OUR MISSION

Our mission is to bring people confident smiles with technologies.

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

OVERVIEW

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

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

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

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

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

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

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

COMPETITIVE STRENGTHS

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

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

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

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

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

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

Comprehensive product portfolio addressing diverse user needs

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

- *Angelalign*. As our classic clear aligner product, *Angelalign* can be used for a wide range of malocclusions with moderate pricing. We distinguish *Angelalign* from competing products provided by other market participants with constant improvement. For example, we are upgrading *Angelalign* with our newly launched *masterControl S*, which is developed based on extensive biomechanics studies and stomatology profiles of Chinese population.

- *Angelalign Pro*. As our premium clear aligner and the first multimode clear aligner in the world, according to the CIC Report, *Angelalign Pro*, in its latest version, features two pairs of aligners made of our *masterControl* and *masterControl S* with complementary mechanical properties to achieve different movement progress at different stages during the treatment. As a result, *Angelalign Pro* will be able to address more complex cases, and at the same time, shorten the length of the treatment cycle by approximately 30% without compromising treatment accuracy.

- *Angelalign Kid.* We expanded into children's clear aligner treatment market with *Angelalign Kid*, China's first comprehensive clear aligner treatment solution designed for children aged between six and 12, according to the CIC Report. *Angelalign Kid* represents a shift in approach from *ex post* treatment towards early intervention. By combining the clear aligners, the bucc-labial shield and the functional fitness exercises for muscles alternately in line with the progress of children's tooth growth and muscle and jaw bone development, it provides children with a better oral environment for the growth and development of their permanent teeth, facial muscles and jawbones.

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

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

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

Premium medical and technological services

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

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

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

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

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

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

- *masterForce*. We developed *masterForce*, a full-factorial force simulation system for orthodontics, with cutting-edge computer-aided engineering technologies to gain constructive insight into the exact biomechanical mechanisms involved in the orthodontic treatment.

- *masterControl*. Based on our in-depth study of the biomechanical mechanisms through *masterForce*, we developed *masterControl*, a sophisticated clear aligner material system. It allows us to develop advanced clear aligner material that delivers gentle and consistent forces ideal for tooth movement in orthodontic treatment, while being more resistant to plastic deformation and having better elastic recovery properties. Based on the system, we recently launched *masterControl S*, the next-generation clear aligner material that features self-adaptivity, memorability, superelasticity, tear resistance, stain resistance and improved invisibility.

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

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

We have devoted significant resources to our R&D initiatives. As of December 31, 2020, we had a dedicated research and development team of 123 members, representing 9.4% of our total employees. In 2018, 2019 and 2020, our research and development expenses were RMB50.2 million, RMB80.9 million and RMB93.5 million, respectively, representing 10.3%, 12.5% and 11.4% of our revenue in the same periods, respectively. As of the Latest Practicable Date, we owned 92 patents and 16 software copyrights registered in China. We have initiated *A+ Plan* since 2015, through which we partner with China's most renowned higher education institutions, stomatology hospitals, medical schools and other research institutions to boost innovations of clear aligner treatment through R&D initiatives in clinical stomatology, biomechanics, materials science, intelligent manufacturing technologies, and computer science. For example, in December 2020, we established the ZJU-Angelalign Joint Research & Development Center for Intelligent Healthcare (浙江大學-時代天使智慧醫療聯合研究中心) with Zhejiang University (浙江大學) for digital orthodontics and the application of artificial intelligence technologies in the dental and oral area. In October 2020, we established a joint innovation center in collaboration with Jiangsu Industrial Technology Research Institute (江蘇省產業技術研究院) focusing on manufacturing technologies and materials science innovations. We also established a Translation Medicine Research Platform on Oral Biomechanics and Artificial Intelligence with Ninth People's Hospital, Shanghai Jiaotong University School of Medicine (上海交通大學醫學院附屬第九人民醫院) in September 2020 to further explore the fundamental mechanisms of biomechanics in tooth movement, leveraging big data and artificial intelligence technologies. In addition, we have established a digital orthodontics treatment and training center in collaboration with Sichuan University Huaxi Stomatology Hospital (四川大學華西口腔醫院) in Chengdu, and a digital orthodontics testing center in collaboration with Nanjing Stomatology Hospital (南京口腔醫院) in Nanjing.

Strong brand recognition and profound academic influence

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

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

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

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

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

Solid intelligent manufacturing capabilities with stringent quality assurance system

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

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

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

Visionary and seasoned management team with strong shareholder support

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

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

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

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

GROWTH STRATEGIES

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

Strengthen R&D capabilities and continue orthodontic solution innovations

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

- *Utilize cutting-edge theories and technologies*. We will continue to seek breakthroughs of our technology systems with the most advanced theories. By utilizing cutting-edge theories and technologies, we aim to develop innovative clear aligner treatment solutions and enhance features of our existing ones to expand the addressable indications of our clear aligner system and enlarge the patient base for dental professionals. For example, we will explore multidisciplinary orthodontic solutions together with experts from other branches of dentistry, thereby enhancing our ability to address highly complicated malocclusion cases. We will also closely follow the global theoretical development of clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies, to strengthen our medical, technological and production capabilities.

- *Implement an R&D talent strategy.* We regard the success of our employees as the source and the foundation for our sustainable and healthy development. We plan to continue to grow our R&D talent reserve by attracting additional qualified R&D personnel with solid educational backgrounds and extensive industry experience. We have adopted and will continue to explore incentive mechanisms to encourage service inventions by our R&D personnel. We will also continue to provide our R&D personnel with ongoing training to help improve their technical skills and support their professional development.

- *Strengthen domestic and international collaborations*. We plan to continue to strengthen our collaboration with various Chinese and international higher education institutions, stomatology hospitals, medical schools and other research institutions to improve and refine our clear aligner system more efficiently. For example, we intend to dedicate significant resources in our *A+ Plan* to further support multidisciplinary R&D initiatives and boost innovation of treatment solutions.

Further intelligentize and digitalize our systems to improve operational efficiency

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

Optimize medical services to enhance user experience

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

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

Increase production capacity and improve production efficiency

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

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

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

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

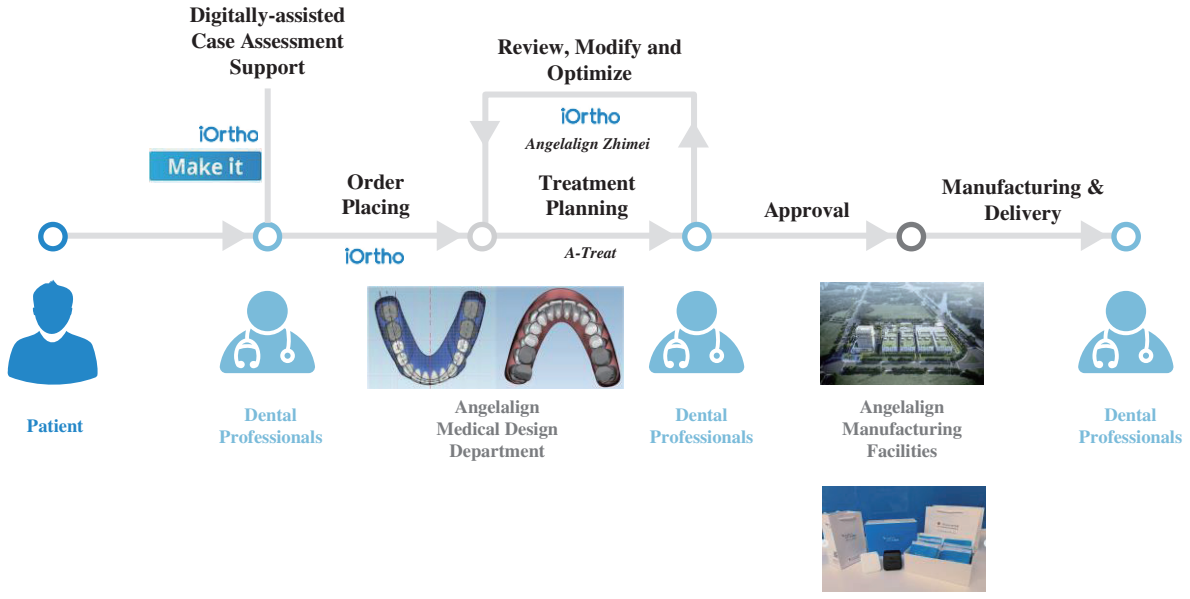
We intend to continue to focus on marketing efforts that directly reach dental professionals through training programs, workshops, forums and seminars. For example, we plan to strengthen our cooperation with the UCLA Dental Research Service Center in providing more orthodontic certification training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

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

OUR VALUE CHAIN AND VALUE PROPOSITIONS

Value Chain

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



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

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

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

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

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

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

Value Propositions to Dental Professionals

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

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

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

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

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

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

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

Value Propositions to Patients

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

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

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

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

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

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

OUR ANGELALIGN CLEAR ALIGNER SYSTEM

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

- ***Digitally-assisted case assessment support and treatment planning services.*** We provide dental professionals, including orthodontists and GP dentists, with digitally-assisted case assessment support and treatment planning services. We have built our own stomatology team to help dental professionals design, review and modify treatment plans.

