You should read the following discussion in conjunction with the combined financial statements and the notes thereto included in the Accountant's Report set out in Appendix I to this document which have been prepared in accordance with IFRS and the selected historical financial information and operating data included elsewhere in this document. Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in "Forward-looking Statements" and "Risk Factors." In evaluating our business, you should carefully consider the information provided in "Risk Factors" in this document.

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. 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. 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 generate revenue primarily from the provision of clear aligner treatment solutions, and to a much lesser extent, from the provision of other services. Our revenue was RMB488.5 million and RMB645.9 million in 2018 and 2019, respectively, and RMB485.4 million and RMB601.3 million in the nine months ended September 30, 2019 and 2020, respectively. Our gross profit was RMB311.7 million and RMB417.1 million in 2018 and 2019, respectively, representing a gross profit margin of 63.8% and 64.6%, respectively. Our gross profit was RMB324.4 million and RMB425.6 million in the nine months ended September 30, 2019 and 2020, respectively, representing a gross profit margin of 66.8% and 70.8%, respectively. Our net profit was RMB58.2 million and RMB67.7 million in 2018 and 2019, respectively, representing a net profit margin of 11.9% and 10.5%, respectively. Our net profit was RMB70.6 million and RMB155.7 million in the nine months ended September 30, 2019 and 2020, respectively, representing a net profit margin of 14.5% and 25.9%, respectively. 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 "— 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.

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of historical financial information in conformity with IFRS requires the use of certain critical accounting estimates, as well as our management's judgment in applying our accounting policies. See Note 4 to the Accountant's Report in Appendix I to this document for the areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information.

We have applied IFRS 16 "Leases" consistently during the Track Record Period, which became effective for annual periods beginning on or after January 1, 2019.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition have been, and are expected to continue to be, affected by various general factors, including primarily the following.

Economic and Industry Trends in China

China has experienced rapid economic growth over the past few decades, which has resulted in increasing per capita disposable income, expanding network of medical institutions, and increasing awareness of dental health, aesthetics and treatment, all of which have contributed to the increase in the demand for clear aligner treatment. According to the CIC Report, the market size of China's clear aligner market, in terms of retail sales revenue, increased from US$0.2 billion in 2015 to US$1.4 billion in 2019 at a CAGR of 56.0%, and is expected to reach US$11.9 billion by 2030 at a CAGR of 21.5% from 2019 to 2030. Moreover, laws and regulations enacted by China's governmental authorities, as well as favorable industry policy including preferential tax treatments and other governmental supports, also have a significant impact on the prospect of the clear aligner market. Other factors, such as the scientific and technological development in the industry could also have a significant impact on the demand of clear aligner treatment. See "Industry Overview" for details relating to key market drivers. Changes in the factors that impact the growth rate of China's clear aligner market would have significant impact on the demand of our clear aligner treatment solutions, and in turn, our business and prospects. Our ability to anticipate and respond to potential changes in industry trends will have a significant impact on our future performance.

Pandemic Influence

As a clear aligner treatment solution provider, our business and results of operations could be materially affected by outbreak of health pandemics. For example, since the outbreak of COVID-19 throughout China and other countries and regions, a number of precautionary and control measures have been implemented worldwide to contain the virus. Government efforts to contain the spread of COVID-19, including city lockdowns or "stay-at-home" orders, suspension of non-emergent dental care services and temporary closures of dental hospitals and clinics, restrictions on travel and emergency quarantines, have caused significant and unprecedented disruptions to the global and Chinese economy and normal business operations across sectors. As a result, China's clear aligner market has been negatively impacted, which in turn materially and adversely affected our business, results of operations and financial condition in the short-term. For example, we experienced a temporary decrease in the case shipments to approximately 10,900 in the three months ended March 31, 2020, as compared to approximately 24,100 in the three months ended March 31, 2019.

The Chinese government has gradually lifted the domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal nationwide since the second quarter of 2020. We have experienced a strong rebound in our business volume since April 2020, as evidenced by the increase in case shipments from approximately 10,900 in the three months ended March 31, 2020 to approximately 36,400 in the three months ended June 30, 2020, and further to approximately

54,500 in the three months ended September 30, 2020. However, there remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and the recent regional resurgence of COVID-19 cases in certain areas in China. We are closely monitoring the development of the COVID-19 outbreak and continuously evaluating any potential pandemic impact on our business, results of operations and financial condition. See "— COVID-19 Outbreak and Effects on Our Business" for the impact of COVID-19 outbreak on our business and "Risk Factors — Risks Relating to Our Business and Industry — Our business and operations have been and may continue to be materially and adversely affected by the COVID-19 pandemic" for the associated risks and challenges.

Seasonality

Our business experiences some effects of seasonal variations due to the preferences of patients with a need for clear aligner treatment. We typically experienced the highest sales during the summer vacation. We had our second highest sales during winter vacations before and after the Chinese New Year for similar reasons. The seasonality changes may cause fluctuations in our financial results.

SPECIFIC FACTORS AFFECTING OUR RESULTS OF OPERATIONS

In addition to general economic conditions and industry factors, we believe the following company-specific factors have had, and will continue to have, a significant impact on our results of operations.

Our Ability to Retain and Attract Customers and Dental Professionals

We generate revenue primarily from the provision of clear aligner treatment solutions. Our sustainable revenue growth depends significantly on our ability to retain and attract customers, primarily including hospitals and clinics. Our ability to attain continuous growth also depends significantly on our dental professional base, which in turn depends on the efficiency, operability and comprehensiveness of our clear aligner treatment solutions vis-à-vis dental professionals, the efficacy, reliability and all-rounded advantages of clear aligners vis-à-vis their patients, and our brand recognition and reputation in the market. During the Track Record Period, the number of dental professionals we served increased from approximately 11,500 in 2018 to approximately 15,800 in 2019, and 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 believe that we attract customers and dental professionals primarily through delivery of comprehensive and diversified solutions with premium quality and high tolerance. Our ability to continue to improve and diversify the features of our clear aligner treatment solutions and enhance our recognition among dental professionals and their potential patients is critical to our ability to retain our existing customers and dental professionals and attract prospective ones, thereby achieving sustainable growth in revenue and our overall results of operations.

Our Production Capacity

The growth of our revenue depends to a large extent on our ability to expand our production capacity. In 2018, 2019 and the nine months ended September 30, 2020, the production capacity of our manufacturing facilities for clear aligners was approximately 6.8 million units, 15.8 million units and 14.3 million units, respectively. Our production capacity over the Track Record Period generally increased, primarily due to the commencement of production on our newly established automated production lines. For details of our annual production capacity and utilization rates at our current facilities, see "Business — Our Intelligent Manufacturing — Manufacturing Facilities."

We plan to expand our production capacity by constructing our Chuangmei Center with a gross floor area of approximately 126,000 square meters in Wuxi City. The new manufacturing facilities in our Chuangmei Center, once fully commissioned, are expected to have an ultimate annual designed production capacity of approximately 100 million units of clear aligners. We expect to commence production with the first few established automated production lines by the end of 2021. See "Business — Our Intelligent Manufacturing — Expansion Plan" and "Future Plans and Use of [**REDACTED**]" for details.

However, our expansion plan involves significant capital expenditure, which may destabilize our liquidity if we are unable to generate sufficient cash flow from operations or from financing activities. In addition, expanding our production capacity generally results in higher depreciation expenses in future periods. As a result, if we are unable to maintain a sufficient utilization rate, or otherwise fail to generate sufficient profit from the expanded production capacity to offset the increased depreciation expenses, our profitability would suffer from the expansion.

Our Research and Development Efforts and Technological Capabilities

We operate in a market characterized by continuous technological advancements and changing industrial trends. As a result, our results of operations and long-term growth prospects will depend on our ability to continue to improve and innovate our clear aligner treatment solutions through our research and development efforts and enhanced technological capabilities. Our research and development expenses were RMB50.2 million and RMB80.9 million in 2018 and 2019, respectively, representing 10.3% and 12.5% of our total revenue for the same periods, respectively. For the nine months ended September 30, 2019 and 2020, our research and development expenses were RMB57.6 million and RMB58.9 million, respectively, representing 11.9% and 9.8% of our total revenue for the same periods, respectively. We seek to continually strengthen our research and development capabilities by maintaining a dedicated research and development team with high credentials and expertise and upgrading our core technology platforms, in order to keep pace with the technological advancements and industrial trends. Such plans could increase our research and development expenses and may impact our results of operations and financial condition.

Our Ability to Control Costs and Expenses

Our results of operations have been and will continue to be affected by our ability to control our cost of revenue and other expenses.

Our cost of revenue was RMB176.8 million and RMB228.8 million in 2018 and 2019, respectively, representing 36.2% and 35.4% of our total revenue for the same periods, respectively. For the nine months ended September 30, 2019 and 2020, our cost of revenue was RMB161.0 million and RMB175.7 million, respectively, representing 33.2% and 29.2% of our total revenue for the same periods, respectively. Our cost of revenue primarily consisted of raw materials and consumables used and staff costs.

We purchase various raw materials from both domestic and international third party suppliers. The prices of raw materials are determined principally by market forces and changes in government policies, as well as our bargaining power with our suppliers. Any fluctuation in raw material costs from current levels would impact our cost of revenue and our gross profit margins. We have implemented a number of cost-control measures with respect to our raw material procurement in order to mitigate the impact of rising raw material prices, including maintaining safety stock based on our manufacturing forecasts, selectively cooperating with alternative suppliers and engaging in strategic negotiations with suppliers.

In addition, our selling and marketing expenses and administrative expenses also represented a significant percentage of our total revenue. Our selling and marketing expenses represented 16.7% and 19.0% of our total revenue in 2018 and 2019, respectively, and 17.8% and 15.2% of our total revenue for the nine months ended September 30, 2019 and 2020, respectively. Our administrative expenses represented 22.0% and 21.1% of our total revenue in 2018 and 2019, respectively, and 20.5% and 15.8% of our total revenue for the nine months ended September 30, 2019 and 2020, respectively. We strive to manage these expenses, such as advertising and promotion expenses, by, among other things, establishing and adhering to an annual budget for our marketing expenses. If we fail to manage our operating expenses, our profitability may be materially and adversely affected.

Pricing and Sales Channels

Our pricing directly affects our revenue, gross profit margin and results of operations. We consider various factors when pricing our products, such as estimated costs and expenses, including cost of raw materials and consumables used, staff costs, depreciation and amortization expenses and other operating expenses, as well as market conditions, such as market demand and competition.

Our profitability may also be affected by our sales channels. In addition to direct sales, we have engaged distributors to increase sales and market share, reduce the marketing cost in less developed markets, and leverage their channel resources. We generated 11.0%, 29.9% and 32.8% of our total revenue from sales through distributors in 2018, 2019 and the nine months ended September 30, 2020, respectively. Our ability to effectively select and manage our distributor network is critical to our business and financial performance. In addition, we typically set a fixed price in the distributorship agreements at a discount compared to the direct selling price based on various factors, including the distributors' distribution territory, channel resources, business volume and bargaining power. As such, the proportion of our sales through distributors may impact our profitability.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our combined financial statements. Our significant accounting policies and estimates, which are important for understanding our results of operations and financial condition, are set forth in Notes 2 and 4 to the Accountant's Report in Appendix I to this document, respectively. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (1) our selection of critical accounting policies, (2) the judgment and other uncertainties affecting the application of such policies, and (3) the sensitivity of reported results to changes in conditions and assumptions.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the goods or services in the ordinary course of our activities. Revenue is recognized when the control of the goods or services is transferred to a customer.

Revenue from clear aligner treatment solution services

Our clear aligner treatment solution services typically comprise deliverables including treatment planning services and clear aligners. Those deliverables as a whole in each solution service contract represent one performance obligation to our customers. Deliverables in each solution service contract are designed and custom-made for each specific patient based on their needs and teeth position, and thus do not create an asset with an alternative use to us, and we have an enforceable right to payment for performance completed to date.

