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

OVERVIEW

We are 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 empower dental professionals with Angelalign clear aligner system, our proprietary digital orthodontics solution, which comprises a trio of components: (1) digitally-assisted case assessment support and treatment planning services, (2) customized, removable clear aligners based on specific treatment plans, and (3) *iOrtho*, a cloud-based service platform. During the Track Record Period, the number of dental professionals we served increased from approximately 11,500 in 2018 to approximately 15,800 in 2019, and further to 19,900 in 2020. Our case shipments increased from approximately 77,700 in 2018 to approximately 120,100 in 2019, and further to 137,600 in 2020.

We generate revenue primarily from the provision of clear aligner treatment solutions, and to a much lesser extent, from the provision of other services. Our revenue was RMB488.5 million, RMB645.9 million and RMB816.5 million in 2018, 2019 and 2020, respectively. Our gross profit was RMB311.7 million, RMB417.1 million and RMB575.0 million in 2018, 2019 and 2020, respectively, representing a gross profit margin of 63.8%, 64.6% and 70.4%, respectively. Our net profit was RMB58.2 million, RMB67.7 million and RMB150.9 million in 2018, 2019 and 2020, respectively, representing a net profit margin of 11.9%, 10.5% and 18.5%, respectively. 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 "— Non-IFRS Measures" for a reconciliation of our net profit to adjusted EBITDA and adjusted net profit, respectively.

BASIS OF PREPARATION

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

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

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

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

Economic and Industry Trends in China

China has experienced rapid economic growth over the past few decades, which has resulted in increasing per capita disposable income, expanding network of medical institutions, and increasing awareness of dental health, aesthetics and treatment, all of which have contributed to the increase in the demand for clear aligner treatment. According to the CIC Report, the market size of China's clear aligner market, in terms of retail sales revenue, increased from US$0.2 billion in 2015 to US$1.5 billion in 2020 at a CAGR of 44.4%, and is expected to reach US$11.9 billion by 2030 at a CAGR of 23.1% from 2020 to 2030. Moreover, laws and regulations enacted by China's governmental authorities, as well as favorable industry policy including preferential tax treatments and other governmental supports, also have a significant impact on the prospect of the clear aligner market. Other factors, such as the scientific and technological development in the industry could also have a significant impact on the demand of clear aligner treatment. See "Industry Overview" for details relating to key market drivers. Changes in the factors that impact the growth rate of China's clear aligner market would have significant impact on the demand of our clear aligner treatment solutions, and in turn, our business and prospects. Our ability to anticipate and respond to potential changes in industry trends will have a significant impact on our future performance.

Pandemic Influence

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

The Chinese government has gradually lifted the domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal nationwide since the second quarter of 2020. We have experienced a strong rebound in our business volume since April 2020, as evidenced by the increase in case shipments from approximately 10,900 in the three months ended March 31, 2020 to approximately 36,400 in the three months ended June 30, 2020, and further to approximately 54,500 in the three months ended September 30, 2020. However, there remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and the recent regional resurgence of COVID-19 cases in certain areas in China. We are closely monitoring the development of the COVID-19 outbreak and continuously evaluating any potential pandemic impact on our business, results of operations and financial condition. See "— COVID-19 Outbreak and Effects on Our Business" for the impact of COVID-19 outbreak on our business and "Risk Factors — Risks Relating to Our Business and Industry — Our business and operations have been and may continue to be materially and adversely affected by the COVID-19 pandemic" for the associated risks and challenges.

Seasonality

Our business experiences some effects of seasonal variations due to the preferences of patients with a need for clear aligner treatment. We typically experienced the highest sales during the summer vacation. 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. The seasonality changes may cause fluctuations in our financial results.

SPECIFIC FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

Our Ability to Retain and Attract Customers and Dental Professionals

We generate revenue primarily from the provision of clear aligner treatment solutions. Our sustainable revenue growth depends significantly on our ability to retain and attract customers, primarily including hospitals and clinics. Our ability to attain continuous growth also depends significantly on our dental professional base, which in turn depends on the efficiency, operability and comprehensiveness of our clear aligner treatment solutions vis-à-vis dental professionals, the efficacy, reliability and all-rounded advantages of clear aligners vis-à-vis their patients, and our brand recognition and reputation in the market. During the Track Record Period, the number of dental professionals we served increased from approximately 11,500 in 2018 to approximately 15,800 in 2019, and further to approximately 19,900 in 2020. We believe that we attract customers and dental professionals primarily through delivery of comprehensive and diversified solutions with premium quality and high tolerance. Our ability to continue to improve and diversify the features of our clear aligner treatment solutions and enhance our recognition among dental professionals and their potential patients is critical to our ability to retain our existing customers and dental professionals and attract prospective ones, thereby achieving sustainable growth in revenue and our overall results of operations.

Our Production Capacity

The growth of our revenue depends to a large extent on our ability to expand our production capacity. In 2018, 2019 and 2020, the production capacity of our manufacturing facilities for clear aligners was approximately 6.8 million units, 15.8 million units and 21.9 million units, respectively. Our production capacity over the Track Record Period generally increased, primarily due to the commencement of production on our newly established automated production lines. For details of our annual production capacity and utilization rates at our current facilities, see "Business — Our Intelligent Manufacturing — Manufacturing Facilities."

We plan to expand our production capacity by constructing our Chuangmei Center with a gross floor area of approximately 126,000 square meters in Wuxi City. The new manufacturing facilities in our Chuangmei Center, once fully commissioned, are expected to have an annual designed production capacity of approximately 100 million units of clear aligners by 2026. We expect to commence production with the first few established automated production lines by the end of 2021. See "Business — Our Intelligent Manufacturing — Expansion Plan" and "Future Plans and Use of [**REDACTED**]" for details.

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

Our Research and Development Efforts and Technological Capabilities

We operate in a market characterized by continuous technological advancements and changing industrial trends. As a result, our results of operations and long-term growth prospects will depend on our ability to continue to improve and innovate our clear aligner treatment solutions through our research and development efforts and enhanced technological capabilities. Our research and development expenses were RMB50.2 million, RMB80.9 million and RMB93.5 million in 2018, 2019 and 2020, respectively, representing 10.3%, 12.5% and 11.4% of our total revenue for the same periods, respectively. We seek to continually strengthen our research and development capabilities by maintaining a dedicated research and development team with high credentials and expertise and upgrading our core technology platforms, in order to keep pace with the technological advancements and industrial trends. Such plans could increase our research and development expenses and may impact our results of operations and financial condition.

Our Ability to Control Costs and Expenses

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

Our cost of revenue was RMB176.8 million, RMB228.8 million and RMB241.5 million in 2018, 2019 and 2020, respectively, representing 36.2%, 35.4% and 29.6% of our total revenue for the same periods, respectively. Our cost of revenue primarily consisted of raw materials and consumables used and staff costs.

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

In addition, our selling and marketing expenses and administrative expenses also represented a significant percentage of our total revenue. Our selling and marketing expenses represented 16.7%, 19.0% and 18.2% of our total revenue in 2018, 2019 and 2020, respectively. Our administrative expenses represented 22.0%, 21.1% and 18.9% of our total revenue in 2018, 2019 and 2020, respectively. We strive to manage these expenses, such as advertising and promotion expenses, by, among other things, establishing and adhering to an annual budget for our marketing expenses. If we fail to manage our operating expenses, our profitability may be materially and adversely affected.

Pricing and Sales Channels

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

Our profitability may also be affected by our sales channels. In addition to direct sales, we have engaged distributors to increase sales and market share, reduce the marketing cost in less developed markets, and leverage their channel resources. We generated 11.0%, 29.9% and 33.6% of our total revenue from sales to distributors in 2018, 2019 and 2020, respectively. Our ability to effectively select and manage our distributor network is critical to our business and financial performance. In addition, we typically set a fixed 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. As such, the proportion of our sales to distributors may impact our profitability.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

Revenue Recognition

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

Revenue from clear aligner treatment solution services

We recognize revenue for our clear aligner solutions based on the promises comprising (1) digitally-assisted support and treatment planning services, and (2) clear aligners, which we contract for with customers. We do not recognize revenue with respect to the provision of *iOrtho* since it alone does not provide economic benefit to dental professionals and we do not charge customers for the use of such. The services rendered and clear aligners provided, which are highly interrelated as a whole in each solution service contract, represent one performance obligation to our customers. Deliverables in each solution service contract are designed and custom-made for each specific patient based on their needs and teeth position, and thus do not create an asset with an alternative use to us, and we have an enforceable right to payment for performance completed to date. As a result, we recognize revenue from clear aligner treatment solution services over time based on the progress towards satisfaction of the promise. When considering the progress, we apply output method by measuring the value of deliverables transferred to customers, such as the value of the design report (i.e., our initial treatment planning services) or each specific batch of clear aligners delivered to customers (including both the ongoing modification of the treatment plans and clear aligners), against the value of the remaining deliverables. Activities undertaken for each contract between each deliverable are immaterial and thus result in immaterial work in process being recognized.