- ***Clear aligners.*** Our clear aligners are designed and tailor-made according to specific treatment plans for individual patients. We currently design and manufacture four lines of clear aligners, namely *Angelalign*, *Angelalign Pro*, *Angelalign Kid* and *COMFOS*. By applying calculated forces to teeth and moving them into an optimal position, our clear aligners help treat malocclusion with more comfort and reduced treatment time and clinic visits.

- ***Cloud-based service platform.*** Our *iOrtho*, a cloud-based service platform, allows dental professionals to perform multiple tasks in the entire treatment process, including (1) placing orders with us; (2) reviewing, modifying and finalizing their treatment plans online with the help from our medical designers, and (3) reviewing, editing and managing medical records of their patients.

Digitally-assisted Case Assessment Support and Treatment Planning Services

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

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

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

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

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

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

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

Our Clear Aligners

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

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

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

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

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

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

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

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

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

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

Angelalign

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

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

Angelalign Pro

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

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

Angelalign Kid

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

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

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

COMFOS

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

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

Other appliances and attachments

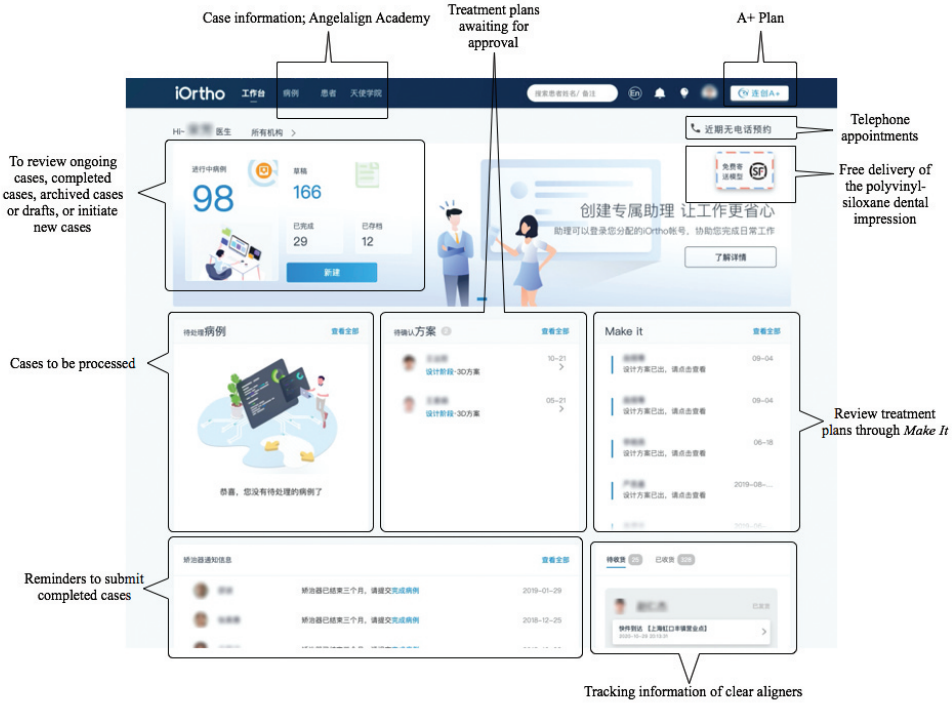
In addition to clear aligners, we have developed a series of appliances and attachments that can be added on to our various clear aligners to achieve optimal treatment results. For example, we developed *angelButton*, a traction product, which can be placed at any position on aligners and, therefore,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

iOrtho

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

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

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



OUR TECHNOLOGY AND DATA PLATFORMS

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

masterForce

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

masterControl

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

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

masterEngine

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

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

RESEARCH AND DEVELOPMENT

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

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

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

Our R&D Team

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

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

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

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

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

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

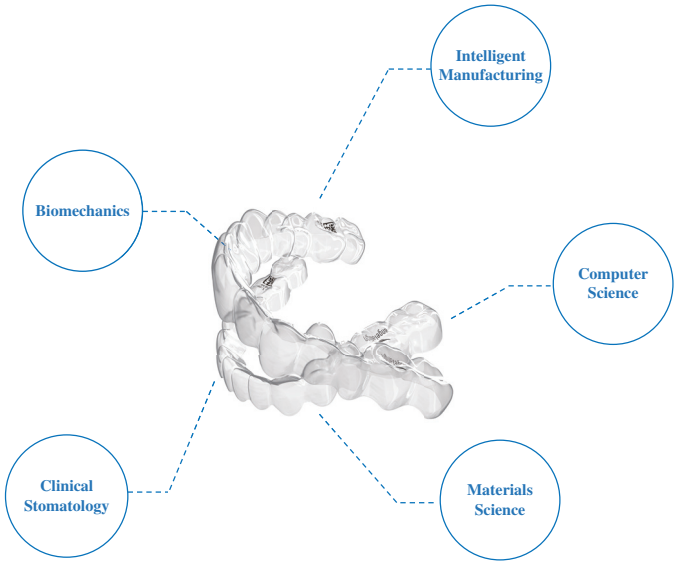
(2) Include two postdoctoral researchers.

Our R&D Collaborations

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

Our R&D Initiatives

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



Clinical stomatology

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

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

Biomechanics

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

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

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

Materials science

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

Computer science

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

Intelligent manufacturing technologies

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

OUR INTELLIGENT MANUFACTURING

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

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

Our Mass Customization Process

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

On the one hand, each aligner is custom-built, and must be precisely calibrated and manufactured to fit each patient's teeth positions at each stage of the corresponding treatment plan. On the other hand, we must achieve mass production to lower our costs and increase scale of operations. Enabled by technologies including 3D printing and automated production line, we have introduced the "mass customization" model to mass-produce custom-tailored clear aligners. Our "mass customization" process is generally divided into four main stages, including (1) 3D printing of teeth molds depicting the future position of the patient's teeth based on the approved treatment plan, (2) aligner fabrication by pressure-forming polymeric sheets over each teeth mold, (3) trimming, polishing and quality check of the clear aligners, and (4) sorting and packing of all finished aligners based on the designated identification codes in our automatic sorting system. Subsequently, all sets of aligners of each individual patient will be packed together and shipped to the prescribing dental professional of such patient.

Manufacturing Facilities

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

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

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

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

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

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

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

3D printing

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

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

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

Automated production line

Historically, we manufactured all our clear aligners manually. In 2017, we built our first automated production line in Wuxi manufacturing facilities, which commenced commercial production in 2018. Equipped with our advanced computer-aided technologies, the automated production line can minimize human error in the manufacturing process to the largest extent and double our production efficiency. As of December 31, 2020, we manufactured our clear aligners primarily through our automated production line. Going forward, we expect to maintain our manual production capabilities to fabricate clear aligners for extremely complicated cases and for purposes of our research and development efforts and clinical studies.

Manufacturing execution system

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

Expansion Plan

As the second largest in the world, China's overall clear aligner market, in terms of retail sales revenue, is expected to increase from US$1.5 billion in 2020 to US$11.9 billion in 2030 at a CAGR of 23.1%, according to the CIC Report. Moreover, we believe that the enormous yet underpenetrated market will present great upside potential. In anticipation of such increase in demand, we plan to further enhance our "mass customization" production capacity by expanding our manufacturing facilities and increasing the degree of manufacturing automation and efficiency at our existing and new sites.

We own the land use right to one parcel of land located in Wuxi city with a site area of approximately 68,883 square meters. As advised by our PRC legal advisors, we have obtained the land use certificate for such parcel of land and legally owned the land use right, which will expire in February 2069. We are in the process of constructing our Chuangmei Center on the parcel, which comprises new manufacturing facilities and a research and development center with a gross floor area of approximately 126,000 square meters. The new manufacturing facilities in our Chuangmei Center, once fully commissioned, are expected to have an annual designed production capacity of approximately 100 million units of clear aligners by 2026. We expect to commence production in our Chuangmei Center with the first few established automated production lines by the end of 2021 after we obtain relevant permits, certificates and approvals, such as a certificate for passing construction completion inspections and a medical device production permit.

We expect to incur total investment of approximately [**REDACTED**] for the construction of Chuangmei Center, which will be primarily funded by [**REDACTED**] from the [**REDACTED**], and to a lesser extent, by our cash reserves and operating cash flow in the future. See "Future Plans and Use of [**REDACTED**]." The following table sets forth certain details of our expansion plans.

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

(1) Represents the completion date for the construction of the new plant and deployment of six automated production lines. See "Future Plans and Use of [**REDACTED**]" for details.

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

QUALITY CONTROL

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

As of December 31, 2020, we had a quality control team of 37 members. Our quality control team is responsible for formulating and implementing our quality control policies, and conducting inspections of raw materials, production processes and finished products to identify quality defects. We have strictly followed the ISO 13485 quality management system for medical devices.

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

OTHER SERVICES

To improve the accessibility of our medical services for dental professionals, we maintained a few dental clinics as our demonstration centers where dental professionals can receive regular in-the-field training in application of our clear aligner treatment solutions and access to our medical services offline to level up the user experience. With the demonstration centers, we can also educate the potential patients on how our clear aligner works, such as showing them a scan-driven simulation of how they might look with straighter teeth. As of the Latest Practicable Date, we maintained one self-operated dental clinic in Shanghai and one dental clinic in joint venture in Guangzhou as our two demonstration centers.

