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OUR MISSION

Our mission is to bring people confident smiles with revolutionary technologies.

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

OVERVIEW

We are the leading clear aligner treatment solution provider in China. China’s clear aligner treatment solution market is highly concentrated, with the top two market players accounting for an aggregate market share of 82.3% in the nine months ended September 30, 2020 in terms of case shipments, according to the CIC Report. We led the market with a market share of approximately 41.3% in the same period, according to the same source.

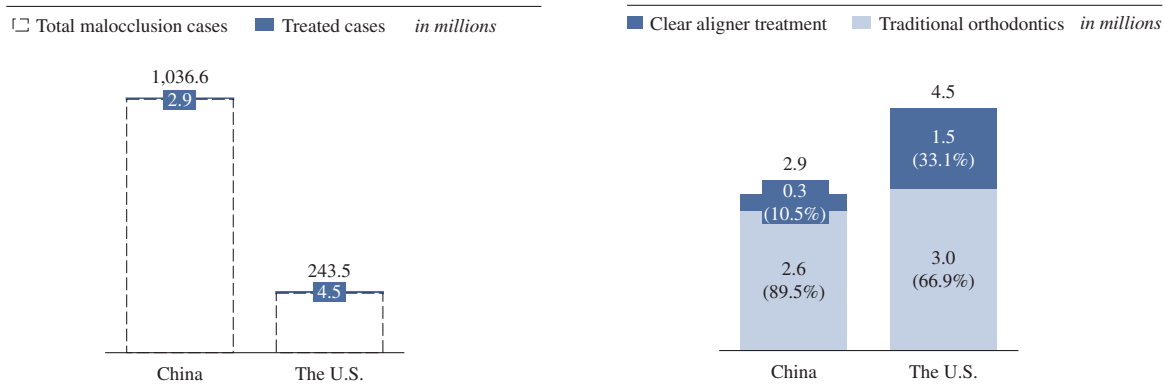
We empower dental professionals with Angelalign clear aligner system, our proprietary digital orthodontics solution, which comprises a trio of components: (1) digitally-assisted case assessment support and treatment planning services, (2) customized, removable clear aligners based on specific treatment plans, and (3) *iOrtho*, a cloud-based service platform. We facilitate dental professionals throughout the entire clear aligner treatment process with the assurance of reliability, simplicity, efficiency and accuracy, which translates into dependability, and ultimately, into user loyalty. As the backstage driving force, our profound understanding of the medical principles and practice of digital orthodontics has been emblazoned onto our DNA. It serves as a critical foundation for us to fully address disparate demands of China’s dental professionals with varying levels of sophistication, in particular a multitude of GP dentists. During the Track Record Period, the number of dental professionals we served increased from approximately 11,500 in 2018 to approximately 15,800 in 2019, and from approximately 13,900 in the nine months ended September 30, 2019 to approximately 17,300 in the nine months ended September 30, 2020.

We persistently optimize our clear aligner system, allowing dental professionals to continuously extend their outreach. We currently market four lines of clear aligners with a variety of unique features that appeal to different user segments, including *Angelalign*, *Angelalign Pro*, *Angelalign Kid* and *COMFOS*. In particular, we have established one of the largest stomatology databases for Asian population, according to the CIC Report. Leveraging our data-driven insight and a series of innovative appliances and attachments and patented treatment plans on top of our diversified product lines, we are uniquely positioned to help dental professionals address intractable cases that are prevalent in China. As a result, we enable dental professionals to deliver effective treatment for a growing number of malocclusion cases with varying complexities and for an enlarging patient base of a broad spectrum of ages and different spending powers. Our case shipments increased from approximately 77,700 in 2018 to approximately 120,100 in 2019, and from approximately 91,400 in the nine months ended September 30, 2019 to approximately 101,700 in the nine months ended September 30, 2020.

We are well positioned to capture the enormous market opportunities in China. As the second largest in the world, China’s overall clear aligner market, in terms of retail sales revenue, is expected to increase from US\$1.4 billion in 2019 to US\$11.9 billion in 2030 at a CAGR of 21.5%, according to the CIC Report. Moreover, as an increasing number of traditional orthodontic cases will become addressable by clear aligners, we expect to seize the overall potential of China’s orthodontics market, which is expected to reach US\$29.6 billion in terms of retail sales revenue in 2030 at a CAGR of 13.6% from 2019 to 2030, according to the same source. On the other hand, China’s clear aligner market is still at a nascent stage. In 2019, China had approximately 1,037 million malocclusion cases, much higher than that of approximately 244 million in the United States. However, among the 2.9 million treated malocclusion cases in China in 2019, only 10.5% were addressed with clear aligners, whereas 33.1% of the 4.5 million treated malocclusion cases in the United States were addressed with clear aligners. Such significant disparities indicate a huge underpenetrated clear aligner market in China. Leveraging our market

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leadership and our intimate understanding of China’s digital orthodontics market, we believe that we are well positioned to capture the upside potential of the enormous market. Furthermore, we are poised to replicate our success in the global clear aligner market, which is expected to reach US\$50.9 billion in terms of retail sales revenue by 2030.



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

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

We experienced significant growth during the Track Record Period. We generate revenue primarily from the provision of clear aligner treatment solutions. Our revenue increased from RMB488.5 million in 2018 to RMB645.9 million in 2019, and from RMB485.4 million in the nine months ended September 30, 2019 to RMB601.3 million in the nine months ended September 30, 2020. Our net profit increased from RMB58.2 million in 2018 to RMB67.7 million in 2019, and from RMB70.6 million in the nine months ended September 30, 2019 to RMB155.7 million in the nine months ended September 30, 2020. Our adjusted EBITDA was RMB127.5 million and RMB172.1 million in 2018 and 2019, respectively, and RMB149.3 million and RMB253.2 million in the nine months ended September 30, 2019 and 2020, respectively. Our adjusted net profit was RMB92.5 million and RMB130.4 million in 2018 and 2019, respectively, and RMB116.3 million and RMB203.6 million in the nine months ended September 30, 2019 and 2020, respectively. See “Financial Information — Description of Major Profit or Loss Line Items — Non-IFRS Measures” for a reconciliation of our operating profit to adjusted EBITDA and net profit to adjusted net profit, respectively.

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COMPETITIVE STRENGTHS

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

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

We are the leading clear aligner treatment solution provider in China. China's clear aligner treatment solution market is highly concentrated, with the top two market players accounting for an aggregate market share of 82.3% in the nine months ended September 30, 2020 in terms of case shipments, according to the CIC Report. We led the market with a market share of approximately 41.3% in the same period, according to the same source. With Angelalign clear aligner system, our proprietary digital orthodontics solution, we facilitate dental professionals throughout the entire clear aligner treatment process with the assurance of reliability, simplicity, efficiency and accuracy, which translates into dependability, and ultimately, into user loyalty. The number of dental professionals we served increased from approximately 11,500 in 2018 to approximately 15,800 in 2019, and from approximately 13,900 in the nine months ended September 30, 2019 to approximately 17,300 in the nine months ended September 30, 2020.

We are the first clear aligner treatment solution provider to obtain the SFDA approval (now known as the NMPA) in China, and we own the first patent registration for clear aligner treatment in China. Since our inception, we have been spearheading the development of digital orthodontics in China and stayed abreast of the ever-evolving treatment demands and preferences of China's dental professionals. We take pride in our various trailblazing solutions, such as *Angelalign Pro*, the first multimode clear aligner treatment solution in the world, as well as *Angelalign Kid*, China's first comprehensive clear aligner treatment solution designed for children aged between six and 12, according to the CIC Report. In addition, we established the first and largest 3D printing base for dental appliances in China in 2011, and the first automated production line in our manufacturing facilities in 2017, which has enabled us to rapidly achieve mass customization and expand our operation scale.

We believe that we are well positioned to continue capitalizing on China's promising market opportunities. As the second largest in the world, China's overall clear aligner market, in terms of retail sales revenue, is expected to increase from US\$1.4 billion in 2019 to US\$11.9 billion in 2030 at a CAGR of 21.5%, according to the CIC Report. Moreover, as an increasing number of traditional orthodontic cases will become addressable by clear aligners, we expect to seize the overall potential of China's orthodontics market, which is expected to reach US\$29.6 billion in 2030 at a CAGR of 13.6% from 2019 to 2030, according to the same source. On the other hand, China's clear aligner market is still at a nascent stage. In 2019, China had approximately 1,037 million malocclusion cases, much higher than that of approximately 244 million in the United States. However, among the 2.9 million treated malocclusion cases in China in 2019, only 10.5% were addressed with clear aligners, whereas among the 4.5 million treated malocclusion cases in the United States, 33.1% were addressed with clear aligners. Such huge disparities indicate a huge underpenetrated clear aligner market in China. In addition, China has a higher prevalence rate of Class II and Class III malocclusion cases than the U.S., which are more challenging to treat compared to Class I cases.

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

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Comprehensive product portfolio addressing diverse user needs

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

- *Angelalign*. As our classic clear aligner product, *Angelalign* can be used for a wide range of malocclusions with moderate pricing. We distinguish *Angelalign* from competing products provided by other market participants with constant improvement. For example, we are upgrading *Angelalign* with our newly launched *masterControl S*, which is developed based on extensive biomechanics studies and stomatology profiles of Chinese population.
- *Angelalign Pro*. As our premium clear aligner and the first multimode clear aligner in the world, according to the CIC Report, *Angelalign Pro*, in its latest version, features two sets of aligners made of our *masterControl* and *masterControl S* with complementary mechanical properties to achieve different movement progress at different stages during the treatment. As a result, *Angelalign Pro* will be able to address more complex cases, and at the same time, shorten the length of the treatment cycle by approximately 30% without compromising treatment accuracy.
- *Angelalign Kid*. We expanded into children’s clear aligner treatment market with *Angelalign Kid*, China’s first comprehensive clear aligner treatment solution designed for children aged between six and 12, according to the CIC Report. *Angelalign Kid* represents a shift in approach from *ex post* treatment towards early intervention. By combining the clear aligners, the bucc-labial shield and the functional fitness exercises for muscles alternately in line with the progress of children’s tooth growth and muscle and jaw bone development, it provides children with a better oral environment for the growth and development of their permanent teeth, facial muscles and jawbones.
- *COMFOS*. We position *COMFOS* as a good value-for-money product in response to the growing demand for aesthetics of the young generation with moderate malocclusions. *COMFOS* has rapidly gained popularity among the young generation seeking to improve their smiles in a fast, convenient, comfortable and affordable manner, as it caters to their willingness to pay and spending power.

Benefiting from our comprehensive product portfolio, our case shipments increased from approximately 77,700 in 2018 to approximately 120,100 in 2019, and from approximately 91,400 in the nine months ended September 30, 2019 to approximately 101,700 in the nine months ended September 30, 2020. As we empower an increasing number of dental professionals and help them enlarge their patient base, we have been able to rapidly scale up our business and increase our market share.