Revenue from clear aligner treatment solution services is recognized during the period of the contract by reference to the progress towards complete satisfaction of the respective performance obligations. The progress towards complete satisfaction is measured by reference to the value of deliverables transferred to the customer to date relative to the remaining deliverables promised under each contract.

However, significant judgments and estimations are required in determining the accuracy of progress towards complete satisfaction of the performance obligation of each contract at the reporting date, including the value of deliverables transferred to the customer and remaining number of batches promised in each contract. Our revenue may be affected by the changes in value estimates in future periods. We rely on generally accepted prices negotiated with our customers when estimating the value transferred to customers, while we rely on our historical experience when estimating the remaining number of batches expected to be transferred for each solution case.

If a customer pays consideration or we have an unconditional right to consideration before we transfer goods or services to a customer, we record the contract as a contract liability when the payment is received or a receivable is recorded, whichever is earlier. A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer. A receivable is recorded when we have an unconditional right to consideration, i.e. if only the passage of time is required before payment of that consideration is due.

In addition to direct sales, we engaged distributors to deliver products and services to public hospitals and private dental clinics. These distributors possess the requisite business licenses and permits to sell medical devices in China and have established relationships with public hospitals and private dental clinics within their regions. Therefore, they are treated as the vendors of public hospitals and private dental clinics. In this case, we recognize revenue with the wholesale prices entered into with distributors.

Revenue from other services

Revenue from other services, including orthodontics and cosmetic dentistry services and other dental services to patients, is recognized over time in the accounting period in which the related services have been rendered.

Share-based Payments

We operate a share incentive plan, under which we receive services from employees as consideration for our equity instruments. We recognize an expense at the fair value of employee services received in exchange for the grant of the equity instruments (including share options) and a corresponding increase in equity. The total amount of expense in terms of equity instruments awarded to employees is determined by reference to the fair value of the equity instruments granted, taking into consideration of the impact of market performance conditions and non-vesting conditions. Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognized over the vesting period, during which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, we revise our estimates of the number of equity instruments expected to vest based on the non-marketing performance and service conditions. We recognize the impact of such revisions to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. If employees provide services in advance of the grant date, the grant date fair value is estimated for the purposes of recognizing the expense during the period between the service commencement date and grant date.

The grant of equity instruments to the employees of our subsidiaries is treated as capital contribution. The fair value of employee services, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in subsidiaries, with a corresponding increase in the parent equity accounts.

We issue new shares upon the exercise of share options. The proceeds net of any directly attributable transaction costs are credited to share capital. Where there is any modification of the terms and conditions which increases the fair value of the equity instruments granted, we include such in the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. We recognize expense based on the incremental fair value over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument. If we modify the terms or conditions in a manner that reduces the total fair value of the share-based payment, or not otherwise beneficial to the employee, we shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

Leases

We recognize a right-of-use asset and a corresponding liability on the day when the leased asset is available for our use. Each lease payment is allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if such can be determined, which is generally the lessee's incremental borrowing rate.

Right-of-use assets are measured at cost, taking into consideration the amount of the initial measurement of lease liability, lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If we are reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

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

	Year ended December 31,				Nine months ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)				(unaudited)			
Revenue	488,483	100.0	645,898	100.0	485,410	100.0	601,328	100.0
Cost of revenue	(176,765)	(36.2)	(228,756)	(35.4)	(161,036)	(33.2)	(175,680)	(29.2)
Gross profit	311,718	63.8	417,142	64.6	324,374	66.8	425,648	70.8
Selling and marketing expenses	(81,439)	(16.7)	(122,645)	(19.0)	(86,535)	(17.8)	(91,175)	(15.2)
Administrative expenses	(107,702)	(22.0)	(136,544)	(21.1)	(99,472)	(20.5)	(95,283)	(15.8)
Research and development expenses	(50,163)	(10.3)	(80,905)	(12.5)	(57,559)	(11.9)	(58,935)	(9.8)
Net impairment losses on financial assets	(3,684)	(0.8)	(2,512)	(0.4)	(4,121)	(0.8)	(6,478)	(1.1)
Other income	4,608	0.9	8,804	1.4	6,822	1.4	13,616	2.3
Other expenses	—	—	(2,000)	(0.3)	—	—	(6,000)	(1.0)
Other gains/(losses) — net	1,933	0.4	2,851	0.4	2,428	0.5	2,857	0.5
Operating profit	75,271	15.4	84,191	13.0	85,937	17.7	184,250	30.6
Finance income	1,223	0.3	1,791	0.3	1,174	0.2	2,981	0.5
Finance costs	(1,354)	(0.3)	(1,142)	(0.2)	(779)	(0.2)	(910)	(0.2)
Finance income/(costs) net	(131)	(0.0)	649	0.1	395	0.1	2,071	0.3
Share of loss of investments accounted for using the equity method	(363)	(0.1)	(348)	(0.1)	157	0.0	(34)	(0.0)
Profit before income tax	74,777	15.3	84,492	13.1	86,489	17.8	186,287	31.0
Income tax expense	(16,591)	(3.4)	(16,827)	(2.6)	(15,906)	(3.3)	(30,576)	(5.1)
Profit for the year/period	58,186	11.9	67,665	10.5	70,583	14.5	155,711	25.9
Other comprehensive income								
Currency translation differences	89	0.0	396	0.1	390	0.1	(489)	(0.1)
Total comprehensive income for the year/period	58,275	11.9	68,061	10.5	70,973	14.6	155,222	25.8
Total comprehensive income for the year/period attributable to								
– Owners of the Company	59,823	12.2	69,231	10.7	71,681	14.8	155,120	25.8
– Non-controlling interests	(1,548)	(0.3)	(1,170)	(0.2)	(708)	(0.1)	102	0.0
	58,275	11.9	68,061	10.5	70,973	14.6	155,222	25.8
Non-IFRS Measures[(1)]:								
Adjusted EBITDA	127,537	26.1	172,054	26.6	149,320	30.8	253,202	42.1
Adjusted net profit	92,497	18.9	130,354	20.2	116,288	24.0	203,610	33.9

(1) See "— Description of Major Profit or Loss Line Items — Non-IFRS Measures."

DESCRIPTION OF MAJOR PROFIT OR LOSS LINE ITEMS

Revenue

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

	Year ended December 31,				Nine months ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)							
					(unaudited)			
Clear aligner treatment solutions	464,949	95.2	628,059	97.2	472,174	97.3	588,901	97.9
Other services	23,534	4.8	17,839	2.8	13,236	2.7	12,427	2.1
Total	488,483	100.0	645,898	100.0	485,410	100.0	601,328	100.0

We generated revenue of RMB464.9 million and RMB628.1 million from the provision of clear aligner treatment solutions in 2018 and 2019, respectively, representing 95.2% and 97.2% of our total revenue in the same periods, respectively. We generated revenue of RMB472.2 million and RMB588.9 million from the provision of clear aligner treatment solutions in the nine months ended September 30, 2019 and 2020, respectively, representing 97.3% and 97.9% of our total revenue for the same periods, respectively. During the Track Record Period, our revenue generated from the provision of clear aligner treatment solutions increased primarily due to the increases in the number of dental professionals we served with our Angelalign clear aligner system and case shipments.

Revenue generated from other services primarily represented service fees generated by our dental clinics which are primarily for the purpose of improving the accessibility of our medical services for dental professionals and providing them with regular in-the-field training in application of our solutions. We generated revenue of RMB23.5 million and RMB17.8 million from other services in 2018 and 2019, respectively, representing 4.8% and 2.8% of our total revenue in the same periods, respectively. We generated revenue of RMB13.2 million and RMB12.4 million from other services in the nine months ended September 30, 2019 and 2020, respectively, representing 2.7% and 2.1% of our total revenue, respectively.

Cost of revenue

Our cost of revenue primarily consisted of raw materials and consumables used, staff costs, production costs, depreciation and amortization expenses and delivery costs. The following table sets forth a breakdown of our cost of revenue by nature, both in absolute amount and as a percentage of total cost of revenue, for the periods indicated.

	Year ended December 31,				Nine months ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)							
					(unaudited)			
Raw materials and consumables used	80,863	45.7	108,808	47.6	73,708	45.8	87,391	49.7
Staff costs	50,415	28.5	64,280	28.1	46,511	28.9	49,181	28.0
Production costs	12,705	7.2	22,234	9.7	15,456	9.6	5,990	3.4
Depreciation and amortization expenses	8,846	5.0	11,943	5.2	8,305	5.2	11,355	6.5
Delivery costs	7,201	4.1	10,710	4.7	7,653	4.8	9,597	5.5
Others[(1)]	16,735	9.5	10,781	4.7	9,403	5.7	12,166	6.9
Total	176,765	100.0	228,756	100.0	161,036	100.0	175,680	100.0

(1) Include primarily outsourcing expenses, tax and other surcharges, property management fees and labor insurance costs.

Raw materials and consumables used primarily consisted of purchase costs of raw materials and consumables used to manufacture our clear aligners, including composite polymer materials (in splint/sheet form) and other manufacturing materials. Staff costs primarily consisted of wages and salaries, pension, housing funds, medical insurances, social insurances and other welfare benefits for our medical design and manufacturing personnel. Production costs primarily consisted of leasing expenses for manufacturing equipment, such as 3D printers, and utilities costs incurred to produce clear aligners. Depreciation and amortization expenses primarily consisted of depreciation of our manufacturing equipment for clear aligners and right-of-use assets representing the land use rights for our manufacturing plants, and amortization of medical design software and manufacturing plants renovations. Delivery costs were primarily related to the delivery of clear aligners to corresponding dental professionals.

The following table sets forth a breakdown of our cost of revenue by business line, both in absolute amount and as a percentage of total cost of revenue, for the periods indicated.

	Year ended December 31,				Nine months ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)							
					(unaudited)			
Clear aligner treatment solutions	160,735	90.9	216,731	94.7	152,594	94.8	166,973	95.0
Other services	16,030	9.1	12,025	5.3	8,442	5.2	8,707	5.0
Total	176,765	100.0	228,756	100.0	161,036	100.0	175,680	100.0

Gross Profit and Gross Profit Margin

Our gross profit was RMB311.7 million and RMB417.1 million in 2018 and 2019, respectively, representing a gross profit margin of 63.8% and 64.6% for the same periods, respectively. Our gross profit was RMB324.4 million and RMB425.6 million in the nine months ended September 30, 2019 and 2020, respectively, representing a gross profit margin of 66.8% and 70.8% for the same periods, respectively.

The following table sets forth a breakdown of our gross profit and gross profit margin by business line for the periods indicated.

	Year ended December 31,				Nine months ended September 30,			
	2018		2019		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB in thousands except for percentages)							
					(unaudited)			
Clear aligner treatment solutions	304,214	65.4%	411,328	65.5%	319,580	67.7%	421,928	71.6%
Other services	7,504	31.9%	5,814	32.6%	4,794	36.2%	3,720	29.9%
Total	311,718	63.8%	417,142	64.6%	324,374	66.8%	425,648	70.8%

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

Selling and Marketing Expenses

Our selling and marketing expenses primarily consisted of staff costs, advertising and promotion expenses, travelling and entertainment expenses, training expenses, and depreciation and amortization expenses. The following table sets forth a breakdown of our selling and marketing expenses, both in absolute amount and as a percentage of total selling and marketing expenses, for the periods indicated.

	Year ended December 31,				Nine months ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)							
					(unaudited)			
Staff costs	27,264	33.5	57,994	47.3	41,770	48.3	56,585	62.1
Advertising and promotion expenses	34,809	42.7	38,905	31.7	28,905	33.4	24,252	26.6
Travelling and entertainment expenses	11,153	13.7	11,637	9.5	7,594	8.8	3,848	4.2
Training expenses	2,563	3.1	5,548	4.5	3,533	4.1	1,959	2.1
Depreciation and amortization expenses	1,100	1.4	2,086	1.7	1,755	2.0	1,113	1.2
Others(1)	4,550	5.6	6,475	5.3	2,978	3.4	3,418	3.8
Total	81,439	100.0	122,645	100.0	86,535	100.0	91,175	100.0

(1) Include primarily professional service fees, conference expenses and transportation expenses.