With respect to the initial treatment planning services, we measure their value based on their standalone contract price which represents the respective value transferred to our customers. With respect to the ongoing modification of the treatment plans and our clear aligners provided during the treatment process, we generally measure their value based on the contract price which represents the respective value transferred to our customers, and we recognize revenue for such based on the relative value of batches delivered and those yet to be delivered. Deliveries are typically made every few months for one batch, depending on the product line involved and the complexity of the treatment plan, and each batch typically contains 10 sets of clear aligners, with adjustments depending on each specific case. However, from time to time, we may be requested to provide extra clear aligners for free based on modifications to the treatment plans. We thus adjust the value of each batch of clear aligners to be delivered based on the total unrecognized contract price of clear aligners and the revised estimated number of batches to be delivered. Our Directors confirm that there had been no significant changes in the judgements and estimations during the Track Record Period.

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

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

Revenue from other services

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

Share-based Payments

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

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

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

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

Leases

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

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

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

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

Research and development

Research expenditures are recognized as an expense as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, which include the following: (1) it is technically feasible to complete the development project so that it will be available for use; (2) management intends to complete the development project and use or sell it; (3) there is an ability to use or sell the development project; (4) it can be demonstrated how the development project will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the development project are available; and (6) the expenditure attributable to the development project during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred. During the Track Record Period, all research and development expenditures were recognized in profit or loss as incurred.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Revenue	488,483	100.0	645,898	100.0	816,528	100.0
Cost of revenue	(176,765)	(36.2)	(228,756)	(35.4)	(241,479)	(29.6)
Gross profit	311,718	63.8	417,142	64.6	575,049	70.4
Selling and marketing expenses	(81,439)	(16.7)	(122,645)	(19.0)	(148,835)	(18.2)
Administrative expenses	(107,702)	(22.0)	(136,544)	(21.1)	(154,423)	(18.9)
Research and development expenses	(50,163)	(10.3)	(80,905)	(12.5)	(93,479)	(11.4)
Net impairment losses on financial assets	(3,684)	(0.8)	(2,512)	(0.4)	(10,148)	(1.2)
Other income	4,608	0.9	8,804	1.4	22,625	2.8
Other expenses	—	—	(2,000)	(0.3)	(6,000)	(0.7)
Other gains — net	1,933	0.4	2,851	0.4	3,096	0.4
Operating profit	75,271	15.4	84,191	13.0	187,885	23.0
Finance income	1,223	0.3	1,791	0.3	4,153	0.5
Finance costs	(1,354)	(0.3)	(1,142)	(0.2)	(1,154)	(0.1)
Finance (costs)/income net	(131)	(0.0)	649	0.1	2,999	0.4
Share of results of investments accounted for using the equity method	(363)	(0.1)	(348)	(0.1)	347	0.0
Profit before income tax	74,777	15.3	84,492	13.1	191,231	23.4
Income tax expense	(16,591)	(3.4)	(16,827)	(2.6)	(40,299)	(4.9)
Profit for the year	58,186	11.9	67,665	10.5	150,932	18.5
Other comprehensive income						
Currency translation differences	89	0.0	396	0.1	(1,241)	(0.2)
Total comprehensive income for the year	58,275	11.9	68,061	10.5	149,691	18.3
Total comprehensive income for the year attributable to						
– Owners of the Company	59,823	12.2	69,231	10.7	149,681	18.3
– Non-controlling interests	(1,548)	(0.3)	(1,170)	(0.2)	10	0.0
	58,275	11.9	68,061	10.5	149,691	18.3
Non-IFRS Measures[(1)]:						
Adjusted EBITDA	129,107	26.4	174,557	27.0	296,632	36.3
Adjusted net profit	92,134	18.9	130,006	20.1	227,209	27.8

(1) See "— Non-IFRS Measures."

NON-IFRS MEASURES

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

We define adjusted EBITDA as EBITDA (which is profit before income tax plus interest expenses recorded as finance costs, depreciation of property, plant and equipment, depreciation of right-of-use assets, and amortization of intangible assets, less interest income recorded as finance income) for the year with adjustments of non-recurring or non-operating items, including share-based payments and [**REDACTED**] expenses. We define adjusted net profit as profit for the year adjusted by non-recurring or non-operating items, including share-based payments and [**REDACTED**] expenses. Share-based payments are non-operational expenses arising from granting restricted share units and options to senior management and employees. The decision to make grants is discretionary and does not form a sustained pattern of recurrence, and the amount of grants may not directly correlate with the underlying performance of our business operations. The following table reconciles our adjusted EBITDA and adjusted net profit for the year presented to the most directly comparable financial measure calculated and presented under IFRS.

	Year ended December 31,		
	2018	2019	2020
	(RMB in thousands)		
Profit for the year	58,186	67,665	150,932
Add:			
Income tax expenses	16,591	16,827	40,299
Profit before income tax	74,777	84,492	191,231
Add:			
Finance cost/(income) – net	131	(649)	(2,999)
Depreciation of property, plant and equipment	9,595	13,402	17,521
Depreciation of right-of-use assets	8,338	10,367	11,077
Amortization of intangible assets	2,318	4,604	3,525
EBITDA	95,159	112,216	220,355
Add:			
Share-based payments	23,438	61,677	66,319
[**REDACTED**] expenses	10,510	664	9,958
Adjusted EBITDA	129,107	174,557	296,632
Profit for the year	58,186	67,665	150,932
Add:			
Share-based payments	23,438	61,677	66,319
[**REDACTED**] expenses	10,510	664	9,958
Adjusted net profit	92,134	130,006	227,209

DESCRIPTION OF MAJOR PROFIT OR LOSS LINE ITEMS

Revenue

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

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Clear aligner treatment solutions	464,949	95.2	628,059	97.2	799,005	97.9
Other services	23,534	4.8	17,839	2.8	17,523	2.1
Total	488,483	100.0	645,898	100.0	816,528	100.0

We generated revenue of RMB464.9 million, RMB628.1 million and RMB799.0 million from the provision of clear aligner treatment solutions in 2018, 2019 and 2020, respectively, representing 95.2%, 97.2% and 97.9% of our total revenue in the same periods, respectively. During the Track Record Period, our revenue generated from the provision of clear aligner treatment solutions increased primarily due to the increases in the number of dental professionals we served with our Angelalign clear aligner system and case shipments.

Revenue generated from other services primarily represented service fees generated by our dental clinics for provision of orthodontics and cosmetic dentistry services and other dental services to patients. From a business planning perspective, we maintained a few dental clinics within our group as demonstration centers, primarily for the purpose of improving the accessibility of our medical services for dental professionals and providing them with regular in-the-field training in application of our solutions. 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.

Cost of revenue

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

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Raw materials and consumables used	80,863	45.7	108,808	47.6	121,764	50.4
Staff costs	50,415	28.5	64,280	28.1	65,654	27.2
Production costs	12,705	7.2	22,234	9.7	8,335	3.5
Depreciation and amortization expenses	8,846	5.0	11,943	5.2	15,882	6.6
Delivery costs	7,201	4.1	10,710	4.7	13,133	5.4
Others[(1)]	16,735	9.5	10,781	4.7	16,711	6.9
Total	176,765	100.0	228,756	100.0	241,479	100.0

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

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

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

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Clear aligner treatment solutions	160,735	90.9	216,731	94.7	229,128	94.9
Other services	16,030	9.1	12,025	5.3	12,351	5.1
Total	176,765	100.0	228,756	100.0	241,479	100.0

Gross Profit and Gross Profit Margin

Our gross profit was RMB311.7 million, RMB417.1 million and RMB575.0 million in 2018, 2019 and 2020, respectively, representing a gross profit margin of 63.8%, 64.6% and 70.4% for the same periods, respectively.

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

	Year ended December 31,					
	2018		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB in thousands except for percentages)					
Clear aligner treatment solutions	304,214	65.4%	411,328	65.5%	569,877	71.3%
Other services	7,504	31.9%	5,814	32.6%	5,172	29.5%
Total	311,718	63.8%	417,142	64.6%	575,049	70.4%

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

Selling and Marketing Expenses

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

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Staff costs	27,264	33.5	57,994	47.3	79,185	53.2
Advertising and promotion expenses	34,809	42.7	38,905	31.7	43,644	29.3
Travelling and entertainment expenses	11,153	13.7	11,637	9.5	9,486	6.4
Training expenses	2,563	3.1	5,548	4.5	5,300	3.6
Depreciation and amortization expenses	1,100	1.4	2,086	1.7	1,500	1.0
Others(1)	4,550	5.6	6,475	5.3	9,720	6.5
Total	81,439	100.0	122,645	100.0	148,835	100.0

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

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

Administrative Expenses

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

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Staff costs (excluding share-based payments)	32,106	29.8	33,773	24.7	38,816	25.1
Share-based payments	23,438	21.8	61,677	45.2	66,319	42.9
[**REDACTED**] expenses	10,510	9.8	664	0.5	9,958	6.4
Professional services and consulting fees	15,329	14.2	14,874	10.9	11,486	7.4
Depreciation and amortization expenses	8,188	7.6	9,602	7.0	10,766	7.0
Travelling and entertainment expenses	6,245	5.8	4,432	3.2	1,822	1.2
Others[(1)]	11,886	11.0	11,522	8.5	15,256	10.0
Total	107,702	100.0	136,544	100.0	154,423	100.0

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

Staff costs primarily consisted of wages and salaries, pension, housing funds, medical insurances, social insurances and other welfare benefits for our administrative personnel and management personnel. Share-based payments were related to the grant of equity instrument to our employees under our share incentive plan during the Track Record Period. [**REDACTED**] expenses represented the expenses incurred in connection with our preparation for the [**REDACTED**], including our previous [**REDACTED**] initiatives in preparation for the [**REDACTED**], which commenced in 2018. Professional services fees primarily consisted of consulting fees, auditing fees and legal fees. Depreciation and amortization expenses primarily consisted of the depreciation of our office facilities and right-of-use assets representing office premises of our administrative and management departments, and the amortization of software and renovations with respect to administrative and management activities. Travelling and entertainment expenses primarily consisted of the travelling and entertainment expenses incurred by our administrative personnel.