Furthermore, we are uniquely positioned to help dental professionals address intractable cases that are prevalent in China with the assurance of celerity, efficacy and efficiency, utilizing a series of innovative orthodontic appliances and attachments. For example, we have developed *angelButton*, a proprietary traction product. *angelButton* can be integrated with clear aligners at any designated position and deliver excellent orthodontic mechanics results. We also recently launched *angelArm*, the world’s first mandibular appliance that features active force application, according to the CIC Report. *angelArm* increases the precision and control of force application and expands addressable occlusal structures. The

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coordinated application of *angelArm*, *angelButton* and our various clear aligners provide solutions to skeletal malocclusion such as maxillary protrusion and mandibular retrusion, which is typical among Asian malocclusion cases, and demonstrates excellent efficacy and safety.

Premium medical and technological services

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

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

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

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

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

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

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

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

We have devoted significant resources to our R&D initiatives. As of September 30, 2020, we had a dedicated research and development team of 120 members, representing 9.3% of our total employees. In 2018, 2019 and the nine months ended September 30, 2020, our research and development expenses were RMB50.2 million, RMB80.9 million and RMB58.9 million, respectively, representing 10.3%, 12.5% and 9.8% of our revenue in the same periods, respectively. As of the Latest Practicable Date, we owned 83 patents and 16 software copyrights registered in China. We have initiated *A+ Plan* since 2015, through which we partner with China’s most renowned higher education institutions, stomatology hospitals, medical schools and other research institutions to boost innovations of clear aligner treatment through R&D initiatives in clinical stomatology, biomechanics, materials science, intelligent manufacturing technologies, and computer science. For example, in December 2020, we established the ZJU-Angelalign Joint Research & Development Center for Intelligent Healthcare (浙江大學-時代天使智慧醫療聯合研究中心) with Zhejiang University (浙江大學) for digital orthodontics and the application of artificial intelligence technologies in the dental and oral area. In October 2020, we established a joint innovation center in collaboration with Jiangsu Industrial Technology Research Institute (江蘇省產業技術研究院) focusing on manufacturing technologies and materials science innovations. We also established a

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Translation Medicine Research Platform on Oral Biomechanics and Artificial Intelligence with Ninth People’s Hospital, Shanghai Jiaotong University School of Medicine (上海交通大學醫學院附屬第九人民醫院) in September 2020 to further explore the fundamental mechanisms of biomechanics in tooth movement, leveraging big data and artificial intelligence technologies. In addition, we have established a digital orthodontics treatment and training center in collaboration with Sichuan University Huaxi Stomatology Hospital (四川大學華西口腔醫院) in Chengdu, and a digital orthodontics testing center in collaboration with Nanjing Stomatology Hospital (南京口腔醫院) in Nanjing.

Strong brand recognition and profound academic influence

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

According to the CIC Report, dental professionals are generally inclined to be highly prudent while recommending clear aligner treatment solutions for their patients. This is because the treatment process for malocclusion cases typically lasts around two years, and it would be difficult for dental professionals to switch to different treatment methods midway. By offering a comprehensive and diversified suite of treatment plans and services based on our medical and technological capabilities, our Angelalign clear aligner system has appealed to a large pool of dental professionals across China. Furthermore, we have provided orthodontic certification training programs on digital orthodontics to dental professionals in collaboration with the UCLA Dental Research Service Center since 2017, through which we market the strengths of clear aligner treatment to more dental professionals. The number of dental professionals we served increased from approximately 11,500 in 2018 to approximately 15,800 in 2019, and from approximately 13,900 in the nine months ended September 30, 2019 to approximately 17,300 in the nine months ended September 30, 2020.

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

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

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

Robust intelligent manufacturing capabilities with stringent quality assurance system

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

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

We have developed a rigorous quality assurance system that enables us to monitor all aspects of our production process, including maintenance of equipment and facilities, procurement of raw materials, production and quality inspection, and packaging and delivery. As of September 30, 2020, we had a dedicated quality control department to ensure that our internal quality procedures are duly followed. We place great emphasis on product safety and quality, and regularly arrange quality control trainings for our staff. As the first clear aligner treatment solution provider to obtain the SFDA approval (now known as the NMPA) in China, we have passed the certifications of the GB T19001 idt ISO9001 quality management system and the YY/T 0287-2017 idt ISO13485 quality management system for medical devices. We believe that our ability to deliver safe and high quality products has enabled us to accelerate our market penetration and strengthen our brand image in China.

Visionary and seasoned management team with strong shareholder support

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

Our founder and chief executive officer, Ms. LI Huamin, is among the pioneers that seek to introduce the most advanced orthodontic treatment to Chinese dental professionals and patients. With her demonstrated tenacity, she has focused on promoting the vigorous development of China’s digital orthodontics industry for the past 18 years. Leveraging her forward-looking industry vision, innovative operational thinking and excellent management skills, Ms. LI has led us to stay ahead in the global digital orthodontics industry. Mr. CHEN Kai, our executive director and chief operating officer, has delivered strong business results within our Group by leveraging his nearly 20-year of operational experience in the medical industry, in-depth strategic vision and profound industry insight. He has integrated his accumulated industrial strategic thinking and long-term operational experience into the overall develop of our Group. Dr. TIAN Jie, our chief medical officer, is one of the trailblazers engaged in the research and

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development, training and promotion of application of clear aligner treatment in China. He has been dedicated to establishing medical rules of China’s clear aligner treatment, formulating clinical operational procedures and standards and conducting technology promotion.

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

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

GROWTH STRATEGIES

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

Strengthen R&D capabilities and continue orthodontic solution innovations

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

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

Further intelligentize and digitalize our systems to improve operational efficiency

We intend to continue to invest in technology infrastructure and software capabilities to enhance intelligentization and digitalization of our systems and boost our operational efficiency. In particular, we intend to develop a flexible and scalable information technology system to streamline and fully digitalize all aspects of our operations, spanning order placing, data transmission, treatment planning, user interactions, procurement and production processes, quality control and product delivery, and after-sales customer services. We plan to realize full compatibility among our existing systems and technology platforms. By doing so, we expect to achieve fully integrated end-to-end digital workflows to facilitate fluent information flow between us and dental professionals. In doing so, we aim to ensure that the demands of each dental professional will be consistently satisfied, and the parameters of each submitted case will be accurately addressed, throughout the entire treatment process.

Optimize medical services to enhance user experience

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

We have cultivated, and will expand, a highly qualified medical team with stringent recruitment standards and comprehensive and systematic ongoing training. In addition, drawing upon our R&D

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capabilities, we intend to constantly upgrade our intelligent planning and optimization systems to further intelligitize the treatment planning process and improve the work efficiency for dental professionals. Furthermore, we plan to establish additional regional demonstration centers to improve the accessibility of our medical services offline for dental professionals and provide them with regular in-the-field training in the application of our solutions.

Increase production capacity and improve production efficiency

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

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

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

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

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

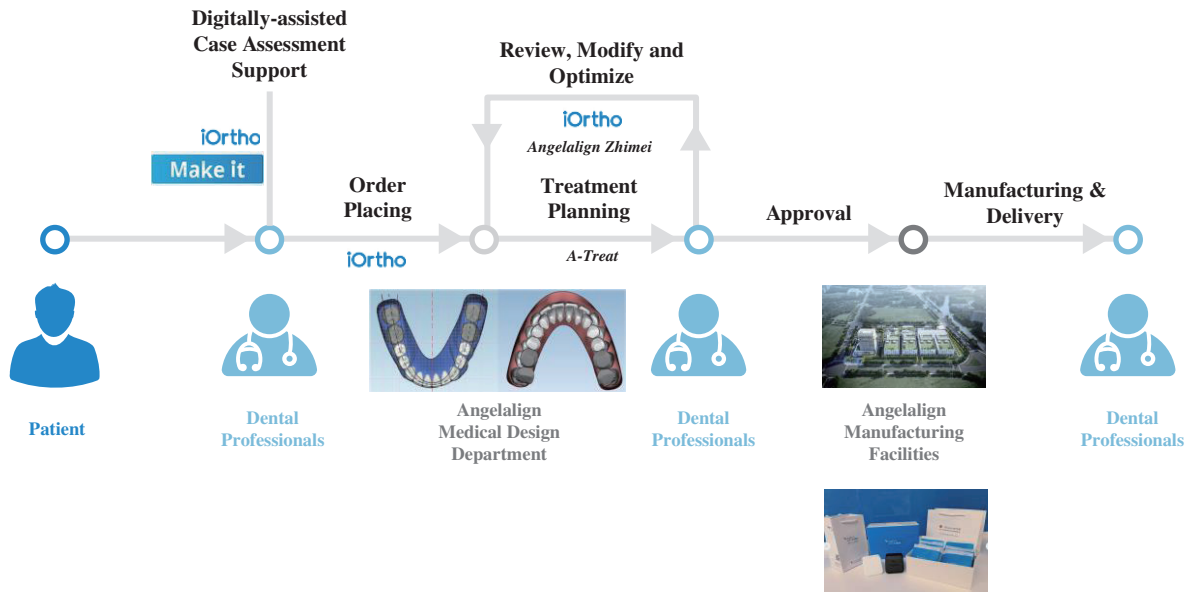
We seek to further increase the exposure and recognition of our *Angelalign* brand by carrying out a variety of marketing and promotional campaigns through multiple media channels and social events. For example, we will deepen our cooperation with the Bureau of Training of General Administration of Sport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

BUSINESS

OUR VALUE CHAIN AND VALUE PROPOSITIONS

Value Chain

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



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

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

Treatment planning. Upon receipt of the treatment data, our medical designers use them to develop a three-dimensional digital prototype of the patient’s teeth and a customized and computer-simulated three-dimensional treatment plan that simulates appropriate tooth movement during the treatment process through our intelligent planning and optimization system. Upon passing our internal review, the treatment plan is delivered to the prescribing dental professional through *iOrtho*.

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

BUSINESS

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

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

Value Propositions to Dental Professionals

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

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

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

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

Increased profitability. Benefiting from the expanded patient base and the reduced chair time and less time-intensive processes, our Angelalign clear aligner system has the potential to substantially improve the practice throughput and profitability for dental professionals.

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

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

BUSINESS

Value Propositions to Patients

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

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

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

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

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

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

OUR ANGELALIGN CLEAR ALIGNER SYSTEM

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

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

BUSINESS

Digitally-assisted Case Assessment Support and Treatment Planning Services

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

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

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

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

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

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

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

BUSINESS

Our Clear Aligners

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

Our clear aligners have gained market recognition since it was approved by the SFDA (now known as the NMPA) and first marketed in 2006. We currently market four lines of clear aligners, including *Angelalign*, *Angelalign Pro*, *Angelalign Kid* and *COMFOS*. Our diversified clear aligners, in synergy with our medical and technological services, allow dental professionals to deliver effective treatment for a growing number of malocclusion cases with varying complexities and for an enlarging patient base of a broad spectrum of ages and different spending powers. The following table sets forth the approximate retail price suggested by us for the nine months ended September 30, 2020.

