

ANGELALIGN TECHNOLOGY INC.

時代天使科技有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6699

2022

INTERIM REPORT



用科技创新影响世界的微笑

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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 Jiezhong

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, Uglad 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 Headquarter

6/F-7/F, Building No. 7, KIC Business Center

No. 500 Zhengli Road

Yangpu District

Shanghai, PRC

CORPORATE INFORMATION

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

5/F, Manulife Place
348 Kwun Tong Road
Kowloon
Hong Kong

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

Company's Website

www.angelalign.com

Stock Short Name

Angelalign

Stock Code

6699



RESULTS HIGHLIGHTS

Financial and Operating Highlights

- Our revenue for the six months ended June 30, 2022 was approximately RMB570.9 million, as compared to approximately RMB571.0 million for the six months ended June 30, 2021.
- Our gross profit for the six months ended June 30, 2022 was approximately RMB331.4 million, as compared to approximately RMB377.6 million for the six months ended June 30, 2021.
- Our net profit for the six months ended June 30, 2022 was approximately RMB73.3 million, as compared to approximately RMB95.7 million for the six months ended June 30, 2021.
- Our adjusted EBITDA for the six months ended June 30, 2022 was approximately RMB111.9 million, as compared to approximately RMB195.4 million for the six months ended June 30, 2021. 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. See pages 13 and 14 of this report for more details.
- Our adjusted net profit for the six months ended June 30, 2022 was approximately RMB82.0 million, as compared to approximately RMB156.9 million for the six months ended June 30, 2021. 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. See pages 13 and 14 of this report for more details.
- Our case shipments were approximately 77,200 in the six months ended June 30, 2022, as compared to approximately 79,500 in the six months ended June 30, 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

In the first half of 2022, the market environment for the clear aligner treatment industry in which we operate faced unprecedented challenges due to multiple factors, such as the resurgence of the COVID-19 pandemic in China and the corresponding governmental control and restrictive measures, the closure of or restriction on clinics and hospitals in relevant regions and cities, and the weak consumption environment. During the pandemic, we rapidly formulated a number of plans and emergency measures to ensure orderly business operations and timely delivery of products. We worked with dental professionals, patients and employees to overcome the difficulties together. We have always been committed to long-term future development, continuing to invest in business growth and steadfastly promoting our expansion into emerging markets and overseas markets to maintain our market leadership. Despite the multiple external challenges, we have continued to adhere to the “customer-first” original aspiration and made decisions for sustained certainties in the midst of uncertainty. Particularly, driven by our dedication to addressing dental professionals’ needs with digital orthodontics, we’ve been further optimizing and refining our clear aligner treatment solutions to enable them to realize stable, easy, efficient, and accurate diagnosis and treatment.

As a result of the above factors, our total revenue remained relatively flat at RMB570.9 million in the six months ended June 30, 2022, as compared with the same period of last year. Revenue generated from our core business, namely the clear aligner treatment solutions, has achieved a year-on-year growth of 2.6%. Our gross profit decreased by 12.2% year-on-year to RMB331.4 million, and our net profit decreased by 23.4% year-on-year to RMB73.3 million. The number of case shipments dropped slightly from approximately 79,500 in the six months ended June 30, 2021 to approximately 77,200 in the six months ended June 30, 2022.

Reinforce the Product Portfolio with Dedication into Digital Orthodontics

With a profound understanding of the medical philosophy, extensive attempts in digital orthodontics, as well as deep insights into the needs of dental professionals and patients from each segmentation in the Chinese market, we have developed a comprehensive and diversified product portfolio. Although over the years, the ups and downs in the macro environment and the pandemic outbreak in multiple regions have been exerting unconscious impact on dental professionals’ decision making on products and patients’ consumption, it is observed that we have been able to better capture the changing needs of dental professionals and patients by virtue of a comprehensive and differentiated product portfolio in combination with flexible and diversified market expansion strategies.

In order to further optimize product capabilities, we have continued to develop and introduce new technologies and new solutions to upgrade each product line. In the first half of 2022, we launched *A7 Speed Premolar Extraction Solution* (“**A7 Speed**”). Based on the traditional orthodontic treatment philosophy, *A7 Speed* utilizes the elasticity and mechanical force control of *masterControl S*, a self-adaptive polymer composite material, to significantly improve the treatment efficiency with the help of the *AngelAttach System* and *Angelalign Zhimei System*. *A7 Speed* will be applied to multiple product lines to enable dental professionals to efficiently handle complex malocclusion cases. In terms of early treatment for children, with focus on preventive and interceptive treatments, we have launched functional treatment products, such as invisible tongue crib technology, tongue position orientation technology, and new buccal-labial shield, to provide more comprehensive and reliable solutions for children’s malocclusion cases in the primary dentition period.

Benefiting from our comprehensive and diversified product portfolio, we are on the highway of expansion in the third- and fourth-tier emerging markets, increasing our penetration in lower tier markets. In the first half of 2022, the proportion of case shipments generated from third- and fourth-tier emerging markets steadily increased.

MANAGEMENT DISCUSSION AND ANALYSIS

Actively Strengthen Digital Diagnosis and Treatment to Realize All-round Empowerment Leveraging Medical-centric Intelligent Technological Services

In the post-pandemic era, regular pandemic prevention and control has been promoting the digitalization of the entire process of dental diagnosis and treatment. As such, we have been actively enhancing the development of digital imaging, digital orthodontics intelligent service platform, intelligent diagnosis and treatment planning, remote monitoring and communication between dental professionals and patients, so as to enable digital technologies and services to benefit dental professionals and patients in an all-round way.

As the primary stage of digital diagnosis and treatment, the intraoral scanner that has been undergoing continuous development and wide application has built a new terminal scenario for doctor-patient communication, which further helps dental professionals in diagnosis and treatment and greatly improves the comfort for and satisfaction of patients in treatment. The number of our cases submitted using the intraoral scanners has been consistently increasing during the Review Period.

In terms of the digital orthodontics intelligent service platform, *iOrtho 10.0*, our doctor interaction system, was upgraded in the first half of 2022 with multiple functional modules added or optimized based on dental professionals' needs. For example, the access management setting maximizes process efficiency; the upgraded cephalometric analysis function automatically identifies the image of the cervical vertebra and measures the patient's growth stage and corresponding skeletal age through AI algorithms to provide significant reference for the selection of therapy and prediction of treatment outcome; the optimized 3D model modification tools realize user-friendly adjustment and match with the habits of different dental professionals; the newly launched remote monitoring function assists dental professionals to find out patients' oral conditions remotely, thereby reducing the frequency of offline follow-up visits and improving patient compliance.

In terms of intelligent diagnosis and treatment planning, we have continued to explore new intelligent approaches for digital orthodontics by virtue of our deep understanding of orthodontic treatment and to use advanced artificial intelligence technologies, such as deep learning. Since the first half of 2022, leveraging the *A-Treat* digital orthodontic treatment planning platform, we have been providing much more appropriate references for treatment planning by using big data and artificial intelligence technology to meet the personalized needs of dental professionals and patients. We have been keeping trying to make the work and tasks of our medical design team more modularized, standardized and automated through intelligent technologies to improve the efficiency of treatment planning.

In addition, we help dental professionals achieve better professional growth and personal impact in the field of clear aligner treatment through systematic education and training programs. In the first half of 2022, we provided customized and professional medical training around dental professionals' diagnosis and treatment workflow in practice, their core concerns, and other detailed aspects in clinical scenarios. Meanwhile, we have continued to motivate our clinical education team to reach out to dental professionals to help them solve more specific technical and clinical challenges and empower them to better treat their cases.

MANAGEMENT DISCUSSION AND ANALYSIS

Establish a First-class R&D Ecosystem to Instill Vitality into Sustained Innovation of Products and Technologies

In the first half of 2022, we remained committed to leading product and service development with technological innovation, and continued to achieve breakthroughs in multiple aspects, including new clear aligner products, treatment solutions, and user software. Meanwhile, we also actively promoted the progress and development of the clear aligner industry. On May 18, 2022, the “YYT 1819 Dentistry Diaphragms for Orthodontic Aligner” (YYT 1819 牙科學正畸矯治器用膜片) jointly drafted by us and the Oral Medical Device Testing Center of Peking University Hospital of Stomatology was officially released by the National Medical Products Administration. This is the first industry standard for the clear aligner industry in China. During the Review Period, our total R&D expenses were RMB75.4 million, accounting for 13.2% of the revenue. In addition, we have been following the patent application principle of great-innovation, great-quality and great-values, and committed to leading the development of the industry with real innovation. As of June 30, 2022, we had registered 130 patents and 16 software copyrights.

In terms of industry-academia research cooperation and scientific achievement transformation, we have set up several 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, which have achieved substantial results. For example, in June 2022, *angelArm*, which was jointly developed by our Company and the Ninth People’s Hospital, Shanghai Jiaotong University School of Medicine, has gained the license of Class II medical device, and the related research paper has been accepted by BMC Oral Health, an SCI journal.

Reinforce Brand Awareness and Boost 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 the first half of 2022, we continued to enhance brand awareness and academic influence of “Angelalign” through academic sharing, popular science dissemination, cross-industry IP co-branding and public welfare campaigns.

In June 2022, we organized and hosted the ninth *A-Tech Forum*, where we witnessed dozens of KOLs worldwide sharing the most innovative and cutting-edge technologies and clinical application outcomes in the digital dental industry. We also released a series of new products and technological solutions, such as *A7 Speed*, and *iOrtho 10.0*, the digital orthodontic intelligent service platform. The forum further boosted the influence of “Angelalign” brand, which features medical science as its DNA, as well as our commitment to technological innovation, and extended our profound academic influence among industry experts. The forum was run online through live streaming for the first time, gaining over 700,000 visits.