Research and Development Expenses

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

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Staff costs	41,078	81.9	66,633	82.4	77,485	82.9
Technical service fees	5,117	10.2	5,973	7.4	8,523	9.1
Depreciation and amortization expenses	2,117	4.2	4,742	5.9	3,975	4.3
Others(1)	1,851	3.7	3,557	4.3	3,496	3.7
Total	50,163	100.0	80,905	100.0	93,479	100.0

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

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

Net Impairment Losses on Financial Assets

Net impairment losses on financial assets primarily consisted of loss allowance provision for trade receivables and other receivables. We recorded net impairment losses on financial assets of RMB3.7 million, RMB2.5 million and RMB10.1 million in 2018, 2019 and 2020, respectively.

Other Income

Other income consisted of government grants. We had other income of RMB4.6 million, RMB8.8 million and RMB22.6 million in 2018, 2019 and 2020, respectively. Our governmental grants primarily consisted of subsidies and incentives we received from local government authorities. Such subsidies and incentives from local government authorities may fluctuate from time to time pursuant to the changes in relevant government policies. There are no unfulfilled conditions or contingencies relating to these governmental grants.

Other Expenses

Other expenses consisted of donations. We recorded other expenses of nil, RMB2.0 million and RMB6.0 million in 2018, 2019 and 2020, respectively.

Other Gains — net

Other gains — net primarily consisted of investment return from wealth management products, losses on disposal of property, plant and equipment, and net foreign exchange gains or losses. We recorded other gains — net of RMB1.9 million, RMB2.9 million and RMB3.1 million in 2018, 2019 and 2020, respectively. The following table sets forth a breakdown of our other gains — net for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Realized fair value gain of wealth management products	2,322	120.1	2,512	88.1	4,235	136.8
Net foreign exchange gains/(losses)	429	22.2	161	5.6	(1,044)	(33.7)
Losses on disposal of intangible assets	(44)	(2.3)	—	—	—	—
Losses on disposals of property, plant and equipment	(728)	(37.7)	(218)	(7.6)	(265)	(8.6)
Losses on disposal of a subsidiary	—	—	(81)	(2.8)	—	—
Gains on early termination of lease contracts	—	—	57	2.0	10	0.3
Others	(46)	(2.4)	420	14.7	160	5.2
Total	1,933	100.0	2,851	100.0	3,096	100.0

Finance Income

Finance income primarily consisted of our interest income on bank deposits. We also generated interest income derived from loans to third parties in 2018. As advised by our PRC legal advisors, our loan agreements with such third parties do not violate any mandatory stipulation of PRC laws and regulations and are valid according to the Private Lending Cases Provisions and the Civil Code of the PRC, although they do not fall under the permitted scope of the General Lending Provisions which, as department rules of the People's Bank of China, shall be overrode by PRC laws and regulations. We recorded finance income of RMB1.2 million, RMB1.8 million and RMB4.2 million in 2018, 2019 and 2020, respectively.

Finance Costs

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

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Interest expense on leasing liabilities	780	57.6	1,123	98.3	1,135	98.4
Interest expense on amounts due to related parties	574	42.4	19	1.7	19	1.6
Total	1,354	100.0	1,142	100.0	1,154	100.0

Share of Results of Investments Accounted for Using the Equity Method

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

Income Tax Expense

We incurred income tax expense of RMB16.6 million, RMB16.8 million and RMB40.3 million in 2018, 2019 and 2020, respectively, representing an effective tax rate of 22.2%, 19.9% and 21.1%, respectively. Our effective income tax rate is calculated by dividing income tax expense by profit before income tax. Our effective tax rates during the Track Record Period were below the 25% statutory rate, primarily due to (1) preferential income tax rates applicable to our certain subsidiaries, and (2) super deduction for research and development expenditure.

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

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

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

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

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

Profit for the Year

As a result of the foregoing, we recorded net profit of RMB58.2 million, RMB67.7 million and RMB150.9 million in 2018, 2019 and 2020, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Our revenue increased by 26.4% from RMB645.9 million in 2019 to RMB816.5 million in 2020 for the following reasons.

- *Clear aligner treatment solutions.* Our revenue generated from the provision of clear aligner treatment solutions increased by 27.2% from RMB628.1 million in 2019 to RMB799.0 million in 2020, primarily due to (1) the increase in the case shipments from approximately 120,100 in 2019 to approximately 137,600 in 2020 as our clear aligner treatment solutions appealed to an increasing number of dental professionals, and (2) the increase in the case shipments in prior periods as a portion of the revenue attributable to such cases was recognized at a later stage along with the subsequent delivery of clear aligners for those cases.

- *Other services.* Our revenue generated from other services decreased by 1.8% from RMB17.8 million in 2019 to RMB17.5 million in 2020, primarily due to the impact of COVID-19 outbreak in early 2020, which temporarily affected the business operations of the dental clinics.

Cost of revenue

Our cost of revenue increased by 5.6% from RMB228.8 million in 2019 to RMB241.5 million in 2020, primarily due to the increased number of malocclusion cases we help addressed with our clear aligner treatment solutions.

- *Clear aligner treatment solutions.* Our cost of revenue related to the provision of clear aligner treatment solutions increased by 5.7% from RMB216.7 million in 2019 to RMB229.1 million in 2020, primarily due to the increases in the cost of raw materials and consumables used, depreciation and amortization expenses and delivery costs in line with the increase in the number of malocclusion cases we help addressed with our solutions, partially offset by the decrease in production costs representing the lowered unit lease expense of our 3D printers.

- *Other services.* Our cost of revenue related to the provision of other services remained relatively stable at RMB12.1 million and RMB12.4 million in 2019 and 2020, respectively.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 37.9% from RMB417.1 million in 2019 to RMB575.0 million in 2020, and the corresponding gross profit margin increased from 64.6% to 70.4%.

- *Clear aligner treatment solutions.* Our gross profit margin for clear aligner treatment solutions increased from 65.5% in 2019 to 71.3% in 2020, primarily due to (1) the decrease in production costs representing the lowered unit lease cost of our 3D printers, and (2) the optimization of our cost structure in relation to clear aligner production, in particular the relative savings in our raw materials and consumables used and manufacturing-related staff costs compared to our production growth as a result of economies of scale and the adoption of automated production lines. In particular, as a result of our enhanced market position in the clear aligner industry and the corresponding increase of our bargaining power with the relevant supplier, our lease costs of 3D printers decreased from RMB20.2 million in 2019 to RMB5.9 million in 2020, despite the increase in the number of clear aligners we manufactured for our increased case shipments. During the Track Record Period, we engaged Supplier B as our 3D printer supplier. See "Business — Our Suppliers — 3D Printers" for details.

- *Other services.* Our gross profit margin for other services decreased from 32.6% in 2019 to 29.5% in 2020, primarily because our costs of other services, which primarily consisted of staff costs, remained relatively stable despite the decrease of revenue from other services due to the impact of COVID-19 outbreak.

Selling and marketing expenses

Our selling and marketing expenses increased by 21.4% from RMB122.6 million in 2019 to RMB148.8 million in 2020, primarily due to the increases in (1) staff costs as a result of increased headcount and level of compensation to our sales and marketing personnel, (2) advertising and promotion expenses as a result of the increased spending on *A-Tech Forum*, and (3) professional service fees as a result of increased market research activities. Our selling and marketing expenses as a percentage of our total revenue decreased from 19.0% in 2019 to 18.2% in 2020.

Administrative expenses

Our administrative expenses increased by 13.1% from RMB136.5 million in 2019 to RMB154.4 million in 2020, primarily due to the increases in (1) [**REDACTED**] expenses in connection with our preparation for the [**REDACTED**], (2) salaries and wages incurred for our administrative personnel as we increased the headcount and level of compensation, and (3) share-based payments, partially offset by the decreases in (1) our contribution of social insurance premiums according to relevant government relief policies during the COVID-19 outbreak, and (2) company events expenditures, including travelling and entertainment expenses and professional service fees as result of COVID-19 impact. As a result, our administrative expenses as a percentage of our total revenue decreased from 21.1% in 2019 to 18.9% in 2020.