Product line	Suggested retail price
<i>Angelalign</i>	RMB32,000
<i>Angelalign Pro</i>	RMB40,000
<i>Angelalign Kid</i>	RMB26,000
<i>COMFOS</i>	RMB24,000

The following table sets forth the case shipments by type of clear aligners for the periods indicated.

	Year ended December 31,		Nine months ended
	2018	2019	September 30,
			2020
<i>Angelalign</i>	60,700	78,800	55,400
<i>Angelalign Pro</i>	15,800	24,700	23,000
<i>Angelalign Kid</i>	—	2,200	3,600
<i>COMFOS</i>	1,200	14,400	19,700

Angelalign

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

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

Angelalign Pro

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

BUSINESS

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

Angelalign Kid

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

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

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

COMFOS

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

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

BUSINESS

Other innovative appliances and attachments

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

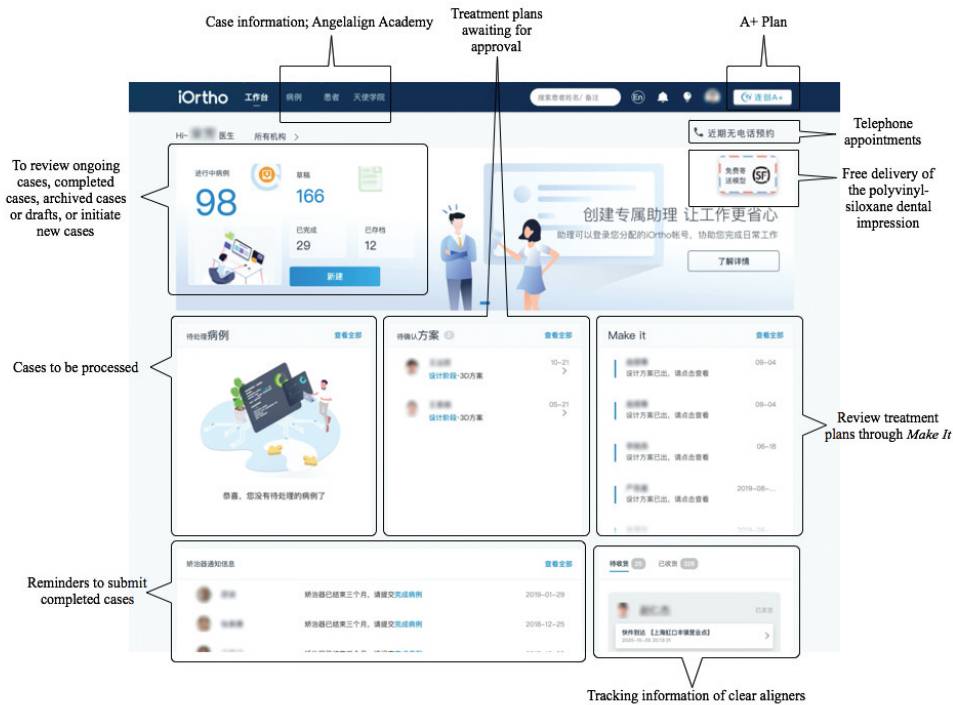
iOrtho

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

We continuously upgrade *iOrtho* and enhance its features to adapt to changing demands and preferences of dental professionals. For example, in response to the increasing preference of submitting an intraoral digital scan instead of a polyvinyl-siloxane impression of the relevant dental arches among dental professionals, we have made *iOrtho* compatibility with all major intraoral scanner providers and achieved immediate transmission of the scan data. As a result, through *Make It*, dental professionals can present to a prospective patient an image of his/her own current dentition next to his/her simulated final position after the treatment through a dual view layout within a few minutes of dental scanning. As such, *iOrtho* can help dental professionals to market our clear aligners and acquire patient users more effectively. We also improved the accuracy and efficiency of the medical record management module in the latest version of *iOrtho* to optimize the user experience for dental professionals in their daily operations. Recently, we upgraded *iOrtho* with artificial intelligence-driven data processing engine.

BUSINESS

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



OUR TECHNOLOGY AND DATA PLATFORMS

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

masterForce

It is critical to study the exact biomechanical mechanisms involved in the orthodontic treatment as it is accomplished by applying precise forces to move the teeth. As a full-factorial orthodontic force simulation system, *masterForce* aids physical mechanics testing with cutting-edge computer-aided engineering technologies. It is involved in every aspect of the mechanics factor analysis of clear aligner treatment, including basic mechanical properties of aligner materials, structural mechanics, forces and moments, and force regressions of aligner materials. Its biomechanics simulation is able to visualize the impact of force and movement of teeth, accurately predict orthodontic design deviation, make compensation for such deviation, thereby delivering more desirable treatment outcomes for patients. As of the Latest Practicable Date, we owned 14 registered patents in relation to *masterForce*.

BUSINESS

masterControl

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

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

masterEngine

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

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

RESEARCH AND DEVELOPMENT

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

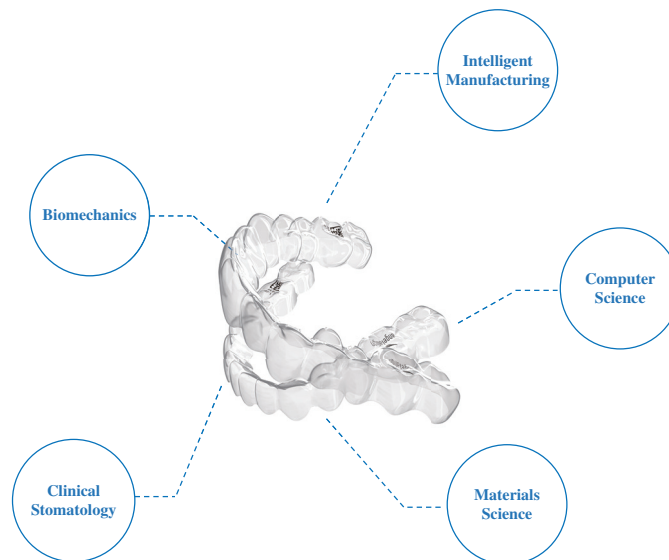
BUSINESS

We believe our success is largely attributable to our strong R&D capabilities and our continued commitment to R&D efforts. We are committed to investing in world-class technology development to continually develop and bring to market innovative clear aligner treatment solutions, and to redefine and improve industry standards. In 2018, 2019 and the nine months ended September 30, 2020, our research and development expenses were RMB50.2 million, RMB80.9 million and RMB58.9 million, respectively, representing 10.3%, 12.5% and 9.8% of our revenue in the same periods, respectively. In 2018, 2019 and the nine months ended September 30, 2020, we had 11, 10 and 21 research projects, respectively.

We are committed to recruiting new talent to join our R&D team. We attend campus recruitment events on a regular basis to hire qualified graduates with outstanding academic records. We also seek to hire R&D personnel with experience in the relevant fields. We attract new R&D talent by offering competitive compensation packages, career development opportunities and trainings designed to enhance their technical skills and professional knowledge. As of September 30, 2020, we had a research and development team of 120 members, representing 9.3% of our total employees in the same period. In addition, we collaborated with renowned Chinese higher education institutions, stomatology hospitals, medical schools and other research institutions in relation to our R&D initiatives. We generally enter into a legally binding cooperation agreement with such entities for joint R&D projects.

Our R&D Initiatives

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



BUSINESS

Clinical stomatology

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

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

Biomechanics

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

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

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

Materials science

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

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Computer science

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

Intelligent manufacturing technologies

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

OUR INTELLIGENT MANUFACTURING

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

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

Our Mass Customization Process

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

On the one hand, each aligner is custom-built, and must be precisely calibrated and manufactured to fit each patient’s teeth positions at each stage of the corresponding treatment plan. On the other hand, we must achieve mass production to lower our costs and increase scale of operations. Enabled by technologies including 3D printing and automated production line, we have introduced the “mass customization” model to mass-produce custom-tailored clear aligners. Our “mass customization” process is generally divided into four main stages, including (1) 3D printing of teeth molds depicting the future position of the patient’s teeth based on the approved treatment plan, (2) aligner fabrication by pressure-forming polymeric sheets

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over each teeth mold, (3) trimming, polishing and quality check of the clear aligners, and (4) sorting and packing of all finished aligners based on the designated identification codes in our automatic sorting system. Subsequently, all sets of aligners of each individual patient will be packed together and shipped to the prescribing dental professional of such patient.

Manufacturing Facilities

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

	Year ended December 31,		Nine months ended September 30,
	2018 ⁽⁴⁾	2019	2020
	(unit in thousands, except for the percentages)		
Production capacity ⁽¹⁾	6,800	15,800	14,300
Production volume ⁽²⁾	6,770	12,150	11,640
Utilization rate ⁽³⁾	99.6%	76.9%	81.4%

- (1) Production capacity is calculated based on the assumption that our manufacturing facilities operate 520 hours per month.
- (2) Production volume refers to the number of units produced in a given period.
- (3) Utility rate is calculated by dividing the production volume of a given period by the production capacity of the same period.
- (4) We had commenced the mass production utilizing our automated production lines since July 2018.

Our production capacity generally increased during the Track Record Period, primarily due to the commencement of production on our newly established automated production lines. The utilization rate of our production facilities decreased from 2018 to 2019, primarily due to the under-utilization of our newly established automated production line during the trial stage. The utilization rate of our production facilities increased from 2019 to the nine months ended September 30, 2020, primarily due to the full operation of our newly established automated production line, partially offset by the impact of COVID-19 pandemic in the first half of 2020.

3D printing

We use the 3D printing technology to produce a series of teeth molds depicting the future position of each patient’s teeth, which is essential to the manufacturing of clear aligners.

3D printing is a precise production technology that can produce teeth molds that match the complexity and uniqueness of each individual patient’s tooth movement. As a computer-controlled production process, 3D printing forms a teeth mold with around 200 successive layering of materials in accordance with a 3D model.

We have established China’s largest 3D printing base in dental application in our Wuxi manufacturing facilities and deployed the 4th generation 3D printers, which are the most advanced ones for dental appliances, according to the CIC Report. Our 3D printers, with custom build-in parameters to address our demand for large scale production, perform approximately 25% to 50% faster than the industry average.

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Automated production line

Historically, we manufactured all our clear aligners manually. In 2017, we built our first automated production line in Wuxi manufacturing facilities, which commenced commercial production in 2018. Equipped with our advanced computer-aided technologies, the automated production line can minimize human error in the manufacturing process to the largest extent and double our production efficiency. As of September 30, 2020, we manufactured our clear aligners primarily through our automated production line. Going forward, we expect to maintain our manual production capabilities to fabricate clear aligners for extremely complicated cases and for purposes of our research and development efforts and clinical studies.