We engage qualified dentists to provide orthodontics and cosmetic dentistry services and other dental services to patients in the dental clinics, and charge them service fees. During the Track Record Period, we generated revenue of RMB23.5 million, RMB17.8 million and RMB17.5 million from other services in 2018, 2019 and 2020, respectively, representing 4.8%, 2.8% and 2.1% of our total revenue in the same periods, respectively. See "Financial Information" for more information.

The following table sets forth the number of our self-operated and joint venture dental clinics during the Track Record Period.

	Year ended December 31,		
	2018	2019	2020
Shanghai Tianzhi[(1)]	self-operated	self-operated	self-operated
Guangzhou Shengshi[(2)]	—	joint venture	joint venture
Shanghai Junxiao[(3)]	self-operated	joint venture	joint venture

(1) We operated Shanghai Tianzhi primarily as our demonstration center in Shanghai. As of the date of this document, our shareholding in Shanghai Tianzhi is 70%, while the remaining 30% is held by a PRC independent third party.

(2) We acquired 40% interest in Guangzhou Shengshi in 2019, as we considered it suitable for serving as our demonstration center in Guangzhou. Our interest in Guangzhou Shengshi has been recorded in investment accounted for using the equity method.

(3) We relinquished control over Shanghai Junxiao in January 1, 2019, primarily because we considered that Shanghai Junxiao was not suitable for a demonstration center due to its size and locality, and that the coverage of Shanghai Tianzhi, which already served as a demonstrative center, was sufficient in the area. Shanghai Junxiao has subsequently become a joint venture of our Group since January 1, 2019, and our remaining interest in Shanghai Junxiao has been recorded in investment accounted for using the equity method. As of the date of this document, Shanghai Junxiao is owned as to 70% by us, and 30% by a PRC independent third party.

Save as disclosed above, we did not open or close any other dental clinics during the Track Record Period. As advised by our PRC legal advisors, the abovementioned dental clinics are considered as medical institutions and subject to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020 Edition) (外商投資準入特別管理措施(負面清單) (2020年版)) (the "Catalogue"). According to the Catalogue, medical institutions shall not be wholly-owned by foreign investors. In addition, according to the Interim Measures for the Administration of Sino-foreign Equity Joint and Cooperative Joint Medical Institutions (中外合資、合作醫療機構管理暫行辦法) (the "Interim Administrative Measures"), which became effective in July 2000, the shareholding in medical institutions by foreign investors shall not exceed 70%. Our PRC legal advisors are of the view that foreign investor shareholding in these dental clinics has not exceeded 70% and, therefore, complies with the Catalogue and the Interim Administrative Measures. Our PRC legal advisors further advise that during the Track Record Period and up to the Latest Practicable Date, our operation of these dental clinics complied with relevant laws and regulations in all material respects.

OUR CUSTOMERS

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

Revenue generated from our top five customers accounted for 11.7%, 13.5% and 13.3% of our total revenue in 2018, 2019 and 2020, respectively, and revenue generated from our largest customer accounted for 4.1%, 3.8% and 3.3% of our total revenue in the same periods, respectively. The following table sets forth certain information of our top five customers during the Track Record Period.

Customer	Transaction amount	Percentage of total revenue	Approximate length of relationship as of the Latest Practicable Date	Principal business
	(RMB in millions)	(%)	(Years)	
For the year ended December 31, 2020				
Company A[(1)]	26.6	3.3	four	distribution of medical devices
Company B[(2)]	23.1	2.8	four	distribution of medical devices
Company C[(3)]	22.9	2.8	four	aesthetic medicine services
Company D[(4)]	17.9	2.2	three	dental care services
Company E[(5)]	17.8	2.2	four	distribution of medical devices
Total	108.3	13.3	—	—
For the year ended December 31, 2019				
Company C[(3)]	24.9	3.8	four	aesthetic medicine services
Company A[(1)]	19.2	3.0	four	distribution of medical devices
Company B[(2)]	15.2	2.4	four	distribution of medical devices
Company D[(4)]	14.4	2.2	three	dental care services
Company F[(6)]	13.5	2.1	five	dental care services
Total	87.2	13.5	—	—
For the year ended December 31, 2018				
Company C[(3)]	19.8	4.1	four	aesthetic medicine services
Company F[(6)]	14.3	2.9	five	dental care services
Company D[(4)]	7.8	1.6	three	dental care services
Company G[(7)]	7.8	1.6	four	dental care services
Company B[(2)]	7.3	1.5	four	distribution of medical devices
Total	57.0	11.7	—	—

(1) Company A, founded in 1998, is primarily engaged in the sale and distribution of oral devices. As the authorized distributor of several oral and dental medical device brands, including us, it primarily operates in Sichuan province, Chongqing, Tibet Autonomous Region and Guizhou province.

(2) Company B, founded in 2017, is primarily engaged in the sale and distribution of Class I and Class II medical devices, as well as sale of computer hardware and software. It also provides technical consultation services relating to medical devices, software development and design services, and 3D design services.

(3) Company C is an aesthetic medicine group with a network of more than 40 aesthetic medicine clinics in China. During the Track Record Period, we conducted business with a number of subsidiaries of Company C.

(4) Company D is an oral health conglomerate in China whose business encompasses the establishment of dental clinics, investment in the oral health industry and training of dental professionals. During the Track Record Period, we conducted business with a number of subsidiaries of Company D.

(5) Company E refers to Zhengzhou Smile Songbai Industrial Co., Ltd., an entity controlled by our Controlling Shareholder. It is primarily engaged in the sale and distribution of medical devices in Henan province. During the Track Record Period, we conducted business with Company E and its subsidiary.

(6) Company F, founded in 1993, is a dental medical group with a nationwide network of more than 200 dental clinics and specializes in the provision of premium dental health services. During the Track Record Period, we conducted business with a number of subsidiaries of Company F.

(7) Company G is primarily engaged in the provision of high-end dental services. It operates a network of more than 20 dental clinics in Jiangsu province, Zhejiang province, Shanghai and Fujian province. During the Track Record Period, we conducted business with a number of subsidiaries of Company G.

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

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

OUR SUPPLIERS

Our suppliers primarily include suppliers of clear aligner raw materials, vendors of our manufacturing equipment and consumables, logistics service providers, and marketing service and event planning service providers. We select our suppliers based on the quality and prices of their supplies and our business needs. Purchase from our top five suppliers accounted for 70.9%, 79.0% and 74.2% of our total purchases of such products and services in 2018, 2019 and 2020, respectively, and purchase from our largest supplier accounted for 32.6%, 35.4% and 35.4% of our total purchases in the same periods, respectively. We have generally maintained stable and long-term relationships with our suppliers, including our major raw material suppliers. We have identified readily available alternative suppliers that can offer services and products, in particular raw materials, at comparable terms, price and quality, in case of any material disruption of the supply of our current major suppliers. As such, we believe that we will be able to procure products and services we require from alternative suppliers without any significant difficulty. Based on the above, our Directors are of the view that we are capable of sustaining our business in the future in the unlikely event that the business relationship between us and our major suppliers are interrupted or terminated for any reasons.

The following table sets forth certain information of our top five suppliers during the Track Record Period.

Supplier	Transaction amount	Percentage of total cost of procurement	Approximate length of relationship as of the Latest Practicable Date	Major products/services purchased by us
	(RMB in millions)	(%)	(Years)	
For the year ended December 31, 2020				
Supplier A	60.5	35.4	four	manufacturing raw materials
Supplier B	42.4	24.8	four	3D printers and manufacturing consumables
Supplier C	14.0	8.2	nine	logistics services
Supplier D	5.3	3.1	three	event planning services
Supplier E	4.7	2.7	two	marketing services
Total	126.9	74.2	—	—

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

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

Raw Materials

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

- *Term and renewal.* The procurement agreements generally remain in force until they are terminated or replaced by new arrangements.

- *Purchase amount.* The procurement agreements may stipulate a minimum purchase amount in some cases.

- *Pricing arrangements.* We generally stipulate a fixed price for each unit of raw materials we purchase in the framework procurement agreements, in particular with our major suppliers, and therefore, effectively manage our costs against the market price inflation of the relevant raw materials. The agreements may allow us to negotiate price adjustment under certain circumstances.

- *Payment method and credit period.* Payments generally will be made by us in a lump-sum or installments via bank transfer. We are generally allowed to have a credit period ranging from 30 to 60 days.

- *Raw materials return/exchange*. We examine raw materials when we receive them and may return any raw materials that do not meet our requirements within a specified period.

- *Raw materials quality*. Suppliers are subject to standard quality control terms specified or referenced to in the agreement.

- *Exclusivity*. We may require certain suppliers not to sell the relevant raw materials to third parties in the territory and within the time period prescribed in the agreement.

- *Confidentiality*. Both parties shall keep confidential of the information acquired in the performance of the procurement agreement.

- *Termination.* The procurement agreements can be terminated without cause upon written consent from both parties. Either party can also terminate the agreement upon material breach by the other party.

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

3D Printers

During the Track Record Period, we leased 3D printers and purchased relevant manufacturing consumables from Supplier B, with whom we entered into a mutual exclusive strategic cooperation framework agreement. Founded in 2005, Supplier B specializes in the development, production, sales and service of 3D printers.

In selecting our 3D printer suppliers, we have conducted industry search, consulted with various suppliers and inspected their products and techniques. After we conducted thorough evaluation of available suppliers in the market, we entered into a mutual exclusive strategic cooperation framework agreement with Supplier B during the Track Record Period by virtue of the quality of its products and services. We typically set the unit leasing cost of 3D printers, as measured by the number of teeth molds printed by such 3D printers, in the purchase agreement we entered into with Supplier B under the strategic framework agreement.