Research and development expenses

Our research and development expenses increased by 15.5% from RMB80.9 million in 2019 to RMB93.5 million in 2020, primarily due to the increases in (1) staff costs incurred for our research and development personnel as we increased their level of compensation, and (2) technical services fees incurred for our research and development initiatives. Our research and development expenses as a percentage of our total revenue decreased from 12.5% in 2019 to 11.4% in 2020, primarily because our revenue growth outpaced the increase in our research and development expenses.

Net impairment losses on financial assets

Our net impairment losses on financial assets increased significantly from RMB2.5 million in 2019 to RMB10.1 million in 2020, primarily due to the increase in loss allowance provision for trade and other receivables.

Other income

Our other income increased significantly from RMB8.8 million in 2019 to RMB22.6 million in 2020, primarily due to the increases in government grants we received from multiple local government authorities, which primarily consisted of (1) subsidies for our intensive research and development activities, (2) increased tax refund in line with the significant increase in our net profit, and (3) other incentives and awards in recognition of our business performance and market leadership.

Other expense

We made a donation of RMB2.0 million and RMB6.0 million to China Oral Health Foundation in 2019 and 2020, respectively.

Other gains — net

We had other gains — net of RMB2.9 million and RMB3.1 million in 2019 and 2020, respectively, primarily due to the increase in the realized fair value gain of wealth management products, partially offset by the net foreign exchange losses.

Finance income

Our finance income increased significantly from RMB1.8 million in 2019 to RMB4.2 million in 2020, primarily due to the increase in the amount of interest income on our bank deposits.

Finance costs

Our finance costs remained relatively stable at RMB1.1 million and RMB1.2 million in 2019 and 2020, respectively, which mainly consisted of interest expense on leasing liabilities.

Share of results of investments accounted for using the equity method

We had a share of loss of investment accounted for using the equity method of RMB0.3 million in 2019 and a share of profit of investment accounted for using the equity method of approximately RMB0.3 million in 2020.

Income tax expense

Our income tax expense increased significantly from RMB16.8 million in 2019 to RMB40.3 million in 2020, primarily due to the increases in our profit before income tax, partially offset by the increased deductibles as a result of preferential income tax rates applicable to certain subsidiaries.

Profit for the year

As a result of the above, our net profit increased significantly from RMB67.7 million in 2019 to RMB150.9 million in 2020. Our net profit margin increased from 10.5% in 2019 to 18.5% in 2020.

Adjusted net profit for the year

We used adjusted net profit, a non-IFRS measure, to supplement our consolidated financial statements. We recognized adjusted net profit of RMB130.0 million and RMB227.2 million in 2019 and 2020, respectively, representing an adjusted net profit margin of 20.1% and 27.8%, respectively. See "— Non-IFRS Measures" for a reconciliation of our profit for the year to our adjusted net profit.

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

Revenue

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

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

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

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

Cost of revenue

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

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

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

Gross profit and gross profit margin

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

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

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

Selling and marketing expenses

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

Administrative expenses

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

Research and development expenses

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

Net impairment losses on financial assets

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

Other income

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

Other expense

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

Other gains — net

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

Finance income

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

Finance costs

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

Share of results of investments accounted for using the equity method

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

Income tax expense

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

Profit for the year

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

Adjusted net profit for the year

We used adjusted net profit, a non-IFRS measure, to supplement our consolidated financial statements. We recognized adjusted net profit of RMB92.1 million and RMB130.0 million in 2018 and 2019, respectively, representing an adjusted net profit margin of 18.9% and 20.1%, respectively. See "— Non-IFRS Measures" for a reconciliation of our profit for the year to our adjusted net profit.

DISCUSSION OF MAJOR BALANCE SHEET ITEMS

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

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
ASSETS			
Non-current assets			
Property, plant and equipment	55,046	84,338	105,299
Right-of-use assets	16,432	80,795	70,759
Intangible assets	13,692	9,330	6,188
Investment accounted for using the equity method	3,438	13,681	13,848
Prepayments for non-current assets	6,578	1,691	764
Deferred income tax assets	4,501	7,379	9,573
Total non-current assets	99,687	197,214	206,431
Current assets			
Inventories	21,663	22,827	19,914
Trade and other receivables	107,423	97,816	101,693
Amounts due from related parties	27,712	30,235	4,523
Cash and cash equivalents	216,015	504,697	877,578
Total current assets	372,813	655,575	1,003,708
Total assets	472,500	852,789	1,210,139
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital and premium	167,807	167,807	486,669
Shares held for employee share scheme	(54,994)	(54,994)	(29,529)
Other reserves	72,227	140,016	(22,135)
(Accumulated losses)/retained earnings	(18,530)	44,589	66,698
Non-controlling interests	(2,958)	(4,039)	(4,029)
Total equity	163,552	293,379	497,674
Liabilities			
Non-current liabilities			
Amounts due to related parties	4,415	4,415	—
Contract liabilities	45,856	65,445	18,924
Lease liabilities	8,838	13,353	5,543
Deferred income	683	5,124	6,280
Deferred income tax liabilities	—	—	6,000
Total non-current liabilities	59,792	88,337	36,747
Current liabilities			
Trade and other payables	128,650	205,881	238,587
Amounts due to related parties	1,775	1,876	5,940
Contract liabilities	109,151	238,898	399,692
Current income tax liabilities	1,503	14,496	22,274
Lease liabilities	7,995	9,517	8,625
Deferred income	82	405	600
Total current liabilities	249,156	471,073	675,718
Total liabilities	308,948	559,410	712,465
Total equity and liabilities	472,500	852,789	1,210,139

Property, Plant and Equipment

Our property, plant and equipment consisted of plant and machinery, transportation equipment, furniture, fixtures and equipment, leasehold improvements, construction in progress and buildings. We had property, plant and equipment of RMB55.0 million, RMB84.3 million and RMB105.3 million as of December 31, 2018, 2019 and 2020, respectively. The following table sets forth the components of our property and equipment as of the dates indicated.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Plant and machinery	30,297	47,295	50,292
Transportation equipment	1,206	959	635
Furniture, fixtures and equipment	1,807	4,347	4,146
Leasehold improvements	13,911	24,536	20,308
Construction in progress	6,035	943	23,966
Buildings	1,790	6,258	5,952
Total	55,046	84,338	105,299

Our property, plant and equipment increased from RMB55.0 million as of December 31, 2018 to RMB84.3 million as of December 31, 2019, primarily due to (1) addition to our plant and machinery and buildings to enhance our production capacity and (2) increases in leasehold improvements and plant and machinery as we transferred our construction in progress upon completion, partially offset by depreciation expenses. Our property, plant and equipment further increased to RMB105.3 million as of December 31, 2020, primarily due to addition to our plant and machinery and construction in progress, partially offset by depreciation expenses.

Right-of-use Assets

Our right-of-use assets primarily consisted of office premises and land use rights. Our right-of-use assets increased from RMB16.4 million as of December 31, 2018 to RMB80.8 million as of December 31, 2019, primarily due to the acquisition of new land use rights in Wuxi City in 2019. Our right-of-use assets decreased to RMB70.8 million as of December 31, 2020, primarily due to the depreciation of our office premises.

Intangible Assets

Our intangible assets consisted of software, patents, goodwill and others which primarily represented compensation for clause prohibition of competition. Under the relevant contract clause, a supplier undertook to provide certain materials to us on an exclusive basis in the designated regions and compensate us for a breach of contract. We thus obtained a contractual right to such compensatory damages, which was recognized as intangible asset. Our intangible assets decreased from RMB13.7 million as of December 31, 2018 to RMB9.3 million as of December 31, 2019, and further to RMB6.2 million as of December 31, 2020, primarily due to the amortization on our software and compensation for clause prohibition of competition.

Inventories

Our inventories consisted primarily of raw materials, and to a much lesser extent, work in progress and finished goods. We had inventories of RMB21.7 million, RMB22.8 million and RMB19.9 million as of December 31, 2018, 2019 and 2020, respectively. The following table sets forth our inventories as of the date indicated.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Raw materials	20,962	19,376	17,772
Work in progress	499	617	755
Finished goods	202	2,834	1,387
Total	21,663	22,827	19,914

Our inventories level increased from RMB21.7 million as of December 31, 2018 to RMB22.8 million as of December 31, 2019, primarily due to the increase in finished goods that had not been shipped yet as at year end resulting from our delivery schedule. Our inventories decreased to RMB19.9 million as of December 31, 2020, primarily due to the decreases in (1) the inventory of raw materials reflecting the monthly fluctuations in our procurements, and (2) the unit price of major raw materials in 2020.