Manufacturing execution system

Manufacturing execution system (the “MES”) plays an important role in controlling and monitoring in real time the entire production process through which raw materials are converted into finished goods. MES forms a link between our enterprise information system and our systems for production processes and data collection. It documents the critical inputs of each workflow and is highly integrated with our automated manufacturing equipment. MES generates dynamic production schedules, accommodates multiple rework solutions, provides traceable production data and allows process customization, which enables faultless and agile manufacturing and increase our production efficiency.

Expansion Plan

As the second largest in the world, China’s overall clear aligner market, in terms of retail sales revenue, is expected to increase from US\$1.4 billion in 2019 to US\$11.9 billion in 2030 at a CAGR of 21.5%, according to the CIC Report. Moreover, we believe that the enormous yet underpenetrated market will present great upside potential. In anticipation of such increase in demand, we plan to further enhance our “mass customization” production capacity by expanding our manufacturing facilities and increasing the degree of manufacturing automation and efficiency at our existing and new sites.

We own the land use right to one parcel of land located in Wuxi city with a site area of approximately 68,883 square meters. As advised by our PRC legal advisors, we have obtained the land use certificate for such parcel of land and legally owned the land use right, which will expire in February 2069. We are in the process of constructing our Chuangmei Center on the parcel, which comprises new manufacturing facilities and a research and development center with a gross floor area of approximately 126,000 square meters. The new manufacturing facilities in our Chuangmei Center, once fully commissioned, are expected to have an ultimate annual designed production capacity of approximately 100 million units of clear aligners. We expect to commence production in our Chuangmei Center with the first few established automated production lines by the end of 2021 after we obtain relevant permits, certificates and approvals, such as a certificate for passing construction completion inspections and a medical device production permit.

We expect to incur total investment of approximately RMB[REDACTED] million for the construction of Chuangmei Center, which will be primarily funded by [REDACTED] from the [REDACTED]. See “Future Plans and Use of [REDACTED].” The following table sets forth certain details of our expansion plans.

Project	Approximate gross floor area	Construction commencement date	Expected construction completion date ⁽¹⁾	Expected aggregate capital expenditure
	(sq. m.)			(RMB in millions)
Production Plant	56,000	September 2020	December 2023	[REDACTED]
Research Center	70,000	July 2022	July 2024	[REDACTED]

(1) Represents the completion date for the construction of the new plant and deployment of certain automated production lines.

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We may face a number of challenges in implementing our expansion plans, such as procurement of sales orders and raw materials, and maintaining quality control. We intend to further improve the automation levels of our production process to reduce our dependence on labor to the largest extent. Moreover, we intend to capture market growth and expand our market share by leveraging our leading market position and expanding distribution network. We also seek to continue to improve our inventory management and our procurement process in order to ensure a sufficient supply of raw materials, and to continue to invest in and improve our quality control procedures and systems. However, we may face failure or delay in implementing our expansion plan. See “Risk Factors — Risks Relating to Our Business and Industry — If we fail to implement our expansion plan as planned, our business and prospects could be materially and adversely affected.”

QUALITY CONTROL

Product quality is vital to our business, since any potential quality defect may cause significant risks to patients. As such, we are committed to developing and producing high quality products in compliance with international and applicable domestic standards, regulations and directives. We have established what we believe to be a stringent quality management system. We have a quality and regulatory affairs department and devote significant resources to quality management of our products.

As of September 30, 2020, we had a quality control team of 37 members. Our quality control team is responsible for formulating and implementing our quality control policies, and conducting inspections of raw materials, production processes and finished products to identify quality defects. We have strictly followed the ISO 13485 quality management system for medical devices.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaints about product quality and our products had not been subject to any material claim, litigation or investigation. In addition, during the Track Record Period and up to the Latest Practicable Date, there were no product recalls or fatal accidents related to our products.

OUR CUSTOMERS

Our customers primarily include public hospitals and private dental clinics. We also recognize distributors as our customers. See “— Sales and Distribution — Sales through Distributors.”

Revenue generated from our top five customers accounted for 11.7%, 13.5% and 13.6% of our total revenue in 2018, 2019 and the nine months ended September 30, 2020, respectively, and revenue generated from our largest customer accounted for 4.1%, 3.8% and 3.5% of our total revenue in the same periods, respectively. The following table sets forth certain information of our top five customers during the Track Record Period.

<u>Customer</u>	<u>Transaction amount</u> (RMB in millions)	<u>Percentage of total revenue</u> (%)	<u>Approximate length of relationship as of the Latest Practicable Date</u> (Years)	<u>Principal business</u>
<i>For the nine months ended September 30, 2020</i>				
Customer A	20.7	3.5	four	distribution of medical devices
Customer B	17.3	2.9	four	distribution of medical devices
Customer C	16.6	2.8	four	aesthetic medicine services
Customer D	13.4	2.2	three	dental care services
Customer E	13.4	2.2	four	distribution of medical devices
Total	81.4	13.6	—	—

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Customer	Transaction amount (RMB in millions)	Percentage of total revenue (%)	Approximate length of relationship as of the Latest Practicable Date (Years)	Principal business
<i>For the year ended December 31, 2019</i>				
Customer C	24.9	3.8	four	aesthetic medicine services
Customer A	19.2	3.0	four	distribution of medical devices
Customer B	15.2	2.4	four	distribution of medical devices
Customer D	14.4	2.2	three	dental care services
Customer F	13.5	2.1	five	dental care services
Total	87.2	13.5	—	—
<i>For the year ended December 31, 2018</i>				
Customer C	19.8	4.1	four	aesthetic medicine services
Customer F	14.3	2.9	five	dental care services
Customer D	7.8	1.6	three	dental care services
Customer G	7.8	1.6	four	dental care services
Customer B	7.3	1.5	four	distribution of medical devices
Total	57.0	11.7	—	—

We entered into direct sales agreements with hospitals and dental clinics, and distribution agreements with our distributors, respectively. See “— Sales and Distribution” for details.

As of the Latest Practicable Date, except for Customer E, an affiliate of our Controlling Shareholder, none of our Directors, their close associates or any shareholders which, to the best knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, had any interest in any of our top five customers.

OUR SUPPLIERS

Our suppliers primarily include suppliers of clear aligner raw materials, vendors of our manufacturing equipment and consumables, logistics service providers, and marketing service and event planning service providers. We select our suppliers based on the quality and prices of their supplies and our business needs. Purchase from our top five suppliers accounted for 70.9%, 79.0% and 81.3% of our total purchases of such products and services in 2018, 2019 and the nine months ended September 30, 2020, respectively, and purchase from our largest supplier accounted for 32.6%, 35.4% and 35.8% of our total purchases in the same periods, respectively. The following table sets forth certain information of our top five suppliers during the Track Record Period.

Supplier	Transaction amount (RMB in millions)	Percentage of total cost of procurement (%)	Approximate length of relationship as of the Latest Practicable Date (Years)	Major products/services purchased by us
<i>For the nine months ended September 30, 2020</i>				
Supplier A	39.0	35.8	four	manufacturing raw materials
Supplier B	31.3	28.7	four	3D printers and manufacturing consumables
Supplier C	11.1	10.2	nine	logistics services
Supplier D	3.9	3.6	nine	logistics services
Supplier E	3.3	3.0	four	marketing services
Total	88.6	81.3	—	—

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<u>Supplier</u>	<u>Transaction amount</u> (RMB in millions)	<u>Percentage of total cost of procurement</u> (%)	<u>Approximate length of relationship as of the Latest Practicable Date</u> (Years)	<u>Major products/services purchased by us</u>
<i>For the year ended December 31, 2019</i>				
Supplier B	60.9	35.4	four	3D printers and manufacturing consumables
Supplier A	55.7	32.4	four	manufacturing raw materials
Supplier C	10.9	6.3	nine	logistics services
Supplier E	5.0	2.9	four	marketing services
Supplier F	3.4	2.0	three	event planning services
Total	<u>135.9</u>	<u>79.0</u>	—	—
<i>For the year ended December 31, 2018</i>				
Supplier A	51.6	32.6	four	manufacturing raw materials
Supplier B	43.7	27.7	four	3D printers and manufacturing consumables
Supplier C	6.2	3.9	nine	logistics services
Supplier G	5.4	3.4	five	marketing services
Supplier H	5.3	3.3	four	marketing services
Total	<u>112.2</u>	<u>70.9</u>	—	—

As of the Latest Practicable Date, none of our Directors, their close associates or any shareholders which, to the best knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, had any interest in any of our top five suppliers.

Raw Materials

The principal raw materials for our clear aligners include composite polymer materials (in splint/sheet form). We typically enter into legally-binding procurement agreements with our raw materials suppliers, under which the suppliers are obligated to fulfill each of our procurement order on demand. The procurement agreement typically includes the following major terms.

- *Term and renewal.* The procurement agreements generally remain in force until they are terminated or replaced by new arrangements.
- *Purchase amount.* The procurement agreements may stipulate a minimum purchase amount in some cases.
- *Pricing arrangements.* We generally stipulate a fixed price for each unit of raw materials we purchase in the framework procurement agreements, in particular with our major suppliers, and therefore, effectively manage our costs against the market price inflation of the relevant raw materials. The agreements may allow us to negotiate price adjustment under certain circumstances.
- *Payment method and credit period.* Payments generally will be made by us in a lump-sum or installments via bank transfer. We are generally allowed to have a credit period ranging from 30 to 60 days.

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- *Raw materials return/exchange.* We examine raw materials when we receive them and may return any raw materials that do not meet our requirements within a specified period.
- *Raw materials quality.* Suppliers are subject to standard quality control terms specified or referenced to in the agreement.
- *Exclusivity.* We may require certain suppliers not to sell the relevant raw materials to third parties in the territory and within the time period prescribed in the agreement.
- *Confidentiality.* Both parties shall keep confidential of the information acquired in the performance of the procurement agreement.
- *Termination.* The procurement agreements can be terminated without cause upon written consent from both parties. Either party can also terminate the agreement upon material breach by the other party.

We select our raw material suppliers based on stringent criteria and applicable laws and regulations. We consider, among other things, their product capacity, quality accreditations, technological level, pricing, reputation and delivery capacity. Our raw materials suppliers are required to possess all licenses and permits necessary to conduct their operations. We also conduct annual evaluation of our major suppliers. When it comes to our attention that any supplier’s products manifests material defects that may adversely affect the quality of our clear aligners, we have the discretion to terminate any purchase from that supplier and take measures accordingly to reduce any risk it may have on our clear aligners.

During the Track Record, we have engaged a limited number of suppliers for key raw materials and production equipment to manufacture our clear aligners. See “Risk Factors — Risks Relating to Our Business and Industry — We have engaged a limited number of suppliers for raw materials and manufacturing equipment of our clear aligners, which may render us vulnerable to supply shortages, quality issues and price fluctuations and could materially and adversely affect our business, results of operations, financial condition and prospects.” We have maintained stable and long-term relationships with these major raw material suppliers. In addition, we believe that we will be able to secure alternatives for our major raw materials as and when required. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had not experienced any material disputes with suppliers, difficulties in the procurement of raw materials, interruptions in our operations due to a shortage or delay of raw materials or significant fluctuations in raw material prices.