Meanwhile, we pay long-term attention to the oral health of adolescents and children and continue to promote the professional and standard-based development of pediatric stomatology. In June 2022, Angelalign entered into a strategic cooperation with “Hasbro”, a world-renowned toy and entertainment company, pursuant to which the parties agreed on the licensing of two major IPs, namely “Transformers” (變形金剛) and “My Little Pony” (小馬寶莉). The strong combination of the two brands will not only facilitate the wider spread of the brand value and product proposition of Angelalign, but also help more dental professionals to tailor personalized facial management solutions for children, so as to buoy the whole dental growth and development cycle for adolescents and children.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, we will further accelerate the popular science dissemination and market education of children's oral health and increase the oral health awareness among Chinese families. In the first half of 2022, the "Angel Loves Smiling" public welfare project jointly launched by us and Shanghai Adream Charitable Foundation (上海真愛夢想公益基金會) in 2021 continued to progress. The project has covered 53 schools in less-developed areas across the country, recorded and promoted three seasons of popular science lectures about oral health, and distributed more than 2,600 oral care kits.

Optimize Scalable and Intelligent Manufacturing Capability to achieve Lean Production

We firmly believe that our continuously optimized intelligent manufacturing technology, the "mass customization" model and scalable manufacturing capabilities are the solid foundation for our long-term business growth. Our Chuangmei Center (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 have been equipping Chuangmei Center and our existing manufacturing facilities with intelligent manufacturing technologies to better control the quality of our clear aligners, fulfill customer demands, and handle orders more promptly. During the first half of 2022, we completed the commissioning process of one established automated production line, which has been put into use in response to the demands for our products.

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.

Outlook

As we enter into the second half of 2022, we have seen a gradual market recovery along with the effective control of the pandemic by the government and the recovery of the dental services business. Nevertheless, the COVID-19 pandemic remains recurrent and there are still risks of potential outbreaks. Should there be an escalation of the spread, China may again take strict emergency measures, including travel restrictions, cessations of business operations, including dental hospitals and clinics, 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 consumers' discretionary spending on higher-priced orthodontic solutions, each of which would have an adverse effect on our results of operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Despite the above challenges, we remain confident in the long-term growth of China's economy and the continuous improvement of household consumption, as well as the rapid growth of China's digital orthodontics market, which currently has a low penetration rate yet enormous market opportunities. Leveraging our market leadership and our intimate understanding of China's digital orthodontics market, we will always remain sensitive to the market, gain insight into the needs of dental professionals, and strengthen our business model to be fully prepared to capture the upside potential of the enormous market.

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 for the six months ended June 30, 2022 was RMB570.9 million, which remained relatively stable compared to RMB571.0 million for the six months ended June 30, 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 periods indicated.

	Six months ended June 30,			
	2022		2021	
	RMB'000	%	RMB'000	%
Clear aligner treatment solutions	546,419	95.7	532,694	93.3
Others				
Other services	7,335	1.3	9,776	1.7
Sales of intraoral scanners	17,182	3.0	28,579	5.0
Total	570,936	100.0	571,049	100.0

- Clear aligner treatment solutions.* Our revenue generated from the provision of clear aligner treatment solutions increased by 2.6% from RMB532.7 million in the six months ended June 30, 2021 to RMB546.4 million in the six months ended June 30, 2022, primarily due to the increase in the revenue recognized with the subsequent delivery of clear aligners for the case shipments in prior periods, partially offset by a decrease in the average selling price of our clear aligners and a slight decrease in the case shipments from approximately 79,500 in the six months ended June 30, 2021 to approximately 77,200 in the six months ended June 30, 2022 as a result of the negative impact of the resurgence of the COVID-19 pandemic in mainland China and the corresponding governmental control and restrictive measures. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

- *Other services.* Revenue generated from other services primarily represented service fees generated by our dental clinic for provision of orthodontics and cosmetic dentistry services and other dental services to patients. Our revenue generated from other services decreased by 25.0% from RMB9.8 million in the six months ended June 30, 2021 to RMB7.3 million in the six months ended June 30, 2022, primarily because the operation of our dental clinic was temporarily suspended for around two months due to the resurgence of the COVID-19 pandemic in mainland China and the corresponding governmental control and restrictive measures. Following the lift of quarantine measures, our dental clinic has been gradually restoring its operation.
- *Sales of intraoral scanners.* We deem our sales of intraoral scanners business primarily as supplemental value-added services to our customers to enhance their experience in applying our clear aligner treatment solutions. Our revenue generated from sales of intraoral scanners decreased by 39.9% from RMB28.6 million in the six months ended June 30, 2021 to RMB17.2 million in the six months ended June 30, 2022, primarily because the operations of dental hospitals and clinics were impacted due to the resurgence of the COVID-19 pandemic in the first half of 2022, and meanwhile, as compared to our relatively higher-priced imported intraoral scanners, the market demand for our relatively lower-priced domestic intraoral scanners became stronger.

Cost of revenue

Our cost of revenue increased by 23.8% from RMB193.4 million in the six months ended June 30, 2021 to RMB239.5 million in the six months ended June 30, 2022, primarily because after the manufacturing facilities of our Chuangmei Center were put into use, we incurred increased employee benefit expenses for additional personnel and depreciation and amortization cost for the new facilities.

- *Clear aligner treatment solutions.* Our cost of revenue related to the provision of clear aligner treatment solutions increased by 33.8% from RMB162.4 million in the six months ended June 30, 2021 to RMB217.2 million in the six months ended June 30, 2022, primarily due to the increases in (1) employee benefit expenses for production and administrative personnel, and (2) depreciation and amortization cost for the new manufacturing facilities in our Chuangmei Center.
- *Other services.* Our cost of revenue related to the provision of other services increased by 2.9% from RMB7.6 million in the six months ended June 30, 2021 to RMB7.8 million in the six months ended June 30, 2022, primarily due to the slight increases in rental expenses and employee benefit expenses.
- *Sales of intraoral scanners.* Our cost of revenue related to the sales of intraoral scanners decreased by 38.2% from RMB23.5 million in the six months ended June 30, 2021 to RMB14.5 million in the six months ended June 30, 2022, which was generally in line with the corresponding revenue change due to the above-mentioned reasons.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased by 12.2% from RMB377.6 million in the six months ended June 30, 2021 to RMB331.4 million in the six months ended June 30, 2022. The gross profit margin for the six months ended June 30, 2022 was 58.0%, as compared with 66.1% for the six months ended June 30, 2021. The following table sets forth a breakdown of our gross profit and gross profit margin by business line for the periods indicated.

MANAGEMENT DISCUSSION AND ANALYSIS

	Six months ended June 30,			
	2022		2021	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
(RMB in thousands, except for the percentages)				
Clear aligner treatment solutions	329,194	60.2%	370,343	69.5%
Others				
Other services	(448)	(6.1%)	2,213	22.6%
Sales of intraoral scanners	2,649	15.4%	5,076	17.8%
Total	331,395	58.0%	377,632	66.1%

- *Clear aligner treatment solutions.* Our gross profit margin for clear aligner treatment solutions decreased from 69.5% in the six months ended June 30, 2021 to 60.2% in the six months ended June 30, 2022, primarily due to (1) a decrease in the average selling price of our clear aligners, (2) the increased fixed costs in relation to the new manufacturing facilities, and (3) the increased employee benefit expenses.
- *Other services.* Our gross profit margin for other services decreased from 22.6% in the six months ended June 30, 2021 to negative 6.1% in the six months ended June 30, 2022, primarily because the operation of our dental clinic was temporarily suspended for around two months due to the resurgence of the COVID-19 pandemic in mainland China and the corresponding governmental control and restrictive measures, whereas we continued to incur certain fixed costs for the dental clinic during the period.
- *Sales of intraoral scanners.* Our gross profit margin for the sales of intraoral scanners decreased from 17.8% for the six months ended June 30, 2021 to 15.4% for the six months ended June 30, 2022, primarily due to the increased sales volume of our relatively lower-priced domestic intraoral scanners as compared to our relatively higher-priced imported ones.

Selling and marketing expenses

Our selling and marketing expenses increased by 32.3% from RMB96.6 million in the six months ended June 30, 2021 to RMB127.8 million in the six months ended June 30, 2022, primarily due to the implementation of our business strategy to penetrate and expand into domestic emerging markets and overseas markets, as well as our continuous investment in marketing activities.

Administrative expenses

Our administrative expenses decreased by 24.5% from RMB111.1 million in the six months ended June 30, 2021 to RMB83.8 million in the six months ended June 30, 2022, primarily because we incurred listing expenses in connection with the Global Offering in the six months ended June 30, 2021, whereas we did not have such expenses in the Review Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and development expenses

Our research and development expenses increased by 26.6% from RMB59.6 million in the six months ended June 30, 2021 to RMB75.4 million in the six months ended June 30, 2022, primarily due to the increase in employee benefit expenses in connection with our continuous R&D efforts.

Net impairment (losses)/reversal on financial assets

We recorded net impairment losses on financial assets of RMB1.6 million in the six months ended June 30, 2022, as compared with a net reversal of impairment on financial assets of RMB4.0 million in the six months ended June 30, 2021, primarily due to the increased balance of trade receivables.

Other income

We recorded other income of RMB5.6 million in the six months ended June 30, 2022, as compared with RMB4.2 million in the six months ended June 30, 2021, which primarily represented government grants we received.