During the Track Record Period, to the best knowledge of our Directors, Supplier B had no other past or present relationship (including, without limitation, business, family, trust, financing, fund flow or otherwise) with our Company, our subsidiaries, shareholders, directors, senior management or any of their respective associates.

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

Inventory Control

As we manufacture customized aligners on a build-to-order basis, we do not build or maintain a significant inventory of finished products. Finished aligners enter the warehouse before they are shipped to customers. We count the finished products in the warehouse on a daily basis and record each entry and delivery of finished products. As a result, our inventories primarily include raw materials, and to a much lesser extent, work in progress and finished goods that have not been delivered yet. As of December 31, 2018, 2019 and 2020, we had inventories of RMB21.7 million, RMB22.8 million and RMB19.9 million, respectively. We maintain our inventories of raw materials primarily according to the projected demand from our customers and distributors and the estimated production time of our products. We typically maintain an inventory level of one month to meet the procurement needs of our distributors and customers. See "Financial Information — Discussion of Major Balance Sheet Items — Inventories" for details.

SALES AND DISTRIBUTION

During the Track Record Period, we sold our services and products primarily in China, and to a much less extent, in certain other countries and regions, including Australia and other Asian regions, through a PRC distributor. We had approximately 0.4%, 0.4% and 0.5% of our total case shipments in overseas markets in 2018, 2019 and 2020, respectively, which was generated by a PRC distributor. We sell our services and products either directly to hospitals and clinics or to our distributors, who in turn resell to hospitals and clinics. As such, our customers consist of hospitals and clinics to which we sell directly and our distributors.

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

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

During the Track Record Period, the wholesale price to distributors was lower than the direct selling prices to public hospitals and private clinics, primarily because we have granted distributors a wholesale price at a discount compared to the direct selling price based on various factors, including the distributors' distribution territory, channel resources, business volume and bargaining power. See "— Sales to Distributors."

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

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

Profitability Analysis by Sales Channel

Our business operations are not organized in a way that all costs are identifiable and separable between sales through our direct sales force and distributors. Our cost of revenue with respect to clear aligner treatment solutions consists of (1) cost of the provision of treatment planning services, and (2) cost of the manufacture of clear aligners. Such costs are incurred at our group level and not closely associated with any specific sales channel; therefore, they would not differ significantly between direct sales and sales to distributors. For example, our medical designers, who assist dental professionals in treatment planning, as well as our treatment planning software, are not assigned exclusively to address cases generated from direct sales or sales to distributors. Similarly, our production lines and other manufacturing equipment do not exclusively manufacture clear aligners for cases generated from direct sales or sales to distributors. As a result, it is impracticable to fairly and accurately delineate our cost of revenue relating to clear aligner treatment solutions by sales channel. Accordingly, we cannot separately track the profitability of our clear aligner treatment solutions by sales channel; rather, we adopt a holistic approach to optimize our cost of revenue and increase our overall profitability.

We grant different discount rates to our distributors by taking into account various factors, including distribution territory, channel resources, business volume, bargaining power, and our promotion plans, in order to balance their contribution to our business expansion and growth and their impacts on our gross profit margin. We believe that we have maintained a sustainable and gradually increasing gross profit margin of our clear aligner treatment solutions during the Track Record Period, which was 65.4%, 65.5% and 71.3% in 2018, 2019 and 2020, respectively.

For illustrative purpose, the following table sets forth a weighted average discount rate that we granted to our distributors during the Track Record Period, which is calculated based on the average selling price for sales to distributors and the weighted average selling price for direct sales to public hospitals and private clinics. The weighted average discount rate for sales to distributors was relatively high in 2019, primarily because we incentivized distributors to promote *COMFOS* following the launch of such product line. In 2020, we adjusted back the discount rate level as we have established relatively solid market acceptance of *COMFOS*.

	For the year ended December 31,		
	2018	2019	2020
Weighted average discount rate for sales to distributors	13.0%	23.7%	13.0%

Direct Sales

We directly sell a substantial portion of our services and products to hospitals and dental clinics through our wholly-owned subsidiary which holds the record-filling proof for operation of Class II medical devices (第二類醫療器械經營備案憑證). As of December 31, 2020, we had an in-house sales team of 230 members. We generally enter into a clear aligner customization agreement with hospitals and clinic customers, which typically includes the following major terms.

- *Term and renewal.* The agreement generally has a term ranging from one to two years. Agreements with private hospitals and clinics are generally extendable for six months before the expiry of the agreements.

- *Purchase amount.* The agreement generally does not stipulate a minimum purchase amount for each customer.

- *Pricing arrangements.* The agreement generally stipulates different prices for different cases depending on their complexity. Prices for additional services, such as delivery in advance and additional aligner manufacturing, are stipulated at a fixed rate. We generally do not grant rebates to direct sales customers.

- *Payment and delivery.* We require a lump sum payment from all direct sale customers with or without a credit period. For small- and medium-sized hospitals and clinics, we usually require such full-payout when they place an order. Upon receipt of the full payment, we commence the treatment planning services and start to manufacture the clear aligners once the treatment plan has been approved by the relevant dental professional. We usually deliver the first batch of clear aligners within one week after the approval of the relevant treatment plan. We may grant some direct sale customers, primarily credible public hospitals and private clinics, a credit period typically ranging from 30 to 60 days to make such full-payout, and in such cases, we will commence the treatment planning services and manufacture of clear aligners once they place an order. In the event of a late payment, we may terminate delivery of clear aligners, and the relevant customer may be subject to late charges. During the Track Record Period, we provided a longer credit period to credible public hospitals and select reputable, large-scale private clinics. Payments generally will be made by our direct sale customers on a patient-by-patient basis via bank transfer.

- *Termination*. The agreement can be terminated without cause upon written consent from both parties. Either party can also terminate the agreement upon material breach by the other party.

Sales to Distributors

In addition to direct sales, we have engaged distributors to increase sales and market share by leveraging their channel resources and, as a result, reduce our marketing cost. By doing so, we are able to scale our operations and replicate our success into unexplored regions, in particular certain lower-tier cities where we may not fully penetrate solely with our in-house sales team, quickly and cost-effectively with minimal incremental costs.

According to the CIC Report, it is customary in the medical device industry, including the dental medical device industry, to rely on or involve distributors for the sales to hospitals and clinics. The adoption of the distributor model can provide several crucial advantages to clear aligner treatment solution providers. Since the terminal clients for clear aligner treatment solution providers are generally medical institutions of various types and sizes, distributors can utilize resources to help them reach the fragmented target clients, which is especially beneficial to their expansion into unexplored regions. In addition, clear aligner treatment solution providers can save their in-house resources as they can retain a more dedicated team of in-house sales and marketing personnel with superior understanding of the solutions and the overall market while relying on distributors' network and understanding of regional markets. Distributors can also assist with customer retention for small and mid-sized clinics from fragmented markets as direct sales team may find difficult to engage. As such, we believe that it is in our best interest to supplement our direct sales with engagement of distributors, which allows us to (1) expand into unexplored regions, in particular certain lower-tier cities where we may not fully penetrate solely with our in-house sales team, in a cost-effectively manner, (2) enhance our cash collection, and (3) designate the pre-sale process and retention of hospitals and clinics to distributors, which can be costly and time-consuming, and focus on empowering dental professionals registered with the medical institutions acquired by our distributors.

Our relationship with our distributors is that of seller and buyer and not principal and agent. We have no ownership or management control over any of our distributors. Our distributors extend sales to public hospitals and private clinics which are not covered by our in-house sales team. During the Track Record Period and up to the Latest Practicable Date, none of the public hospitals and private clinics covered by distributors approached us for direct sales, primarily because (1) they may prefer procuring through distributors due to internal procedures or their long-lasting relationships with the relevant distributors, and (2) we will not provide hospitals and clinics with a lower selling price if they approach us for direct sales than the selling price provided by the relevant distributors. Once our distributors enter into a sales agreement with a public hospital or private clinic, they will submit the qualification information of such hospital or clinic to us for verification purpose. Once we have concluded our review and verification procedures, the dental professionals associated with such hospital or clinic will be able to submit treatment data through *iOrtho* and use our Angelalign clear aligner system as described in "— Our Value Chain and Value Propositions — Value Chain."

We recognize revenue generated from sales to distributors with the wholesale prices entered into with our distributors and in accordance with the same principles as direct sales as discussed in "Financial Information — Critical Accounting Policies, Judgments and Estimates — Revenue Recognition."

Under our distributor model, we typically set a fixed wholesale price in the distributorship agreements at a discount compared to the direct selling price based on various factors, including the distributors' distribution territory, channel resources, business volume and bargaining power.

During the Track Record Period, we established distributorship with (1) two distributors, each controlled by a former employee who did not hold a senior managerial position in our Group, and (2) four distributors controlled by certain affiliates of our Controlling Shareholder. The aggregate revenue contribution by the six distributors was 3.1%, 4.6% and 5.4% in 2018, 2019 and 2020, respectively. In particular, the aggregate revenue contribution by the two distributors controlled by former employees was 1.5%, 2.4% and 3.0% in 2018, 2019 and 2020, respectively. Employee A joined us in May 2006 and resigned as an operating director of Shanghai Tianzhi, a dental clinic in our Group, in December 2016 as he relocated from Shanghai to Anhui province for family reasons. We engaged Employee A as a distributor in January 2017, primarily because we were planning to enter into the local markets in Anhui province and the surrounding areas. Employee B joined us in July 2013 and resigned as a regional sales manager in September 2019 to start his own business. We engaged Employee B as a distributor in December 2019, primarily because based on his past performance, we considered that his experience and expertise would help us to further penetrate into the regional markets in Hunan province and the surrounding areas.