Inventory Control

As we manufacture customized aligners on a build-to-order basis, we do not build or maintain a significant inventory of finished products. Finished aligners enter the warehouse before they are shipped to customers. We count the finished products in the warehouse on a daily basis and record each entry and delivery of finished products. As a result, our inventories primarily include raw materials, and to a much lesser extent, work in progress and finished goods that have not been delivered yet. As of December 31, 2018 and 2019 and September 30, 2020, we had inventories of RMB21.7 million, RMB22.8 million and RMB14.5 million, respectively. We maintain our inventories of raw materials primarily according to the projected demand from our customers and distributors and the estimated production time of our products. We typically maintain an inventory level of one month to meet the procurement needs of our distributors and customers. See “Financial Information — Discussion of Major Balance Sheet Items — Inventories” for details.

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SALES AND DISTRIBUTION

During the Track Record Period, we sold our services and products primarily in China, and to a much less extent, in certain other countries and regions, including Australia and other Asian regions, through a PRC distributor. We had approximately 0.4%, 0.4% and 0.4% of our total case shipments in overseas markets in 2018, 2019 and the nine months ended September 30, 2020, respectively. We sell our services and products either directly to hospitals and clinics or to our distributors, who in turn resell to hospitals and clinics. As such, our customers consist of hospitals and clinics to which we sell directly and our distributors. We recognize revenue generated from sales through distributors with the wholesale prices entered into with our distributors. See “Financial Information — Critical Accounting Policies, Judgments and Estimates — Revenue Recognition” for details. We generated 11.0%, 29.9% and 32.8% of our total revenue from sales through distributors in 2018, 2019 and the nine months ended September 30, 2020, respectively.

Direct Sales

We directly sell a substantial portion of our services and products to hospitals and dental clinics through our wholly-owned subsidiary which holds the medical device business certificate. In line with market practice, we typically grant our direct hospital and clinic customers a credit period ranging from 30 to 60 days. As of September 30, 2020, we had an in-house sales team of 201 members.

We generally enter into a clear aligner customization agreement with hospitals and clinic customers, which typically includes the following major terms.

- *Term and renewal.* The agreement generally has a term ranging from one to two years. Agreements with private hospitals and clinics are generally extendable for six months before the expiry of the agreements.
- *Purchase amount.* The agreement generally does not stipulate a minimum purchase amount for each customer.
- *Pricing arrangements.* The agreement generally stipulates different prices for different cases depending on their complexity. Prices for additional services, such as delivery in advance and additional aligner manufacturing, are stipulated at a fixed rate.
- *Payment method.* Payments generally will be made by our customers, including hospitals and dental clinics, on a patient-by-patient basis in a lump-sum via bank transfer.
- *Termination.* The agreement can be terminated without cause upon written consent from both parties. Either party can also terminate the agreement upon material breach by the other party.

Sales through Distributors

In addition to direct sales, we have engaged distributors to increase sales and market share by leveraging their channel resources and, as a result, reduce our marketing cost. By doing so, we are able to scale our operations and replicate our success into greenfield regions quickly and cost-effectively with minimal incremental costs.

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According to the CIC Report, it is customary in the medical device industry, including the dental medical device industry, to rely on or involve distributors for the sales to hospitals and clinics. The adoption of the distributor model can provide several crucial advantages to clear aligner treatment solution providers. Since the terminal clients for clear aligner treatment solution providers are generally medical institutions of various types and sizes, distributors can utilize resources to help them reach the fragmented target clients, which is especially beneficial to their expansion into greenfield regions. In addition, clear aligner treatment solution providers can save their in-house resources as they can retain a more dedicated team of in-house sales and marketing personnel with superior understanding of the solutions and the overall market while relying on distributors’ network and understanding of regional markets. Distributors can also assist with customer retention for small and mid-sized clinics from fragmented markets as direct sales team may find difficult to engage.

Under our distributor model, we typically set a fixed price in the distributorship agreements at a discount compared to the direct selling price based on various factors, including the distributors’ distribution territory, channel resources, business volume and bargaining power. During the Track Record Period, to the best knowledge of our Directors, except for those distributors controlled by two former non-managerial employees and certain affiliates of our Controlling Shareholder, none of our distributors had any past or present relationship (business, employment or otherwise) with our Company, our subsidiaries, shareholders, directors, senior management or any of their respective associates. The Directors confirm that the terms with the distributors controlled by two former non-managerial employees and certain affiliates of our Controlling Shareholder are no different than those entered into with the other distributors. See “Connected Transactions — Continuing Connected Transactions — Non-exempt continuing connected transactions (subject to reporting, annual review, announcement, circular and independent Shareholder’s approval requirements) — Clear Aligners Purchase and Sales Framework Agreement” for details. During the Track Record Period, we did not provide any advance or financial assistance to our distributors. To the best knowledge of our Directors, there is no other relationship or arrangement (family, financing guarantee or otherwise in the past or present) between each of our distributors.

Selection criteria

We have established distributor recruitment standards and process to make sure the distributors we engage are effective and resourceful. We select our distributors based on their experience in the medical device industry, particularly in orthodontics devices. In addition, they must possess the requisite business licenses and permits to sell medical devices in China and have established relationships with hospitals and dental clinics within their regions. The sales management team of each region verifies the information about potential distributors and further screens the candidates using the following metrics: operating qualification, local sales channel resources, operating directions, willingness of engagement, management capability, and business reputation. We also review the qualifications of our distributors when our contracts with them are due to be renewed.

Management of distributors

We proactively manage our distributors to ensure a healthy and orderly market condition, to maintain supervision and understanding of the sales performance of our distributors and demand of our services, and to protect our brand and reputation. We primarily rely on distribution agreements and supervision by our sales and marketing personnel to manage and control our distributors. Our distributors are contractually prohibited from selling competing clear aligners, and we authorize them to sell only within their designated geographic regions. We may impose penalties such as termination of relevant distribution arrangements if they are not complying with the terms of distributor agreements. We also conduct periodic review of our distributors regarding their sales performance, the aging of their trade receivables, and their contribution and coordination with respect to marketing campaigns, sales channels development, and promotion of our training programs.

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Distribution network

We have a growing nationwide distribution network. As of September 30, 2020, we deployed 67 distributors, covering 29 provinces, municipalities and autonomous regions in China. Our distributors include relative large-scale distributors of medical devices and pharmaceutical products with wide coverage in terms of hospitals and geographical regions. We also engage certain small and medium-sized distributors focused on providing ancillary services directly to hospitals in their target geographical regions. Our distributors are not allowed to engage sub-distributors without our explicit approval. During the Track Record Period, we barely involved sub-distributors. The following table sets forth the changes in the number of our distributors for the periods indicated.

	Year ended December 31,		Nine months ended September 30,
	2018	2019	2020
Distributors at the end of the previous year/period ⁽¹⁾	18	37	55
Addition of new distributors ⁽²⁾	23	24	21
Termination of distributors ⁽³⁾	4	6	9
Distributors at the end of the year/period	37	55	67

- (1) Represents the number of distributors who had an effective distribution agreement with us at the respective year/period end.
- (2) Represents the number of distributors who newly entered into a distribution agreement with us in the relevant year/period.
- (3) Represents the number of distributors who did not renew, or terminated, their distribution agreements with us in the relevant year/period.

The number of distributors we engaged during the Track Record Period generally increased as we intended to utilize sales channels of distributors to expand our business in a more cost-effective manner and increase our sales efficiency. We generally enter into a distribution agreement with our distributors. The distribution agreement contains terms and conditions consistent with customary industry practice, primarily including the principal terms.

- *Term and renewal.* The agreement generally has a term of one year, and are renewable by mutual consent.
- *Designated distribution territories.* We designate certain distribution territory for each distributor. Distributors are prohibited from distributing and marketing outside their own distribution territory absent our prior approval.

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- *Sales commitment.* The distribution agreement generally sets a sales commitment for each distributor, taking into consideration of the market potential of the designated territory and our expansion requirement. Distributors are entitled to rebates in proportion with their sales revenue after hitting the sales target while failure to fulfill their commitments gives us the right to cancel their distributorship. As our clear aligners are customized based on each specific treatment plan, we believe that our exposure to the risk of channel stuffing is remote.
- *Pricing policies.* The distribution agreement generally stipulates a fixed price for different lines of products. We reserve the right to make price adjustment.
- *Delivery.* Unless otherwise stipulated, we deliver clear aligners to end users (i.e., dental professionals) directly and generally bear the delivery cost.
- *Non-compete.* Our distributors and their employees are refrained from dealing or cooperating with third parties that provide products or services similar with ours. Violation of the non-compete arrangements is a cause for termination and may subject the violating distributor to a fine.
- *Compliance.* Our distributors are responsible for conducting sales in accordance with the relevant laws and regulations, and may not use any payments or other means prohibited under PRC law to promote or sell our solutions.
- *Credit period.* We generally grant distributors a credit period of 30 to 60 days.
- *Product return/exchange.* We generally do not accept product returns or exchanges except for products with quality defects. See “— Customer Service.”
- *Suspension and termination.* Under most distribution agreements, we are granted broad discretion regarding suspending or terminating distributorships with our distributors. For example, we may suspend the distributorship if the distributor fails to settle the payables promptly and in full, materially breaches the terms under the distribution agreement and fails to remediate such breach, or is subject to significant operational risk. In addition, we may terminate the distributorship if the distributor undergoes a change of control without prior notice to us, assigns the agreement in part or in full to a third party without our written consent, or suspends its business for an aggregation of more than one month without our written consent.

Customer Service

We strive to provide our customers with satisfactory customer services. As of September 30, 2020, we had a customer service team of 34 members.

Our customer service team provides after-sales services to our customers, including correcting delivery mistakes, returning products, and providing clinical trainings to clients and distributors. They also visit clients and distributors periodically, collect feedback, and prepare visiting reports for our internal use. As all aligners are custom manufactured, we generally do not allow returns. If any clear aligner is found defective, our customer service department must inform our quality control department and properly handle the matter pursuant to our internal policy, in which case we generally make an exchange for the defective one.

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Pricing Policy

We take into account a number of factors in determining our selling prices to customers, which primarily include our costs and expenses, different product lines, prices of competing products, our market share and the overall competitive landscape. We generally set a fixed selling price in our agreements with customers. During the Track Record Period, we were able to maintain stable selling prices for each product line.

SEASONALITY

We generally experience effects of seasonality primarily due to the consumption preferences of patients with a need for clear aligner treatment. We typically experienced the highest sales during the summer vacation. We had our second highest sales during winter vacations before and after the Chinese New Year for similar reasons.