Other expenses

We recorded other expenses of nil and RMB0.3 million in the six months ended June 30, 2021 and 2022, respectively, which primarily represented the donations we made to help combat the COVID-19 pandemic.

Other gains/(losses) – net

We had other gains – net of RMB24.6 million in the six months ended June 30, 2022, as compared with other losses – net of RMB1.0 million in the six months ended June 30, 2021, 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 by 122.7% from RMB4.8 million in the six months ended June 30, 2021 to RMB10.8 million in the six months ended June 30, 2022, primarily due to the increase in the interest income on our bank deposits, which mainly included the unutilized portion of the proceeds from our Global Offering.

Finance costs

Our finance costs increased by 62.7% from RMB0.5 million in the six months ended June 30, 2021 to RMB0.9 million in the six months ended June 30, 2022, primarily due to the increase in the interest expense on lease liabilities.

Share of results of investments accounted for using the equity method

We had a share of loss of investment accounted for using the equity method of RMB0.1 million in the six months ended June 30, 2022, compared to a share of loss of investment accounted for using the equity method of RMB0.8 million in the six months ended June 30, 2021, primarily due to the narrowed losses of the joint ventures and associates that we invested in.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit before income tax

As a result of the foregoing, we recorded profit before tax of RMB82.5 million in the six months ended June 30, 2022, as compared with RMB121.0 million in the six months ended June 30, 2021.

Income tax expenses

Our income tax expenses decreased by 63.4% from RMB25.3 million in the six months ended June 30, 2021 to RMB9.3 million in the six months ended June 30, 2022, primarily due to the decrease in our taxable income.

Profit for the period

As a result of the above, our net profit decreased by 23.4% from RMB95.7 million in the six months ended June 30, 2021 to RMB73.3 million in the six months ended June 30, 2022. The net profit margin for the six months ended June 30, 2022 was 12.8%, as compared with 16.8% for the six months ended June 30, 2021.

Non-IFRS measures

To supplement our interim financial information, which is presented in accordance with the IFRS, we also use adjusted EBITDA and adjusted net profit as additional financial measures, which is 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 period 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 period adjusted by non-recurring or non-operating items, including share-based payments and listing expenses. Share-based payments are non-operational expenses arising from granting restricted share units and options to directors, senior management and employees. The decision to make grants is discretionary and does not form a sustained pattern of recurrence, and the amount of grants may not directly correlate with the underlying performance of our business operations. We believe that these non-IFRS measures facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management do not consider indicative of our operating performance.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table reconciles our adjusted EBITDA and adjusted net profit for the period presented to the most directly comparable financial measure calculated and presented under IFRS.

	Six months ended June 30,	
	2022	2021
	(RMB in thousands)	
Profit for the period	73,271	95,662
<i>Add:</i>		
Income tax expenses	9,260	25,311
Profit before income tax	82,531	120,973
<i>Add:</i>		
Finance income – net	(9,915)	(4,308)
Depreciation of property, plant and equipment	20,222	10,463
Depreciation of right-of-use assets	8,695	6,125
Amortization of intangible assets	1,600	926
EBITDA	103,133	134,179
<i>Add:</i>		
Share-based payments	8,768	25,834
Listing expenses	—	35,429
Adjusted EBITDA	111,901	195,442
Profit for the period	73,271	95,662
<i>Add:</i>		
Share-based payments	8,768	25,834
Listing expenses	—	35,429
Adjusted net profit	82,039	156,925

Property, plant and equipment

Our property, plant and equipment consisted of plant and machinery, transportation equipment, furniture, fixtures and equipment, leasehold improvements, construction in progress and buildings. Our property, plant and equipment increased from RMB248.3 million as of December 31, 2021 to RMB330.2 million as of June 30, 2022, primarily due to the construction of the manufacturing facilities of our Chuangmei Center.

Inventories

Our inventories consisted primarily of raw materials, and to a much lesser extent, work in progress and finished goods. Our inventories level increased from RMB28.2 million as of December 31, 2021 to RMB57.4 million as of June 30, 2022, primarily because in order to mitigate the potential risks brought by the COVID-19 pandemic to our production process, we strategically improved the raw material inventories during the Review Period to ensure our production.

Trade and other receivables

Our trade and other receivables primarily consisted of trade receivables from third parties and prepayments to suppliers.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the details of our trade and other receivables as of the dates indicated.

	As of June 30, 2022	As of December 31, 2021
	(RMB in thousands)	
Trade receivables	67,114	54,054
Less: allowance for impairment of trade receivables	(20,198)	(18,580)
Other receivables	33,669	21,331
Less: allowance for impairment of other receivables	(101)	(94)
Prepayments for taxes	2,697	2,091
Prepayments for suppliers	20,256	19,210
Total	103,437	78,012

Our trade and other receivables increased from RMB78.0 million as of December 31, 2021 to RMB103.4 million as of June 30, 2022, primarily due to the increases in trade receivables and other receivables as a result of the negative impact of the COVID-19 pandemic on our collection efforts and the increased deductible input value-added tax.

The following table sets forth an ageing analysis of our trade receivables as of the dates indicated presented based on invoice date.

	As of June 30, 2022	As of December 31, 2021
	(RMB in thousands)	
Within 60 days	22,853	12,127
61 to 180 days	9,681	6,436
181 to 365 days	6,979	6,345
One to two years	7,014	9,830
Two to three years	6,921	9,551
Over three years	13,666	9,765
Total	67,114	54,054

Trade and other payables

Our trade and other payables primarily consisted of trade payables we owed to our suppliers, employee benefits payable, other taxes payable, and payables in relation with acquisition of property, plant and equipment. Our trade and other payables increased from RMB299.2 million as of December 31, 2021 to RMB388.7 million as of June 30, 2022, primarily due to the increase in payables in relation with acquisition of property, plant and equipment resulting from the construction of the manufacturing facilities of our Chuangmei Center.

MANAGEMENT DISCUSSION AND ANALYSIS

Contract liabilities

Our contract liabilities primarily arose from the advance payments made by customers before the delivery of underlying services and products. Our contract liabilities decreased from RMB450.9 million as of December 31, 2021 to RMB408.8 million as of June 30, 2022, primarily due to the increased delivery of our clear aligners and the decrease of our case shipments in the Review Period.

Liquidity, capital resources and capital structure

In the six months ended June 30, 2022, 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 Offerings.

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 decreased from approximately RMB3,733.2 million as of December 31, 2021 to approximately RMB3,680.8 million as of June 30, 2022, primarily due to the decrease in the cash and cash equivalents.

Cash and cash equivalents

Our cash and cash equivalents primarily consisted of cash at banks. Our cash and cash equivalents decreased from RMB3,627.0 million as of December 31, 2021 to RMB3,520.0 million as of June 30, 2022.

The following table sets forth our cash flows for the period indicated. During the six months ended June 30, 2022, our net cash generated from operating activities was negatively affected by the COVID-19 pandemic. In addition, in June 2022, we paid a special final dividend of HKD1.22 per share (total amount paid equivalent to approximately RMB176.0 million) for the year ended December 31, 2021, which was recorded as cash outflow from financing activities for the Review Period.

	For the six months ended	
	June 30,	
	2022	2021
	(RMB in thousands)	
Net cash generated from operating activities	31,496	174,017
Net cash used in investing activities	(87,200)	(78,682)
Net cash (used in)/generated from financing activities	(184,196)	2,182,263
Net (decrease)/increase in cash and cash equivalents	(239,900)	2,278,598
Cash and cash equivalents at beginning of the period	3,626,983	877,578
Exchange gains on cash and cash equivalents	132,891	8,794
Cash and cash equivalents at the end of the period	3,519,974	3,164,970

MANAGEMENT DISCUSSION AND ANALYSIS

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 recognized net foreign exchange gains of RMB16.9 million in the six months ended June 30, 2022, as compared to net foreign exchange losses of RMB1.3 million in the six months ended June 30, 2021.

In addition, in the six months ended June 30, 2022, we recorded exchange differences on translation of the Company of RMB121.3 million as other comprehensive income, as compared with RMB18.6 million in the six months ended June 30, 2021, primarily due to the exchange rate fluctuation.

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 six months ended June 30, 2022, our total paid capital expenditure amounted to approximately RMB36.0 million, which primarily consisted of purchases of property, plant and equipment in connection with the construction of our Chuangmei Center.

Capital commitments

Our capital commitments primarily related to acquisitions of property, plant and equipment and investment in unlisted equity investment. The following table sets forth a summary of our capital commitments as of the dates indicated.

	As of June 30, 2022	As of December 31, 2021
	(RMB in thousands)	
Property, plant and equipment	28,562	100,622
Investment in unlisted equity investment	16,392	—
Intangible assets	535	987
Total	45,489	101,609

Contingent liabilities

As of June 30, 2022, 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 and this report, as of June 30, 2022, we did not have other substantial future plans for material investments and capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Material acquisitions and disposals of subsidiaries and affiliated companies

Save as disclosed in the report, in the six months ended June 30, 2022, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Significant investments and acquisition of capital assets

On January 28, 2022, Company and certain affiliates of CareCapital Group have entered into a partnership agreement, pursuant to which our Company and CareCapital Group have agreed to jointly establish CareCapital Aligner Tech L.P., a limited partnership for investment purpose. For details, please refer to the announcement dated January 28, 2022.

Save as disclosed in this report, in the six months ended June 30, 2022, we did not hold any significant investments nor made any significant acquisition of capital assets.

Charge on group's assets

As of June 30, 2022, we had no charges on our assets.