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

	Year ended December 31,		
	2018	2019	2020
Inventory turnover days(1)	33	35	32

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

Our inventory turnover days remained relatively stable at 33 days, 35 days and 32 days in 2018, 2019 and 2020, respectively. We have continuously enhanced our inventory control measures.

As of March 31, 2021, approximately RMB19.4 million, or 97.4%, of our inventories as of December 31, 2020 had been delivered or consumed.

Trade and Other Receivables

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

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Trade receivables	79,382	73,692	88,747
Less: allowance for impairment of trade receivables	(5,696)	(8,203)	(18,344)
Other receivables[1]	11,822	8,799	5,658
Less: allowance for impairment of other receivables	(110)	(78)	(85)
Prepayments for taxes	7,120	9,605	3,169
Prepayments to suppliers	11,402	10,276	15,624
Prepayments for [**REDACTED**] expenses	3,503	3,725	6,924
Total	107,423	97,816	101,693

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

Our trade and other receivables decreased from RMB107.4 million as of December 31, 2018 to RMB97.8 million as of December 31, 2019, primarily due to the decrease in trade receivables as we enhanced our collection efforts and adjusted the payment terms with certain of our customers. Our trade and other receivables increased to RMB101.7 million as of December 31, 2020, primarily due to the increases in (1) prepayments to certain suppliers, (2) trade receivables in line with our business growth, and (3) prepayments for [**REDACTED**] expenses in connection with our preparation for the [**REDACTED**].

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

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Within 60 days	14,719	23,562	26,703
61 to 180 days	17,066	19,887	17,341
181 to 365 days	36,678	9,946	12,214
One to two years	5,136	13,001	16,004
Two to three years	4,205	2,710	10,666
Over three years	1,578	4,586	5,819
Total	79,382	73,692	88,747

The following table sets forth the aging analysis of our trade receivables due from each customer type as of the dates indicated based on invoice date.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Direct Sales			
Private clinics			
Within 60 days	11,268	10,900	14,266
61 to 180 days	11,985	9,107	10,816
181 to 365 days	24,422	4,934	4,679
One to two years	2,084	5,394	9,671
Two to three years	2,746	652	4,397
Over three years	761	2,665	2,205
Subtotal	53,266	33,652	46,034
Public hospitals			
Within 60 days	1,477	3,557	3,982
61 to 180 days	2,572	3,925	1,495
181 to 365 days	10,798	3,299	1,719
One to two years	3,052	7,429	6,033
Two to three years	1,458	2,058	6,133
Over three years	817	1,921	3,614
Subtotal	20,174	22,189	22,976
Sales to Distributors			
Within 60 days	1,974	9,106	8,456
61 to 180 days	2,510	6,854	5,030
181 to 365 days	1,458	1,714	5,816
One to two years	–	177	299
Two to three years	–	–	136
Subtotal	5,942	17,851	19,737
Total	79,382	73,692	88,747

Trade receivables mainly arise from provision of our clear aligner treatment solutions. During the Track Record Period, we generally received advances prior to the rendering of our services or sales, while we usually granted some customers, primarily certain hospitals, dental clinics and distributors, a credit period ranging from 30 to 60 days. We generally provided a longer credit period to credible public hospitals, as the internal procedures of public hospitals regarding decision making and approval, and reconciliation and settlement typically take a longer period of time and thus would affect our collection of trade receivables attributable to them. Despite that, we consider that the impairment risks of trade receivables due from these credible public hospitals are relatively low considering their nature. In addition, we selectively provided a longer credit period to certain reputable, large-scale private clinics to strengthen our cooperative relations with them and increase our market share. We believe that such arrangements were negotiated on an arm's length basis and were commercially reasonable, and were for the benefit and in the interests of our Company. In comparison, we usually implemented a manufacture-upon-payment policy to private entities with which we cooperated for the first time. We may grant credit periods to other private entities on a case-by-case basis, depending on factors such as their relative bargaining power and market position in the industry. We plan to closely monitor our trade receivables and enhance our collection efforts in the future. We believe we will be more successful in such efforts in the future as we expand the scale of our business and improve our bargaining power.

We recorded trade receivables aged over 60 days of RMB64.7 million, RMB50.1 million and RMB62.0 million as of December 31, 2018, 2019 and 2020, respectively, which, as a percentage of our revenue from the provision of clear aligner treatment solutions, decreased from 13.9% to 8.0%, and further to 7.8%. Trade receivables aged over 60 days primarily consisted of trade receivables due from credible public hospitals and reputable, large-scale private clinics, as we granted them a longer credit period as discussed above.

Specifically, trade receivables aged over 60 days due from public hospitals remained relatively stable at RMB18.7 million, RMB18.6 million and RMB19.0 million as of December 31, 2018, 2019 and 2020, respectively. As discussed above, it usually takes a longer period for public hospitals to review, approve and settlement payments with all kinds of suppliers. Despite that, we consider that the risks associated with the recoverability of such trade receivables are relatively low, considering the credibility of public hospitals and their funding sources.

Trade receivables aged over 60 days due from private clinics decreased by 45.8% from RMB42.0 million as of December 31, 2018 to RMB22.8 million as of December 31, 2019, primarily due to our enhanced management measures and collection efforts for trade receivables. Trade receivables aged over 60 days due from private clinics increased by 39.6% from RMB22.8 million as of December 31, 2019 to RMB31.8 million as of December 31, 2020, primarily because we extended the credit period for certain reputable, large-scale private clinics amid the COVID-19 outbreak based on our assessment of associated risks and taking into account their operating status. We believe that such arrangement would enable us to foster long-term cooperation relationship with them. As those private clinics have gradually resumed normal operations and business growth, we will enhance our collection efforts of these trade receivables. Based on the credibility of these private clinics and our historical cooperation relation with them, we believe that the risks associated with the recoverability of such trade receivables are relatively low. Furthermore, we had a relatively low trade receivable concentration ratio with respect to private clinics. For example, two out of the five top customers, in terms of trade receivables outstanding as of December 31, 2020, were private clinics, which accounted for approximately 4.0% and 3.3% of our total trade receivables as of the same date, respectively. As a result, we believe that our risk exposure is limited.

Trade receivables aged over 60 days due from distributors increased from RMB4.0 million as of December 31, 2018 to RMB8.7 million as of December 31, 2019, and further to RMB11.3 million as of December 31, 2020, which was in line with the increased revenue contribution of sales to distributors. In 2018, 2019 and 2020, we generated 11.0%, 29.9% and 33.6% of our total revenue from sales to distributors, respectively. Trade receivables aged over 60 days due from distributors, as a percentage of revenue generated from the provision of clear aligner treatment solutions through distributors, decreased from 7.7% to 4.7%, and further to 4.2%. In addition, we conduct credit assessment while selecting our distributors, and we collect deposits from our distributors. As such, we believe that the risks associated with the recoverability of such trade receivables are relatively low.

As of December 31, 2018, 2019 and 2020, we recorded allowance for impairment of trade receivables of RMB5.7 million, RMB8.2 million and RMB18.3 million, respectively. In particular, the significant increase in allowance for impairment of trade receivables from December 31, 2019 to December 31, 2020 was primarily attributable to public hospitals and private dental clinics. Considering (1) the more stringent quarantine measures adopted by public hospitals and accordingly, the prolonged suspension of non-emergent dental care services by public hospitals during the COVID-19 outbreak, and (2) the closures of private clinics and their extended settlement procedures during the COVID-19 outbreak, we increased the allowance for impairment of trade receivables primarily due from public hospitals and private clinics. However, as discussed above, we believe that the recoverability risks are relatively low, and due to our relatively low trade receivable concentration ratio, the impact of a particular default customer, if any, on our overall trade receivables is relatively limited.

As a result of the foregoing and based on our credit assessment of our trade receivables aged over 60 days, our Directors are of the view that we had recorded sufficiency allowance for impairment of trade receivables during the Track Record Period. See Note 3.1(b)(i) to the Accountant's Report in Appendix I to this document for the determination of the loss allowance provision.

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

	Year ended December 31,		
	2018	2019	2020
Trade receivables turnover days(1)	41	39	30

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

Our trade receivables turnover days decreased from 41 days in 2018 to 39 days in 2019, and further to 30 days in 2020, primarily due to our enhanced management measures and collection efforts for trade receivables. We have implemented a series of internal policies and measures to strengthen the management of our trade receivables. For instance, we have assembled a dedicated team in charge of management of accounts receivables and credit assessment. Our team will conduct periodic assessment of customers' credit and adjust our management measures accordingly. Furthermore, we incentivized certain customers to enter into prepayment arrangement with us to improve the overall profile of our trade receivables.

As of March 31, 2021, approximately RMB66.5 million, or 74.9%, of our trade receivables as of December 31, 2020 had been settled. Specifically, approximately 57.9%, 88.0% and 64.3% of the trade receivables due from public hospitals, private clinics and distributors as of December 31, 2020, respectively, had been settled as of March 31, 2021.

