Minjian")	An entity significantly influenced by CareCapital Group
Henan Red Sun Medical Instrument Co., Ltd. ("Henan Red Sun")	An entity controlled by CareCapital Group
Taiyuan Yishunkang Medical Device Co., Ltd. ("Yishunkang ")	An entity controlled by CareCapital Group (After January 1, 2021)
Guangzhou Yilu Precision Medical Devices Co., Ltd. ("Guangzhou Yilu")	An entity controlled by CareCapital Group (After October 28, 2021)
Heyuan Hengxin Dental Hospital ("Heyuan Hengxin")	An entity controlled by CareCapital Group (After January 1, 2021)
Huizhou Huiyang Huikou Dental Clinic Co., Ltd. ("Huikou Dental Clinic")	An entity controlled by CareCapital Group (After January 1, 2021)
Luoyang Smile Songbai Medical Equipment Co., Ltd. ("Luoyang Smile")	An entity controlled by CareCapital Group (After January 1, 2021)
Shanghai Qirui Dental Clinic Co.,Ltd. ("Shanghai Qirui")	An entity controlled by CareCapital Group (After December 1, 2021)
Songbai Leye Medical Equipment (Ningbo) Co., Ltd. ("Songbai Leye")	An entity controlled by CareCapital Group (After August 1, 2021)
Yiwu Huizhou Dental Hospital	An entity controlled by CareCapital Group (After January 1, 2021)
Zhenjiang Wenjie Medical Equipment Co., Ltd. ("Zhenjiang Wenjie")	An entity controlled by CareCapital Group (After January 1, 2021)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. Related party transactions (continued)

(b) Transactions with related parties

During the year ended December 31, 2021, 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, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Clear aligner treatment solutions		
Zhengzhou Smile	24,717	14,950
Guangzhou Yilu	5,265	–
Guiyang Jinxin	2,757	1,525
Yishunkang	2,675	–
Henan Red Sun	1,560	2,799
Huizhou Dental Hospital	368	1,010
Changsha Minjian	220	168
Zhenjiang Wenjie	173	–
Shanghai Junxiao	107	107
Luoyang Smile	55	–
Heyuan Hengxin	41	–
Shanghai Qirui	10	–
Songbai Ieye	7	–
Huikou Dental Clinic	4	–
Yiwu Huizhou Dental Hospital	4	–
Shanghai Moer Hospital	–	2,153
	37,963	22,712
Sales of intraoral scanners		
Zhengzhou Smile	2,468	–
Guangzhou Yilu	3	–
	2,471	–
Interest expenses		
Ningbo Yonghan	–	8
Ningbo Zhaomin	–	11
	–	19

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. Related party transactions (continued)

(c) Key management compensation

Key management comprise the Company's directors and senior management. The compensation paid or payable to key management for employee services is shown below:

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Fees	**1,173**	–
Salaries, wages and bonuses	**10,427**	10,992
Share-based compensation expenses	**25,529**	54,480
Pension costs – defined contribution plans	**331**	70
Other social security costs, housing benefits and other employee benefits	**389**	373
	37,849	65,915

(d) Outstanding balances arising from sales/purchases of goods and services

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Trade and other receivables		
Guiyang Jinxin	**492**	143
Changsha Minjian	**452**	222
Shanghai Moer Hospital	**–**	7
Zhengzhou Smile	**–**	6
Shanghai Qirui	**10**	–
Yishunkang	**83**	–
Songbai Leye	**7**	–
Zhenjiang Wenjie	**121**	–
Guangzhou Yilu	**459**	–
	1,624	378

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. Related party transactions (continued)

(d) Outstanding balances arising from sales/purchases of goods and services (continued)

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Trade and other payables		
CareCapital Orthotech	–	3,262

As at December 31, 2021, the balances were with trade nature, unsecured, interest-free, and collectable/repayable on demand.

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Contract liabilities		
Zhengzhou Smile	13,404	11,227
Henan Red Sun	857	927
Shanghai Junxiao	59	322
Guiyang Jinxin	1,457	19
Huizhou Dental Hospital	23	482
Shanghai Moer Hospital	–	201
Yishunkang	903	–
Zhenjiang Wenjie	688	–
Luoyang Smile	15	–
Guangzhou Yilu	7,990	–
	25,396	13,178

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. Related party transactions (continued)

(e) Amounts due from/to related parties

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Amounts due from related parties		
Wuxi Beifurui	–	1,100
Shanghai Junxiao	–	3,423
	–	4,523

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Amounts due to related parties		
CareCapital Orthotech	–	2,805
Ningbo Yonghan	–	1,456
Ningbo Zhaomin	–	1,145
Wuxi Beifurui	–	289
Ms. LI Huamin	–	77
Shanghai Junxiao	–	168
	–	5,940

The above balances were with non-trade nature.

During the year ended December 31, 2021, the amounts due to related parties amounting to RMB5,344,000 in total were waived pursuant to agreements entered into between the Group and certain shareholders of the Company dated March 24, 2021 and April 22, 2021, respectively.