Borrowings and gearing ratio

Gearing ratio represents the percentage of bank borrowings to total equity. As of June 30, 2022, we did not have any outstanding bank loans or other borrowings. Thus, as of June 30, 2022, 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 periods indicated.

	For the six months ended June 30,	
	2022	2021
Profitability ratios		
Gross profit margin ⁽¹⁾	58.0%	66.1%
Net profit margin ⁽²⁾	12.8%	16.8%
Adjusted net profit margin ⁽³⁾	14.4%	27.5%
	As of June 30, 2022	As of December 31, 2021
Liquidity ratios		
Current ratio ⁽⁴⁾	4.96	5.34

(1) The calculation of gross profit margin is based on gross profit divided by revenue for the period indicated and multiplied by 100.0%.

(2) The calculation of net profit margin is based on net profit divided by revenue for the period indicated and multiplied by 100.0%.

(3) The calculation of adjusted net profit margin, a non-IFRS measure, is based on adjusted net profit divided by revenue for the period indicated and multiplied by 100.0%.

(4) The calculation of current ratio is based on current assets divided by current liabilities as of June 30, 2022.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As of June 30, 2022, to the best of the knowledge of the Directors, the interests and short positions of the Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its 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 controlled corporation	100,000,000(L)	59.26%
Ms. LI Huamin ⁽³⁾	Founder of a trust; interest in controlled corporation	21,657,300(L)	12.83%
	Beneficial owner	25,642(L)	0.02%
Mr. HUANG Kun ⁽⁴⁾	Interest in controlled corporation	717,200(L)	0.42%
Mr. SONG Xin ⁽⁵⁾	Interest in controlled corporation	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 168,760,609 Shares in issue as of June 30, 2022, 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. On March 25, 2022, the Company granted 25,642 restricted share units, representing 25,642 ordinary shares of the Company, to Ms. LI Huamin pursuant to the Post-IPO RSU Scheme of the Company. On May 26, 2022, such grant was further approved by the independent Shareholders. For details, please refer to the announcement of the Company dated March 25, 2022 and circular dated April 21, 2022.
- (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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As of June 30, 2022, to the best of our knowledge of the Directors, the following persons 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 366 of the SFO:

Name of shareholders	Capacity/Nature of interest	Number of Shares held	Approximate percentage of interest ⁽¹⁾
CareCapital Orthotech Limited ⁽²⁾	Beneficial Owner	100,000,000 (L)	59.26%
CareCapital EA, Inc. ⁽²⁾	Interest in controlled corporation	100,000,000 (L)	59.26%
CareCapital Moonstone Holdings Limited ⁽²⁾	Interest in controlled corporation	100,000,000 (L)	59.26%
CareCapital Dental Holdings Limited ⁽²⁾	Interest in controlled corporation	100,000,000 (L)	59.26%
CareCapital Management Group LLC ⁽²⁾	Interest in controlled corporation	100,000,000 (L)	59.26%
Mr. FENG Dai ⁽²⁾	Interest in controlled corporation	100,000,000 (L)	59.26%
Sky Honour Enterprises Limited ⁽³⁾	Beneficial Owner	21,657,300 (L)	12.83%
Shore Lead Limited ⁽³⁾	Interest in controlled corporation	21,657,300 (L)	12.83%
Ms. LI Huamin ⁽³⁾	Founder of a trust; interest in controlled corporation	21,657,300 (L)	12.83%
	Beneficial owner	25,642 (L)	0.02%
Vast Luck Global Limited ⁽⁴⁾	Beneficial owner	9,645,000 (L)	5.72%
Jovial Day Global Limited ⁽⁴⁾	Interest in controlled corporation	9,645,000 (L)	5.72%
Mr. CHEN Kai ⁽⁴⁾	Founder of a trust; interest in controlled corporation	9,645,000 (L)	5.72%

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

- (1) The calculation is based on the total number of 168,760,609 Shares in issue as of June 30, 2022, without taking into account any Shares that may be issued under the Share Award Schemes.
- (2) See "Corporate Governance and Other Information — Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures" in this report for more information.
- (3) See "Corporate Governance and Other Information — Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures" in this report for more information.
- (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.

Interim Dividend

The Board did not declare any interim dividend for the six months ended June 30, 2022 (June 30, 2021: nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with CG Code

The Group is committed to maintaining high standards of corporate governance practices. The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of the Shareholders and to enhance corporate value and accountability.

The Company has adopted the principles and the code provisions set out in the CG Code under Appendix 14 of the Listing Rules as its own code of corporate governance. During the Reviewed Period, the Company has complied with all the applicable code provisions of the CG Code.

Compliance with the Model Code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its 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 during the Review Period.

Changes of Information of Directors and Chief Executives

Save as disclosed below, during the six months ended June 30, 2022, there has been no changes to the information of Directors and chief executives of the Company which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

- In January 2022, Ms. LI Huamin and Mr. SONG Xin, our executive Directors, Mr. FENG Dai and Mr. HUANG Kun, our non-executive Directors, were appointed as directors of Angelalign Technology Pte. Ltd., a wholly owned entity of the Company established in January 2022.

Continuing Disclosure Obligations Pursuant to the Listing Rules

As of June 30, 2022, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Review by Audit Committee

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 unaudited consolidated interim financial statements of the Group for the six months ended June 30, 2022. The Audit Committee has also reviewed the accounting policies and practices adopted by the Company and discussed matters in relation to, among others, risk management, internal control and financial reporting of the Group with the management and PricewaterhouseCoopers, the independent auditor of the Company. Based on this review and discussions with the management and the independent auditor of the Company, the Audit Committee was satisfied that the Group's unaudited consolidated interim financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended June 30, 2022.

Review by Independent Auditors

PricewaterhouseCoopers, certified public accountants and the independent auditor of the Company, has reviewed the unaudited consolidated interim financial statements of the Group for the six months ended June 30, 2022 in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity."

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

During the Review Period, other than the issuance of Shares underlying the restricted share units granted under the Post-IPO RSU Scheme, neither the Company nor its subsidiaries purchased, redeemed or sold any of the listed securities of the Company. For details, please refer to the announcement of the Company dated March 25, 2022 and circular dated April 21, 2022.

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. The purpose of the Pre-IPO Share Award Schemes is to, among others, motivate senior management, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

As of June 30, 2022, 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. No further awards may be granted under the Pre-IPO Share Award Schemes after the Listing Date. As of June 30, 2022, all the Shares underlying the RSUs had been issued, a total of 120,000 options granted had been vested, and all the Shares underlying the options had not been issued.

For more information on the Pre-IPO Share Award Schemes, see “Appendix IV Statutory and General Information – D. Share Award Schemes” in the Prospectus.

Details of the outstanding RSUs granted to Directors and chief executive under the Pre-IPO Share Award Schemes during the six months ended June 30, 2022 are set out below.

Name of Directors/ Chief Executive	Date of Grant	Outstanding balance as of January 1, 2022	Granted during the Review Period	Vested during the Review Period	Exercised during the Review Period	Lapsed/ cancelled during the Review Period	Outstanding balance as of June 30, 2022	Exercise Price
Mr. SONG Xin	October 1, 2019	89,381	-	-	-	-	89,381	-

There are no outstanding options granted to Directors or chief executive under the Pre-IPO Share Award Schemes during the six months ended June 30, 2022.

Movements in the number of RSUs and options outstanding under the Pre-IPO Share Award Schemes during the six months ended June 30, 2022 are as follows:

	Number of RSUs	Number of options
Outstanding balance as at January 1, 2022	1,308,863	300,000
Granted during the Review Period	-	-
Vested during the Review Period	-	-
Exercised during the Review Period	-	-
Lapsed/cancelled during the Review Period	-	-
Outstanding balance as of June 30, 2022	1,308,863	300,000

CORPORATE GOVERNANCE AND OTHER INFORMATION

Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was conditionally approved and adopted by the Shareholders on May 20, 2021. The purpose of the Post-IPO Share Option Scheme is to attract, retain and motivate employees, Directors and such other participants, and to provide a means of compensating them through the grant of options pursuant to the terms of such scheme for their contribution to the growth and profits of the Group, and to allow such employees, Directors and other persons to participate in the growth and profitability of the Group.

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.

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, exercised, cancelled or lapsed since the Post-IPO Share Option Scheme was adopted.

For further information of the Post-IPO Share Option Scheme, see “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 was conditionally approved and adopted by the Shareholders on May 20, 2021. 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.

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.

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 June 30, 2022, an aggregate of 429,109 RSUs have been granted to certain Director and employees of the Group at nil consideration, among which, 25,642 RSUs have been granted to Ms. LI Huamin, an executive Director and the chief executive officer of the Company, and 403,467 RSUs have been granted to 133 employees of the Company (who are not connected persons of the Company). As of June 30, 2022, all the Shares underlying the RSUs granted have been issued to the employee benefit trust to hold for and on behalf of the Company and/or the grantees, as applicable. For details, please refer to the announcement of the Company dated March 25, 2022 and the circular of the Company dated April 21, 2022.

CORPORATE GOVERNANCE AND OTHER INFORMATION

For further information of the Post-IPO RSU Scheme, see “Appendix IV Statutory and General Information – D. Share Award Schemes – 4. Post-IPO RSU Scheme” in the Prospectus.

Details of the outstanding RSUs granted to Directors and chief executive under the Post-IPO RSU Schemes during the six months ended June 30, 2022 are set out below.