Amounts Due from Related Parties

We recorded amounts due from related parties of RMB27.7 million, RMB30.2 million and RMB4.5 million as of December 31, 2018, 2019 and 2020, respectively. Our amounts due from related parties primarily represented amounts attributable to certain transactions between our related parties and us for share-based payments in 2018 and our loans made to certain related parties in 2018 and 2019, which were of non-trade nature. As advised by our PRC legal advisors, our loan agreements with such related parties do not violate any mandatory stipulation of PRC laws and regulations and are valid according to the Private Lending Cases Provisions and the Civil Code of the PRC, although they do not fall under the permitted scope of the General Lending Provisions which, as department rules of the People's Bank of China, shall be overrode by PRC laws and regulations. We expect to settle the balance of the amounts due from related parties prior to the [**REDACTED**]. See "— Related Parties Transactions" for more details.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss primarily represented our investments in wealth management products issued by major and reputable commercial banks with guaranteed principal and an expected annual investment return rate ranging from 2.30% to 4.50%. We purchased financial assets at fair value through profit or loss of RMB350.0 million, RMB588.0 million and RMB1,310.0 million in 2018, 2019 and 2020, respectively. We typically redeemed our investments in wealth management products upon their maturities before the year end and thus did not record a carrying amount for such as of December 31, 2018, 2019 and 2020. The following table sets forth the changes of our financial assets at fair value through profit or loss as of the dates indicated.

	As at December 31,		
	2018	2019	2020
	(RMB in thousands)		
Wealth management products			
Balance at the beginning of the year	43,000	—	—
Additions	350,000	588,000	1,310,000
Realized fair value gain	2,436	2,512	4,235
Disposals	(395,436)	(590,512)	(1,314,235)
Balance at the end of the year	—	—	—

During the Track Record Period and pursuant to our Board resolutions with respect to the purchase of wealth management products using short-term surplus funds, all our wealth management products were principal-guaranteed structured deposits and issued by reputable commercial banks in China. A vast majority of such products had a maturity period of less than three months. Our purchase of wealth management products must be pre-authorized by both chief executive officer and chief financial officer. As stipulated by the relevant Board resolutions, the rolling balance of our investments in wealth management products issued by any single commercial bank, and the aggregate rolling balance of our total investments in wealth management products, shall not exceed a pre-determined limit. During the Track Record Period, we set the aggregate upper limit at RMB200 million, RMB200 million and RMB300 million in 2018, 2019 and 2020, respectively. Our Board generally adjusts such limit on an annual basis by taking into account our operating goals, cash flow projections and risk factors. Our finance team closely monitors the risks of our wealth management products by following the economic trends, interest rate changes, the status of the issuing banks and other factors that may have an impact on their pricing and credit profile.

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

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

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

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

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

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

In addition, we will comply with relevant size test requirements under Chapter 14 of the Listing Rules and disclose the details of our investments or other notifiable transactions to the extent necessary and as appropriate after the [**REDACTED**].

Fair value measurements

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

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

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

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

We recognize transfers into and out of the fair value hierarchy levels at the end of the reporting period. There were no transfers between level 1, 2 and 3 during 2018, 2019 and 2020. As of December 31, 2018, 2019 and 2020, respectively, we had no level 1 and level 2 financial instruments, and had no level 3 instruments which represented financial assets at fair value through profit or loss, as we redeemed our investments in wealth management products upon their maturities before the year end. Fair value gains from all financial instruments in level 3 were all realized and recognized in our profit or loss during the Track Record Period.

Our valuation techniques for financial instruments not traded in active markets maximize the use of observable market inputs and minimize the use of entity-specific estimates. Specifically, we use discounted cash flow model in valuing our level 3 financial instruments, under which we make certain assumptions of our expected future cash flows and expected rate of return. The unobservable inputs are expected rate of return rate and discount rate. See Note 3.3 to the Accountant's Report in Appendix I to this document for details.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consist of cash on hand, deposits held at call with financial institutions, and other short-term and highly liquid investments. We had cash and cash equivalents of RMB216.0 million, RMB504.7 million and RMB877.6 million as of December 31, 2018, 2019 and 2020, respectively.

Trade and Other Payables

Our trade payables primarily consisted of payments we owed to our suppliers. Our other payables primarily consisted of employee benefits payables, other taxes payable and dividends payable. We had trade and other payables of RMB128.7 million, RMB205.9 million and RMB238.6 million as of December 31, 2018, 2019 and 2020, respectively. The following table sets forth the details of our trade and other payables as of the dates indicated.

	As of December 31,		
	2018	**2019**	**2020**
		(RMB in thousands)	
Trade payables	26,942	60,910	34,024
Employee benefits payable	45,217	63,129	82,302
Other taxes payable	25,618	34,642	55,514
Consideration payables in relation with acquisition of a subsidiary	3,432	3,488	3,262
Accrued expenses payable	9,263	9,604	15,531
Deposits payable	5,086	9,829	17,443
Advertising and promotion expenses payable	3,989	5,255	13,955
Donation payable	—	2,000	4,000
Professional services fee payable	2,242	6,208	6,128
Reimbursement payable	2,298	3,397	2,688
Payables in relation with acquisition of property, plant and equipment	537	3,447	286
Others	4,026	3,972	3,454
Total	128,650	205,881	238,587

Our trade payables primarily represented the amount due to our suppliers. Our trade payables increased from RMB26.9 million as of December 31, 2018 to RMB60.9 million as of December 31, 2019, primarily due to the increase in the purchase of raw materials to meet the increasing demand of our clear aligners. Our trade payables decreased from RMB60.9 million as of December 31, 2019 to RMB34.0 million as of December 31, 2020, primarily due to (1) a decreased stock of raw materials and consumables, (2) the decrease in the price of certain consumables, and (3) our settlement of trade payables at the year end of 2020.

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

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

Our deposits payable primarily consisted of the deposits payable to our suppliers and bid bond payable related to the construction of our Chuangmei Center. Our deposits payable increased from RMB5.1 million as of December 31, 2018 to RMB9.8 million as of December 31, 2019 primarily due to the increase in the number of suppliers and the amount of deposits required in line with our business growth. Our deposits payable further increased to RMB17.4 million as of December 31, 2020, primarily because we commenced the construction of Chuangmei Center in 2020.

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

	As of December 31,		
	2018	**2019**	**2020**
		(RMB in thousands)	
Within 60 days	21,875	52,328	28,027
61 to 180 days	5,036	6,194	3,566
181 to 365 days	10	236	685
Over one years	21	2,152	1,746
Total	26,942	60,910	34,024

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

	Year ended December 31,		
	2018	**2019**	**2020**
Trade payables turnover days(1)	37	70	72

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

Our trade payables turnover days increased from 37 days in 2018 to 70 days in 2019, and further to 72 days in 2020, primarily because we had greater bargaining power in negotiating a longer credit period as our business continued to grow.

As of March 31, 2021, approximately RMB28.3 million, or 83.2%, of our trade payables as of December 31, 2020 had been settled.

Amounts Due to Related Parties

We recorded amounts due to related parties of RMB6.2 million, RMB6.3 million and RMB5.9 million as of December 31, 2018, 2019 and 2020, respectively. Our amounts due to related parties were primarily related to our share incentive plans. We expect to settle the amounts due to related parties prior to the [**REDACTED**]. See "— Related Parties Transactions" for more details.

Contract Liabilities

We require a lump sum payment from all customers with or without a credit period. Our contract liabilities primarily arose from the advance payments made by customers before the delivery of underlying services and products. Our contract liabilities increased from RMB155.0 million as of December 31, 2018 to RMB304.3 million as of December 31, 2019, and further to RMB418.6 million as of December 31, 2020, which was generally in line with our business growth. The following table sets forth a breakdown of our contract liabilities as of the dates indicated.

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Clear aligner treatment solutions	153,454	303,158	416,843
Other services	1,553	1,185	1,773
Total	155,007	304,343	418,616
Analyzed into:			
Current Portion			
Clear aligner treatment solutions	107,598	237,713	397,919
Other services	1,553	1,185	1,773
	109,151	238,898	399,692
Non-current Portion			
Clear aligner treatment solutions	45,856	65,445	18,924

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

	Year ended December 31,		
	2018	2019	2020
	(RMB in thousands)		
Revenue recognized that was included in the contract liability balance at the beginning of the year			
– Clear aligner treatment solutions	91,973	107,598	237,713
– Other services	91	1,553	1,185
Total	92,064	109,151	238,898

Accumulated Losses/Retained Earnings

We recorded accumulated losses of RMB18.5 million as of December 31, 2018, which were a fair representation of our corporate development and historical financial performance. From 2003 to 2015, we incurred significant expenses in relation to the development of our solutions, including our R&D initiatives in clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies, the development of *iOrtho* and other technology platforms, and the building and development of our R&D, operational and management teams. In addition, we have organized the *A-Tech Forum*, an annual academic conference since 2014, to, among other things, educate dental professionals of the advantages of our solutions. On the other hand, China's clear aligner industry was at a nascent stage during the same period, which translated into a relatively low market demand from dental professionals and patients and a resultant lack of revenue sources. As a result, we primarily recognized net losses in each year prior to 2015, which largely contributed to our accumulated loss position as of January 1, 2018, the commencement of our Track Record Period.