34. Contingent liabilities

The Group did not have any material contingent liabilities as at December 31, 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. Subsidiaries

The following is a list of principal subsidiaries at December 31, 2021 and 2020, all of these 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	Attributable equity interest to the Group as at December 31, 2021 and 2020
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%
Beijing EA Bio-Tech Co., Ltd. (北京時代天使生物科技有限公司)	PRC, June 27, 2003	Manufacture of clear aligner treatment solutions, PRC	RMB19,300,000/ RMB19,300,000	100%
Shanghai EA	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%
Shuyang EA Medical Instruments Co., Ltd.* (沭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%
Wuxi Fuchi Management Consulting Co., Ltd.* (無錫富馳管理諮詢有限公司)	PRC, July 14, 2016	Investment holdings, PRC	RMB10,000,000/ RMB10,000,000	100%
Shanghai Tianzhi Clinic Co., Ltd. (上海天智口腔門診部有限公司)	PRC, May 21, 2013	Dental clinics, PRC	RMB3,000,000/ RMB3,000,000	70%
China Target Management Limited (創泰管理有限公司)	Hong Kong, January 11, 2016	Trading of raw materials, Hong Kong	HKD12,449,701/ HKD12,449,701	100%
Gecho Holding GmbH	Germany, February 19, 2016	Research and development of clear aligner treatment solutions, Germany	EUR25,000/ EUR25,000	100%
Smile Development Group Limited	Cayman, June 8, 2016	Investment holdings, Cayman	USD50,000/ USD50,000	67%
Smile Development Corp	United States, June 20, 2016	Research and development of clear aligner treatment solutions, United States	USD0.1/ USD0.1	67%
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%
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%

* The English names of the subsidiaries represent management's best efforts in translating their Chinese names as they do not have official English names.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. Balance sheet and reserve movement of the Company

	Note	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
ASSETS			
Non-current assets			
Investment in a subsidiary		**456,672**	447,971
Property, plant and equipment		**35**	–
		456,707	447,971
Current assets			
Cash and cash equivalents		**2,618,112**	42,674
Trade and other receivables		**927**	6,924
		2,619,039	49,598
Total assets		**3,075,746**	497,569
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**110**	97
Share premium		**3,117,920**	486,572
Other reserves	(a)	**(16,938)**	4,056
Accumulated losses	(b)	**(79,543)**	(22,872)
Total equity		**3,021,549**	467,853
Liabilities			
Current liabilities			
Other payables		**54,197**	29,457
Amounts due to related parties		**–**	259
		54,197	29,716
Total liabilities		**54,197**	29,716
Total equity and liabilities		**3,075,746**	497,569

The balance sheet of the Company was approved by the Board of Directors on March 24, 2022 and were signed on its behalf.

Ms. Li Huamin — *Director*

Mr. Huang Kun — *Director*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. Balance sheet and reserve movement of the Company (continued)

(a) Other reserves

	Share-based payment reserves RMB'000	Currency translation reserves RMB'000	Total RMB'000
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
Balance at January 1, 2021	**4,050**	**6**	**4,056**
Currency translation differences	**–**	**(29,695)**	**(29,695)**
Equity-settled share-based payment transactions	**8,701**	**–**	**8,701**
Balance at December 31, 2021	**12,751**	**(29,689)**	**(16,938)**

(b) Accumulated losses of the company

	Accumulated losses RMB'000
Balance at January 1, 2020	(12,664)
Loss for the year	(10,208)
Balance at December 31, 2020	(22,872)
Balance at January 1, 2021	**(22,872)**
Profit for the year	**42,947**
Dividend declared	**(99,618)**
Balance at December 31, 2021	**(79,543)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. Benefits and interests of directors

(a) Directors' emoluments

The remuneration of every director and chief executive is set out below:

For the year ended December 31, 2021:

Name	Fees RMB'000	Salaries, wages and bonuses RMB'000	Share-based compensation expenses RMB'000	Pension costs – defined contribution plans RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
Year ended December 31, 2021						
Executive directors						
Ms. LI Huamin	–	3,230	12,700	57	69	16,056
Mr. CHEN Kai(i)	–	1,228	9,867	18	22	11,135
Mr. SONG Xin(ii)	–	2,036	139	56	64	2,295
Non-executive directors						
Mr. FENG Dai	–	–	–	–	–	–
Mr. HUANG Kun	–	–	–	–	–	–
Mr. HU Jiezhang	–	–	–	–	–	–
Independent non-executive directors						
Ms. DONG Li	510	–	–	–	–	510
Mr. HAN Xiaojing	408	–	–	–	–	408
Mr. SHI Zi	255	–	–	–	–	255
	1,173	6,494	22,706	131	155	30,659

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. Benefits and interests of directors (continued)

(a) Directors' emoluments (continued)

For the year ended December 31, 2020:

Name	Fees RMB'000	Salaries, wages and bonuses RMB'000	Share-based compensation expenses RMB'000	Pension costs – defined contribution plans RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
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 Jiezhang	–	–	–	–	–	–
Independent non-executive directors						
Ms. DONG Li	–	–	–	–	–	–
Mr. HAN Xiaojing	–	–	–	–	–	–
Mr. SHI Zi	–	–	–	–	–	–
	–	4,135	45,965	8	114	50,222

(i) Mr. CHEN Kai resigned as an executive director of the Company with effect from April 17, 2021.

(ii) Mr. SONG Xin was appointed as the executive director of the Company on April 21, 2021.

During the year ended December 31, 2021, no emoluments were paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in Note 33, 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 the year or at any time during the year.

38. Subsequent events

In January 2022, the Company invested into a limited partnership, CareCapital Aligner Tech L.P., with controlling shareholder, CareCapital Group, to invest in innovative digital technologies and products in the global orthodontics market, with investment amount of HKD100 million.

ANGELALIGN TECHNOLOGY INC.
時代天使科技有限公司