BRANDING AND MARKETING

A-Tech Forum

Starting in 2014, we have organized and hosted *A-Tech Forum*, an annual academic conference with the aim of gathering renowned orthodontists, stomatologist and experts in other relevant fields worldwide to exchange the most advanced digital orthodontics technologies and latest innovations.

The scope of application of clear aligner products has been largely expanded over the years, and an increasing number of orthodontists have started to recommend clear aligner products to their patients. As a pioneer in China’s clear aligner industry, we witnessed the evolution of the industry, and feel obliged to leverage our knowledge, experience and industry resources to enhance orthodontists’ capability of providing clear aligner products and services to patients. Through the *A-Tech Forum*, we share our latest technologies and innovations with attendees, provide them with a platform to exchange ideas and learn from each other, and bring them to a common vision of the industry. We avail the *A-Tech Forum* to spread out our academic impact, which in turn helps us in establishing our key opinion leaders network.

We believe our development is closely related to the support from industry and academia, and the *A-Tech Forum* affords us with a unique opportunity to foster a strong bond with practitioners as well as research institutions. We also believe that the *A-Tech Forum* can advance integration of industry resources, encourage cooperation between academia and industry, and promote technological development and innovation.

Other Branding and Marketing Activities

In addition to *A-Tech Forum*, we have conducted a variety of branding and marketing activities to increase our brand awareness and promote our products and services.

- *Training programs.* Since 2017, we have provided orthodontic certification training programs on digital orthodontics to dental professionals in collaboration with the UCLA Dental Research Service Center, through which we do not only promote the development of China’s digital orthodontics, but also publicize the strengths of clear aligner treatment to more dental professionals, thereby expanding our dental professional base. In addition, we launched Yulong Plan (育龍計劃) in collaboration with China Oral Health Foundation to provide postgraduate orthodontics students with advanced, standardized training on digital clear aligner treatment.

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- *Academic events and publications.* In addition to our annual *A-Tech Forum*, we have organized over 3,000 regional symposium focusing on specific products and technologies since 2018. We also regularly attend national academic events, such as the International Orthodontic Conference and the Annual Meeting of the Chinese Orthodontic Society (國際正畸大會暨全國口腔正畸學術會議). Moreover, we have published a book on clear aligner treatment to further increase our academic influence.
- *Sponsorship.* In 2017, we entered into a cooperation agreement with the Bureau of Training of General Administration of Sport of China (國家體育總局訓練局), pursuant to which we were appointed as a sponsor to provide orthodontic solutions for national athletes, with our clear aligners being designated as the Approved Products for National Team Athletes.
- *Social network.* We use social network, such as Weixin, to promote the strengths of clear aligner treatment.
- *Demonstration centers.* As of the Latest Practicable Date, we had two demonstration centers in Shanghai and Guangzhou, through which we provide dental professionals with access to our medical services offline to level up user experience, as well as regular in-the-field training in application of our solutions. We can also educate the potential patients on how our clear aligner works, such as showing them a scan-driven simulation of how they might look with straighter teeth.

COMPETITION

We operate in a highly concentrated market characterized by rapid changes resulting from technological advances and scientific discoveries, and we expect competition in this market to persist and intensify. In addition, it is subject to overall changes in China’s dental healthcare industry and medical device industry. According to the CIC Report, in the nine months ended September 30, 2020, the top two market players, including us, accounted for approximately 82.3% of China’s clear aligner treatment solution market in terms of case shipments. We have faced and may continue to face competition mainly from international and domestic clear aligner treatment solution providers.

We believe our principal competitive advantages include:

- the scope and quality of our services and products;
- our brand recognition;
- the price-to-value factor;
- our research and development capabilities;
- our ability to continue to innovate and develop advanced technologies;
- our efficient operating model;
- our ability to attract and retain skilled personnel; and
- our ability to effectively market our products and services.

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We believe that we are well-positioned to effectively compete in China’s clear aligner industry by virtue of our ability to deliver high quality services and products nationwide, our comprehensive product lines, well-known *Angelalign* brand, strong research and development capabilities, cutting-edge technologies and experienced management team. However, some of our current or future competitors may have greater access to financing resources than we do, and a longer operating history than us. See “Risk Factors — Risks Relating to Our Business and Industry — We face competition in the clear aligner industry with domestic and international competitors. Our failure to compete successfully could materially and adversely affect our prospects, business, financial condition and results of operations.”

THIRD PARTY PAYMENT ARRANGEMENTS

Background

During the Track Record Period, certain of our customers (the “Relevant Customer(s)”) settled their payments with us through third-party payors (the “Third-party Payment Arrangement(s)”). In 2018, 2019 and the nine months ended September 30, 2020, the aggregate amount of third-party payments accounted for approximately 10.8%, 2.0% and 0.8% of the total payments we received from all customers, respectively. No individual Relevant Customer had made material contribution to our revenue during the Track Record Period. Since November 2020, we have ceased all Third-party Payment Arrangements.

During the Track Record Period and up to the date of the document, other than simply accepting the third-party payments paid by the third-party payors for the Relevant Customers, we have not proactively initiated any of the Third-party Payment Arrangements, nor have we participated in any separate arrangement between the Relevant Customers and their respective third-party payors for the settlement of the payments owed by the Relevant Customers to the third-party payors. Furthermore, during the Track Record Period and up to the date of this document, we have not provided any discount, commission, rebate or other benefit to any of the Relevant Customers or the third-party payors to facilitate or incentivize the Third-party Payment Arrangements. Our Directors have confirmed that, all the third-party payors affiliated with the Relevant Customers, who settled their third-party payments as instructed by the Relevant Customers, are independent of our Group and each of our respective directors, senior management and shareholders.

Reasons for Utilizing Third-party Payment Arrangements

The Relevant Customers during the Track Record Period primarily consisted of small-sized hospitals and private dental clinics. According to the CIC Report, it is a common commercial practice for small-sized hospitals and private dental clinics in China to settle all types of payments through third party payors to their providers and vendors, such as payments for purchases of medical products and supplies as well as consultation services, primarily due to the following reasons:

- (i) many small-sized private dental clinics operated their business in the form of sole proprietorship (個體工商戶), which is a type of organization that typically prefers not to open a separate business bank account but to settle payments through personal bank accounts of their respective family members due to the complexity of using corporate bank accounts;
- (ii) many small-sized private dental clinics engage their family members as treasurers and finance managers, whose personal accounts usually are used by the clinics to settle their payments;
- (iii) many small-sized hospitals and private dental clinics have pre-determined arrangements with third party payors for settlement of their payments, such as using personal bank accounts of their employees or shareholders; and
- (iv) it is more efficient for most small-sized hospitals and private dental clinics to settle payments through personal accounts as the value of each transaction is relatively small.

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As advised by our PRC legal advisors, these Third-party Payment Arrangements do not contravene or circumvent applicable laws or regulations in China.

Internal Control Measures and Cessation of Third-party Payment Arrangements

To safeguard our interest against risks associated with Third-Party Payment Arrangements, we implemented various internal control measures to reduce the proportion of payments received from third-party payors and to mitigate the relevant risks, including, among other things:

- (i) we have required all customers to settle their payments directly through their own corporate bank accounts since December 2017;
- (ii) for customers who were unable to directly settle payments with us immediately at the relevant time, we required that such customers (1) communicate relevant information to us, including, among others, the identity of the involved third-party payors; (2) obtain the prior written approval of our Chief Financial Officer; and (3) enter into a tri-party payment agreement (the “Tri-party Payment Agreement(s)”) with us and the third-party payors based on our house form;
- (iii) before accepting any third-party payment, we verified the payment information against the information recorded within our register of receipt to ensure that such payment was settled through the relevant third-party payor’s account as identified in the appropriate Tri-party Payment Agreement;
- (iv) if a Tri-party Payment Agreement could not be entered immediately at the relevant time, we implemented additional stringent internal procedures to determine whether to retain or reject such third-party payments. Moreover, our finance department has issued, on a monthly basis, a client account statement for all third-party payments without Tri-party Payment Agreements to verify the payment amount accuracy and relevant treatment case numbers during the period; and
- (v) we rejected all payments made by third-party payors that failed to satisfy the abovementioned requirements.

We established a special supervisory team consisting of persons from sales department, finance department and legal department to jointly supervise and monitor the implementation of measures.

With the implementation of these measures, payments received from third-party payors, as a percentage of the total payments received from all customers, reduced significantly during the Track Record Period from approximately 10.8% in 2018 to approximately 0.8% in the nine months ended September 30, 2020. Since November 2020, we have completely ceased all Third-party Payment Arrangements.

Considering that the revenue contribution by Third-Party Payments during the Track Record Period was not material to our business, and that our business continued to grow during the abovementioned rectification process, we believe that our cessation of allowing Third-Party Payments will not have a material adverse effect on our business, financial condition, results of operations and prospects. As of the date of this document, there has been no material impact to our financial and operational position as a result of our cessation of Third-party Payments Arrangements. See “Risk Factors — Risks Relating to Our Business and Industry — We are subject to various risks relating to third-party payments.”

Furthermore, to prevent the reoccurrence of the Third-party Payment Arrangements going forward, we have implemented enhanced internal control measures, including establishing a mechanism to monitor

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and return all coming payments through third party payors. In addition, in our agreements with all newly acquired customers, we stipulate the payment account information of each customer with the assurance that such information is consistent with the business license of the relevant customer.

Our Directors are responsible for formulating and overseeing the implementation of our internal control measures and the effectiveness of our quality management system. In preparation for the [REDACTED], we have engaged an independent third-party consultant (the “Internal Control Consultant”) to perform a review over selected areas of our internal controls over financial reporting in October 2020 (the “Internal Control Review”), resulting in the identification of recommendations for improvement. The scope of the Internal Control Review performed by the Internal Control Consultant was agreed between us, the Joint Sponsors and the Internal Control Consultant. The selected areas of our internal controls over financial reporting that were reviewed by the Internal Control Consultant included entity-level controls and business process level controls, including revenue and receivables which covers the third-party payment, purchases and payables, fixed assets, intangible assets, production and costs, inventory and product delivery, treasury, investment, financial reporting, insurance, tax, payroll and general controls of information technology. The Internal Control Consultant performed the follow-up reviews in December 2020 to review the status of our management actions to address the findings of the Internal Control Review (the “Follow-up Review”). The Internal Control Consultant did not have any further recommendation in the Follow up Review except for the appointment of the required independent non-executive Directors, which is expected to be completed by us before the [REDACTED].

LICENSES, PERMITS AND APPROVALS

Our PRC legal advisors have advised that we had obtained all licenses, permits, and approvals necessary to conduct our operations in all material respects from the relevant government authorities in China, and such licenses, permits, approvals and certificates remained in effect as of the Latest Practicable Date.

The following table sets out a list of material licenses, permits, and approvals currently held by us.