Staff costs primarily consisted of wages and salaries, pension, housing funds, medical insurances, social insurances and other welfare benefits for our sales and marketing personnel. Advertising and promotion expenses primarily consisted of expenses incurred in relation to our *A-tech Forum* and the service fees and materials and delivery costs incurred by our branding and marketing activities. Travelling and entertainment expenses primarily consisted of the travelling and entertainment expenses incurred by our selling and marketing personnel. Training expenses primarily represented the costs we incurred in providing training to dental professionals with respect to the use of our clear aligner treatment solutions. Depreciation and amortization expenses were primarily related to the depreciation of equipment for sales and marketing purposes and right-of-use assets representing office premises of our selling and marketing department, and the amortization of software and renovations with respect to sales and marketing activities.

Administrative Expenses

Our administrative expenses primarily consisted of staff costs, share-based payments, [**REDACTED**] expenses, professional services fees, depreciation and amortization expenses and travelling and entertainment expenses. The following table sets forth a breakdown of our administrative expenses, both in absolute amount and as a percentage of total administrative expenses, for the periods indicated.

	Year ended December 31,				Nine months ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)							
					(unaudited)			
Staff costs (excluding share-based payments)	32,106	29.8	33,773	24.7	27,561	27.7	22,748	23.9
Share-based payments	23,438	21.8	61,677	45.2	45,419	45.7	47,201	49.5
[**REDACTED**] expenses	10,510	9.8	664	0.5	443	0.4	664	0.7
Professional services fees	15,329	14.2	14,874	10.9	9,471	9.5	6,434	6.8
Depreciation and amortization expenses	8,188	7.6	9,602	7.0	6,492	6.5	8,229	8.6
Travelling and entertainment expenses	6,245	5.8	4,432	3.2	2,339	2.4	1,103	1.2
Others[(1)]	11,886	11.0	11,522	8.5	7,747	7.8	8,904	9.3
Total	107,702	100.0	136,544	100.0	99,472	100.0	95,283	100.0

(1) Include primarily office expenses, recruiting expenses, property management fees, disability benefits and business insurance expenses.

Staff costs primarily consisted of wages and salaries, pension, housing funds, medical insurances, social insurances and other welfare benefits for our administrative personnel and management personnel. Share-based payments were related to the grant of equity instrument to our employees under our share incentive plan during the Track Record Period. [**REDACTED**] expenses represented the expenses incurred in connection with the [**REDACTED**]. Professional services fees primarily consisted of consulting fees, auditing fees and legal fees. Depreciation and amortization expenses primarily consisted of the depreciation of our office facilities and right-of-use assets representing office premises of our administrative and management departments, and the amortization of software and renovations with respect to administrative and management activities. Travelling and entertainment expenses primarily consisted of the travelling and entertainment expenses incurred by our administrative personnel.

Research and Development Expenses

Our research and development expenses primarily consisted of staff costs, technical service fees and depreciation and amortization expenses. The following table sets forth a breakdown of our research and development expenses, both in absolute amount and as a percentage of total research and development expenses, for the periods indicated.

	Year ended December 31,				Nine months ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)							
					(unaudited)			
Staff costs	41,078	81.9	66,633	82.4	46,741	81.2	52,423	89.0
Technical service fees	5,117	10.2	5,973	7.4	4,961	8.6	1,631	2.8
Depreciation and amortization expenses	2,117	4.2	4,742	5.9	3,397	5.9	3,247	5.5
Others[(1)]	1,851	3.7	3,557	4.3	2,460	4.3	1,634	2.7
Total	50,163	100.0	80,905	100.0	57,559	100.0	58,935	100.0

(1) Include primarily travelling and entertainment expenses, utilities expenses, delivery costs and costs of raw materials and other consumables.

Staff costs primarily consisted of wages and salaries, pension, housing funds, medical insurances, social insurances and other welfare benefits for our research and development personnel. Technical service fees primarily consisted of consulting service fees, technology development fees and testing fees incurred for our research and development initiatives. Depreciation and amortization expenses primarily consisted of the depreciation of our research and development equipment and facilities and right-of-use assets representing office premises of our research development department, and the amortization of our research and development software.

Net Impairment Losses on Financial Assets

Net impairment losses on financial assets primarily consisted of loss allowance provision for trade receivables and other receivables. We recorded net impairment losses on financial assets of RMB3.7 million and RMB2.5 million in 2018 and 2019, respectively, and RMB4.1 million and RMB6.5 million for the nine months ended September 30, 2019 and 2020, respectively.

Other Income

Other income consisted of government grants. We had other income of RMB4.6 million and RMB8.8 million in 2018 and 2019, respectively, and RMB6.8 million and RMB13.6 million for the nine months ended September 30, 2019 and 2020, respectively. Our governmental grants primarily consisted of subsidies and incentives we received from local government authorities. Such subsidies and incentives from local government authorities may fluctuate from time to time pursuant to the changes in relevant government policies. There are no unfulfilled conditions or contingencies relating to these governmental grants.

Other Expenses

Other expenses consisted of donations. We recorded other expenses of nil and RMB2.0 million in 2018 and 2019, respectively, and nil and RMB6.0 million in the nine months ended September 30, 2019 and 2020, respectively.

Other Gains — net

Other gains — net primarily consisted of investment return from wealth management products, losses on disposal of property, plant and equipment, and net foreign exchange gains or losses. We recorded other gains — net of RMB1.9 million and RMB2.9 million in 2018 and 2019, respectively, and RMB2.4 million and RMB2.9 million in the nine months ended September 30, 2019 and 2020, respectively. The following table sets forth a breakdown of our other gains — net for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)							
					(unaudited)			
Realized fair value gain of wealth management products	2,322	120.1	2,512	88.1	1,560	64.3	3,174	111.1
Net foreign exchange gains/(losses)	429	22.2	161	5.6	520	21.4	(134)	(4.7)
Losses on disposal of intangible assets	(44)	(2.3)	—	—	—	—	—	—
(Losses)/gains on disposals of property, plant and equipment	(728)	(37.7)	(218)	(7.6)	329	13.6	(137)	(4.8)
Losses on disposal of a subsidiary	—	—	(81)	(2.8)	(81)	(3.3)	—	—
Gains on early termination of lease contracts	—	—	57	2.0	30	1.2	10	0.4
Others	(46)	(2.4)	420	14.7	70	2.9	(56)	(2.0)
Total	1,933	100.0	2,851	100.0	2,428	100.0	2,857	100.0

Finance Income

Finance income primarily consisted of our interest income on bank deposits. We recorded finance income of RMB1.2 million and RMB1.8 million in 2018 and 2019, respectively, and RMB1.2 million and RMB3.0 million in the nine months ended September 30, 2019 and 2020, respectively.

Finance Costs

Finance costs consisted of our interest expense on and interest expense on amounts due to related parties. The following table sets forth our finance costs for the periods indicated.

	Year ended December 31,				Nine months ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)							
					(unaudited)			
Interest expense on leasing liabilities	780	57.6	1,123	98.3	765	98.2	896	98.5
Interest expense on amounts due to related parties	574	42.4	19	1.7	14	1.8	14	1.5
Total	1,354	100.0	1,142	100.0	779	100.0	910	100.0

Share of Results of Investments Accounted for Using the Equity Method

Share of results of investments accounted for using the equity method primarily consisted of the share of results of the joint ventures and associate that we invested in. We recorded a share of loss of investments accounted for using the equity method of RMB0.4 million and RMB0.3 million in 2018 and 2019, respectively. For the nine months ended September 30, 2019 and 2020, we recorded a share of profit of RMB0.2 million and a share of loss of RMB34,000, respectively.

Income Tax Expense

We incurred income tax expense of RMB16.6 million and RMB16.8 million in 2018 and 2019, respectively, representing an effective tax rate of 22.2% and 19.9%, respectively. We incurred income tax expense of RMB15.9 million and RMB30.6 million for the nine months ended September 30, 2019 and 2020, respectively, representing an effective tax rate of 18.4% and 16.4%, respectively. Our effective income tax rate is calculated by dividing income tax expense by profit before income tax. Our effective tax rates during the Track Record Period were below the 25% statutory rate, primarily due to (1) preferential income tax rates applicable to our certain subsidiaries, and (2) super deduction for research and development expenditure.

Our Company was incorporated in Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and accordingly is not subject to income tax. Our subsidiary incorporated in Hong Kong is subject to the Hong Kong profits tax rate at 16.5%.

Pursuant to the EIT Law and related regulations, enterprises which operate in China are generally subject to enterprise income tax at a rate of 25% on the taxable profit. Enterprises recognized as a "high and new technology enterprise" ("HNTE") are entitled to a preferential tax rate of 15% for three years as long as the HNTE status is valid, and qualifying entities may re-apply for an additional three years provided that their business operations continue to qualify for the HNTE status. Our subsidiary, Wuxi EA, was recognized as a "high and new technology enterprise" ("HNTE") in 2017, and successfully renewed the HNTE status in 2020. As a result, Wuxi EA was subject to a preferential tax rate of 15% during the Track Record Period. In addition, our subsidiary, Shanghai EA, was recognized as an HNTE in 2019 and enjoyed a preferential tax rate of 15% in 2019 and the nine months ended September 30, 2020.

In addition, pursuant to the EIT Law and the related rules, enterprises are allowed to claim an additional deduction of 50% of research and development expenses incurred for the development of new technologies, new products and new craftsmanship from 2008. Pursuant to Caishui [2018] No. 99 (財税[2018]99號), an extra 75% of the actual amount of research and development expenses can be deducted before tax.

No provision for German company income tax or the United States corporate income tax has been made during the Track Record Period, as we do not have any assessable income subject to German company income tax or the United States corporate income tax during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, we had paid all relevant taxes when due and there are no matters in dispute or unresolved with the relevant tax authorities.

Profit for the Year/Period

As a result of the foregoing, we recorded net profit of RMB58.2 million and RMB67.7 million in 2018 and 2019, respectively, and net profit of RMB70.6 million and RMB155.7 million in the nine months ended September 30, 2019 and 2020, respectively.

Non-IFRS Measures

To supplement our combined financial statements which are presented in accordance with IFRS, we also use adjusted EBITDA and adjusted net profit as additional financial measures, which is not required by, or presented in accordance with IFRS. We believe that these non-IFRS measures facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management do not consider indicative of our operating performance, such as certain non-cash items and certain impact of investment transactions. We believe that these measures provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, our presentation of these non-IFRS measures may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures have limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted EBITDA as EBITDA (which is profit before income tax plus finance costs, share of results of investments accounted for using the equity method, depreciation of property, plant and equipment, depreciation of right-of-use assets, and amortization of intangible assets, less finance income) for the year/period with adjustments of non-recurring or non-operating items, including share-based payments, [**REDACTED**] expenses and net other gains. We define adjusted net profit as profit for the year/period adjusted by non-recurring or non-operating items, including share-based payments, [**REDACTED**] expenses, and share of results of investments accounted for using the equity method. The following table reconciles our adjusted EBITDA and adjusted net profit for the year/period presented to the most directly comparable financial measure calculated and presented under IFRS.