Name of Directors/ Chief Executive	Date of Grant	Outstanding balance as of January 1, 2022	Granted during the Review Period	Vested during the Review Period	Exercised during the Review Period	Lapsed/ cancelled during the Review Period	Outstanding balance as of June 30, 2022	Exercise Price
Ms. Li Huamin	March 25, 2022	-	25,642	-	-	-	25,642	-

Movements in the number of RSUs outstanding under the Post-IPO RSU Schemes during the six months ended June 30, 2022 are as follows:

	Number of RSUs
Outstanding balance as of January 1, 2022	-
Granted during the Review Period	429,109
Vested during the Review Period	-
Exercised during the Review Period	-
Lapsed/cancelled during the Review Period	16,790
Outstanding balance as of June 30, 2022	412,319

Employees, Training and Remuneration Policies

As of June 30, 2022, we had 2,156 employees. The staff costs, including Directors’ emoluments and share-based payment expenses were approximately RMB256.8 million for the six months ended June 30, 2022.

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 the Directors and employees.

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Directors and senior management receive remuneration from the 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 the 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.

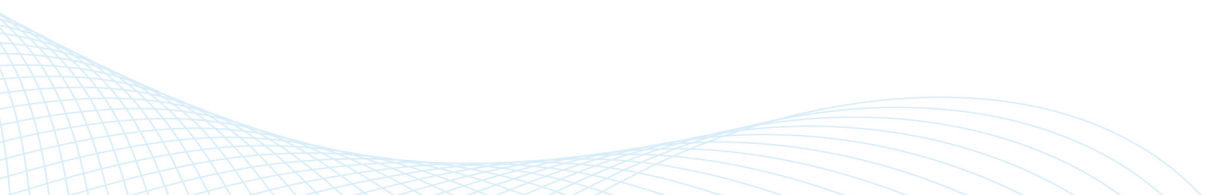
To incentivize our employees and promote the long-term growth of the Company, we have also conditionally adopted the Pre-IPO Share Award Schemes, the Post-IPO Share Option Scheme and the Post-IPO RSU Scheme to provide equity incentive to our employees, directors and senior management.

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 Review Period.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this 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.



CORPORATE GOVERNANCE AND OTHER INFORMATION

Use of Net 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 applications of the net proceeds and actual usage up to June 30, 2022.

	Net proceeds from the Global Offering	Utilization up to June 30, 2022	Unutilized proceeds as of June 30, 2022
	(HKD in millions)		
Funding the construction of Chuangmei Center	1,252.5	402.3	850.2
Strengthening our research and development capabilities and funding our in-house and collaborative R&D initiatives	574.4	116.6	457.8
Developing a flexible and scalable intelligent information technology system	339.0	53.9	285.1
Expanding our in-house sales team and providing sales personnel with training sessions	329.6	161.8	167.8
Funding marketing and branding activities	301.4	132.6	168.8
Optimizing medical services	194.6	85.6	109.0
Working capital and other general corporate purposes	147.5	37.3	110.2
Total	3,139.0	990.1	2,148.9

To the extent that the net proceeds have not been immediately utilized, the remaining 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 one and a half years. The utilization of the net proceeds has been converted from RMB into HKD at an exchange rate of RMB1.0 to HKD1.17 prevailing on June 30, 2022.

Events After the Review Period

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of Angelalign Technology Inc.

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 29 to 64, which comprises the interim condensed consolidated statement of financial position of Angelalign Technology Inc. (the “Company”) and its subsidiaries (together, the “Group”) as at June 30, 2022 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

August 25, 2022

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended June 30,	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	6	570,936	571,049
Cost of revenue	8	(239,541)	(193,417)
Gross profit		331,395	377,632
Selling and marketing expenses	8	(127,795)	(96,586)
Administrative expenses	8	(83,817)	(111,076)
Research and development expenses	8	(75,441)	(59,610)
Net impairment (losses)/reversal on financial assets		(1,625)	3,957
Other income	7	5,649	4,204
Other expenses	7	(284)	–
Other gains/(losses) – net	7	24,605	(1,014)
Operating profit		72,687	117,507
Finance income	9	10,787	4,844
Finance costs	9	(872)	(536)
Finance income – net	9	9,915	4,308
Share of results of investments accounted for using the equity method		(71)	(842)
Profit before income tax		82,531	120,973
Income tax expense	10	(9,260)	(25,311)
Profit for the period		73,271	95,662
Profit attributable to			
– Owners of the Company		74,307	96,157
– Non-controlling interests		(1,036)	(495)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Exchange differences on translation of the Company		121,315	18,598
<i>Items that may be subsequently reclassified to profit or loss</i>			
Exchange differences on translation of subsidiaries		2,226	(972)
		123,541	17,626
Total comprehensive income for the period		196,812	113,288
Total comprehensive income for the period attributable to:			
– Owners of the Company		197,676	113,816
– Non-controlling interests		(864)	(528)
		196,812	113,288
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
– Basic	11	0.44	0.74
– Diluted	11	0.44	0.64

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	330,158	248,310
Right-of-use assets	13	77,521	85,649
Intangible assets		11,978	8,304
Investments accounted for using the equity method		14,560	14,631
Prepayments for non-current assets	15	19,311	36,667
Deferred income tax assets		24,503	14,042
Financial asset at fair value through profit or loss	17	69,931	–
		547,962	407,603
Current assets			
Inventories		57,397	28,246
Trade and other receivables	15	103,437	78,012
Cash and cash equivalents	16	3,519,974	3,626,983
		3,680,808	3,733,241
Total assets		4,228,770	4,140,844
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	18	110	110
Share premium	18	2,941,876	3,117,920
Shares held for employee share scheme	18	(4,393)	(4,393)
Other reserves		104,592	(27,545)
Retained earnings		307,285	232,978
		3,349,470	3,319,070
Non-controlling interests		(5,202)	(4,338)
Total equity		3,344,268	3,314,732

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Contract liabilities		98,082	80,126
Lease liabilities		10,940	15,543
Deferred income		33,864	31,974
		142,886	127,643
Current liabilities			
Trade and other payables	20	388,683	299,191
Contract liabilities		310,696	370,762
Current income tax liabilities		27,809	12,309
Lease liabilities		12,634	14,744
Deferred income		1,794	1,463
		741,616	698,469
Total liabilities		884,502	826,112
Total equity and liabilities		4,228,770	4,140,844

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

Approved by the Board of Directors on August 25, 2022 and were signed on its behalf.

Ms. LI Huamin
Director

Mr. HUANG Kun
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Share held for employee scheme RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	
(Unaudited)								
Balance at January 1, 2022	110	3,117,920	(4,393)	(27,545)	232,978	3,319,070	(4,338)	3,314,732
Comprehensive income								
Profit for the period	-	-	-	-	74,307	74,307	(1,036)	73,271
Other comprehensive income								
- Currency translation differences	-	-	-	123,369	-	123,369	172	123,541
Total comprehensive income for the period	-	-	-	123,369	74,307	197,676	(864)	196,812
Transactions with owners in their capacity as owners								
Equity-settled share-based payment transactions	19	-	-	8,768	-	8,768	-	8,768
Shares issued for restricted share award scheme	18	*	*	-	-	*	-	*
Dividends declared	18	-	(176,044)	-	-	(176,044)	-	(176,044)
Total transactions with owners in their capacity as owners	*	(176,044)	*	8,768	-	(167,276)	-	(167,276)
Balance at June 30, 2022	110	2,941,876	(4,393)	104,592	307,285	3,349,470	(5,202)	3,344,268

* The balance represents an amount less than RMB1,000.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

		Attributable to owners of the Company							
		Share capital	Share premium	Shares held for employee scheme	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)									
	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 period	-	-	-	-	96,157	96,157	(495)	95,662
	Other comprehensive income								
	- Currency translation differences	-	-	-	17,659	-	17,659	(33)	17,626
	Total comprehensive income for the period	-	-	-	17,659	96,157	113,816	(528)	113,288
	Transactions with owners in their capacity as owners								
	Equity-settled share-based payment transactions	-	-	-	25,834	-	25,834	-	25,834
	Shares issued in the Initial Public Offerings ("IPO")	18	2,403,275	-	-	-	2,403,286	-	2,403,286
	Share issuance costs	18	(119,286)	-	-	-	(119,286)	-	(119,286)
	Transfer of shares held for employee share scheme upon vesting	-	-	21,391	(21,391)	-	-	-	-
	Contributions from the shareholders of the Company	-	-	-	5,344	-	5,344	-	5,344
	Dividends declared	-	-	-	-	(99,618)	(99,618)	-	(99,618)
	Total transactions with owners in their capacity as owners	11	2,283,989	21,391	9,787	(99,618)	2,215,560	-	2,215,560
	Balance at June 30, 2021	108	2,770,561	(8,138)	5,311	63,237	2,831,079	(4,557)	2,826,522

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended June 30,	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash generated from operations		52,301	203,195
Income tax paid		(20,805)	(29,178)
Net cash generated from operating activities		31,496	174,017
Cash flows from investing activities			
Purchases of property, plant and equipment		(30,684)	(80,918)
Purchases of intangible assets		(5,274)	(1,145)
Proceeds from disposal of property, plant and equipment		429	175
Investments in joint ventures		–	(2,922)
Purchases of financial assets at fair value through profit or loss	5.3	(1,218,809)	–
Proceeds from disposals of financial assets at fair value through profit or loss	5.3	1,156,351	–
Settlement of consideration in relation with acquisition of a subsidiary		–	(3,239)
Loans repaid by related parties		–	4,523
Interest received		10,787	4,844
Net cash used in investing activities		(87,200)	(78,682)
Cash flows from financing activities			
Issue of ordinary shares	18	–	2,403,286
Payments for share issuance costs		–	(115,430)
Dividend paid	18	(176,044)	(99,618)
Loans provided by related parties		–	17
Repayment of loans to related parties		–	(156)
Proceeds from a bank borrowing		2,851	–
Borrowing interest paid		(51)	–
Repayments of a bank borrowing		(2,851)	–
Consideration from disposals of interests in subsidiaries without change of control		–	969
Principal elements of lease payments		(7,280)	(5,269)
Interest paid of lease liabilities		(821)	(536)
Net cash (used in)/generated from financing activities		(184,196)	2,183,263
Net (decrease)/increase in cash and cash equivalents		(239,900)	2,278,598
Cash and cash equivalents at beginning of the period		3,626,983	877,578
Exchange gains on cash and cash equivalents		132,891	8,794
Cash and cash equivalents at the end of the period		3,519,974	3,164,970

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Angelalign Technology Inc. was incorporated in the Cayman Islands on November 29, 2018 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Group are principally engaged in the clear aligner treatment solutions including treatment planning services, manufacturing and marketing of clear aligners. 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 (the “Stock Exchange”) on June 16, 2021.