Our Directors confirm that the terms with these six distributors are no different than those entered into with other third-party distributors. See "— Distribution network" for details.

During the Track Record Period, to the best knowledge of our Directors, except for the six distributors as discussed above, none of our distributors had any past or present relationship (business, employment or otherwise) with our Company, our subsidiaries, shareholders, directors, senior management or any of their respective associates. During the Track Record Period, we did not provide any advance or financial assistance to our distributors. To the best knowledge of our Directors, there is no other relationship or arrangement (family, financing guarantee or otherwise in the past or present) between each of our distributors.

Selection criteria

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

Management of distributors

We proactively manage our distributors to ensure a healthy and orderly market condition, to maintain supervision and understanding of the sales performance of our distributors and demand of our services, and to protect our brand and reputation. We primarily rely on distribution agreements and supervision by our sales and marketing personnel to manage and control our distributors. We have adopted a series of measures to monitor the selling prices of distributors to avoid a disorderly market. For example, our distributors are contractually prohibited from selling competing clear aligners, and we authorize them to sell only certain designated product lines and within their designated geographic regions. In addition, we provide recommended retail price to our distributors, and our in-house sales and marketing personnel will oversee the retail price in the local markets. We may impose penalties such as termination of relevant distribution arrangements if they are not complying with the terms of distributor agreements. We also conduct periodic review of our distributors regarding their sales performance, the aging of their trade receivables, and their contribution and coordination with respect to marketing campaigns, sales channels development, and promotion of our training programs.

Distribution network

We have a growing nationwide distribution network. As of December 31, 2020, we deployed 69 distributors, covering 29 provinces, municipalities and autonomous regions in China. Our distributors include relative large-scale distributors of medical devices and pharmaceutical products with wide coverage in terms of hospitals and geographical regions. We also engage certain small and medium-sized distributors focused on providing ancillary services directly to hospitals in their target geographical regions. Our distributors are not allowed to engage sub-distributors without our explicit approval. During the Track Record Period, we barely involved sub-distributors. As such, we believe that the two-invoice system, which allows only a single level of distributor for the sale of medical devices from medical device manufacturers to public hospitals, has no material adverse effect on our business, results of operations and financial condition. The following table sets forth the changes in the number of our distributors for the periods indicated.

	Year ended December 31,		
	2018	2019	2020
Distributors at the end of the previous year[(1)]	18	37	55
Addition of new distributors[(2)]	23	24	23
Termination of distributors[(3)]	4	6	9
Distributors at the end of the year	37	55	69

(1) Represents the number of distributors who had an effective distribution agreement with us at the respective year end.

(2) Represents the number of distributors who newly entered into a distribution agreement with us in the relevant year.

(3) Represents the number of distributors with whom we did not renew, or terminated, the distribution agreements in the relevant year. During the Track Record Period, we primarily terminated the distributorship if the distributor concerned failed to achieve the sales commitment or settle the payables promptly and in full.

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

- *Term and renewal*. The agreement generally has a term of one year, and are renewable by mutual consent.

- *Designated distribution territories.* We designate certain distribution territory for each distributor. Distributors are prohibited from distributing and marketing outside their own distribution territory absent our prior approval. All distributors are granted exclusive distributorship with respect to certain designated product lines in their designated distribution territories.

- *Sales commitment.* The distribution agreement generally sets a sales commitment for each distributor, taking into consideration of the market potential of the designated territory and our expansion requirement. Distributors are entitled to rebates in proportion with their sales revenue after hitting the sales target as measured by case shipments. On the other hand, failure to fulfill their commitments gives us the right to cancel their distributorship. We set the benchmark for granting rebates based on our overall business goal and the specific circumstance of the distributors, and assess whether each distributor is entitled to rebates on both quarterly and annually basis. In 2018, 2019 and 2020, we granted rebates of RMB2.0 million, RMB4.8 million and RMB14.4 million to four, 45 and 66 distributors, respectively.

Our clear aligners are made to order based on each specific treatment plan and cannot be applied to another patient. As such, there is no accumulation of inventory at the level of distributors as we have no stock-in-trade. As a result, we believe that our exposure to the risk of channel stuffing is remote.

- *Pricing policies.* The distribution agreement generally stipulates a fixed price for different lines of products. We reserve the right to make price adjustment.

- *Delivery.* Unless otherwise stipulated, we deliver clear aligners to end users (i.e., dental professionals) directly and generally bear the delivery cost. We usually deliver the first batch of clear aligners within one week after the approval of the relevant treatment plan.

- *Non-compete*. Our distributors and their employees are refrained from dealing or cooperating with third parties that provide products or services similar with ours. Violation of the non-compete arrangements is a cause for termination and may subject the violating distributor to a fine.

- *Compliance*. Our distributors are responsible for conducting sales in accordance with the relevant laws and regulations, and may not use any payments or other means prohibited under PRC law to promote or sell our solutions.

- *Payment and credit terms*. We require a lump sum payment from all distributors. We generally grant distributors a credit period of 30 to 60 days. In the event of a late payment, we may terminate delivery of clear aligners, and the relevant distributors shall be held accountable for any loss incurred thereof. Payments generally will be made by our distributors via bank transfer on a monthly basis.

- *Product return/exchange*. We generally do not accept product returns or exchanges except for products with quality defects. See "— Customer Service."

- *Suspension and termination.* Under most distribution agreements, we are granted broad discretion regarding suspending or terminating distributorships with our distributions. For example, we may suspend the distributorship if the distributor fails to settle the payables promptly and in full, materially breaches the terms under the distribution agreement and fails to remediate such breach, or is subject to significant operational risk. In addition, we may terminate the distributorship if the distributor undergoes a change of control without prior notice to us, assigns the agreement in part or in full to a third party without our written consent, or suspends its business for an aggregation of more than one month without our written consent.

Customer Service

We strive to provide our customers with satisfactory customer services. As of December 31, 2020, we had a customer service team of 40 members.

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

Pricing Policy

We take into account a number of factors in determining our selling prices to customers, which primarily include our costs and expenses, different product lines, prices of competing products, our market share and the overall competitive landscape. In addition, we generally set a relatively higher direct selling price to public hospitals than that to private clinics, considering the relatively longer period for public hospitals to review, approve and settlement payments with us. See "Financial Information — Discussion of Major Balance Sheet Items — Trade and Other Receivables." We generally set a fixed selling price in our agreements with customers. During the Track Record Period, we were able to maintain stable selling prices for each product line.

SEASONALITY

We generally experience effects of seasonality primarily due to the consumption preferences of patients with a need for clear aligner treatment. We typically experienced the highest sales during the summer vacation. As clear aligner treatment involves consultation with dental professionals and regular check-ups along the treatment process, it can be easier for potential patients, especially children and teenage, to make time for starting this new routine during the summer vacation when schedules tend to be a bit more relaxed. We had our second highest sales during winter vacations before and after the Chinese New Year for similar reasons.

BRANDING AND MARKETING

A-Tech Forum

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

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

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

Other Branding and Marketing Activities

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

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

- *Academic events and publications.* In addition to our annual *A-Tech Forum*, we have organized over 3,000 regional symposia focusing on specific products and technologies since 2018. We also regularly attend national academic events, such as the International Orthodontic Conference and the Annual Meeting of the Chinese Orthodontic Society (國際正畸大會暨全國口腔正畸學術會議). Moreover, we have published a book on clear aligner treatment to further increase our academic influence.

- *Sponsorship*. In 2017, we entered into a cooperation agreement with the Bureau of Training of General Administration of Sport of China (國家體育總局訓練局), pursuant to which we were appointed as a sponsor to provide orthodontic solutions for national athletes, with our clear aligners being designated as the Approved Products for National Team Athletes.

- *Social network.* We use social network, such as Weixin, to promote the strengths of clear aligner treatment.

- *Demonstration centers.* As of the Latest Practicable Date, we had two demonstration centers in Shanghai and Guangzhou, through which we provide dental professionals with access to our medical services offline to level up user experience, as well as regular in-the-field training in application of our solutions. We can also educate the potential patients on how our clear aligner works, such as showing them a scan-driven simulation of how they might look with straighter teeth.

COMPETITION

We operate in a highly concentrated market characterized by rapid changes resulting from technological advances and scientific discoveries, and we expect competition in this market to persist and intensify. In addition, it is subject to overall changes in China's dental healthcare industry and medical device industry. According to the CIC Report, in 2020, the top two market players, including us, accounted for approximately 82.4% of China's clear aligner treatment solution market in terms of case shipments. We have faced and may continue to face competition mainly from international and domestic clear aligner treatment solution providers.

We believe our principal competitive advantages include:

- the scope and quality of our services and products;

- our brand recognition;

- the price-to-value factor;

- our research and development capabilities;

- our ability to continue to innovate and develop advanced technologies;
- our efficient operating model;
- our ability to attract and retain skilled personnel; and
- our ability to effectively market our products and services.