	Year ended December 31,		**Nine months ended September 30,**	
	2018	**2019**	**2019**	**2020**
	(RMB in thousands except for percentages)			
			(unaudited)	
Operating profit	75,271	84,191	85,937	184,250
Add:				
Share-based payments	23,438	61,677	45,419	47,201
[**REDACTED**] expenses	10,510	664	443	664
Other gains — net	(1,933)	(2,851)	(2,428)	(2,857)
Depreciation of property, plant and equipment	9,595	13,402	9,209	12,740
Depreciation of right-of-use assets	8,338	10,367	7,291	8,297
Amortization of intangible assets	2,318	4,604	3,449	2,907
Adjusted EBITDA	127,537	172,054	149,320	253,202

	Year ended December 31,		Nine months ended September 30,	
	2018	**2019**	**2019**	**2020**
	(RMB in thousands except for percentages)			
			(unaudited)	
Profit for the year/period	58,186	67,665	70,583	155,711
Add:				
Share-based payments	23,438	61,677	45,419	47,201
[**REDACTED**] expenses	10,510	664	443	664
Share of results of investments accounted for using the equity method	363	348	(157)	34
Adjusted net profit	92,497	130,354	116,288	203,610

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Revenue

Our revenue increased by 23.9% from RMB485.4 million in the nine months ended September 30, 2019 to RMB601.3 million in the nine months ended September 30, 2020 for the following reasons.

- *Clear aligner treatment solutions.* Our revenue generated from the provision of clear aligner treatment solutions increased by 24.7% from RMB472.2 million in the nine months ended September 30, 2019 to RMB588.9 million in the nine months ended September 30, 2020, primarily due to (1) the increase in the case shipments 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 our clear aligner treatment solutions appealed to an increasing number of dental professionals, and (2) the increase in the case shipments in prior periods as a portion of the revenue attributable to such cases was recognized at a later stage along with the subsequent delivery of clear aligners for those cases.

- *Other services.* Our revenue generated from other services decreased from RMB13.2 million in the nine months ended September 30, 2019 to RMB12.4 million in the nine months ended September 30, 2020, primarily due to the impact of COVID-19 outbreak in early 2020, which temporarily affected the business operations of the dental clinics.

Cost of revenue

Our cost of revenue increased by 9.1% from RMB161.0 million in the nine months ended September 30, 2019 to RMB175.7 million in the nine months ended September 30, 2020, primarily due to the increased number of malocclusion cases we help addressed with our clear aligner treatment solutions.

- *Clear aligner treatment solutions.* Our cost of revenue related to the provision of clear aligner treatment solutions increased by 9.4% from RMB152.6 million in the nine months ended September 30, 2019 to RMB166.9 million in the nine months ended September 30, 2020, primarily due to the increases in the cost of raw materials and consumables used, staff costs and depreciation and amortization expenses in line with the increase in the number of malocclusion cases we help addressed with our solutions, partially offset by the decrease in production costs representing the lowered unit lease expense of our 3D printers.

- *Other services.* Our cost of revenue related to the provision of other services remained relatively stable at RMB8.4 million and RMB8.7 million in the nine months ended September 30, 2019 and 2020, respectively.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 31.2% from RMB324.4 million in the nine months ended September 30, 2019 to RMB425.6 million in the nine months ended September 30, 2020, and the corresponding gross profit margin increased from 66.8% to 70.8%.

- *Clear aligner treatment solutions.* Our gross profit margin for clear aligner treatment solutions increased from 67.7% in the nine months ended September 30, 2019 to 71.7% in the nine months ended September 30, 2020, primarily due to (1) the decrease in production costs representing the lowered unit lease expense of our 3D printers, and (2) the optimization of our cost structure in relation to clear aligner production, in particular the relative savings in our raw materials and consumables used and manufacturing-related staff costs compared to our production growth as a result of economies of scale and the adoption of automated production lines.

- *Other services.* Our gross profit margin for other services decreased from 36.4% for the nine months ended September 30, 2019 to 29.8% for the nine months ended September 30, 2020, primarily because our costs of other services, which primarily consisted of staff costs, remained relatively stable despite the decrease of revenue from other services due to the impact of COVID-19 outbreak.

Selling and marketing expenses

Our selling and marketing expenses increased by 5.4% from RMB86.5 million for the nine months ended September 30, 2019 to RMB91.2 million for the nine months ended September 30, 2020, primarily due to the increases in staff costs as a result of increased headcount and level of compensation to our sales and marketing personnel, partially offset by the decreases in advertising and promotion expenses, travelling and entertainment expenses and training expenses due to the limits on carrying out offline marketing activities under the impact of COVID-19 outbreak. As a result, our selling and marketing expenses as a percentage of our total revenue decreased from 17.8% for the nine months ended September 30, 2019 to 15.2% for the nine months ended September 30, 2020.

Administrative expenses

Our administrative expenses decreased by 4.2% from RMB99.5 million for the nine months ended September 30, 2019 to RMB95.3 million for the nine months ended September 30, 2020, primarily due to the decreases in (1) our contribution of social insurance premiums according to relevant government relief policies during the COVID-19 outbreak, and (2) company events expenditures, including travelling and entertainment expenses and professional service fees as result of COVID-19 impact, partially offset by the increase in share-based payments. As a result, our administrative expenses as a percentage of our total revenue decreased from 20.5% for the nine months ended September 30, 2019 to 15.8% for the nine months ended September 30, 2020.

Research and development expenses

Our research and development expenses increased by 2.4% from RMB57.6 million for the nine months ended September 30, 2019 to RMB58.9 million for the nine months ended September 30, 2020, primarily due to the increase in staff costs incurred for our research and development personnel as we increased their level of compensation. Our research and development expenses as a percentage of our total revenue decreased from 11.9% for the nine months ended September 30, 2019 to 9.8% for the nine months ended September 30, 2020, primarily because our revenue growth outpaced the increase in our research and development expenses.

Net impairment losses on financial assets

Our net impairment losses on financial assets increased by 57.2% from RMB4.1 million for the nine months ended September 30, 2019 to RMB6.5 million for the nine months ended September 30, 2020, primarily due to the increase in loss allowance provision for trade and other receivables.

Other income

Our other income increased significantly from RMB6.8 million for the nine months ended September 30, 2019 to RMB13.6 million for the nine months ended September 30, 2020, primarily due to the increases in subsidies and incentives we received from local government authorities.

Other expense

We made a donation of RMB6.0 million to China Oral Health Foundation in the nine months ended September 30, 2020. We did not incur donation expense in the nine months ended September 30, 2019.

Other gains — net

We had other gains — net of RMB2.4 million and RMB2.9 million for the nine months ended September 30, 2019 and 2020, respectively, primarily due to the increase in the realized fair value gain of wealth management products.

Finance income

Our finance income increased significantly from RMB1.2 million for the nine months ended September 30, 2019 to RMB3.0 million for the nine months ended September 30, 2020, primarily due to the increase in the amount of interest income on our bank deposits.

Finance costs

Our finance costs increased by 16.8% from RMB0.8 million for the nine months ended September 30, 2019 to RMB0.9 million for the nine months ended September 30, 2020, primarily due to the increase in our interest expense on leasing liabilities.

Share of results of investments accounted for using the equity method

We had a share of profit of investment accounted for using the equity method of RMB0.2 million for the nine months ended September 30, 2019 and a share of loss of investment accounted for using the equity method of approximately RMB34,000 for the nine months ended September 30, 2020.

Income tax expense

Our income tax expense increased by 92.2% from RMB15.9 million for the nine months ended September 30, 2019 to RMB30.6 million for the nine months ended September 30, 2020, primarily due to the increases in our profit before income tax, partially offset by the increased deductibles as a result of preferential income tax rates applicable to certain subsidiaries.

Profit for the period

As a result of the above, our net profit increased significantly from RMB70.6 million for the nine months ended September 30, 2019 to RMB155.7 million for the nine months ended September 30, 2020. Our net profit margin increased from 14.5% for the nine months ended September 30, 2019 to 25.9% for the nine months ended September 30, 2020.

Adjusted net profit for the period

We used adjusted net profit, a non-IFRS measure, to supplement our combined financial statements. We recognized adjusted net profit of RMB116.3 million and RMB203.6 million in the nine months ended September 30, 2019 and 2020, respectively, representing an adjusted net profit margin of 24.0% and 33.9%, respectively. See "— Description of Major Profit or Loss Line Items — Non-IFRS Measures" for a reconciliation of our profit for the period to our adjusted net profit.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenue

Our revenue increased by 32.2% from RMB488.5 million in 2018 to RMB645.9 million in 2019 for the following reasons.

- *Clear aligner treatment solutions*. Our revenue generated from the provision of clear aligner treatment solutions increased by 35.1% from RMB464.9 million in 2018 to RMB628.1 million in 2019, primarily due to the increase in the case shipments from approximately 77,700 in 2018 to approximately 120,100 in 2019 as our clear aligner treatment solutions appealed to an increasing number of dental professionals.

- *Other services*. Our revenue generated from other services decreased by 24.2% from RMB23.5 million in 2018 to RMB17.8 million in 2019, primarily because we relinquished control over Shanghai Junxiao in 2019, and our remaining interest in Shanghai Junxiao has been reclassified to investment accounted for using the equity method. See "Our History and Corporate Development — Our Reorganization."

As a percentage of our total revenue, our revenue generated from the provision of clear aligner treatment solutions increased from 95.2% in 2018 to 97.2% in 2019, and our revenue generated from other services decreased from 4.8% in 2018 to 2.8% in 2019, primarily due to the reasons discussed above.

Cost of revenue

Our cost of revenue increased by 29.4% from RMB176.8 million in 2018 to RMB228.9 million in 2019, primarily due to the increased demand of our clear aligner treatment solutions and the corresponding increase in the related cost. As a percentage of revenue, our cost of revenue remained relatively stable at 36.2% in 2018 and 35.4% in 2019.

- *Clear aligner treatment solutions.* Our cost of revenue related to the provision of clear aligner treatment solutions increased by 34.8% from RMB160.7 million in 2018 to RMB216.7 million in 2019, primarily due to the increases in our costs of raw material and consumables used, staff costs, production costs and delivery costs in line with our increased case shipments.

- *Other services.* Our cost of revenue related to the provision of other services decreased by 25.0% from RMB16.0 million in 2018 to RMB12.0 million in 2019, primarily because we relinquished control over Shanghai Junxiao in 2019.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 33.8% from RMB311.7 million in 2018 to RMB417.1 million in 2019, and our gross profit margin increased from 63.8% in 2018 to 64.6% in 2019.

- *Clear aligner treatment solutions.* Our gross profit margin for clear aligner treatment solutions remained relatively stable and high at 65.4% in 2018 and 65.5% in 2019.

- *Other services.* Our gross profit margin for other services remained relatively stable at 31.9% in 2018 and 32.6% in 2019.

Selling and marketing expenses

Our selling and marketing expenses increased by 50.6% from RMB81.4 million in 2018 to RMB122.6 million in 2019, primarily due to the increases in (1) staff costs as a result of increased headcount and level of compensation to our sales and marketing personnel, and (2) advertising and promotion expenses driven by our enhanced efforts to increase our brand recognition and expand our business, and (3) training expenses in line with the increased number of dental professionals utilizing our solutions. As a result, our selling and marketing expenses as a percentage of our total revenue increased from 16.7% in 2018 to 19.0% in 2019.

Administrative expenses

Our administrative expenses increased by 26.8% from RMB107.7 million in 2018 to RMB136.5 million in 2019, primarily due to the increase in share-based payments, partially offset by the decreases in the portion of [**REDACTED**] expenses recognized in 2019 as more [**REDACTED**]-related activities had occurred in 2018 compared with those in 2019. Our administrative expenses as a percentage of our total revenue decreased from 22.0% in 2018 to 21.1% in 2019, primarily because our revenue growth outpaced the increase in our administrative expenses.

Research and development expenses

Our research and development expenses increased by 61.3% from RMB50.2 million in 2018 to RMB80.9 million in 2019, primarily due to the increase in staff costs for our research and development personnel as we increased headcount and level of compensation to strengthen our research and development capabilities. As a result, our research and development expenses as a percentage of our total revenue increased from 10.3% in 2018 to 12.5% in 2019.