Starting from 2015, we began to capitalize on the advancement of China's clear aligner industry with our well-established and continuously enhanced solutions. According to the CIC Report, the number of GP dentists in China and the number of dental institutions in China increased at a CAGR of 8.2% and 6.5% from 2015 to 2019, respectively, indicating increasing awareness of dental health and demand for dental care services. According to the same source, China's clear aligner market, in terms of retail sales revenue, increased from US$0.2 billion in 2015 to US$1.5 billion in 2020 at a CAGR of 44.4%. During the same period, we also expanded our product portfolio and enhanced our technological and manufacturing capabilities to embrace the market growth, which translated into the steady increase in the number of our case shipments. In addition, we were able to optimize our cost structure and operating efficiency in line with our business expansion. As a result, our profitability has gradually improved since 2015, which progressively offset our accumulated loss position until December 31, 2019 when we began to recognize retained earnings position of RMB44.6 million. As of December 31, 2020, we continued to recognize retained earnings of RMB66.7 million in line with our continuous business growth. The following table sets forth the movement of our accumulated losses/retained earnings position during the Track Record Period.

	Year ended December 31,		
	2018	2019	2020
		(RMB in thousands)	
At the beginning of the year	(72,139)	(18,530)	44,589
Profit for the year	59,758	68,837	150,689
Appropriation to statutory reserves	(6,149)	(5,718)	(24,580)
Dividends	–	–	(104,000)
At the end of the year	(18,530)	44,589	66,698

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Working Capital Sufficiency

Our primary use of cash is to fund our working capital requirements and other recurring expenses. During the Track Record Period, we financed our capital expenditures and working capital requirements primarily through cash generated from our operating activities. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank facilities and other borrowings, [**REDACTED**] from the [**REDACTED**] and other funds raised from the capital markets from time to time. As of December 31, 2020, we had cash and cash equivalents of RMB877.6 million. Taking into account the financial resources available to us, including cash flow from operating activities and the estimated [**REDACTED**] from the [**REDACTED**], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

Cash Flows

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

	Year ended December 31,		
	2018	2019	2020
	(RMB in thousands)		
Net cash generated from operating activities	144,585	402,332	408,279
Net cash used in investing activities	(2,062)	(103,035)	(7,276)
Net cash used in financing activities	(61,827)	(11,304)	(23,333)
Net increase in cash and cash equivalents	80,696	287,993	377,670
Cash and cash equivalents at beginning of the year	134,051	216,015	504,697
Exchange gains/(losses) on cash and cash equivalents	1,268	689	(4,789)
Cash and cash equivalents at end of the year	216,015	504,697	877,578

Net cash generated from operating activities

Net cash generated from operating activities was RMB408.3 million in 2020, primarily due to our profit before income tax of RMB191.2 million minus income tax paid of RMB23.6 million, as adjusted by (1) certain non-cash and non-operating items, primarily including depreciation of property, plant and equipment of RMB17.5 million, depreciation of right-of-use assets of RMB11.1 million, net impairment losses on financial assets of RMB10.1 million, and share-based payments of RMB66.3 million, (2) changes in working capital that positively affected the cash flow from operating activities, primarily including an increase of RMB114.3 million in contract liabilities, an increase of RMB37.2 million in trade and other payables and a decrease of RMB2.9 million in inventories, and (3) partially offset by changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase of RMB15.0 million in trade and other receivables.

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

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

Net cash used in investing activities

Net cash used in investing activities was RMB7.3 million in 2020, primarily due to purchase of property, plant and equipment of RMB41.3 million, partially offset by loans repaid by related parties of RMB26.7 million and interest received of RMB4.2 million.

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

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

Net cash used in financing activities

Net cash used in financing activities was RMB23.3 million in 2020, primarily due to dividend paid of RMB104.0 million, partially offset by contribution from our shareholders of RMB49.5 million and issue of shares of RMB42.7 million.

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

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

Current Assets and Current Liabilities

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

	As of December 31,			As of March 31,
	2018	2019	2020	2021
	(RMB in thousands)			
				(unaudited)
CURRENT ASSETS				
Inventories	21,663	22,827	19,914	23,743
Trade and other receivables	107,423	97,816	101,693	98,895
Amounts due from related parties	27,712	30,235	4,523	3,523
Cash and cash equivalents	216,015	504,697	877,578	905,067
Total current assets	372,813	655,575	1,003,708	1,031,228
CURRENT LIABILITIES				
Trade and other payables	128,650	205,881	238,587	244,807
Amounts due to related parties	1,775	1,876	5,940	5,877
Contract liabilities	109,151	238,898	399,692	370,918
Current income tax liabilities	1,503	14,496	22,274	28,719
Lease liabilities	7,995	9,517	8,625	8,913
Deferred income	82	405	600	600
Total current liabilities	249,156	471,073	675,718	659,834
NET CURRENT ASSETS	123,657	184,502	327,990	371,394

We had net current assets of RMB123.7 million, RMB184.5 million, RMB328.0 million and RMB371.4 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our net current assets position as of each of these dates was primarily attributable to our trade and other receivables, cash and cash equivalents and financial assets at fair value through profit or loss, partially offset by trade and other payables and contract liabilities.

Our net current asset increased from RMB328.0 million as of December 31, 2020 to RMB371.4 million as of March 31, 2021, primarily due to the increases in inventories and cash and cash equivalents in line with our business growth.

Our net current asset increased from RMB184.5 million as of December 31, 2019 to RMB328.0 million as of December 31, 2020, primarily due to the increases in (1) cash and cash equivalents, and (2) trade and other receivables resulting from the increases in (i) prepayments to certain suppliers, and (ii) trade receivables, all of which were in line with our business growth, partially offset by the increases in (1) trade and other payables primarily resulting from the increases in (i) employee benefits payable in line with the increase in their headcount, (ii) other taxes payable in line with our business growth, and (iii) advertising and promotional expenses payable in connection with the *A-Tech Forum*, and (2) contract liabilities in line with our business growth.

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

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

Our capital expenditures during the Track Record Period consisted primarily of purchases of property, plant and equipment, purchases of right-of-use assets, and purchase of intangible assets, and amounted to RMB66.3 million, RMB122.0 million and RMB41.0 million, respectively, in 2018, 2019 and 2020. We funded our capital expenditure requirements during the Track Record Period mainly from cash generated from our operating activities.

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

Capital Commitments

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

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Contracted but not provided for:			
Property, plant and equipment	9,631	13,093	164,898
Intangible assets	908	–	8
Investments in joint venture	500	500	500
Total	11,039	13,593	165,406

INDEBTEDNESS

Our indebtedness consisted primarily of lease liabilities and amounts due to related parties. As of March 31, 2021, being the latest practicable date for the purpose of the indebtedness statement below, we had RMB22.9 million in indebtedness. The following table sets forth the breakdown of our indebtedness as of the dates indicated.

	As of December 31,			As of March 31,
	2018	2019	2020	2021
				(unaudited)
	(RMB in thousands)			
Lease liabilities, current	7,995	9,517	8,625	8,913
Lease liabilities, non-current	8,838	13,353	5,543	8,121
Amounts due to related parties, current	1,775	1,876	5,940	5,877
Amounts due to related parties, non-current	4,415	4,415	–	–
Total	23,023	29,161	20,108	22,911

As at December 31, 2018, 2019 and 2020 and March 31, 2021, amounts due to related parties were unsecured.

Save as disclosed above, we had no bank loans or other borrowings, or any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases, guarantees or other material contingent liabilities. Our Directors confirm that there has not been any material change in our indebtedness since March 31, 2021.

CONTINGENT LIABILITIES

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

[REDACTED] EXPENSES

We expect to incur a total of approximately RMB[**REDACTED**] million of [**REDACTED**] in connection with the [**REDACTED**], representing approximately [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] (assuming an [**REDACTED**] of HK$[**REDACTED**], being the mid-point of the indicative [**REDACTED**] between HK$[**REDACTED**] and HK$[**REDACTED**], and assuming that the [**REDACTED**] is not exercised). During the Track Record Period, we incurred [**REDACTED**] expenses of approximately RMB28.0 million, out of which approximately RMB21.1 million was charged to our consolidated statements of results of operations as administrative expenses, while the remaining amount of approximately RMB6.9 million was capitalized as prepayment and will be deducted from the share premium upon the completion of the [**REDACTED**]. We expect to further incur [**REDACTED**] and other [**REDACTED**] expenses of approximately RMB[**REDACTED**] million upon the completion of the [**REDACTED**], out of which approximately RMB[**REDACTED**] million is expected to be charged to our consolidated statements of results of operations and approximately RMB[**REDACTED**] million is expected to be deducted from the share premium. The [**REDACTED**] expenses above are the best estimate as of the Latest Practicable Date and for reference only. The actual amount may differ from this estimate.