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

THIRD-PARTY PAYMENT ARRANGEMENTS

Background

During the Track Record Period, certain of our customers (the "Relevant Customer(s)") settled their payments with us through third-party payors (the "Third-party Payment Arrangement(s)"). In 2018, 2019 and the ten months ended October 31, 2020, the aggregate amount of third-party payments accounted for approximately 10.8%, 2.0% and 0.7% of the total payments we received from all customers, respectively. No individual Relevant Customer had made material contribution to our revenue during the Track Record Period. Since November 2020, we have ceased all Third-party Payment Arrangements.

During the Track Record Period and up to the date of the document, other than simply accepting the third-party payments paid by the third-party payors for the Relevant Customers, we have not proactively initiated any of the Third-party Payment Arrangements, nor have we participated in any separate arrangement between the Relevant Customers and their respective third-party payors for the settlement of the payments owed by the Relevant Customers to the third-party payors. Furthermore, during the Track Record Period and up to the date of this document, we have not provided any discount, commission, rebate or other benefit to any of the Relevant Customers or the third-party payors to facilitate or incentivize the Third-party Payment Arrangements.

During the Track Record Period and up to October 2020, third-party payors primarily consisted of (1) persons affiliated with the Relevant Customers, such as spouses and family members of the owners, finance managers, treasurers and other designated employees of the Relevant Customers, dental professionals registered with the Relevant Customers and co-owners of the Relevant Customers; and (2) four salespersons in 2018. Our Directors have confirmed that, except for certain salespersons, all the third-party payors are independent of our Group and each of our respective directors, senior management and shareholders. Our Directors further confirm that, the four salespersons who acted as third-party payors in 2018 made the relevant payment solely to facilitate the settlement of payments owed by the Relevant Customers to us, and none of them held a senior management position in our Group. To the best knowledge of our Directors, the aggregate third-party payments of RMB74,700 made through these four salespersons, which accounted for approximately 0.1% of the total third-party payments we received in 2018, had genuine underlying transactions. Furthermore, we issued the bills to the Relevant Customers directly with respect to the relevant transactions and payment amounts. As part of our enhanced internal controls over the third-party payment issue, we had substantially ceased accepting third-party payments made by our salespersons since December 2017. We have forbidden, and will continue to forbid, our salespersons from participating in the settlement of payments by our customers.

Reasons for Utilizing Third-party Payment Arrangements

The Relevant Customers during the Track Record Period primarily consisted of small-sized hospitals and private dental clinics. After conducting qualitative interviews and quantitative investigations regarding the payment arrangement of medical device procurement by small-sized private medical institutions, the CIC is of the view that it is a common commercial practice for small-sized hospitals and private dental clinics in China to settle all types of payments through third-party payors to their providers and vendors, such as payments for purchases of medical products and supplies as well as consultation services, primarily due to the following reasons:

(i) many small-sized private dental clinics operated their business in the form of sole proprietorship (個體工商戶), which is a type of organization that typically prefers not to open a separate business bank account but to settle payments through personal bank accounts of their respective family members due to the complexity of using corporate bank accounts;

(ii) many small-sized private dental clinics engage their family members as treasurers and finance managers, whose personal accounts usually are used by the clinics to settle their payments;

(iii) many small-sized hospitals and private dental clinics have pre-determined arrangements with third-party payors for settlement of their payments, such as using personal bank accounts of their employees or shareholders, for cost saving purposes; and

(iv) it is more efficient for most small-sized hospitals and private dental clinics to settle payments through personal accounts as the value of each transaction is relatively small.

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

Internal Control Measures and Cessation of Third-party Payment Arrangements

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

(i) we have required all customers to settle their payments directly through their own corporate bank accounts since December 2017;

(ii) for customers who were unable to directly settle payments with us immediately at the relevant time, we required that such customers (1) communicate relevant information to us, including, among others, the identity of the involved third-party payors; (2) obtain the prior written approval of our Chief Financial Officer; and (3) enter into a tri-party payment agreement (the "Tri-party Payment Agreement(s)") with us and the third-party payors based on our house form. Pursuant to the Tri-party Payment Agreement, the Relevant Customer delegates its payment obligation under the terms of the original agreement with us to the respective third-party payor (the "delegation"), which undertakes to pay directly to us under the same terms. We shall accept the payment from the third-party payor as if it were paid by the Relevant Customer and issue the invoice to either the Relevant Customer or the third-party payor. The delegation shall not discharge the payment obligation of the Relevant Customer, and we may demand payment from, and pursue legal action against, the Relevant Customer if the respective third-party payor fails to pay accordingly. The third-party payor is jointly liable for the payment obligation of the Relevant Customer. In 2018, 2019 and the ten months ended October 31, 2020, the amount of third-party payments received without an executed Tri-party Payment Agreement accounted for approximately 89.8%, 64.8% and 0.9% of the aggregate third-party payments we received during the corresponding periods;

(iii) before accepting any third-party payment, we verified the payment information against the information recorded within our register of receipt to ensure that such payment was settled through the relevant third-party payor's account as identified in the appropriate Tri-party Payment Agreement;

(iv) if a Tri-party Payment Agreement could not be entered immediately at the relevant time, we implemented additional stringent internal procedures to determine whether to retain or reject such third-party payments. Moreover, our finance department has issued, on a monthly basis, a client account statement for all third-party payments without Tri-party Payment Agreements to verify the payment amount accuracy and relevant treatment case numbers during the period; and

(v) we rejected all payments made by third-party payors that failed to satisfy the abovementioned requirements.

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

With the implementation of these measures, payments received from third-party payors, as a percentage of the total payments received from all customers, reduced significantly during the Track Record Period from approximately 10.8% in 2018 to approximately 0.7% in the ten months ended October 31, 2020. Since November 2020, we have completely ceased all Third-party Payment Arrangements.

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

Furthermore, to prevent the reoccurrence of the Third-party Payment Arrangements going forward, we have implemented enhanced internal control measures, including establishing a mechanism to monitor and return all coming payments through third-party payors. In addition, in our agreements with all newly acquired customers, we stipulate the payment account information of each customer with the assurance that such information is consistent with the business license of the relevant customer.

Our Directors are responsible for formulating and overseeing the implementation of our internal control measures and the effectiveness of our quality management system. In preparation for the [**REDACTED**], we have engaged an independent third-party consultant (the "Internal Control Consultant") to perform a review over selected areas of our internal controls over financial reporting in October 2020 (the "Internal Control Review"). The scope of the Internal Control Review performed by the Internal Control Consultant covered, among others, the Third-party Payment Arrangements. During the Internal Control Review undertaken for the [**REDACTED**] purpose, the Internal Control Consultant reviewed the above internal control measures in relation to Third-party Payment Arrangements adopted by us and did not identify any material deficiencies. See "— Internal Control and Risk Management — Internal Control" for details.

LICENSES, PERMITS AND APPROVALS

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

The following table sets out a list of material licenses, permits, and approvals relating to our operations.

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

We intend to apply for renewal of the above material licenses prior to their respective expiry dates. The successful renewal of our existing licenses, permits and certifications will be subject to our fulfilment of relevant requirements. As of the date of this document, our Directors are not aware of any reason that would cause or lead to the nonrenewal of such licenses, permits and certificates. Our PRC legal advisors confirmed that as of the Latest Practicable Date, there was no legal impediment for us to renew these licenses, permits and certificates as long as we comply with the relevant legal requirements.

INFORMATION TECHNOLOGY SYSTEMS

We have enacted our IT system management policy to enhance the reliability of our IT system and further improve consistency and collaboration of related work. Those rules cover computer hardware management, computer software management, account management, computer virus prevention, data privacy and backup, data change recording, password security and management, and server room management.

DATA PRIVACY AND SECURITY

During our ordinary course of business, we have access to an extensive volume of data of malocclusion cases and certain confidential information submitted by dental professionals, public hospitals and private clinics. We generally retain such personal information and data on our physical servers and in our cloud-based storage system operated by prominent third-party cloud service providers for the minimum time necessary for the purpose of their processing, ranging from years to permanent preservation, which, as advised by our PRC legal advisors, is in accordance with the applicable laws and regulations in all material respects. As stipulated in the relevant agreements and personal information protection and privacy policy, the relevant dental professionals, public hospitals, private clinics and patients retain the ownership of such information and data. The following table sets forth the type of information and data obtained and their scope of usage.

Category	Type of information	Scope of usage
Information relating to dental professionals	Contact information and qualification information	The information is primarily used for (1) communications for treatment planning services, (2) qualification evaluation and verification, (3) marketing, promotional and educational events, and (4) other support services to dental professionals.

Category	Type of information	Scope of usage
Information relating to public hospitals and private clinics	Name, qualifications, address, payment-related information such as account number and invoice title	The information is primarily used for (1) qualification evaluation and verification, (2) marketing and promotional activities, (3) communications for medical design issues, (4) delivery of clear aligners, and (5) payment and settlement.
Information relating to patients	Personal information and treatment data (including the polyvinyl-siloxane or digitally scanned dental impression and the three-dimensional digital prototype)	The information is primarily used for treatment planning and manufacture of clear aligners, as each pair of clear aligners shall be customized based on each patient's specific treatment plan and traceable for accurate delivery.