Net impairment losses on financial assets

Our net impairment losses on financial assets decreased by 31.8% from RMB3.7 million in 2018 to RMB2.5 million in 2019, primarily due to the decrease in loss allowance provision for trade and other receivables as we enhanced our management and collection efforts for trade receivables in 2019.

Other income

Our other income increased by 91.1% from RMB4.6 million in 2018 to RMB8.8 million in 2019, primarily due to the increases in subsidies and incentives we received from local government authorities.

Other expense

We made a donation of RMB2.0 million to China Oral Health Foundation in 2019. We did not incur donation expense in 2018.

Other gains — net

Our other gains — net increased from RMB1.9 million in 2018 to RMB2.9 million in 2019, primarily due to the increase in investment return from wealth management products and the decrease in losses on disposals of property, plant and equipment.

Finance income

Our finance income increased by 46.4% from RMB1.2 million in 2018 to RMB1.8 million in 2019, primarily due to the increase in the amount of interest income on our bank deposits.

Finance costs

Our finance costs decreased by 15.7% from RMB1.4 million in 2018 to RMB1.1 million in 2019, primarily due to the decrease in the amount of interest expense on amounts due to related parties, partially offset by the increase in our interest expense on leasing liabilities.

Share of results of investments accounted for using the equity method

We had a share of profit of investment accounted for using the equity method of RMB0.3 million in 2019, compared with a share of losses of investment accounted for using the equity method of RMB0.4 million in 2018, primarily because we started to recognize share of results of our investment in Shanghai Junxiao using the equity method in 2019 and Shanghai Junxiao recognized modest profit in 2019.

Income tax expense

Our income tax expense remained relatively stable at RMB16.6 million and RMB16.8 million in 2018 and 2019, respectively, despite the increase of our taxable income from 2018 to 2019, primarily due to the increase in super deduction for research and development expenditure and the application of a preferential tax rate to certain subsidiaries in 2019.

Profit for the year

As a result of the foregoing, our profit increased by 16.3% from RMB58.2 million in 2018 to RMB67.7 million in 2019. Our net profit margin was 11.9% and 10.5% in 2018 and 2019, respectively.

Adjusted net profit for the year

We used adjusted net profit, a non-IFRS measure, to supplement our combined financial statements. We recognized adjusted net profit of RMB92.5 million and RMB130.4 million in 2018 and 2019, respectively, representing an adjusted net profit margin of 18.9% and 20.2%, respectively. See "— Description of Major Profit or Loss Line Items — Non-IFRS Measures" for a reconciliation of our profit for the period to our adjusted net profit.

DISCUSSION OF MAJOR BALANCE SHEET ITEMS

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

	As of December 31,		As of September 30,
	2018	2019	2020
	(RMB in thousands)		
ASSETS			
Non-current assets			
Property, plant and equipment	55,046	84,338	88,460
Right-of-use assets	16,432	80,795	73,127
Intangible assets	13,692	9,330	6,634
Investment accounted for using the equity method	3,438	13,681	13,558
Prepayments for non-current assets	6,578	1,691	3,687
Deferred income tax assets	4,501	7,379	9,077
Total non-current assets	99,687	197,214	194,543
Current assets			
Inventories	21,663	22,827	14,507
Trade and other receivables	107,423	97,816	143,038
Amounts due from related parties	27,712	30,235	31,223
Financial assets at fair value through profit or loss	–	–	270,758
Cash and cash equivalents	216,015	504,697	482,059
Total current assets	372,813	655,575	941,585
Total assets	472,500	852,789	1,136,128
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Combined capital	167,807	167,807	167,807
Shares held for employee share scheme	(54,994)	(54,994)	(54,994)
Other reserves	72,227	140,016	201,780
Retained earnings/(accumulated losses)	(18,530)	44,589	124,146
Non-controlling interests	(2,958)	(4,039)	(3,937)
Total equity	163,552	293,379	434,802
Liabilities			
Non-current liabilities			
Amounts due to related parties	4,415	4,415	4,415
Contract liabilities	45,856	65,445	78,345
Lease liabilities	8,838	13,353	6,914
Deferred income	683	5,124	6,515
Total non-current liabilities	59,792	88,337	96,189
Current liabilities			
Trade and other payables	128,650	205,881	278,760
Amounts due to related parties	1,775	1,876	1,785
Contract liabilities	109,151	238,898	276,807
Current income tax liabilities	1,503	14,496	37,867
Lease liabilities	7,995	9,517	9,331
Deferred income	82	405	587
Total current liabilities	249,156	471,073	605,137
Total liabilities	308,948	559,410	701,326
Total equity and liabilities	472,500	852,789	1,136,128

Property, Plant and Equipment

Our property, plant and equipment consisted of plant and machinery, transportation equipment, furniture, fixtures and equipment, leasehold improvements, construction in progress and buildings. We had property, plant and equipment of RMB55.0 million, RMB84.3 million and RMB88.5 million as of December 31, 2018 and 2019 and September 30, 2020, respectively. The following table sets forth the components of our property and equipment as of the dates indicated.

	As of December 31,		As of September 30,
	2018	2019	2020
		(RMB in thousands)	
Plant and machinery	30,297	47,295	49,321
Transportation equipment	1,206	959	761
Furniture, fixtures and equipment	1,807	4,347	4,489
Leasehold improvements	13,911	24,536	21,262
Construction in progress	6,035	943	6,597
Buildings	1,790	6,258	6,030
Total	55,046	84,338	88,460

Our property, plant and equipment increased from RMB55.0 million as of December 31, 2018 to RMB84.3 million as of December 31, 2019, primarily due to (1) addition to our plant and machinery and buildings to enhance our production capacity and (2) increases in leasehold improvements and plant and machinery as we transferred our construction in progress upon completion, partially offset by depreciation expenses. Our property, plant and equipment further increased to RMB88.5 million as of September 30, 2020, primarily due to addition to our plant and machinery and construction in progress, partially offset by depreciation expenses.

Right-of-use Assets

Our right-of-use assets primarily consisted of office premises and land use rights. Our right-of-use assets increased from RMB16.4 million as of December 31, 2018 to RMB80.8 million as of December 31, 2019, primarily due to the acquisition of new land use rights in Wuxi City in 2019. Our right-of-use assets decreased to RMB73.1 million as of September 30, 2020, primarily due to the depreciation of our office premises.

Intangible Assets

Our intangible assets primarily consisted of software, patents and goodwill. Our intangible assets decreased from RMB13.7 million as of December 31, 2018 to RMB9.3 million as of December 31, 2019, and further to RMB6.6 million as of September 30, 2020, primarily due to the amortization on our software and compensation for clause prohibition of competition.

Inventories

Our inventories consisted primarily of raw materials, and to a much lesser extent, work in progress and finished goods. We had inventories of RMB21.7 million, RMB22.8 million and RMB14.5 million as of December 31, 2018 and 2019 and September 30, 2020, respectively. The following table sets forth our inventories as of the date indicated.

	As of December 31,		As of September 30,
	2018	2019	2020
		(RMB in thousands)	
Raw materials	20,962	19,376	13,075
Work in progress	499	617	286
Finished goods	202	2,834	1,146
Total	21,663	22,827	14,507

Our inventories level increased from RMB21.7 million as of December 31, 2018 to RM22.8 million as of December 31, 2019, primarily due to the increase in finished goods that had not been shipped yet as at year end resulting from our delivery schedule. Our inventories decreased to RMB14.5 million as of September 30, 2020, primarily due to the decreases in (1) the inventory of raw materials reflecting the monthly fluctuations in our procurements, and (2) the unit price of major raw materials in 2020.

The following table sets forth the number of our inventory turnover days for the periods indicated.

	Year ended December 31,		Nine months ended September 30,
	2018	2019	2020
Inventory turnover days[1]	33	35	29

(1) Inventory turnover days was calculated based on the average of opening and closing inventory balance for the relevant year/period, divided by the cost of revenue for the same year/period, and multiplied by the 365/273 days.

Our inventory turnover days remained relatively stable at 33 days and 35 days in 2018 and 2019, respectively. Our inventory turnover days decreased to 29 days for the nine months ended September 30, 2020, primarily due to our enhanced inventory control measures.

As of November 30, 2020, approximately RMB10.2 million, or 70.5%, of our inventories as of September 30, 2020 had been delivered or consumed.

Trade and Other Receivables

During the Track Record Period, our trade and other receivables primarily consisted of trade receivables from third parties and prepayments to suppliers. The following table sets forth the details of our trade and other receivables as of the dates indicated.

	As of December 31,		As of September 30,
	2018	2019	2020
	(RMB in thousands)		
Trade receivables	79,382	73,692	122,106
Less: allowance for impairment of trade receivables	(5,696)	(8,203)	(14,675)
Other receivables[1]	11,822	8,799	9,943
Less: allowance for impairment of other receivables	(110)	(78)	(84)
Prepayments for taxes	7,120	9,605	2,063
Prepayments to suppliers	11,402	10,276	19,739
Prepayments for [**REDACTED**] expenses	3,503	3,725	3,946
Total	107,423	97,816	143,038

(1) Other receivables primarily consisted of deposits receivables and deductible input value-added tax.

Our trade and other receivables decreased from RMB107.4 million as of December 31, 2018 to RMB97.8 million as of December 31, 2019, primarily due to the decrease in trade receivables as we enhanced our collection efforts and adjusted the payment terms with certain of our customers. Our trade and other receivables increased to RMB143.0 million as of September 30, 2020, primarily due to the increases in (1) prepayments to certain suppliers, and (2) trade receivables as we typically experienced the highest sales during the third quarter and incurred relatively significant trade receivables, and subsequently settle a substantial portion of such trade receivables at year end.

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

	As of December 31,		As of September 30,
	2018	2019	2020
	(RMB in thousands)		
Within 60 days	14,719	23,562	55,682
61 to 180 days	17,066	19,887	21,140
181 to 365 days	36,678	9,946	11,511
One to two years	5,136	13,001	17,965
Two to three years	4,205	2,710	8,974
Over three years	1,578	4,586	6,834
Total	79,382	73,692	122,106

Trade receivables mainly arise from provision of our clear aligner treatment solutions. During the Track Record Period, we generally received advances prior to the rendering of our services or sales, while we usually granted some customers, primarily certain hospitals, dental clinics and distributors, a credit period ranging from 30 to 60 days. We generally provided a longer credit period to credible public hospitals and implemented a manufacture-upon-payment policy to private entities with which we cooperated for the first time. We may grant credit periods to other private entities on a case-by-case basis, depending on factors such as their relative bargaining power and market position in the industry. We plan to closely monitor our trade receivables and enhance our collection efforts in the future. We believe we will be more successful in such efforts in the future as we expand the scale of our business and improve our bargaining power.

Trade receivables aged over one year primarily consisted of trade receivables due from credible public hospitals. Trade receivables aged between one and two years increased from RMB5.1 million as of December 31, 2018 to RMB13.0 million as of December 31, 2019, and further to RMB18.0 million as of September 30, 2020, primarily due to (1) the increase in case shipments generated from public hospitals, and (2) the impact of the COVID-19 pandemic.

The following table sets forth the number of our trade receivables turnover days for the periods indicated.

	Year ended December 31,		Nine months ended September 30,
	2018	**2019**	**2020**
Trade receivables turnover days[(1)]	41	39	39

(1) Trade receivables turnover days was calculated based on the average of opening and closing balance of trade receivables less allowance for impairment for the relevant year/period, divided by the revenue for the same year/period, and multiplied by 365/273 days.

Our trade receivables turnover days decreased from 41 days in 2018 to 39 days in 2019, and remained stable at 39 days for the nine months ended September 30, 2020, primarily due to our enhanced management measures and collection efforts for trade receivables.

As of November 30, 2020, approximately RMB35.2 million, or 28.8%, of our trade receivables as of September 30, 2020 had been settled.