License/Permit	Holder	Latest Validity Period	Issuing Authority
Medical Device Production Permit (醫療器械生產許可證)	Wuxi EA	October 2020- October 2025	Jiangsu Medical Products Administration (江蘇省藥品監督管理局)
Registration Certificate for Medical Device (醫療器械註冊證)	Wuxi EA	August 2020- August 2025	Jiangsu Medical Products Administration (江蘇省藥品監督管理局)
Registration Certificate for Medical Device (醫療器械註冊證)	Beijing EA	March 2016- March 2021	Beijing Food and Drug Administration (北京市食品藥品監督管理局)
Record-filling Proof for Operation of Class II Medical Devices (第二類醫療器械經營備案憑證)	Shanghai EA	June 2017-Present	Shanghai Yangpu District Market Supervision Administration (上海市楊浦區市場監督管理局)
Record-filling Proof for Operation of Class II Medical Devices (第二類醫療器械經營備案憑證)	Beijing EA	May 2020-Present	Beijing Haidian District Market Supervision Administration (北京市海澱區市場監督管理局)

INFORMATION TECHNOLOGY SYSTEMS

We have enacted our IT system management policy to enhance the reliability of our IT system and further improve consistency and collaboration of related work. Those rules cover computer hardware

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management, computer software management, account management, computer virus prevention, data privacy and backup, data change recording, password security and management, and server room management.

DATA PRIVACY AND SECURITY

During our ordinary course of business, we have access to an extensive volume of data of malocclusion cases. We are committed to protecting such data in our possession over our business and operation.

We treat all data in our possession as highly confidential. We enter into confidentiality agreements with our employees who have access to any aforementioned privacy information. The confidentiality agreements provide that, among others, these employees are legally obligated not to misuse the confidential information while in office, to surrender all confidential information in possession while resigning, and to retain their confidential obligations after they leave office.

We take safety precautions in data storage and processing. Our information technology network is configured with multiple layers of protection to secure our databases and servers. As of September 30, 2020, we had 70 self-owned physical servers located in Shanghai and Wuxi. We back-up malocclusion case data on a real-time basis in separate and various secured data back-up systems to minimize the risk of data loss or leakage. We also conduct frequent reviews of our back-up systems to ensure that they function properly and are well maintained. We have also implemented a variety of protocols and procedures, such as regular system checks, password policy, server access logging, network access authentication, user authorization review and approval and data back-up, as well as data recovery test, to safeguard our data assets and prevent unauthorized access to our network. We continue to improve and enhance our data and system security through routine checks and timely upgrades to ensure the proper management of our malocclusion case data. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any incident of data leakage that would materially and adversely affect our business, results of operations and financial condition. See “Risk Factors — Risks Relating to Our Business and Industry — Leakage and other security risks of confidential information may materially and adversely affect our reputation and business.”

INTELLECTUAL PROPERTY

Intellectual property rights are fundamental to our business, and we devote significant time and resources to their development and protection. We rely on a combination of contractual restrictions, confidentiality procedures, and intellectual property registrations to establish and protect our proprietary technologies. As of the Latest Practicable Date, we had registered 220 trademarks, 83 patents, and 16 software copyrights in China. In addition, we owned 60 registered domain names, all of which remained in effect as of the Latest Practicable Date. See “Statutory and General Information — B. Further Information about Our Business — 2. Our Material Intellectual Property Rights” in Appendix IV to this document for details.

Despite our efforts, third parties may still obtain and misappropriate our intellectual property without authorization. As of September 30, 2020, we did not find any of such misappropriations of our intellectual property rights. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights may adversely affect our business and results of operations. See “Risk Factors — Risks Relating to Our Business and Industry — If we are unable to obtain and maintain intellectual property rights protection for our technologies and products, our business, reputation and competitive edge may be materially and adversely affected.”

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We have used our best efforts to ensure compliance with applicable intellectual property laws. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we were not involved in any intellectual property infringement actions brought by third parties that, individually or in the aggregate, would have a material and adverse effect on our business, result of operations and financial condition. See “Risk Factors — Risks Relating to Our Business and Industry — Litigation or third-party claims of intellectual property infringement or challenges to the validity of our patents or other intellectual properties could be expensive, time-consuming and unsuccessful, and may prevent or delay the development, regulatory approval or commercialization of our products and product candidates.”

EMPLOYEES

As of September 30, 2020, we had 1,293 full-time employees, all of whom were stationed in China. The following table sets forth the number of our full-time employees by function as of September 30, 2020.

Function	As of September 30, 2020	
	Number of Employees	% of Total
Management	7	0.5%
Medical team	381	29.5%
Research and development	120	9.3%
Sales and marketing	342	26.5%
Manufacturing and quality control	377	29.2%
General administration	66	5.1%
Total	1,293	100.0%

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive salaries, performance-based cash bonuses and other incentives. We have adopted a training protocol, pursuant to which we provide pre-employment and regular continuing management and technical training to our employees.

As required under PRC labor laws, we enter into individual employment contracts with our employees covering matters such as wages, bonuses, employee benefits, workplace safety, confidentiality obligations, non-competition and grounds for termination. In compliance with PRC regulations, we participate in various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans.

We believe that we maintain a good working relationship with our employees and we had not experienced any material labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period and up to the Latest Practicable Date.

PROPERTIES

As of the Latest Practicable Date, we owned the land use rights of one parcel of land with a site area of approximately 68,883 square meters. As of the same date, we operated our businesses through six owned properties with a total gross floor area of approximately 475 square meters, and 16 leased properties with a total gross floor area of approximately 14,562 square meters. All such properties have been used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are primarily used as office premises, manufacturing facilities and research and development center for our business operations.

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Owned Properties

As of the Latest Practicable Date, we owned the land use rights to one parcel of land located in Wuxi city, with a site area of approximately 68,883 square meters. Such parcel of land will be used primarily as our manufacturing facilities and research and development center. We are currently constructing Chuangmei Center, which comprises new manufacturing facilities and a research and development center, on the parcel. See “— Our Intelligent Manufacturing — Expansion Plan” for details. As advised by our PRC legal advisors, we have obtained the land use certificate for such parcel of land, and legally owned the land use right, which will expire in February 2069.

As of the Latest Practicable Date, we owned six properties in Chengdu with a total gross floor area of approximately 475 square meters used primarily as offices. As advised by our PRC legal advisors, we have obtained the ownership certificate for one of such properties. We are in the process of obtaining owner certificates in accordance with the applicable laws for the remaining five properties, which is expected to be completed prior to December 2021.

Leased Properties

As of the Latest Practicable Date, we operated our businesses through 16 leased properties in Wuxi, Shanghai, Shuyang, Beijing and Guangzhou, with a total gross floor area of approximately 14,562 square meters. Such properties primarily serve as our offices and research and production facilities.

Our lease agreements in respect of the abovementioned 16 leased properties generally have expiration dates ranging from February 27, 2021 to July 14, 2024. We plan to renew our leases or negotiate new terms when the existing leases expire. All lessors are independent third parties. We did not experience material difficulties in negotiating renewal of our leases with our landlords during the Track Record Period and up to the Latest Practicable Date. We believe that there is sufficient supply of properties in China.

As of September 30, 2020, none of the properties leased or owned by us had a carrying amount of 15% or more of our combined total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our Group’s interests in land or buildings.

Non-registration

Pursuant to the applicable PRC laws and regulations, property lease agreements must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部). The registration of such leases will require the cooperation of our lessors. As of the Latest Practicable Date, we had not obtained lease registration for our 16 leased properties in China, primarily due to the difficulty of procuring our lessors’ cooperation to register such leases. We will take all practicable and reasonable steps to ensure that such leases are registered. To minimize the potential negative impact of the non-registered leases on our operations, we continue to communicate with such lessors to seek their cooperation to complete the registration process. As advised by our PRC legal advisors, the lack of registration of the lease agreements will not affect the validity of such lease agreements.

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According to the relevant PRC laws and regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease. As of the Latest Practicable Date, we had not received any such request or suffered any such fine from the relevant government authorities. We undertake to cooperate fully to facilitate the registration of lease agreements once we receive any requirements from relevant government authorities.

Title Defects

As of the Latest Practicable Date, the lessor of one of our leased properties in China had not provided us with the valid property ownership certificate. We leased the relevant property as an office. The absence of such certificate or documents hampered our ability to determine whether the lessor has the legal right to lease the property to us. If the lessor is not the legal owner, the relevant lease agreement may be deemed invalid and, as a result, we may be challenged by the legal owner of the property and may be forced to vacate the relevant property, which could interrupt our business operations and cause us to incur relocation costs.

As of the Latest Practicable Date, we were not aware of any challenge being made by a third party or government authority on the title of the abovementioned leased property that might have a material adverse effect on our current occupation. In addition, we do not rely on such lease for our business operations, nor do we expect to incur significant time for identifying, or incur significant cost to relocate our operations to, comparable alternative properties in proximity. As advised by our PRC legal advisors, we are not subject to any material administrative penalty for the title defects in the leased property described above. Our Directors believe that potential relocation will not have a material adverse impact on our business, results of operations and financial condition.

As advised by our PRC legal advisors, in the event that the lease agreement of the defective property is deemed invalid or otherwise unenforceable due to the lessor's fault, and that we are unable to continue occupying such property, we have the right to claim indemnification against the relevant lessor for all the damages we suffer in accordance with relevant PRC laws and regulations.

INSURANCE

We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by Chinese laws and regulations and in accordance with the commercial practices in our industry. We maintain employee benefit insurance, property all risks insurance and public liability insurance with respect to our warehouse in Shanghai. However, in line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain keyman life insurance or insurance policies covering damages to our technical infrastructure. During the Track Record Period, we have not made or been the subject of any material insurance claims. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material adverse effect on our results of operations. See "Risk Factors — Risks Relating to Our Business and Industry — We are exposed to potential product liability claims and our insurance coverage may be inadequate to protect us from all the liabilities we may incur."

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AWARDS AND RECOGNITION

During the Track Record Period, we have received recognition for the quality and popularity of our business. The following table sets forth some significant awards and recognition we have received.