We are committed to protecting such data in our possession over our business and operation. We treat all data in our possession as highly confidential. We have formulated and implemented information technology management policies and information security management policies. We also enter into confidentiality agreements with our employees who have access to any aforementioned privacy information. The confidentiality agreements provide that, among others, these employees are legally obligated not to misuse the confidential information while in office, to surrender all confidential information in possession while resigning, and to retain their confidential obligations after they leave office.

We take safety precautions in data storage and processing. We utilize hypertext transfer protocol secure ("HTTPS") to secure the communications over our network and file encryption technology that prevents unauthorized view or modification. Our information technology network is configured with multiple layers of protection to secure our databases and servers. Our operation system received a level three certification from Shanghai Municipal Public Security Bureau, pursuant to which it was deemed to have met the requirements under relevant law and regulations to protect against the potential harm to public order and interests. As of December 31, 2020, we had 71 self-owned physical servers located in Shanghai and Wuxi. We back-up malocclusion case data on a real-time basis in separate and various secured data back-up systems to minimize the risk of data loss or leakage. We also conduct frequent reviews of our back-up systems to ensure that they function properly and are well maintained. We have also implemented a variety of protocols and procedures, such as regular system checks, password policy, server access logging, network access authentication, user authorization review and approval and data back-up, as well as data recovery test, to safeguard our data assets and prevent unauthorized access to our network.

We enter into a series of data governance-related agreements or protocols with our business partners and dental professionals. Users of *iOrtho*, primarily dental professionals, are fully informed by our *iOrtho User Agreement* of the types of information collected and processed. Such users acknowledge to us that they provide the patients' personal information such as their identity and dental profile for the purpose of providing *Angelalign* treatment solutions to the relevant patients and that they have the authority to provide such information and have obtained the informed consent from the relevant patients for our collection and processing of such information. We also require our business partners to enter into confidentiality agreements with us, which generally prohibit the unauthorized disclosure of confidential information including patients' personal data to third parties.

We have designed and implemented, among others, *Data Security Governance Policies* and *Information Technology Governance Policies* to systematically regulate our data collection, usage, storage, retention and transmission. We categorize information into four categories according to their relative level of importance and confidentiality, and designate different requirements for information access, processing, transmission and storage for each respective category. Our information technology department is responsible for regulating the setup and changes to employee's accounts in our system. Each department of our Company shall decide their protocols on data access and handling according to the relevant usage and confidentiality requirements. We also implement a series of measures to ensure our employees' compliance with our data security measures. For instance, we require new hires to receive onboarding training on data security and employees to receive annual training to reinforce relevant data security policies. Employees shall acknowledge to us that they understand and will follow our data security policies. In addition, we may punish relevant employees for violations of our data security policies.

We continue to improve and enhance our data and system security through routine checks and timely upgrades to ensure the proper management of our malocclusion case data. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any incident of data leakage that would materially and adversely affect our business, results of operations and financial condition. See "Risk Factors — Risks Relating to Our Business and Industry — Leakage and other security risks of confidential information may materially and adversely affect our reputation and business."

In light of the fact that (1) we obtain access to such malocclusion case data with prior consent of the relevant dental professionals and their patients; (2) we only use such data to the extent necessary for the performance of our services; (3) we have implemented certain policies and rules on confidential information protection; (4) we have taken necessary measures including entering into confidentiality agreements with our employees to prevent leakage of confidential information; (5) we have installed anti-virus and firewall software in our office system to prevent data attack, leakage and tampering, and we upgrade such software from time to time and carry out inspection to detect virus intrusion on a regular basis; (6) we have provided training to our employees to ensure that they are aware of our internal policies in relation to confidential information protection; and (7) we were not challenged by or claimed by any dental professionals or their patients or been imposed any penalties or fines regarding confidential information leakage or dispute during the Track Record Period and up to the Latest Practicable Date, our PRC legal advisors have advised us that we are currently not in violation of any applicable PRC laws and regulations on data privacy and personal information collection and usage in all material respects.

We may analyze the malocclusion case information we have accumulated during our ordinary course of business on the condition of data anonymization and masking for the purpose of refining our solutions. We however have not engaged web crawlers or other similar tools or any other third parties to collect or mine data from external sources. As advised by our PRC legal advisors, our analysis of the accumulated in-house malocclusion case data complies with the relevant laws and regulations in all material respects.

INTELLECTUAL PROPERTY

Intellectual property rights are fundamental to our business, and we devote significant time and resources to their development and protection. We rely on a combination of contractual restrictions, confidentiality procedures, and intellectual property registrations to establish and protect our proprietary technologies. As of the Latest Practicable Date, we had registered 220 trademarks, 92 patents, and 16 software copyrights in China. In addition, we owned 60 registered domain names, all of which remained in effect as of the Latest Practicable Date. See "Statutory and General Information — B. Further Information about Our Business — 2. Our Material Intellectual Property Rights" in Appendix IV to this document for details.

Despite our efforts, third parties may still obtain and misappropriate our intellectual property without authorization. As of December 31, 2020, we did not find any of such misappropriations of our intellectual property rights. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights may adversely affect our business and results of operations. See "Risk Factors — Risks Relating to Our Business and Industry — If we are unable to obtain and maintain intellectual property rights protection for our technologies and products, our business, reputation and competitive edge may be materially and adversely affected."

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

EMPLOYEES

As of December 31, 2020, we had 1,302 full-time employees, all of whom were stationed in China. The following table sets forth the number of our full-time employees by function as of December 31, 2020.

	As of December 31, 2020	
Function	**Number of Employees**	**% of Total**
Management	7	0.5%
Medical team	372	28.6%
Research and development	123	9.4%
Sales and marketing	347	26.7%
Manufacturing and quality control	386	29.6%
General administration	67	5.1%
Total	1,302	100.0%

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

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

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

PROPERTIES

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

Owned Properties

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

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

Leased Properties

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

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

As of December 31, 2020, none of the properties leased or owned by us had a carrying amount of 15% or more of our consolidated total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our Group's interests in land or buildings.

Non-registration

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

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

Title Defects

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

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

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

INSURANCE

We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by Chinese laws and regulations and in accordance with the commercial practices in our industry. We maintain employee benefit insurance, property all risks insurance and public liability insurance with respect to our warehouse in Shanghai. However, in line with general market practice, we have not purchased or attempted to purchase any product liability insurance, considering that (1) it is not mandatory under PRC laws, (2) our risk exposure is relatively limited in light of the nature of our

solutions, and (3) we have not been required to purchase product liability insurance by any customer or business partner. We may purchase product liability insurance in the future in consideration of our growing business scale to further minimize our risk exposure. We do not maintain keyman life insurance, business interruption insurance or insurance policies covering damages to our technical infrastructure. During the Track Record Period, we have not made or been the subject of any material insurance claims. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material adverse effect on our results of operations. See "Risk Factors — Risks Relating to Our Business and Industry — We are exposed to potential product liability claims and our insurance coverage may be inadequate to protect us from all the liabilities we may incur."

AWARDS AND RECOGNITION

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

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

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

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

Compliance

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

Non-compliance with social insurance and housing reserve fund contributions

Background and reasons of non-compliance incidents

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

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

Potential legal consequences

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

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

Rectification and internal control measures

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

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

We have liaised with relevant regulatory authorities in different localities to adjust the payment base for our social insurance and housing reserve fund contributions, the procedure and timing of which may vary based on local rules and policies, such that we can make full contribution in compliance with the applicable laws and regulations as soon as practicable. Based on our consultations, we currently expect to adjust our payment base in Wuxi and Shanghai, which are two of the cities where most of our employees are located, starting from April 2021 and July 2021, respectively, being the earliest applicable dates pursuant to relevant laws and regulations for us to make the adjustment and make full contributions. We will also make full contributions for our employees located in other cities as soon as the earliest date for adjustments in such localities can be fixed. In addition, we have enhanced our internal policies and procedures to ensure compliance with the relevant laws and regulations. Among others, we have clarified in the employee manual that the contribution of social insurance and housing reserve funds shall conform with the relevant laws and regulations. Our human resources department will follow the rules and policies on social insurance and housing reserve fund contributions for any update. In addition, we will (1) regularly consult outside counsel to understand whether we are at risk of non-compliance with the relevant laws and regulations; (2) regularly prepare reports regarding our contribution amounts for review by our Board; and (3) conduct internal trainings for our Directors, members of senior management and certain employees on the relevant laws and regulations.

Our Directors are of the view that the above-described incident would not have a material adverse effect on our business, results of operations and financial condition, considering that (1) we had not been subject to any material administrative action, fine or penalty imposed by the relevant regulatory authorities with respect to our contributions to social insurances and housing reserve funds during the Track Record Period and up to the Latest Practicable Date; (2) as of the Latest Practicable Date, we had not received any notifications from the relevant PRC authorities requiring us to pay the shortfalls or the penalties with respect to social insurance and/or housing reserve funds; (3) we were neither aware of any employee complaints nor were involved in any labor disputes with our employees with respect to social insurance and/or housing reserve funds; (4) we made provisions for social insurance and housing provident fund contributions; (5) we have been rectifying the issue; and (6) as advised by our PRC legal advisors, based on the on-site consultations with, and confirmations obtained from, the competent authorities supervising our principal subsidies in Wuxi city, Jiangsu province and Shanghai, the likelihood that we would be required by relevant authorities to pay the late charges for the shortfall of social insurance contributions or subject to material administrative penalties due to failure to make full social insurance and housing reserve fund contributions is relatively low.