Amounts Due from Related Parties

We recorded amounts due from related parties of RMB27.7 million, RMB30.2 million and RMB31.2 million as of December 31, 2018 and 2019 and September 30, 2020, respectively. Our amounts due from related parties primarily represented amounts attributable to certain transactions between our related parties and us for share-based payments in 2018 and our loans made to certain related parties in 2018 and 2019, which were of non-trade nature. We expect to settle the balance of the amounts due from related parties prior to the [**REDACTED**]. See "— Related Parties Transactions" for more details.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss primarily represented our investments in wealth management products issued by major and reputable commercial banks with guaranteed principal and an expected annual investment return rate ranging from 2.30% to 4.50%. We had financial assets at fair value through profit or loss of nil, nil and RMB270.8 million as of December 31, 2018 and 2019 and September 30, 2020, respectively.

We may continue to invest in similar wealth management products in the future using our surplus cash. Our Board and the finance department are mainly responsible for making, implementing and supervising our investment decisions. During the Track Record Period, we had implemented the following investment and treasury policies:

- our Board is responsible for the overall planning and approval of our investment in wealth management products;

- our finance department are responsible for the analysis and research of investment in wealth management products, as well as the long-term routine management of such investment;

- investments in wealth management products could be made when we have surplus cash that is not required for our short-term working capital purposes and in no event beyond the amount authorized by our Board;

- we mainly make investments in short-term wealth management products with low risk, high liquidity and reasonable returns, which primarily consist of principal-guaranteed products issued by reputable commercial banks; and

- we assess the risk associated with the underlying financial instruments based on the risk classification provided by the issuing licensed commercial bank.

Fair value measurements

We made judgments and estimates in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To indicate the reliability of inputs in determining the fair values, we classified our financial instruments into three levels:

- Level 1: Financial instruments traded in active markets are included in level 1, the fair value of which is based on quoted market prices at the end of the reporting period, using the current bid price.

- Level 2: Financial instruments not traded in active markets, of which all significant inputs to fair value determination are observable, are included in level 2.

- Level 3: Financial instruments not traded in active markets, of which one or more significant inputs to fair value determination is not based on observable market data, are included in level 3.

We recognize transfers into and out of the fair value hierarchy levels at the end of the reporting period. There were no transfers between level 1, 2 and 3 during 2018, 2019 and the nine months ended September 30, 2020. As of December 31, 2018 and 2019 and September 30, 2020, respectively, we had no level 1 and level 2 financial instruments, and had only level 3 instruments which represented financial assets at fair value through profit or loss.

Our valuation techniques for financial instruments not traded in active markets maximize the use of observable market inputs and minimize the use of entity-specific estimates. Specifically, we used discounted cash flow model in valuing our level 3 financial instruments, under which we made certain assumptions of our expected future cash flows and expected rate of return. The unobservable inputs are expected rate of return rate and discount rate.

The following table sets forth the changes in our level 3 financial instruments for the periods indicated.

	As of December 31,		As of September 30,
	2018	2019	2020
	(RMB in thousands)		
Balance at beginning of the year/period	43,000	—	—
Additions	350,000	588,000	1,080,000
Amounts recognised in profit or loss	2,436	2,512	3,174
Disposals	(395,436)	(590,512)	(812,416)
Balance at end of the year/period	—	—	270,758

Cash and Cash Equivalents

Our cash and cash equivalents primarily consist of cash on hand, deposits held at call with financial institutions, and other short-term and highly liquid investments. We had cash and cash equivalents of RMB216.0 million, RMB504.7 million and RMB482.1 million as of December 31, 2018 and 2019 and September 30, 2020, respectively.

Trade and Other Payables

Our trade payables primarily consisted of payments we owed to our suppliers. Our other payables primarily consisted of employee benefits payables, other taxes payable and dividends payable. We had trade and other payables of RMB128.7 million, RMB205.9 million and RMB278.8 million as of December 31, 2018 and 2019 and September 30, 2020, respectively. The following table sets forth the details of our trade and other payables as of the dates indicated.

	As of December 31,		As of September 30,
	2018	2019	2020
	(RMB in thousands)		
Trade payables	26,942	60,910	46,084
Employee benefits payable	45,217	63,129	67,322
Other taxes payable	25,618	34,642	46,961
Outstanding acquisition consideration payable to related party	3,432	3,488	3,405
Accrued expenses payable	9,263	9,604	10,320
Deposits payable	5,086	9,829	18,513
Advertising and promotion expenses payable	3,989	5,255	3,988
Donation payable	—	2,000	6,000
Professional services fee payable	2,242	6,208	8,260
Reimbursement payable	2,298	3,397	303
Payables in relation with acquisition of property, plant and equipment	537	3,447	2,869
Dividends payable	—	—	61,000
Others	4,026	3,972	3,735
Total	128,650	205,881	278,760

Our trade payables primarily represented the amount due to our suppliers. Our trade payables increased from RMB26.9 million as of December 31, 2018 to RMB60.9 million as of December 31, 2019, primarily due to the increase in the purchase of raw materials to meet the increasing demand of our clear aligners. Our trade payables decreased from RMB60.9 million as of December 31, 2019 to RMB46.1 million as of September 30, 2020, primarily because our procurement is greater in the fourth quarter, resulting in relatively significant trade payables.

Employee benefits payable primarily represented the amount of wages and salaries and other welfare and benefits due to our employees. Our employee benefits payable increased during the Track Record Period, primarily due to the increase in the number of our employees in line with our business expansion.

Our other taxes payable primarily represented taxes payable other than income tax payable, such as value-added tax and surcharges payables. Our other taxes payable increased during the Track Record Period in line with our business growth.

Our deposits payable primarily consisted of the deposits payable to our suppliers and bid bond payable related to the construction of our Chuangmei Center. Our deposits payable increased from RMB5.1 million as of December 31, 2018 to RMB9.8 million as of December 31, 2019 primarily due to the increase in the number of suppliers and the amount of deposits required in line with our business growth. Our deposits payable further increased to RMB18.5 million as of September 30, 2020, primarily because we commenced the construction of our Chuangmei Center in 2020.

Our suppliers typically granted us a credit period ranging from 30 to 60 days during the Track Record Period. The following table sets forth an aging analysis of our trade payables as of the dates indicated based on the invoice date:

	As of December 31,		As of September 30,
	2018	2019	2020
		(RMB in thousands)	
Within 60 days	21,875	52,328	36,172
61 to 180 days	5,036	6,194	1,896
181 to 365 days	10	236	6,154
Over one years	21	2,152	1,862
Total	26,942	60,910	46,084

The following table sets forth the number of our trade payables turnover days for the periods indicated:

	Year ended December 31,		Nine months ended September 30,
	2018	2019	2020
Trade payables turnover days(1)	37	70	83

(1) Trade payables turnover days was calculated based on the average of opening and closing balance of trade payables for the relevant year/period, divided by the cost of revenue for the same year/period, and multiplied by the 365/273 days.

Our trade payables turnover days increased from 37 days in 2018 to 70 days in 2019, and further to 83 days in the nine months ended September 30, 2020, primarily because we had greater bargaining power in negotiating a longer credit period as our business continued to grow.

As of November 30, approximately RMB30.4 million, or 65.9%, of our trade payables as of September 30, 2020 had been settled.

Amounts Due to Related Parties

We recorded amounts due to related parties of RMB6.2 million, RMB6.3 million and RMB6.2 million as of December 31, 2018 and 2019 and September 30, 2020, respectively. Our amounts due to related parties were primarily related to our share incentive plans. We expect to settle the amounts due to related parties prior to the [**REDACTED**]. See "— Related Parties Transactions" for more details.

Contract Liabilities

Our contract liabilities primarily arose from the advance payments made by customers before the delivery of underlying services and products. Our contract liabilities increased from RMB155.0 million as of December 31, 2018 to RMB304.3 million as of December 31, 2019, and further to RMB355.2 million as of September 30, 2020, which was generally in line with our business growth. The following table sets forth a breakdown of our contract liabilities as of the dates indicated.

	As of December 31,		As of September 30,
	2018	2019	2020
		(RMB in thousands)	
Clear aligner treatment solutions	153,454	303,158	353,398
Other services	1,553	1,185	1,754
Total	155,007	304,343	355,152
Analyzed into:			
Current Portion			
Clear aligner treatment solutions	107,598	237,713	275,053
Other services	1,553	1,185	1,754
	109,151	238,898	276,807
Non-current Portion			
Clear aligner treatment solutions	45,856	65,445	78,345

The following table sets forth the revenue recognized during the Track Record Period relating to carried-forward contract liabilities.

	Year ended December 31,		Year ended September 30,	
	2018	2019	2019	2020
		(RMB in thousands)		
			(unaudited)	
Revenue recognized that was included in the contract liability balance at the beginning of the year/period				
– Clear aligner treatment solutions	91,973	107,598	67,841	114,819
– Other services	91	1,553	1,553	1,184
Total	92,064	109,151	69,394	116,003

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Working Capital Sufficiency

Our primary use of cash is to fund our working capital requirements and other recurring expenses. During the Track Record Period, we financed our capital expenditures and working capital requirements primarily through cash generated from our operating activities. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank facilities and other borrowings, [**REDACTED**] from the [**REDACTED**] and other funds raised from the capital markets from time to time. As of September 30, 2020, we had cash and cash equivalents of RMB482.1 million. Taking into account the financial resources available to us, including cash flow from operating activities and the estimated [**REDACTED**] from the [**REDACTED**], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

Cash Flows

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

	Year ended December 31,		Nine months ended September 30,
	2018	2019	2020
		(RMB in thousands)	
Net cash generated from operating activities	144,585	402,332	271,331
Net cash used in investing activities	(2,062)	(103,035)	(284,389)
Net cash used in financing activities	(61,827)	(11,304)	(8,138)
Net increase/(decrease) in cash and cash equivalents	80,696	287,993	(21,196)
Cash and cash equivalents at beginning of the year/period	134,051	216,015	504,697
Exchange gains/(losses) on cash and cash equivalents	1,268	689	(1,442)
Cash and cash equivalents at end of the year/period	216,015	504,697	482,059

Net cash generated from operating activities

Net cash generated from operating activities was RMB271.3 million for the nine months ended September 30, 2020, primarily due to our profit before income tax of RMB186.3 million minus income tax paid of RMB3.8 million, as adjusted by (1) certain non-cash and non-operating items, primarily including depreciation of property, plant and equipment of RMB12.7 million, depreciation of right-of-use assets of RMB8.3 million, net impairment losses on financial assets of RMB6.5 million, and share-based payments of RMB47.2 million, (2) changes in working capital that positively affected the cash flow from operating activities, primarily including an increase of RMB50.8 million in contract liabilities, an increase of RMB14.9 million in trade and other payables and a decrease of RMB8.3 million in inventories, and (3) partially offset by changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase of RMB57.8 million in trade and other receivables.

Net cash generated from operating activities was RMB402.3 million in 2019, primarily due to our profit before income tax of RMB86.5 million minus income tax paid of RMB8.8 million, as adjusted by (1) certain non-cash and non-operating items, primarily including depreciation of property, plant and equipment of RMB13.4 million, depreciation of right-of-use assets of RMB10.4 million and share-based payments of RMB61.7 million; (2) changes in working capital that positively affected the cash flow from operating activities, primarily including an increase of RMB150.2 million in contract liabilities, an increase of RMB84.6 million in trade and other payables and a decrease of RMB3.1 million in trade and other receivables, and (3) partially offset by changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase of RMB1.2 million in inventories.

Net cash generated from operating activities was RMB144.6 million in 2018, primarily due to our profit before income tax of RMB74.8 million minus income tax paid of RMB23.9 million, as adjusted by (1) certain non-cash and non-operating items, primarily including depreciation of property, plant and equipment of RMB9.6 million, depreciation of right-of-use assets of RMB8.3 million and share-based payments of RMB23.4 million; (2) changes in working capital that positively affected the cash flow from operating activities, primarily including an increase of RMB55.2 million in contract liabilities and an increase of RMB56.6 million in trade and other payables, and (3) partially offset by changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase of RMB56.6 million in trade and other receivables and an increase of RMB11.1 million in inventories.

