

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

See “Business — Growth Strategies” for a detailed description of our future plans.

USE OF [REDACTED]

We estimate that the [REDACTED] of the [REDACTED], after deducting the estimated [REDACTED] and other fees and expenses payable by us in connection with the [REDACTED], will be approximately HK\$[REDACTED] million, assuming an [REDACTED] of HK\$[REDACTED] per Share (being the mid-point of the indicative range of the [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per Share), and that the [REDACTED] is not exercised.

We currently intend to apply the [REDACTED] from the [REDACTED] for the purposes and in the amounts set out as follows.

	2021	2022	2023	Total
	(HK\$ in millions)			
Funding the construction of Chuangmei Center	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Strengthening our research and development capabilities and funding our in-house and collaborative R&D initiatives	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Developing a flexible and scalable intelligent information technology system	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Expanding our in-house sales team and providing sales personnel with training sessions	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Funding marketing and branding activities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Optimizing medical services	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Working capital and other general corporate purposes	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

The basis and details of our estimated use of the [REDACTED] are set out as below:

- approximately [REDACTED]% of the [REDACTED], or HK\$[REDACTED] million, for funding the construction of our Chuangmei Center in Wuxi city, which comprises new manufacturing facilities and a research and development center with a gross floor area of approximately 126,000 square meters. The new manufacturing facilities in our Chuangmei Center, once fully commissioned, are expected to have an annual designed production capacity of approximately 100 million units of clear aligners by 2026. See “Business — Our Intelligent Manufacturing — Expansion Plan” for details. We expect to incur costs primarily relating to construction and renovation of Chuangmei Center, and purchase of automated production machinery, research and development equipment and other equipment. In particular, we intend to allocate the [REDACTED] in the amounts as set forth below:
 - (i) approximately [REDACTED]% of [REDACTED], or HK\$[REDACTED] million, for building new manufacturing facilities and purchasing automated production lines. We expect to ramp up our production capacity at the new facilities to capture the increased

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market demand. According to the CIC Report, the number of China’s orthodontics cases addressed by clear aligners is expected to reach 467,200, 603,200 and 771,400 in 2021, 2022 and 2023, respectively. See “Industry Overview — China’s Clear Aligner Market — Overview of China’s Clear Aligner Market.” Based on our experience during the Track Record Period, the average number of units of aligners required for each case ranges from 74 to 184, depending on the product lines. We plan to reach the annual designed production capacity of 100 million units of clear aligners by 2026 with a total of 11 automated production lines. For the next three years though, we plan to purchase two automated production lines each year for our new manufacturing facilities at Chuangmei Center from 2021 to 2023. We expect that each production line will cost approximately RMB30.0 million with an expected useful life of ten years. The following table sets forth the deployment of automated production lines, designed production capacity, expected utilization rate and expected production volume of our new manufacturing facilities at Chuangmei Center from 2021 to 2023 based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,		
	2021	2022	2023
New automated production lines at Chuangmei Center	2	2	2
Total automated production lines at Chuangmei Center	2	4	6
Designed additional production capacity in the relevant year (units of clear aligners) ⁽¹⁾	5,000,000	5,000,000	5,000,000
Total designed production capacity (units of clear aligners)	5,000,000	25,000,000	45,000,000
Expected utilization rate	75.0%	75.0%	75.0%
Expected production volume (units of clear aligners)	3,750,000	18,750,000	33,750,000

(1) We expect that the manufacturing activities relating to each new automated production line will commence in the fourth quarter of the relevant year. The designed production capacity of each automated product line is 10,000,000 units of clear aligners per annum, or 2,500,000 units per quarter.

Based on the estimated market demand according to the CIC Report, our estimated market share and the increasing production capacity of Chuangmei Center as discussed above, we expect that the cash investment payback period with respect to the new manufacturing facilities at our Chuangmei Center will be approximately 41 months. Cash investment payback period refers to the amount of time it takes for the cumulative net profit plus depreciation and amortization to cover the costs of construction for the manufacturing facilities;

- (ii) approximately [REDACTED]% of the [REDACTED], or HK\$[REDACTED] million, for constructing the R&D center of our Chuangmei center. We believe that the advancement in our medical and R&D capabilities are the backbone of our long-term success in the clear aligner industry, which is increasingly influenced and even transformed by new technologies such as artificial intelligence, 3D printing and material science. Thus, the establishment of R&D center could serve as an integrated venue to carry out our multi-disciplinary studies, including but not limited to clinical stomatology,