The Interim Financial Information for the six months ended June 30, 2022 (the “Interim Financial Information”) is presented in Renminbi (“RMB”), unless otherwise stated, and was approved for issue by the Board of Directors of the Company on August 25, 2022.

The outbreak of the coronavirus disease 2019 (“COVID-19”) had brought unprecedented challenges and added uncertainties to the economy. COVID-19 may affect the financial performance and position of the Group including revenue. Due to the outbreak of COVID-19, the Group kept continuous attention on the situation of the COVID-19 outbreak and reacted actively to its impact on the financial position and operating results of the Group. As at the date that the Interim Financial Information are authorised for issue, COVID-19 does not have any material adverse impact on the financial position and operating result of the Group.

2 BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. The Interim Financial Information does not include all the notes of the type normally included in an annual financial report and thus should be read in conjunction with the annual financial statements of the Group for the year ended December 31, 2021 (the “2021 Financial Statements”), which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), and any public announcements made by the Company during the six months ended June 30, 2022.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the 2021 Financial Statements, except for the adoption of new and amendments to the IFRS effective for the financial year beginning January 1, 2022.

(a) New and amended standard adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these amended standards.

- (b) New standards, amendments and interpretations to existing standards have been issued but not yet effective and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
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 IAS 1	Classification of liabilities as current or non-current	January 1, 2024
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associates or joint ventures	To be determined

Based on management's preliminary assessment, none of the above new standards, amendments and interpretations is expected to have a significant impact on the Group's consolidated financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2021 Financial Statements.

NOTES TO THE INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the 2021 Financial Statements, and should be read in conjunction with the 2021 Financial Statements.

There have been no significant changes in the risk factors and management policies since the year ended December 31, 2021.

(a) Liquidity risk

To manage the liquidity risk, management aims to maintain sufficient cash and cash equivalents 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	Over 5 years RMB'000	Total RMB'000
As at June 30, 2022 (Unaudited)					
Lease liabilities	13,648	7,701	3,732	–	25,081
Trade and other payables excluding non-financial liabilities	223,176	–	–	–	223,176
Total	236,824	7,701	3,732	–	248,257
As at December 31, 2021 (Audited)					
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

NOTES TO THE INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT (Continued)

5.2 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 interim condensed consolidated statement of financial position.

As at June 30, 2022 and December 31, 2021, the Group maintained at net cash position.

5.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at June 30, 2022 and December 31, 2021, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- 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).

As at June 30, 2022, the Group had no level 1 and level 2 financial instruments. There were no transfers between levels 1, 2 and 3 during the period ended June 30, 2022.

NOTES TO THE INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value estimation (Continued)

(a) Financial instruments in level 3

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

	Wealth management products RMB'000	Investment in unlisted equity investment RMB'000	Total RMB'000
Six months ended June 30, 2022 (Unaudited)			
Balance at the beginning of the period	–	–	–
Additions	1,150,000	68,809	1,218,809
Realized and unrealized gains on financial assets at fair value through profit or loss (“FVPL”)	6,351	1,122	7,473
Disposals	(1,156,351)	–	(1,156,351)
Balance at the end of the period	–	69,931	69,931
Year ended December 31, 2021 (Audited)			
Balance at the beginning of the year	–	–	–
Additions	300,000	–	300,000
Realized fair value gains recognized in profit or loss	1,816	–	1,816
Disposals	(301,816)	–	(301,816)
Balance at the end of the year	–	–	–

The unobservable inputs are expected return rate and discounted rate. The higher the expected return rate, the higher the fair value; the higher the discounted rate, the lower the fair value. For the period ended June 30, 2022, the expected annual return rate of the investments in wealth management products with range from 2.59% to 3.41%. To determine the fair values of unlisted equity investment, the Group uses the present value of the estimated future cash flows.

There were no changes in valuation techniques during the period.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue from external customers is recognized over time and is derived from the rendering of:		
– Clear aligner treatment solutions	546,419	532,694
– Other services	7,335	9,776
	553,754	542,470
Revenue from external customers is recognized at a point in time and is derived from:		
– Sales of intraoral scanners	17,182	28,579
Total revenue	570,936	571,049

The chief operating decision maker (“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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

7 OTHER INCOME, OTHER EXPENSES AND OTHER GAINS/(LOSSES) – NET

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income		
Government grants	5,649	4,204
Other expenses		
Donations	(284)	–
Other gains/(losses) – net		
Net foreign exchange gains/(losses)	16,867	(1,270)
Realized and unrealized gains on financial assets at FVPL	7,473	–
Losses on disposals of property, plant and equipment	(38)	(443)
Others	303	699
	24,605	(1,014)

NOTES TO THE INTERIM FINANCIAL INFORMATION

8 EXPENSES BY NATURE

Expenses included in cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses are analyzed below:

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Changes in inventories of finished goods and work in progress	(1,440)	57
Raw materials and consumables used and other inventories	117,231	113,429
Employee benefit expenses	256,761	187,222
Advertising and promotion expenses	35,120	48,771
Depreciation and amortization	30,517	17,514
Professional service and consulting fees	17,810	15,535
Delivery costs	15,109	13,162
Outsourcing costs	14,035	2,744
Travelling expenses	5,871	2,006
Taxes and surcharges	5,086	3,517
Short-term lease and variable lease expenses	5,041	4,938
Utility costs	3,734	1,710
Office expenses	3,701	2,607
Entertainment expenses	2,584	2,013
Auditor's remuneration		
– Interim review services	1,100	1,000
Listing expenses	–	35,429
Others	14,334	9,035
	526,594	460,689

NOTES TO THE INTERIM FINANCIAL INFORMATION

9 FINANCE INCOME – NET

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income:		
Interest income on bank deposits	10,787	4,844
Finance costs:		
Interest expense on lease liabilities	(821)	(536)
Interest expense on a bank borrowing	(51)	–
Finance income – net	9,915	4,308

10 INCOME TAX EXPENSE

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax		
– People's Republic of China ("PRC") corporate income tax ("CIT")	19,212	25,931
– Hong Kong profits tax	509	2,027
	19,721	27,958
Deferred income tax		
– PRC CIT	(10,461)	(2,647)
	9,260	25,311

NOTES TO THE INTERIM FINANCIAL INFORMATION

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:

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Profit before income tax	82,531	120,973
Tax calculated at respective statutory tax rates	15,080	38,177
Tax effects of:		
– Preferential income tax rates applicable to subsidiaries	(76)	(12,943)
– Expenses not deductible for taxation purposes	1,100	4,260
– Tax losses not recognized for deferred income tax	6	42
– Super deduction for research and development expenditure	(6,857)	(6,109)
– Share of results of investments accounted for using the equity method	7	84
– Withholding income tax on distributed profits	–	1,800
	9,260	25,311

(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 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 six months ended June 30, 2022.

The Company's subsidiary, Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司) ("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 six months ended June 30, 2022.

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% during the six months ended June 30, 2022. The management expects the certificate of HNTE will renew in October 2022.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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%.

(d) Withholding tax

According to the relevant regulations of the CIT 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 June 30, 2022, 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 RMB372,396,000 (December 31, 2021: RMB319,548,000). 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

(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 six months ended June 30, 2022.

	Six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited)
Profit attributable to owners of the Company (RMB'000)	74,307	96,157
Weighted average number of ordinary shares outstanding	167,022,600	129,274,103
Basic earnings per share (in RMB)	0.44	0.74

For the purpose of calculating the weighted average number of ordinary shares outstanding, the number of shares shown below has taken the share subdivision on May 20, 2021 into account as the share subdivision was deemed to be effective since January 1, 2021.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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 two categories of potential ordinary shares in the six months ended June 30, 2022 which were the restricted shares and share options granted before IPO (“the Pre-IPO Share Award Schemes”) (Note 19(a)) and the restricted shares granted after IPO (“the Post-IPO RSU Scheme”) (Note 19(b)).

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 share 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 share scheme.