Net cash used in investing activities

Net cash used in investing activities was RMB284.4 million for the nine months ended September 30, 2020, primarily due to purchase of financial assets at fair value through profit or loss of RMB1,080.0 million and purchases of property, plant and equipment of RMB19.8 million, partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB812.4 million.

Net cash used in investing activities was RMB103.0 million in 2019, primarily due to purchase of financial assets at fair value through profit or loss of RMB588.0 million, purchases of right-of-use assets for land of RMB59.4 million and purchases of property, plant and equipment of RMB39.8 million, partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB590.5 million.

Net cash used in investing activities was RMB2.1 million in 2018, primarily due to purchase of financial assets at fair value through profit or loss of RMB350.0 million, purchases of property, plant and equipment of RMB35.9 million and loans to related parties of RMB27.2 million, partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB395.3 million and proceeds from disposal of investment in financial bonds of RMB20.0 million.

Net cash used in financing activities

Net cash used in financing activities was RMB8.1 million for the nine months ended September 30, 2020, primarily due to payment of lease liabilities of RMB7.2 million.

Net cash used in financing activities was RMB11.3 million in 2019, primarily due to payment of lease liabilities of RMB9.2 million, payments for [**REDACTED**] expenses of RMB1.1 million and interest paid of lease liabilities of RMB1.1 million.

Net cash used in financing activities was RMB61.8 million in 2018, primarily due to payment of buying back treasury shares of RMB50.6 million and payment of lease liabilities of RMB8.3 million.

Current Assets and Current Liabilities

The following table sets forth our current assets and liabilities as of the dates indicated.

	As of December 31,		As of September 30,	As of November 30,
	2018	2019	2020	2020
	(RMB in thousands)			
				(unaudited)
CURRENT ASSETS				
Inventories	21,663	22,827	14,507	15,353
Trade and other receivables	107,423	97,816	143,038	131,640
Amounts due from related parties	27,712	30,235	31,223	31,223
Financial assets at fair value through profit or loss	–	–	270,758	120,758
Cash and cash equivalents	216,015	504,697	482,059	609,685
Total current assets	372,813	655,575	941,585	908,659
CURRENT LIABILITIES				
Trade and other payables	128,650	205,881	278,760	190,161
Amounts due to related parties	1,775	1,876	1,785	1,785
Contract liabilities	109,151	238,898	276,807	327,774
Current income tax liabilities	1,503	14,496	37,867	38,106
Lease liabilities	7,995	9,517	9,331	8,728
Deferred income	82	405	587	2,295
Total current liabilities	249,156	471,073	605,137	568,849
NET CURRENT ASSETS	123,657	184,502	336,448	339,810

We had net current assets of RMB123.7 million, RMB184.5 million, RMB336.4 million and RMB339.8 million as of December 31, 2018 and 2019, September 30, 2020 and November 30, 2020, respectively. Our net current assets position as of each of these dates was primarily attributable to our trade and other receivables, cash and cash equivalents and financial assets at fair value through profit or loss, partially offset by trade and other payables and contract liabilities.

Our net current asset increased from RMB336.4 million as of September 30, 2020 to RMB339.8 million as of November 30, 2020, primarily due to the decreases in (1) trade and other payables in line with our settlement schedule of trade payables, and (2) lease liabilities.

Our net current asset increased from RMB184.5 million as of December 31, 2019 to RMB336.4 million as of September 30, 2020, primarily due to (1) the increase in trade and other receivables resulting from the increases in (i) prepayments to certain suppliers, and (ii) trade receivables as we typically experienced the highest sales during the third quarter and incurred relatively significant trade receivables, and subsequently settle a substantial portion of such trade receivables at year end, and (2) the financial assets at fair value through profit or loss we recorded as of September 30, 2020 resulting from the wealth management products we purchased in the nine months ended September 30, 2020, partially offset by the increases in (1) trade and other payables primarily resulting from the dividends payable of RMB61.0 million we recorded as of September 30, 2020, and (2) contract liabilities in line with our business growth.

Our net current asset increased from RMB123.7 million as of December 31, 2018 to RMB184.5 million as of December 31, 2019, primarily due to the increases in cash and cash equivalents, partially offset by the increases in (1) contract liabilities in line with our business growth, and (2) trade and other payables resulting from the increase in the purchase of raw materials driven by the increasing demand of our clear aligners.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

Our capital expenditures during the Track Record Period consisted primarily of purchases of property, plant and equipment, purchases of right-of-use assets, and purchase of intangible assets, and amounted to RMB66.3 million, RMB122.0 million and RMB18.6 million, respectively, in 2018, 2019 and the nine months ended September 30, 2020. We funded our capital expenditure requirements during the Track Record Period mainly from cash generated from our operating activities.

We plan to fund our planned capital expenditure by using the cash flow generated from our operations, bank facilities and other borrowings, and the [**REDACTED**] received from the [**REDACTED**]. See "Business — Our Intelligent Manufacturing — Expansion Plan" for details of our expansion plan and "Future Plans and Use of [**REDACTED**]" for the portion of capital expenditures to be funded by the [**REDACTED**] from the [**REDACTED**].

Capital Commitments

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

	As of December 31,		As of September 30,
	2018	2019	2020
	(RMB in thousands)		
Contracted but not provided for:			
Property, plant and equipment	9,631	13,093	21,408
Intangible assets	908	–	70
Investments in joint venture	500	500	500
Total	11,039	13,593	21,978

INDEBTEDNESS

Our indebtedness consisted primarily of lease liabilities and amounts due to related parties. As of November 30, 2020, being the latest practicable date for the purpose of the indebtedness statement below, we had RMB20.8 million in indebtedness. The following table sets forth the breakdown of our indebtedness as of the dates indicated.

	As of December 31,		As of September 30,	As of November 30,
	2018	2019	2020	2020
				(unaudited)
	(RMB in thousands)			
Lease liabilities, current	7,995	9,517	9,331	8,728
Lease liabilities, non-current	8,838	13,353	6,914	5,898
Amounts due to related parties, current	1,775	1,876	1,785	1,785
Amounts due to related parties, non-current	4,415	4,415	4,415	4,415
Total	23,023	29,161	22,445	20,826

As at December 31, 2018 and 2019, September 30, 2020 and November 30, 2020, amounts due to related parties were unsecured.

Save as disclosed above, we had no bank loans or other borrowings, or any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases, guarantees or other material contingent liabilities. Our Directors confirm that there has not been any material change in our indebtedness since November 30, 2020.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group.

[REDACTED] EXPENSES

We expect to incur a total of approximately RMB[**REDACTED**] million of [**REDACTED**] expenses in connection with the [**REDACTED**], representing approximately [**REDACTED**] of the [**REDACTED**] from the [**REDACTED**] (assuming an [**REDACTED**] of HK$[**REDACTED**], being the mid-point of the indicative [**REDACTED**] range between HK$[**REDACTED**] and HK$[**REDACTED**], and assuming that the [**REDACTED**] is not exercised). During the Track Record Period, we incurred [**REDACTED**] expenses of approximately RMB[**REDACTED**] million, out of which approximately RMB11.8 million was charged to our combined statements of results of operations as administrative expenses, while the remaining amount of approximately RMB[**REDACTED**] million was capitalized as prepayment and will be deducted from the share premium upon the completion of the [**REDACTED**]. We expect to further incur [**REDACTED**] and other [**REDACTED**] expenses of approximately RMB[**REDACTED**] million upon the completion of the [**REDACTED**], out of which approximately RMB[**REDACTED**] million is expected to be charged to our combined statements of results of operations and approximately RMB[**REDACTED**] million is expected to be deducted from the share premium. The [**REDACTED**] expenses above are the best estimate as of the Latest Practicable Date and for reference only. The actual amount may differ from this estimate.

KEY FINANCIAL RATIOS

	As of/for the year ended December 31,		As of/for the nine months ended September 30,
	2018	2019	2020
Profitability ratios			
Gross profit margin(1)	63.8%	64.6%	70.8%
Adjusted net profit margin(2)	18.9%	20.2%	33.9%
Adjusted return on equity(3)	72.1%	57.1%	N/A
Adjusted return on total assets(4)	23.2%	19.7%	N/A
Liquidity ratios			
Current ratio(5)	1.50	1.39	1.56

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

(2) The calculation of adjusted net profit margin, a non-IFRS measure, is based on adjusted net profit for the year/period divided by revenue for the respective year/period and multiplied by 100.0%. See "— Description of Major Profit or Loss Line Items — Non-IFRS Measures."

(3) The calculation of adjusted return on equity, a non-IFRS measure, is based on adjusted net profit for the year/period divided by average of opening and closing balance of total equity attributable to equity holders of our Company of the respective year/period and multiplied by 100.0%.

(4) The calculation of adjusted return on total assets, a non-IFRS measure, is based on adjusted net profit for the year/period divided by the average of opening and closing balance of total assets of the respective year/period and multiplied by 100.0%.

(5) The calculation of current ratio is based on current assets divided by current liabilities as of year/period end.

Analysis of Key Financial Ratios

Gross profit margin and adjusted net profit margin

See "— Period to Period Comparison of Results of Operations" for a discussion of the factors affecting our gross profit margin and adjusted net profit margin during the Track Record Period.

Adjusted return on equity and adjusted return on total assets

Our adjusted return on equity ratio decreased from 72.1% in 2018 to 57.1% in 2019, primarily due to the increase in our total equity as a result of the increases in other reserves and retained earnings, which outpaced the increase in our adjusted net profit.

Our adjusted return on total assets decreased from 23.2% in 2018 to 19.7% in 2019, primarily due to the significant increase in our total assets which outpaced the increase in our adjusted net profit.

Current ratio

Our current ratio decreased from 1.50 as of December 31, 2018 to 1.39 as of December 31, 2019, primarily due to the increases in our trade and other payables, contract liabilities and current income tax liabilities in line with our business growth. Our current ratio increased from 1.39 as of December 31, 2019 to 1.56 as of September 30, 2020, primarily due to the increases in (1) our trade and other receivables in line with our business growth, and (2) recognition of financial assets at fair value through profit or loss at the period end in connection with our purchase of wealth management products.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, we entered into various related party transactions, primarily including transactions with companies controlled by our shareholders or Directors. For details of our related party transactions, see Note 35 to the Accountant's Report in Appendix I to this document.

Our Directors believe that each of the related party transactions was conducted in the ordinary course of business on an arm's length basis. Our Directors are of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management.

Market Risk

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not our functional currency. Our business is principally conducted in RMB and the majority of our assets is denominated in RMB. The majority of our non-RMB assets and liabilities are bank deposits, trade and other payables denominated in USD. We are subject to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities which are denominated in non-RMB, as well as net investments in foreign operations.

We manage our foreign exchange risk by closely monitoring the movement of the foreign currency rates. Cash repatriation from the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government. We did not have other significant exposure to foreign exchange risk.

The carrying amount of our foreign currency denominated monetary assets and monetary liabilities at the respective dates of statement of financial position are as follows:

	As of December 31,		As of September 30,
	2018	2019	2020
	(RMB in thousands)		
Assets			
USD	25,292	58,636	60,226
Liabilities			
USD	6,992	4,091	3,485
Others	—	143	—
	6,992	4,234	3,485

The following sensitivity analysis has been determined based on exposure to foreign currency rates. The analysis includes only USD denominated monetary items and adjusts their translation at the year-end for a 5% change in exchange rates. Should RMB strengthened or weakened by 5% against USD, with all other variables held constant, the post-tax profit for the year or period would have been approximately RMB0.9 million, RMB2.7 million and RMB2.8 million lower or higher in 2018, 2019 and the nine months ended September 30, 2020, respectively.