Awarding Year	Award/Certificate	Issuing Organization	Awarded Entity
2018	Integration of Information and Industrialization Management System Certificate (國家兩化融合管理體系貫標試點企業)	Ministry of Industry and Information Technology of the PRC (國家工業和信息化部)	Wuxi EA
2018	Small Giant Enterprise in Science and Technology of Jiangsu Province (江蘇省科技小巨人企業)	Jiangsu Provincial Commission of Economy and Information (江蘇省經濟和信息化委員會)	Wuxi EA
2019	Certificate of High-tech Enterprise (高新技術企業證書)	Science and Technology Commission of Shanghai Municipality (上海市科學技術委員會), Shanghai Municipal Finance Bureau (上海市財政局), Shanghai Municipal Tax Service, State Taxation Administration (國家稅務總局上海市稅務局)	Shanghai EA
2019	Leading Enterprise in Producer Services Industry of Jiangsu Province (江蘇省生產性服務業領軍企業)	Jiangsu Development and Reform Commission (江蘇省發展和改革委員會)	Wuxi EA
2019	Specialized, Sophisticated, Special and New Enterprise (「專精特新」企業)	Jiangsu Municipal Bureau of Economy and Information Technology (江蘇省工業和信息化廳)	Wuxi EA
2020	Model Intelligent Manufacturing Plant of Jiangsu Province (Automatic Sorting and Packaging System) (江蘇省示範智能車間(自動化分揀包裝))	Jiangsu Municipal Bureau of Economy and Information Technology (江蘇省工業和信息化廳)	Wuxi EA
2020	Specialized, Sophisticated, Special and New Small Giant Enterprise of Wuxi City (無錫市專精特新小巨人)	Wuxi Municipal Bureau of Industry and Information Technology (無錫市工業和信息化局)	Wuxi EA

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We are subject to legal proceedings, investigations and claims arising in the ordinary course of our business from time to time. As of the Latest Practicable Date, we were not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material and adverse effect on our business, financial condition or results of operations.

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Compliance

We are subject to various regulatory requirements and guidelines issued by regulatory authorities in China. During the Track Record Period and as of the Latest Practicable Date, we did not commit any material non-compliance of the laws and regulations, and we did not experience any noncompliance incident, which taken as a whole, in the opinion of our Directors, is likely to have a material and adverse effect on our business, financial condition or results of operations. As advised by our PRC legal advisors, during the Track Record Period and up to the Latest Practicable Date, save as set out below, we had complied with the relevant laws and regulations in all material respects in China.

Non-compliance with social insurance and housing reserve fund contributions

Background and reasons of non-compliance incidents

Pursuant to relevant PRC laws and regulations, employers are obligated to directly and duly make social insurances and housing reserve fund contributions for their employees. During the Track Record Period, we did not make adequate social insurances and housing reserve fund contributions for certain employees with the relevant social insurance or housing reserve fund authorities.

Our non-compliance was primarily due to (1) inadvertent oversight of the relevant PRC laws and regulations, the implementation of which varies from city to city; (2) the lack of sufficient knowledge on understanding the relevant local laws and regulations by the responsible staff, and (3) some employees' unwillingness to make full contributions to the funds.

Potential legal consequences

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

As advised by our PRC legal advisors, if any of the relevant housing reserve fund authorities is of the view that we failed to make full housing reserve fund contributions for our employees in accordance with the relevant laws and regulations, it may order us to make outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to PRC courts for compulsory enforcement.

Rectification and internal control measures

During the Track Record Period and up to the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant regulatory authorities with respect to our contributions to social insurance and housing reserve funds, nor had we received any order or been informed to settle the under-payments. In January 2021, we have obtained confirmations from the relevant social insurance authorities supervising our principal subsidiaries in Wuxi city, Jiangsu province and Shanghai that we complied with the relevant local laws and regulations with respect to social insurance contributions in all material respects during the Track Record Period. Our PRC legal advisors have confirmed that these social insurance authorities are the competent authorities governing our business operations in the relevant cities. We have also made provision for the historical inadequate contributions in our financial statements. In 2018, 2019 and the nine months ended September 30, 2020, the amount of provisions made for the shortfall of social insurance and housing reserve fund contributions was RMB5.8 million, RMB10.4 million and RMB8.2 million, respectively.

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On September 21, 2018, the Ministry of Human Resources and Social Security of the PRC issued the Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilization the Levy of Social Insurance Payment (關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知), which promotes the reduction in the amount of social insurance contributions by companies to avoid overburdening enterprises, and prohibits local authorities from requiring enterprises to make up for historically underpaid or unpaid social insurance contributions in one go. We undertake that, in the event that the competent regulatory authorities require us to make full social insurance and/or housing reserve fund contributions within a stipulated time period or make supplemental contributions and overdue fine, we would comply in a timely manner.

We will formulate a plan to make full contribution pursuant to relevant laws and regulations. In addition, we have enhanced our internal policies and procedures to ensure compliance with the relevant laws and regulations. Among others, we have clarified in the employee manual that the contribution of social insurance and housing reserve funds shall conform with the relevant laws and regulations. Our human resources department will follow the rules and policies on social insurance and housing reserve fund contributions for any update. In addition, we will (1) regularly consult outside counsel to understand whether we are at risk of non-compliance with the relevant laws and regulations; (2) regularly prepare reports regarding our contribution amounts for review by our Board; and (3) conduct internal trainings for our Directors, members of senior management and certain employees on the relevant laws and regulations.

Our Directors are of the view that the above-described incident would not have a material adverse effect on our business, results of operations and financial condition, considering that (1) we had not been subject to any material administrative action, fine or penalty imposed by the relevant regulatory authorities with respect to our contributions to social insurances and housing reserve funds during the Track Record Period and up to the Latest Practicable Date; (2) as of the Latest Practicable Date, we had not received any notifications from the relevant PRC authorities requiring us to pay the shortfalls or the penalties with respect to social insurance and/or housing reserve funds; (3) we were neither aware of any employee complaints nor were involved in any labor disputes with our employees with respect to social insurance and/or housing reserve funds; (4) we made provisions for social insurance and housing provident fund contributions, and (5) as advised by our PRC legal advisors, based on the on-site consultations with, and confirmations obtained from, the competent authorities supervising our principal subsidiaries in Wuxi city, Jiangsu province and Shanghai, the likelihood that we would be required by relevant authorities to pay the late charges for the shortfall of social insurance contributions or subject to material administrative penalties due to failure to make full social insurance and housing reserve fund contributions is relatively low.

OCCUPATIONAL SAFETY

We have obtained all necessary licenses in relation to workplace safety and established work safety policies and procedures to ensure that all parts of our operations are in compliance with applicable laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant workplace accident or encounter any material non-compliance issues with respect to any applicable laws and regulations on occupational safety.

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ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

We regard environment protection as an important corporate responsibility, and are committed to promoting corporate social responsibility and sustainable development as well as integrating it into all major aspects of our business operations. Corporate social responsibility is viewed as part of our core growth philosophy that will be pivotal to our ability to create sustainable value for our Shareholders by embracing diversity and public interests. Accordingly, our Board has adopted a comprehensive policy on environmental, social and corporate governance responsibilities (the “ESG Policy”) on [●] in accordance with the Listing Rules, which sets forth our corporate social responsibility objectives and provides guidance on practicing corporate social responsibility in our daily operations.

Under our ESG Policy, we aim to build a sustainable community with our employees, customers and business partners by supporting local initiatives that aim to create effective and lasting benefits to the local community, through various initiatives that may include corporate philanthropy, establishing community partnerships, and mobilizing our employees to participate in volunteer work. For example, with the COVID-19 pandemic bringing unprecedented challenges to people’s lives, we have quickly responded to the situation and proactively took various measures to help fight against the pandemic, including making donations to support front line medical teams. In addition, we also endeavor to reduce any negative impacts on the environment through our commitment to energy saving and sustainable development. We will also focus on embracing diversity within our organization and equal and respectful treatment of all of our employees in their hiring, training, wellness and professional and personal development. While maximizing equal career opportunity for everyone, we will also continue to promote work-life balance and create a happy culture in our workplace for all of our employees.

Our Board has the collective and overall responsibility for establishing, adopting and reviewing the ESG vision, policy and target of our Group, and evaluating, determining and addressing our ESG-related risks at least once a year. Our Board may assess or engage independent third parties to evaluate the ESG risks and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate the risks.

We are subject to various PRC environmental laws and regulations, the implementation of which involves regular inspections by local environmental protection authorities. See “Regulatory Overview” for details. Although we do not operate in a highly polluting industry, the manufacturing process of our clear aligners may generate noise, solid waste, exhaust gas and waste water. We have established an environmental protection department and adopted specific environmental protection policies to make our operations more energy efficient and environmentally friendly and to ensure effective compliance with applicable PRC environmental laws and regulations. We also engage professional third-party qualified companies for hazardous waste reclamation and disposal.

Our Directors confirm that we have obtained all applicable permits and licenses under PRC environmental laws and regulations that are material to our operations. As advised by our PRC legal advisors, there were no breaches or violations of the PRC environmental laws and regulations applicable to our business operations during the Track Record Period that would have a material and adverse impact on our business, financial condition or results of operation taken as a whole. In addition, we had not been subject to any material claim or penalty in relation to health, safety, social and environmental protection, or been involved in any significant work place accident or fatality. During the Track Record Period, our expenses in relation to environmental protection were insignificant and we expect such expenses to remain at relatively low levels in the foreseeable future.

BUSINESS

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

We have designated responsible personnel in our Company to monitor the ongoing compliance by our Company with the relevant PRC laws and regulations that govern our business operations and oversee the implementation of any necessary measures. In addition, we plan to provide our Directors, senior management and relevant employees with continuing training programs and/or updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identify any concerns and issues relating to any potential non-compliance.

In addition, we have adopted a set of internal rules and policies governing the conduct of our employees. We have established a monitoring system to implement anti-bribery and anti-corruption measures to ensure that our employees comply with our internal rules and policies as well as the applicable laws and regulations. For example, our management is responsible for conducting a fraud and bribery risk assessment on an annual basis and our audit committee reviews and approves our annual risk assessment results and policies. We have also identified certain forbidden conduct in our internal anti-bribery and anti-corruption policies, including, among others, the prohibition to acceptance of bribes or rebates, embezzlement or misappropriation of our assets, and forgery or alteration of our accounting records.

We offer continuing training to our employees to enhance their knowledge and awareness of the relevant rules and regulations. We also keep abreast of the latest regulatory updates and communicate with the relevant regulatory authorities from time to time to discuss the latest regulatory requirements of China’s clear aligner market and the overall medical device market.

In addition, we have also appointed Somerley Capital Limited as our compliance advisor with effect from the date of the [REDACTED] to advise on ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.

During the Track Record Period, our Directors did not identify any material internal control weaknesses or failures. Our Directors are of the view that we have adequate and effective internal control procedures.

Risk Management

We are exposed to various risks during our operation. Key operational risks faced by us include, among others, changes in general market conditions and perceptions of clear aligner treatments, changes in the regulatory environment in the PRC clear aligner industry, our ability to offer quality products and services to our students, our potential expansion into other regions in China, availability of financing to fund our expansions and business operations, and competition from other market players. See “Risk Factors” for disclosures on various risks we face. In addition, we face numerous market risks, such as interest rate, credit and liquidity risks that arise in the normal course of our business. See “Financial Information — Quantitative and Qualitative Disclosure about Market Risks” for details.

We have implemented various policies and procedures to ensure effective risk management at each aspect of our operations, including the administration of daily operations, financial reporting and recording procedures, and compliance with applicable laws and regulations. Our Board oversees and manages the overall risks associated with our operations. We [have] established an audit committee to review and supervise the financial reporting process and internal control system of our Group. See “Directors and Senior Management — Board Committees — Audit Committee” for the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee. We [have] adopted written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.