	Six months ended June 30,	
	2022	2021
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (RMB'000)	74,307	96,157
Weighted average number of ordinary shares in issue	167,022,600	129,274,103
Adjustments for share options and awarded shares	1,604,954	21,233,154
Weighted average number of ordinary shares for diluted earnings per share	168,627,554	150,507,257
Diluted earnings per share (in RMB)	0.44	0.64

NOTES TO THE INTERIM FINANCIAL INFORMATION

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	Construction in progress RMB'000	Total RMB'000
At January 1, 2022							
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
Six months ended June 30, 2022 (Unaudited)							
Opening net book amount	5,647	94,463	817	6,489	18,468	122,426	248,310
Additions	–	28,002	–	4,343	342	69,850	102,537
Transfers	181,735	–	–	–	4,800	(186,535)	–
Disposals	–	(467)	–	–	–	–	(467)
Depreciation	(3,740)	(9,740)	(157)	(1,163)	(5,422)	–	(20,222)
Closing net book amount	183,642	112,258	660	9,669	18,188	5,741	330,158
At June 30, 2022 (Unaudited)							
Cost	188,373	155,796	1,790	13,833	52,225	5,741	417,758
Accumulated depreciation	(4,731)	(43,538)	(1,130)	(4,164)	(34,037)	–	(87,600)
Closing net book amount	183,642	112,258	660	9,669	18,188	5,741	330,158

NOTES TO THE INTERIM FINANCIAL INFORMATION

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2021							
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
Six months ended June 30, 2021 (Unaudited)							
Opening net book amount	5,952	50,292	635	4,146	20,308	23,966	105,299
Additions	-	24,795	-	1,027	300	46,642	72,764
Transfers	-	-	-	-	4,144	(4,144)	-
Disposals	-	(489)	(16)	(113)	-	-	(618)
Depreciation	(153)	(5,382)	(114)	(560)	(4,254)	-	(10,463)
Closing net book amount	5,799	69,216	505	4,500	20,498	66,464	166,982
At June 30, 2021 (Unaudited)							
Cost	6,638	97,444	1,336	6,910	44,087	66,464	222,879
Accumulated depreciation	(839)	(28,228)	(831)	(2,410)	(23,589)	-	(55,897)
Closing net book amount	5,799	69,216	505	4,500	20,498	66,464	166,982

NOTES TO THE INTERIM FINANCIAL INFORMATION

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cost of revenue	11,831	6,163
Selling and marketing expenses	566	189
Administrative expenses	6,670	3,369
Research and development expenses	1,155	742
	20,222	10,463

13 RIGHT-OF-USE ASSETS

	Office premises RMB'000	Land use rights RMB'000	Total RMB'000
At January 1, 2022			
Cost	58,365	59,413	117,778
Accumulated depreciation	(28,759)	(3,370)	(32,129)
Net book amount	29,606	56,043	85,649
Six months ended June 30, 2022 (Unaudited)			
Opening net book amount	29,606	56,043	85,649
Additions	567	–	567
Depreciation	(8,101)	(594)	(8,695)
Closing net book amount	22,072	55,449	77,521
At June 30, 2022 (Unaudited)			
Cost	48,245	59,413	107,658
Accumulated depreciation	(26,173)	(3,964)	(30,137)
Net book amount	22,072	55,449	77,521

NOTES TO THE INTERIM FINANCIAL INFORMATION

13 RIGHT-OF-USE ASSETS (Continued)

	Office premises RMB'000	Land use rights RMB'000	Total RMB'000
At January 1, 2021			
Cost	27,833	59,413	87,246
Accumulated depreciation	(14,305)	(2,182)	(16,487)
Net book amount	13,528	57,231	70,759
Six months ended June 30, 2021 (Unaudited)			
Opening net book amount	13,528	57,231	70,759
Additions	7,656	–	7,656
Depreciation	(5,531)	(594)	(6,125)
Closing net book amount	15,653	56,637	72,290
At June 30, 2021 (Unaudited)			
Cost	33,754	59,413	93,167
Accumulated depreciation	(18,101)	(2,776)	(20,877)
Net book amount	15,653	56,637	72,290

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

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of revenue	3,103	3,142
Selling and marketing expenses	907	292
Administrative expenses	3,841	2,292
Research and development expenses	844	399
	8,695	6,125

NOTES TO THE INTERIM FINANCIAL INFORMATION

14 FINANCIAL INSTRUMENTS BY CATEGORY

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Financial assets		
Financial assets at amortized cost		
Cash and cash equivalents	3,519,974	3,626,983
Trade and other receivables excluding non-financial assets	57,047	41,732
	3,577,021	3,668,715
Financial assets at FVPL	69,931	–
	3,646,952	3,668,715
Financial liabilities		
Financial liabilities at amortized cost		
Trade and other payables excluding non-financial liabilities	223,176	143,927
Lease liabilities	23,574	30,287
	246,750	174,214

NOTES TO THE INTERIM FINANCIAL INFORMATION

15 TRADE AND OTHER RECEIVABLES

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Included in current assets		
Trade receivables (Note (a))		
– Due from third parties	65,374	52,430
– Due from related parties	1,740	1,624
	67,114	54,054
Less: allowance for impairment of trade receivables	(20,198)	(18,580)
	46,916	35,474
Other receivables (Note (b))		
– Deposits receivables	5,813	5,853
– Deductible input value-added tax	23,437	14,979
– Interests receivable of a term deposit within three months	3,490	–
– Others	929	499
	33,669	21,331
Less: allowance for impairment of other receivables	(101)	(94)
	33,568	21,237
Prepayments for		
– Taxes	2,697	2,091
– Suppliers	20,256	19,210
	22,953	21,301
	103,437	78,012
Included in non-current assets		
Prepayments for property, plant and equipment	19,311	36,667

NOTES TO THE INTERIM FINANCIAL INFORMATION

15 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 certain customers are mainly given a credit term of 30 to 60 days.

The following is an ageing analysis of trade receivables presented based on invoice date:

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Within 60 days	22,853	12,127
61 to 180 days	9,681	6,436
181 to 365 days	6,979	6,345
1 to 2 years	7,014	9,830
2 to 3 years	6,921	9,551
Over 3 years	13,666	9,765
	67,114	54,054

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9.

The loss allowance provision as at June 30, 2022 and December 31, 2021 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
At June 30, 2022 (Unaudited)							
Expected loss rate	0.00%	1.50%	5.56%	18.99%	67.43%	100.00%	
Gross carrying amount (RMB'000)	22,853	9,681	6,979	7,014	6,921	13,666	67,114
Loss allowance provision (RMB'000)	-	(145)	(388)	(1,332)	(4,667)	(13,666)	(20,198)
At December 31, 2021 (Audited)							
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)

NOTES TO THE INTERIM FINANCIAL INFORMATION

15 TRADE AND OTHER RECEIVABLES (Continued)

The loss allowance provision for trade receivables as at June 30, 2022 and 2021 reconciles to the opening loss allowance for that provision as follows:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	18,580	18,344
Provision/(reversal) for loss allowance recognized in profit or loss	1,618	(3,983)
At the end of the period	20,198	14,361

(b) All other receivables were unsecured, interest-free and collectable on demand.

16 CASH AND CASH EQUIVALENTS

	As at	As at
	June 30,	December 31,
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Cash at banks	3,519,913	3,626,978
Cash on hand	61	5
Cash and cash equivalents	3,519,974	3,626,983

NOTES TO THE INTERIM FINANCIAL INFORMATION

17 FINANCIAL ASSETS AT FVPL

	Wealth management products RMB'000	Investment in unlisted equity investment RMB'000	Total RMB'000
Six months ended June 30, 2022 (Unaudited)			
Balance at the beginning of the period	–	–	–
Additions	1,150,000	68,809	1,218,809
Realized and unrealized gains on financial assets at FVPL (Note (a) (b))	6,351	1,122	7,473
Disposals	(1,156,351)	–	(1,156,351)
Balance at the end of the period	–	69,931	69,931
Year ended December 31, 2021 (Audited)			
Balance at the beginning of the year	–	–	–
Additions	300,000	–	300,000
Realized fair value gains recognized in profit or loss	1,816	–	1,816
Disposals	(301,816)	–	(301,816)
Balance at the end of the year	–	–	–

- (a) During the six months ended June 30, 2022, the Group subscribed several wealth management products with initial subscription price of no more than RMB170 million each, from five commercial banks from time to time. All of the wealth management products matured during the period.
- (b) On January 28, 2022, the Company and CC Founder Holdings LLC (“CC Founder”), an affiliate of CareCapital Group, have entered into the Partnership Agreement, pursuant to which, the Company and CC Founder have agreed to jointly establish CareCapital Aligner Tech L.P. (the “Partnership”), a limited partnership for investment in innovative digital technologies and products in relation to orthodontic treatment around the world. CC Founder, as the sole general partner, is responsible for and control the management, operation and investment of the Partnership exclusively, including its daily operation and provision of investment management services to the Partnership. The Company, as the sole limited partner, has no power to participate in the making of significant financial and operating decisions of the Partnership. Consequently, the Group classified the investment as financial assets at FVPL.

NOTES TO THE INTERIM FINANCIAL INFORMATION

18 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, 2021	1,489,775	14,898	97	486,572
Share subdivision on May 20, 2021	147,487,725	–	–	–
Shares issued in the IPO	16,829,600	1,683	11	2,403,275
Share issuance costs	–	–	–	(119,286)
Shares issued upon over-allotment	2,524,400	252	2	363,756
Share issuance cost of over-allotment	–	–	–	(16,397)
At December 31, 2021 (Audited)	168,331,500	16,833	110	3,117,920
At January 1, 2022	168,331,500	16,833	110	3,117,920
Issue of new shares (i)	429,109	43	*	–
Dividends (ii)	–	–	–	(176,044)
At June 30, 2022 (Unaudited)	168,760,609	16,876	110	2,941,876

* The balance represents an amount less than RMB1,000.