OCCUPATIONAL SAFETY

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

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

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

Under our ESG Policy, we aim to build a sustainable community with our employees, customers and business partners by supporting local initiatives that aim to create effective and lasting benefits to the local community, through various initiatives that may include corporate philanthropy, establishing community partnerships, and mobilizing our employees to participate in volunteer work. For example, with the COVID-19 pandemic bringing unprecedented challenges to people's lives, we have quickly responded to the situation and proactively took various measures to help fight against the pandemic, including making a donation of RMB2.0 million to support front line medical teams and providing our customers, primarily hospitals and clinics, with protective equipment when they gradually restored their operations. In addition, we also endeavor to reduce any negative impacts on the environment through our commitment to energy saving and sustainable development. We will also focus on embracing diversity within our organization and equal and respectful treatment of all of our employees in their hiring, training, wellness and professional and personal development. While maximizing equal career opportunity for everyone, we will also continue to promote work-life balance and create a happy culture in our workplace for all of our employees.

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

We are subject to various PRC environmental laws and regulations, the implementation of which involves regular inspections by local environmental protection authorities. See "Regulatory Overview" for details. We do not operate in a highly polluting industry, and our clear aligners are made of composite polymer materials, which are toxic-free and FDA approved food safe materials. As such, disposed clear aligners do not need to be processed as medical waste. According to GB/T 19095-2019 Signs for Classification of Municipal Solid Waste, used clear aligners can be recycled. In general, used clear aligners can be processed by mechanical recycling and/or chemical recycling, depending on their specific material. As a result, we believe that our clear aligners will not pose a threat to the environment. We are updating the instruction manual to convey the message that disposed clear aligners shall be sorted as recyclables.

The manufacturing process of our clear aligners may nevertheless generate noise, general solid waste, exhaust gas and waste water. We have established an environmental protection department and adopted specific environmental protection policies to make our operations more energy efficient and environmentally friendly and to ensure effective compliance with applicable PRC environmental laws and regulations. We have also developed internal policies for environmental risk prevention to ensure compliance with the requirements of the applicable national, industrial and local standards, laws, regulations and policies. Such policies include report on the emission level of gas pollutants, noise, waste water and solid waste to our Board to the extent applicable and evaluation of such emission levels on a regular basis. If there is any deviation from the applicable emission standard, we will investigate the cause and will take rectification measures accordingly. In particular, we have implemented a series of measures to control the potential harmful impact of our manufacturing activities on the environment. We did not incur a discharge level of general solid waste, as they were typically sold to, or processed by, qualified entities. With respect to the waste water produced during the cutting and cleaning process of clear aligners, we disseminated such to the local sewage disposal system after sedimentation at an amount within its handling capacity. In addition, we limit the impact of the emission of exhaust so that its impact on the surrounding environment is far below the relevant statutory standard, in particular that on the sensitive target areas such as schools and parks. We also set up buffer zone of 100 meters from our workshops in order to prevent the establishment of sensitive targets therein. Moreover, our noise emission was categorized as level three under the Noise Emission Standard for Industrial Enterprises at Boundary (GB12348-2008), which would not cause a material impact on the neighborhood. The following table sets forth the emission level of gas pollutants, noise and waste water of our manufacturing facilities during the Track Record Period.

	For the year ended December 31,					
	2018		2019		2020	
	Permitted annual discharge (t/a)/ Permitted numerical value (dB)	Actual annual discharge (t/a)/ Actual numerical value	Permitted annual discharge (t/a)/ Permitted numerical value	Actual annual discharge (t/a)/ Actual numerical value	Permitted annual discharge (t/a)/ Permitted numerical value	Actual annual discharge (t/a)/ Actual numerical value
Gas pollutants						
Volatile Organic Compounds[(1)]	0.5375	0.4918	—	—	—	—
Non-methane Hydrocarbon[(1)]	—	—	0.4030	0.3163	0.2975	0.2290
Particulates	0.0002	0.0002	0.0057	0.0057	0.1425	0.1090
Noise	Daytime: 65dB Late night: 55dB	Daytime: 49dB Late night: —	Daytime: 65dB Late night: 55dB	Daytime: 56dB Late night: —	Daytime: 65dB Late night: 55dB	Daytime: 60dB Late night: 44dB
Waste water	14,064	980.8	12,864	3,287.2	17,472	10,209.6

(1) We changed the detergent used in the manufacturing process in 2019 and, therefore, has discharged different gas pollutants since then.

The significant increase of the discharge of waste water during the Track Record Period was primarily due to (1) our deployment of automated production lines, and (2) the upgrade of our manufacturing techniques. We have commenced the mass production utilizing automated production lines since July 2018, which requires a rinse procedure to clean the 3D-printed teeth molds and, therefore, discharges waste water. Furthermore, since late 2019, we have gradually upgraded our techniques to rinse the 3D-printed teeth molds with water and detergent, instead of alcohol, as the former is less volatile and nonflammable and, thereby, increases the safety level of the entire manufacturing process. As a result, the discharge level of waste water further increased from 2019 to 2020.

We have engaged professional third-party qualified companies for hazardous waste reclamation and disposal. During the Track Record Period, the estimated costs and expenses incurred for our environmental protection measures were approximately RMB2.7 million. We believe that we are not susceptible to climate change, and we have not experienced extreme weather in the areas where we conduct our operations. We have, however, purchased property all risks insurance and implemented contingency plans to safeguard us against any climate change or extreme weather conditions that would materially and adversely affect our business and operations. As of the Latest Practicable Date, we had not experienced any material impact on our business operations or financial performance as a result of climate change or extreme weather conditions.

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

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

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

In addition, we have adopted a set of internal rules and policies governing the conduct of our employees. We have established a monitoring system to implement our systematic anti-bribery and anti-corruption procedures and policies to ensure that our employees comply with our internal rules and applicable laws and regulations. As part of our internal control measures, we have adopted practice management policies that prohibit any form of bribery and corruption conducts by our employees and require them to comply with the laws and regulations and deal with conflict of interest appropriately. We have identified certain forbidden conduct in our internal anti-bribery and anti-corruption policies, including, among others, the prohibition to offering and acceptance of bribes or rebates, embezzlement or misappropriation of our assets, and forgery or alteration of our accounting records. In addition, we enter into a sunshine contract with all employees and suppliers, which contains anti-corruption and anti-bribery provisions. Our employee handbook provides that any employee who provides bribery to suppliers, customers or government authorities will be subject to termination of employment for cause. We have also established an internal channel for reporting of corruption and bribery activities by our employees. Upon receiving relevant training on our practice management policies and other anti-fraud measures, we require our employees to sign a commitment letter on honest practices with us, under which they undertake not to, among other things, (1) accept or solicit any inappropriate interests in relation to our business, such as those concerning persons in business relations with us; (2) misappropriate our resources, business opportunities, trade secrets and intellectual properties; (3) embezzle or misappropriate company assets; and (4) accept gifts in cash or gifts in kind of material value from persons in business relations with us. We also require our employees to report current or potential conflict of interests with us, as well as the receipt of customary gifts to our business on a timely basis, which will be subsequently reviewed by the responsible personnel and handled and recorded in accordance with our established policies. We have designated the compliance division of our legal department and our internal control department to oversee the implementation of, and our employees' ongoing compliance with, the abovementioned internal control measures. Our management is responsible for conducting a fraud and bribery risk assessment on an annual basis and our audit committee reviews and approves our annual risk assessment results and policies.

In particular, while we have continuously organized national and regional conferences and symposia to increase our influence in both industry and academia, we pay great attention to adhering to our internal policies in communicating and interacting with attendees and make great efforts to prevent occurrence of illegal or misappropriate conduct at the venue of our events. For example, as for *A-Tech Forum*, our annual academic conference for product and technology release and exchange of innovative ideas, we invite primarily orthodontists, stomatologists and other experts in relevant fields. We carefully plan our conference under an intensive, two-day schedule with a set of consecutive lectures that leave no extra breaks. We do not arrange entertainment activities or souvenirs during the *A-Tech Forum* and the conference ends upon the completion of all scheduled events. As such, we believe that the professional objectives and the highly-disciplined procedures of *A-Tech Forum* serve to ensure compliance with relevant laws and regulations. Our Directors confirm that, during the Track Record Period and as of the Latest Practicable Date, we had not been involved in any bribery or corrupt practices or any related illegal or unethical conducts.

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

Furthermore, we have engaged an independent internal control consultant to evaluate our internal control system in preparation for the [**REDACTED**]. The internal control consultant performed review procedures over selected areas of our internal controls over financial reporting at both the entity-level and the business process level, including revenue and receivables which covers revenue and receivables including the third-party payment, purchases and payables, fixed assets, intangible assets, production and costs, inventory and product delivery, treasury, investment, financial reporting, insurance, tax, payroll and general controls of information technology. The major recommendations identified by the internal control consultant include (1) establishing the required terms of reference of the Board and its committees and (2) developing various corporate governance rules required for the [**REDACTED**]. The internal control consultant performed the follow-up reviews in December 2020 to review the status of our management actions to address the findings of the internal control review with no further recommendation except for the appointment of the required independent non-executive Directors, which is expected to be completed by us before the [**REDACTED**].

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

During the Track Record Period, save as discussed above, our Directors did not identify any material internal control weaknesses or failures. Considering the remedial actions we have taken, our Directors are of the view that we have adequate and effective internal control procedures.

Risk Management

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

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