Cash flow and fair value interest rate risk

Our income and operating cash flows are substantially independent of changes in market interest rates and we have no significant interest-bearing assets except for cash and cash equivalents, financial assets at fair value through profit or loss and other receivables, details of which have been disclosed in Note 17, Note 19 and Note 16 to the Accountant's Report in Appendix I to this document, respectively. Our directors do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of these assets are not expected to change significantly.

Our exposure to changes in interest rates is also attributable to its amounts due to related parties carried at fixed rates, details of which have been disclosed in Note 35 to the Accountant's Report in Appendix I to this document.

We closely monitor the trend of interest rate and its impact on our interest rate risk exposure. We currently have not used any interest rate swap arrangements.

Credit Risk

We are exposed to credit risk in relation to our trade and other receivables, amounts due from related parties, financial asset at fair value through profit or loss and cash deposits at banks. The carrying amounts of trade and other receivables and cash and cash equivalents represent our maximum exposure to credit risk in relation to financial assets.

We expect that there is no significant credit risk associated with cash deposits at banks, because they are substantially deposited at state-owned banks and other medium or large size listed banks. Our management does not expect that there will be any significant losses from non-performance by these counterparties.

Our trade receivables represented amounts due from hospitals, clinics and distributors for our provision of clear aligner treatment solutions. We implemented policies to ensure that our sales are made to customers with appropriate financial strength and percentage of down payments. We also implement other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we regularly review the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Moreover, we have no significant concentrations of credit risk as our exposure is spread over a large number of counterparties and customers, without any single customer contributing material revenue.

For other financial assets at amortized cost, our management makes periodic collective assessments as well as individual assessment on the recoverability of such receivables based on historical settlement records and past experience.

For more details about our credit risks, see Note 3.1(b) to the Accountant's Report in Appendix I to this document.

Liquidity Risk

To manage the liquidity risk, our management monitors rolling forecasts of our liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. We expect to fund the future cash flow needs through internally generated cash flows from operations.

DIVIDEND

According to our dividend policy adopted on [●], the Articles of Association and applicable laws and regulations, the determination to pay dividends will be made at the discretion of our Directors, subject to the Listing Rules, and will depend upon, among others, the financial results, cash flow, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, any restrictions on payment of dividends, and other factors that our Directors may consider relevant. We do not have a pre-determined dividend payout ratio. We will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic environment.

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

During the Track Record Period and up to the Latest Practicable Date, Wuxi EA paid cash dividends of RMB61.0 million and RMB43.0 million in October 2020 and November 2020, respectively. For details, see Note 30 and Note 37 to the Accountant's Report in Appendix I to this document.

DISTRIBUTABLE RESERVES

As of September 30, 2020, our Company had no distributable reserves.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

COVID-19 OUTBREAK AND EFFECTS ON OUR BUSINESS

Since December 2019, a novel strain of coronavirus, later named COVID-19, has severely impacted China and many other countries. The PRC government has had imposed quarantine measures across the country since late January 2020. Local governments have also imposed temporary restrictions or bans on passenger traffic to control the spread of the COVID-19. On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 a Public Health Emergency of International Concern (PHEIC). On March 11, 2020, amid the escalating situation, the World Health Organization further characterized COVID-19 as a pandemic. With measures taken by the PRC government, there has been a significant decrease in the number of existing confirmed COVID-19 cases in China since mid-February 2020. The Chinese government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal nationwide during the second quarter of 2020. Our Directors have carried out a holistic review of the impact of the COVID-19 on our operations and confirmed that as of September 30, 2020, COVID-19 did not bring permanent interruption to our operations based on the following grounds.

Impact on our Business and Financial Conditions

Since the outbreak of COVID-19, a series of precautionary and control measures have been implemented worldwide to contain the virus. Government efforts to contain the spread of COVID-19, including city lockdowns or "stay-at-home" orders, suspension of non-emergent dental care services and closures of dental hospitals and clinics, restrictions on travel and other emergency quarantines, have caused significant and unprecedented disruptions to the global and Chinese economy and normal business operations across sectors. As a result, China's clear aligner market had been adversely affected, which in turn materially and adversely affected our business, results of operations and financial condition. For example, we experienced a temporary decrease in the case shipments to approximately 10,900 in the three months ended March 31, 2020, as compared to approximately 24,100 in the three months ended March 31, 2019.

We expect that our business will not be severely disrupted in the long run for the following reasons. First, COVID-19 has been largely contained in China, where we primarily conduct our business. The Chinese government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal nationwide during the second quarter of 2020. As a result, the demand and supply of dental services including orthodontic treatment has gradually recovered. Second, we believe that there is long-term, inelastic demand for orthodontic treatment solutions despite the COVID-19 outbreak, which only imposes a temporary barrier to receiving treatment. Moreover, compared with traditional orthodontic treatment, clear aligners have the advantages of reduced subsequent visits and improved oral hygiene, which are valuable to users especially during pandemics. As a result, dental professionals and their potential patients may develop a better understanding of our benefits and prefer our solutions over traditional ones. Third, the orthodontic demand will recover as economic activities return to normal nationwide. We experienced a bounce-back in case shipments from approximately 10,900 in the three months ended March 31, 2020 to approximately 36,400 in the three months ended June 30, 2020, compared with approximately 24,900 in the three months ended June 30, 2019. Our case shipments further increased to approximately 54,500 in the three months ended September 30, 2020, compared with approximately 42,400 in the three months ended September 30, 2019. As of the Latest Practicable Date, we had not incurred any major capital expenditure due to the negative impact of COVID-19 outbreak.

Impact on Our Operations

All of our offices and manufacturing facilities have resumed operation since February 17, 2020 in accordance with the local government policies. As of the Latest Practicable Date, we had not experienced any significant delay in the delivery of our clear aligners to users.

We have implemented a series of measures to ensure the research and development progress of our key technologies and products, including (1) reassessing and optimizing our research and development resources allocated to different projects, (2) adjusting the schedule of certain projects, and (3) prioritizing projects that reduces manual labor, such as digitization and automation projects. As of the Latest Practicable Date, we had not experienced any material delay or impediment of our research and development.

Impact on Our Employees

In response to COVID-19, we have implemented an interim policy requiring our management members and employees to declare their recent travel history. Returnees from recent travels are require to work from home and should only return to office upon receiving further notice from us. We have adopted a flexible work arrangement, allowing our employees to work from home to the extent possible. As of the Latest Practicable Date, we were not aware of any suspected or confirmed case of COVID-19 among our staff.

We have been granted deduction in the contribution of social insurance premiums for our employees of approximately RMB8.6 million in the nine months ended September 30, 2020, according to relevant government relief policies during the COVID-19 outbreak.

Impact on Our Supply Chain

Our suppliers primarily include suppliers of clear aligner raw materials, vendors of our manufacturing equipment, logistics service providers, and marketing service and event planning service providers. Historically, we engaged international suppliers for certain of our raw materials, such as composite polymer materials (in splint/sheet form). Although the operations of international suppliers and the international freight have been affected by the COVID-19 outbreak, we have not experienced any material negative impact on our supply chain as of the Latest Practicable Date, primarily because we (1) assembled an internal monitoring group that actively evaluate the market supply and demand of our raw materials and our inventory level, (2) maintained a timely and responsive communication mechanism with our international suppliers, (3) made projections based on available information and requested delivery in advance, and (4) adopted ocean shipping in addition to air freight to maintain adequate safety stock. As of the Latest Practicable Date, we had not experienced any major supply chain disruption.

Our Precautionary Measures

We adopted several precautionary measures to maintain a hygienic working environment and ensure the safety of our orthodontic solutions, such as adopting COVID-19 disinfecting techniques for our clear aligners products, distributing masks for employees and implementing internal reporting system.

However, we cannot be entirely certain as to when the COVID-19 pandemic will be fully contained, and its impact will be completely alleviated. Any prolonged outbreak may adversely affect our business and financial performance. There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and the recent regional resurgence of COVID-19 cases in certain areas in China. Should there be an escalation of the spread, China may again take strict emergency measures to combat the spread of the virus, including travel restrictions, mandatory cessations of business operations including dental hospitals and clinics, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions, which may impact our business. As a result, the extent of the disruption to our business and the related impact on our financial results and outlook cannot be reasonably estimated at this time. We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any potential impact on our business, results of operations and financial condition. See "Risk Factors — Risks Relating to Our Business and Industry — Our business and operations have been and may continue to be materially and adversely affect by the COVID-19 pandemic."

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, as of the date of this document, other than the continued impact of the outbreak of COVID-19 as described above, there has been no material adverse change in our financial and trading positions or prospects since September 30, 2020, being the date on which our latest audited combined financial statements were prepared, and there is no event since September 30, 2020 which would materially affect the information in the Accountant's Report set out in Appendix I to this document.

UNAUDITED [REDACTED] FINANCIAL INFORMATION

The following unaudited [**REDACTED**] statement of adjusted combined net tangible assets has been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of [**REDACTED**] Financial Information for inclusion in Investment Circulars" issued by the HKICPA for illustrative purposes only, and is set out here to illustrate the effect of the [**REDACTED**] on our combined tangible assets as of September 30, 2020 as if it had taken place on that date.

Our unaudited [**REDACTED**] adjusted combined net tangible assets have been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the [**REDACTED**] been completed as of September 30, 2020 or any future date. It is prepared based on our combined net tangible assets as of September 30, 2020 as set out in the Accountant's Report in Appendix I to this document, and adjusted as described below.

	Audited combined net tangible assets attributable to owners of our Company as at September 30, 2020(1)	Estimated [REDACTED] from the [REDACTED](2)	Unaudited [REDACTED] adjusted combined net tangible assets attributable to owners of our Company as at September 30, 2020(5)	Unaudited [REDACTED] adjusted combined net tangible assets attributable to owners of our Company as at September 30, 2020 per Share(3)(5)	
	(RMB in thousands)			RMB	HK$(4)
Based on the [**REDACTED**] of HK$[**REDACTED**] per Share	432,105	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on the [**REDACTED**] of HK$[**REDACTED**] per Share	432,105	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

(1) The combined net tangible assets attributable to owners of our Company as of September 30, 2020 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited combined net assets of our Group attributable to the owners of our Company as of September 30, 2020 of approximately RMB438.7 million and deducting our intangible assets attributable to the owners of our Company of approximately RMB6.6 million as of September 30, 2020.

(2) The estimated [**REDACTED**] from the [**REDACTED**] are based on [**REDACTED**] new Shares to be issued at the indicative [**REDACTED**] of HK$[**REDACTED**] and HK$[**REDACTED**] per [**REDACTED**], being the lower end to higher end of the stated [**REDACTED**] range (after deducting the [**REDACTED**] fees and other estimated expenses which excluded [**REDACTED**] expenses which have been accounted for the years ended December 31, 2018 and 2019 and nine months ended September 30, 2020). The estimated [**REDACTED**] from the [**REDACTED**] are converted from Hong Kong dollars into RMB at an exchange rate of HK$1.0 to RMB0.8346 prevailing on the Latest Practicable Date.

(3) The unaudited [**REDACTED**] adjusted combined net tangible assets per Share is calculated based on [**REDACTED**] Shares in issue immediately following the completion of the [**REDACTED**], which does not include the 1,002,300 Shares (after the Share Subdivision, and representing 10,032 shares issued to an pre-[**REDACTED**] investor in December 2020) and does not take into account of any Shares which may be issued upon the exercise of the [**REDACTED**] or any options granted under the Share Award Schemes.

(4) The unaudited [**REDACTED**] adjusted combined net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK$1.0 to RMB0.8346 prevailing on the Latest Practicable Date.

(5) No adjustment has been made to the unaudited [**REDACTED**] adjusted combined net tangible assets to reflect any of trading results or other transactions we entered into subsequent to September 30, 2020, including the dividend of RMB43.0 million declared by Wuxi EA to its then shareholders on November 10, 2020 and the issuance of 10,023 Shares to an pre-[**REDACTED**] investor in December 2020.