- (i) On March 25, 2022 and May 27, 2022, the Company issued and allotted 403,467 shares and 25,642 shares respectively to Cultivate Happiness Limited (the “Trustee”), an entity held by a trustee entrusted by the Group for the purpose of the Post-IPO RSU Scheme (Note 19(a)).
- (ii) On March 24, 2022, the Board recommended the payment of a special final dividend of HKD1.22 per share (equivalent to approximately RMB176,044,000) for the year ended December 31, 2021 out of the share premium account of the Company, which was approved by the shareholders of the Company at the annual general meeting held on May 26, 2022 and paid on June 24, 2022.

NOTES TO THE INTERIM FINANCIAL INFORMATION

18 SHARE CAPITAL AND PREMIUM AND SHARES HELD FOR EMPLOYEE SHARE SCHEME (Continued)

(b) Shares held for employee share scheme

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Balance at the beginning of the period/year	4,393	29,529
Shares issued for restricted share award scheme (Note 19(b))	*	–
Transfer of shares held for employee share scheme upon vesting	–	(25,136)
Balance at the end of the period/year	4,393	4,393

* The balance represents an amount less than RMB1,000.

19 SHARE-BASED PAYMENTS

(a) The Pre-IPO Share Award Schemes

- (i) On December 21, 2020, the Company issued 29,893,400 shares (after the effect of share subdivision), with par value of USD0.0001 each, to several offshore holding companies established or used by certain directors, senior management and employees for the purpose of holding their respective corresponding equity interests in Wuxi EA for incentive purposes prior to the reorganization for the purpose of the IPO of the Company. As at June 30, 2022, 28,597,400 shares of the Company were vested, and the remaining 972,000 shares and 324,000 shares were to be vested on September 30, 2022 and 2023, respectively.
- (ii) On December 31, 2020, the Company issued an aggregate of 460,000 new shares (after the effect of share subdivision), with par value of USD0.0001 each to certain directors, senior management and employees of the Company for incentive purposes. As at June 30, 2022, 447,150 shares of the Company were vested, and the remaining 9,600 shares and 3,250 shares were to be vested on September 30, 2022 and 2023, respectively.
- (iii) 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

19 SHARE-BASED PAYMENTS (Continued)

(b) The Post-IPO RSU Scheme

On March 25, 2022, the Board of Directors granted the Post-IPO RSU Scheme to among other things, recognize the contributions by, and to encourage, motivate, retain the directors, senior management, and employees, whose contributions are beneficial to the continual operation, development and long-term growth of the Group, and closely align the interests and benefits of and risk sharing among the shareholders. On the same day, the Company granted 403,467 award shares to 133 eligible participants and 25,642 award shares to Ms. Li Huamin, an executive director (together, the “Grantee”) under the scheme at nil consideration, respectively. The granted shares to Ms. Li Huamin were approved on the annual general meeting on May 26, 2022.

Pursuant to the Post-IPO RSU Scheme, 429,109 new shares were issued and allotted to the Trustee. The Trustee will hold such shares on behalf of the relevant eligible participants on trust, until such shares are vested. The Trustee is controlled and consolidated by the Group as a structured entity and the above new shares issued are recorded as shares held for employee share scheme.

The restricted shares granted to the eligible participants will be vested based on the following rates for the relevant financial year: (i) For 68,833 granted shares, 50%, 25% and 25% of the shares will be vested on the second, third and fourth anniversary of the employment date of each Grantee. (ii) For 360,276 shares (including the shares granted to Ms. Li Huamin), 30%, 30%, 20% and 20% will be vested on the date of September 30, 2022, 2023, 2024 and 2025, respectively.

The fair value of the restricted shares at grant date was determined with reference to the market price of the Company’s shares on the respective grant dates.

The Group has to estimate the expected percentage of eligible participants that will stay within the Group (the “Expected Retention Rate”) of the restricted share award scheme in order to determine the amount of share-based payment expenses charged to the consolidated statements of comprehensive income. As at June 30, 2022, the Expected Retention Rate was assessed to be 95%.

The total share-based compensation expenses recognized are as follows:

	Six months ended June 30,	
	2022	2021
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Expenses arising from equity-settled share-based payment transactions	8,768	25,834

NOTES TO THE INTERIM FINANCIAL INFORMATION

20 TRADE AND OTHER PAYABLES

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Trade payables (Note (a))	98,440	79,550
Employee benefits payable	96,302	85,864
Other taxes payable	69,205	69,400
Accrued expenses payable	12,374	10,370
Deposits payable	21,131	21,314
Advertising and promotion expenses payable	17,872	16,230
Donations payable	4,000	4,000
Professional service fees payable	5,013	3,154
Reimbursement payable	239	109
Payables in relation with acquisition of property, plant and equipment	62,756	8,259
Others	1,351	941
	388,683	299,191

- (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 June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
0 to 60 days	96,853	65,932
61 to 180 days	543	12,914
181 to 365 days	788	166
Over 1 year	256	538
	98,440	79,550

- (b) As at June 30, 2022 and December 31, 2021, trade and other payables of the Group were interest-free and repayment on demand.

21 DIVIDENDS

The Board of Directors of the Company did not declare any interim dividend for the six months ended June 30, 2022 (six months ended June 30, 2021: nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

22 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 for further information.

The future aggregate minimum lease payments under non-cancellable short-term leases contracted for at the end of the period/year but not recognized as liabilities, are as follows:

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
No later than 1 year	524	218

(b) Capital commitments

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

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Property, plant and equipment	28,562	100,622
Investment in unlisted equity investment	16,392	–
Intangible assets	535	987
	45,489	101,609

NOTES TO THE INTERIM FINANCIAL INFORMATION

23 RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties

Below is the summary of the Group's related parties during the six months ended June 30, 2022:

Name of the related party	Relationship with the Group
Shanghai Junxiao Clinic Co., Ltd. ("Shanghai Junxiao")	Joint venture held by the Group (Before June 2, 2022)
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
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
Huizhou Huiyang Huikou Dental Clinic Co., Ltd. ("Huikou Dental Clinic")	An entity controlled by CareCapital Group
Luoyang Smile Songbai Medical Equipment Co., Ltd. ("Luoyang Smile")	An entity controlled by CareCapital Group
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
Zhenjiang Wenjie Medical Equipment Co., Ltd. ("Zhenjiang Wenjie")	An entity controlled by CareCapital Group
Songbai Oukang (Liaoning) Medical Instrument Co., Ltd. ("Songbai Oukang (Liaoning)")	An entity controlled by CareCapital Group
Shanghai Qimei Dental Clinic Co., Ltd. ("Shanghai Qimei")	An entity controlled by CareCapital Group

NOTES TO THE INTERIM FINANCIAL INFORMATION

23 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties

During the six months ended June 30, 2022, 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.

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Sales of clear aligner treatment solutions		
Guangzhou Yilu	13,893	–
Zhengzhou Smile	13,200	11,138
Yishunkang	1,917	504
Zhenjiang Wenjie	1,377	–
Guiyang Jinxin	723	1,428
Songbai Oukang (Liaoning)	608	–
Songbai Leye	493	–
Luoyang Smile	217	–
Henan Red Sun	178	1,132
Changsha Minjian	170	74
Huizhou Dental Hospital	56	211
Shanghai Junxiao	20	73
Heyuan Hengxin	7	–
Huikou Dental Clinic	3	–
Yiwu Huizhou Dental Hospital	1	–
	32,863	14,560
Sales of intraoral scanners		
Zhengzhou Smile	1,447	2,468
Zhenjiang Wenjie	524	–
Yishunkang	274	–
Guangzhou Yilu	31	–
	2,276	2,468

NOTES TO THE INTERIM FINANCIAL INFORMATION

23 RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation

The Group's key management includes directors of the Company.

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Fees	1,129	222
Salaries, wages and bonuses	3,726	1,813
Share-based compensation expenses	788	12,420
Pension costs – defined contribution plans	164	53
Other social security costs, housing benefits and other employee benefits	190	63
	5,997	14,571

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

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
	Trade and other receivables	
Changsha Minjian	559	452
Guiyang Jinxin	508	492
Guangzhou Yilu	460	459
Zhenjiang Wenjie	121	121
Yishunkang	92	83
Shanghai Qirui	–	10
Songbai Leye	–	7
	1,740	1,624

NOTES TO THE INTERIM FINANCIAL INFORMATION

23 RELATED PARTY TRANSACTIONS (Continued)

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

As at June 30, 2022 and December 31, 2021, the balances were with trade nature, unsecured, interest-free, and collectable on demand.

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Contract liabilities		
Zhengzhou Smile	13,000	13,404
Guangzhou Yilu	6,395	7,990
Yishunkang	1,060	903
Guiyang Jinxin	781	1,457
Henan Red Sun	635	857
Zhenjiang Wenjie	481	688
Songbai Oukang (Liaoning)	200	–
Luoyang Smile	19	15
Huizhou Dental Hospital	18	23
Shanghai Qimei	13	–
Songbai Leye	3	–
Shanghai Qirui	2	–
Shanghai Junxiao	–	59
	22,607	25,396

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.

24 CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at June 30, 2022.

25 SUBSEQUENT EVENTS

Save as disclosed in other notes to the Interim Financial Information, there were no other material subsequent events took place after June 30, 2022.

DEFINITION

“Audit Committee”	the audit committee of the Board
“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
“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)
“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
“KOL”	key opinion leader
“Listing Date”	June 16, 2021, on which the Shares were initially listed on the main board of 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

DEFINITION

“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
“RMB”	Renminbi, the lawful currency of the PRC
“Review Period”	the six months ended June 30, 2022
“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 USD0.0001 each
“Shareholder(s)”	holder(s) of the 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
“USD”	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