KEY FINANCIAL RATIOS

	As of/for the year ended December 31,		
	2018	**2019**	**2020**
Profitability ratios			
Gross profit margin(1)	63.8%	64.6%	70.4%
Net profit margin(2)	11.9%	10.5%	18.5%
Adjusted net profit margin (non-IFRS measure)(3)	18.9%	20.1%	27.8%
Adjusted return on equity (non-IFRS measure)(4)	71.8%	56.9%	57.4%
Adjusted return on total assets (non-IFRS measure)(5)	23.1%	19.6%	22.0%
Liquidity ratios			
Current ratio(6)	1.50	1.39	1.49

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

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

(3) The calculation of adjusted net profit margin, a non-IFRS measure, is based on adjusted net profit for the year divided by revenue for the respective year and multiplied by 100.0%. See "— Non-IFRS Measures."

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

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

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

Analysis of Key Financial Ratios

Gross profit margin, net profit margin and adjusted net profit margin (non-IFRS measure)

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

Adjusted return on equity and adjusted return on total assets (non-IFRS measures)

Our adjusted return on equity ratio decreased from 71.8% in 2018 to 56.9% in 2019, primarily due to the increase in our total equity as a result of the increases in other reserves and retained earnings, which outpaced the increase in our adjusted net profit. Our adjusted return on equity remained relatively stable at 57.4% in 2020.

Our adjusted return on total assets decreased from 23.1% in 2018 to 19.6% in 2019, primarily due to the significant increase in our total assets which outpaced the increase in our adjusted net profit. Our adjusted return on total assets increased from 19.6% in 2019 to 22.0% in 2020, primarily due to the significant increase in our adjusted net profit in line with our business growth.

Current ratio

Our current ratio decreased from 1.50 as of December 31, 2018 to 1.39 as of December 31, 2019, primarily due to the increases in our trade and other payables, contract liabilities and current income tax liabilities in line with our business growth. Our current ratio increased from 1.39 as of December 31, 2019 to 1.49 as of December 31, 2020, primarily due to the increases in (1) our trade and other receivables in line with our business growth, and (2) recognition of financial assets at fair value through profit or loss at the period end in connection with our purchase of wealth management products.

RELATED PARTY TRANSACTIONS

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

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

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

Market Risk

Foreign exchange risk

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

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

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

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
Assets			
USD	25,292	58,636	82,831
Liabilities			
USD	6,992	4,091	3,405
Others	—	143	39
	6,992	4,234	3,444

The following sensitivity analysis has been determined based on exposure to foreign currency rates. The analysis includes only USD denominated monetary items and adjusts their translation at the year-end for a 5% change in exchange rates. Should RMB strengthened or weakened by 5% against USD, with all other variables held constant, the post-tax profit for the year or period would have been approximately RMB0.9 million, RMB2.7 million and RMB4.0 million lower or higher in 2018, 2019 and 2020, respectively.

Cash flow and fair value interest rate risk

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

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

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

Credit Risk

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

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

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

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

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

Liquidity Risk

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

DIVIDEND

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

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

During the Track Record Period and up to the date of this document, we paid cash dividends of RMB61.0 million, RMB43.0 million and US$15.2 million in October 2020, November 2020 and April 2021, respectively. For details, see Note 30 to the Accountant's Report in Appendix I to this document.

DISTRIBUTABLE RESERVES

As of December 31, 2020, our Company had distributable reserves of RMB486.6 million.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

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

COVID-19 OUTBREAK AND EFFECTS ON OUR BUSINESS

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

Impact on our Business and Financial Conditions

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

We expect that our business will not be severely disrupted in the long run for the following reasons. First, COVID-19 has been largely contained in China, where we primarily conduct our business. The Chinese government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal nationwide during the second quarter of 2020. As a result, the demand and supply of dental services including orthodontic treatment has gradually recovered. Second, we believe that there is long-term, inelastic demand for orthodontic treatment solutions despite the COVID-19 outbreak, which only imposes a temporary barrier to receiving treatment. Moreover, compared with traditional orthodontic treatment, clear aligners have the advantages of reduced subsequent visits and improved oral hygiene, which are valuable to users especially during pandemics. As a result, dental professionals and their potential patients may develop a better understanding of our benefits and prefer our solutions over traditional ones. Third, the orthodontic demand will recover as economic activities return to normal nationwide. We experienced a bounce-back in case shipments from approximately 10,900 in the three months ended March 31, 2020 to approximately 36,400 in the three months ended June 30, 2020, compared with approximately 24,900 in the three months ended June 30, 2019. Our case shipments further increased to approximately 54,500 in the three months ended September 30, 2020, compared with approximately 42,400 in the three months ended September 30, 2019. We further generated case shipments of approximately 35,800 in the three months ended December 31, 2020, as compared with approximately 28,700 in the three months ended December 31, 2019. As of the Latest Practicable Date, we had not incurred any major capital expenditure due to the negative impact of COVID-19 outbreak.

Impact on Our Operations

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

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

Impact on Our Employees

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

We have been granted deduction in the contribution of social insurance premiums for our employees of approximately RMB11.8 million in 2020, according to relevant government relief policies during the COVID-19 outbreak.

Impact on Our Supply Chain

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

Our Precautionary Measures and Social Responsibility

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

In addition, while operating in the overall healthcare industry, we are committed to fulfilling our corporate social responsibility and creating stronger communities. 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.

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

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, as of the date of this document, other than the continued impact of the outbreak of COVID-19 as described above, there has been no material adverse change in our financial and trading positions or prospects since December 31, 2020, being the date on which our latest audited consolidated financial statements were prepared, and there is no event since December 31, 2020 which would materially affect the information in the Accountant's Report set out in Appendix I to this document.

UNAUDITED [REDACTED] FINANCIAL INFORMATION

The following unaudited [**REDACTED**] statement of adjusted consolidated net tangible assets has been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of [**REDACTED**] Financial Information for inclusion in Investment Circulars" issued by the HKICPA for illustrative purposes only, and is set out here to illustrate the effect of the [**REDACTED**] on our consolidated tangible assets as of December 31, 2020 as if it had taken place on that date.

Our unaudited [**REDACTED**] adjusted consolidated net tangible assets have been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the [**REDACTED**] been completed as of December 31, 2020 or any future date. It is prepared based on our consolidated net tangible assets as of December 31, 2020 as set out in the Accountant's Report in Appendix I to this document, and adjusted as described below.

	Audited consolidated net tangible assets attributable to owners of our Company as at December 31, 2020(1)	Estimated [REDACTED] from the [REDACTED](2)	Unaudited [REDACTED] adjusted consolidated net tangible assets attributable to owners of our Company as at December 31, 2020(5)	Unaudited [REDACTED] adjusted consolidated net tangible assets attributable to owners of our Company as at December 31, 2020 per Share(3)(5)	
		(RMB in thousands)		RMB	HK$(4)
Based on the [**REDACTED**] of HK$[**REDACTED**] per Share	495,515	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on the [**REDACTED**] of HK$[**REDACTED**] per Share	495,515	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

(1) The consolidated net tangible assets attributable to owners of our Company as of December 31, 2020 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net assets of our Group attributable to the owners of our Company as of December 31, 2020 of approximately RMB501.7 million and deducting our intangible assets attributable to the owners of our Company of approximately RMB6.2 million as of December 31, 2020.

(2) The estimated [**REDACTED**] from the [**REDACTED**] are based on [**REDACTED**] new Shares to be issued at the indicative [**REDACTED**] of HK$[**REDACTED**] and HK$[**REDACTED**] per [**REDACTED**], being the lower end to higher end of the stated [**REDACTED**] (after deducting the [**REDACTED**] fees and other estimated expenses which excluded [**REDACTED**] expenses which have been accounted for the years ended December 31, 2018, 2019 and 2020). The estimated [**REDACTED**] from the [**REDACTED**] are converted from Hong Kong dollars into RMB at an exchange rate of HK$1.0 to RMB0.8296 prevailing on the Latest Practicable Date.

(3) The unaudited [**REDACTED**] adjusted consolidated net tangible assets per Share is calculated based on [**REDACTED**] Shares in issue immediately following the completion of the [**REDACTED**], which does not take into account of any Shares which may be issued upon the exercise of the [**REDACTED**] and without taking into account of any Shares that may be issued under the Share Award Schemes.

(4) The unaudited [**REDACTED**] adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK$1.0 to RMB0.8296 prevailing on the Latest Practicable Date.

(5) No adjustment has been made to the unaudited [**REDACTED**] adjusted consolidated net tangible assets to reflect any of trading results or other transactions we entered into subsequent to December 31, 2020. In particular, no adjustment was made to reflect the dividend of US$15.2 million we declared on April 10, 2021. Had such dividend been taken into account, the unaudited [**REDACTED**] adjusted consolidated net tangible assets per Share would be HK$[**REDACTED**] and HK$[**REDACTED**], assuming the indicative [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] and HK$[**REDACTED**] per [**REDACTED**], respectively.