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biomechanics, materials science, computer science and intelligent manufacturing technologies. We believe that the R&D center will allow us to delve into the joint study and application of multi-disciplinary science and technologies, strengthen our database and data capabilities, synergize our R&D initiatives and improve the efficiency and return on our R&D efforts, which will ultimately benefit dental professionals and patients. We plan to commence the construction of our R&D center in 2022 and complete by the first half of 2024; and

- (iii) approximately [REDACTED]% of the [REDACTED], or HK\$[REDACTED] million, for other initiatives relating to the construction and launch of our Chuangmei Center. In particular, we expect to furnish our workshops, R&D center and laboratories at Chuangmei Center, and incur capital expenditure for the procurement of experiment equipment. We also expect to enhance the digital infrastructure of Chuangmei Center once the construction of the production plant is completed in 2023.
- approximately [REDACTED]% of the [REDACTED], or HK\$[REDACTED] million, for strengthening our research and development capabilities and funding our in-house and collaborative R&D initiatives. We plan to continuously upgrade our technology and data platforms and explore other advanced theories and technologies. We expect to incur costs relating to purchasing and deploying additional machinery, equipment and software systems, recruiting additional research and development personnel specialized in stomatology, biomechanics, materials science, computer science or intelligent manufacturing, and cooperating with China’s most prominent higher education institutions, stomatology hospitals, medical schools and other research institutions to carry out joint research and development projects. With respect to the specific focus of the [REDACTED] to be applied to our R&D initiatives, we plan to apply such in both product development (including but not limited to new materials, new product functions and features, and new manufacturing techniques) and software development (including but not limited to new treatment planning system and AI application in digital orthodontics).

We expect to recruit qualified R&D personnel to drive the continuous development of our products and services. The following table sets forth the details of our recruitment plan based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

Research area	Positions	Expected number of new hires			Expected average compensation (RMB/year)	Primary qualifications
		2021	2022	2023		
Product development (including but not limited to new materials, new product functions and features, and new manufacturing techniques)	Researchers and engineers	6	9	11	300,000 to 1,200,000	<ul style="list-style-type: none"> • a bachelor’s degree or above in the relevant major • two to seven years of experience in the relevant industry • proficiency in dental medical device development, material science, manufacturing techniques, etc.
Software development (including but not limited to new treatment planning system, AI application in digital orthodontics)	Researchers and engineers	14	12	8	300,000 to 1,200,000	<ul style="list-style-type: none"> • a bachelor’s or above in the relevant major • two to seven years of experience in the relevant industry • proficiency in software development, computer graphics, artificial intelligence, etc.

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In addition, we expect to acquire the following equipment for our R&D initiatives based on our estimation.

Type of equipment	Number	Useful lives (years)
3D printers (various types)	8	8 to 10
Digital and optical microscopes (various types)	3	10
Measuring and analysis equipment	5	10
Other mechanical or technical equipment	4	10

- approximately [REDACTED]% of the [REDACTED], or HK\$[REDACTED] million, for developing a flexible and scalable intelligent information technology system to streamline and fully digitalize all aspects of our operations and deploying a data middle platform. By doing so, we expect to realize full compatibility among our existing systems and technology platforms and, consequently, achieve fully integrated end-to-end digital workflows to facilitate fluent information flow between us and dental professionals. In addition, we will invest in the upgrade of our existing platforms and systems, including *iOrtho* and MES. To that end, we expect to employ 32, 19 and 23 qualified information technology staff specialized in product management, system development and testing, and IT operation and maintenance in 2021, 2022 and 2023, respectively, to support our platform and system enhancements. We expect new recruits to have at least one to five years of relevant industry experience. The average annual compensation for these new recruits will be at approximately RMB300,000 to RMB600,000 per person. Our recruitment plan is based on current estimation and subject to changes based on our actual needs and market conditions at the relevant time.

- approximately [REDACTED]% of the [REDACTED], or HK\$[REDACTED] million, for expanding our in-house sales team and providing sales personnel with training sessions to enhance sales effectiveness and efficiency. We expect to recruit 440 sales representatives over the next three years. They will be responsible for exploring sales opportunities, providing customer services and enhancing customer experience. As discussed in “Business — Growth Strategies” in the document, a strong direct sales network supplemented with qualified distributors is instrumental to our long-term development. We have had a successful track record in prioritizing direct sales and synergizing it with distributorship, and intend to continue leveraging the coordinated sales model. We believe that the steady growth in the number of in-house sales representatives is essential to our ability to rapidly enhance the penetration in both institution customers (including public hospitals and private clinics) and dental professionals. Furthermore, we plan to further explore the market potentials in the lower-tier cities in China, given the even lower penetration of our solutions among dental professionals and institution customers in such cities. Compared with the first and second-tier cities, lower-tier cities are greater in number and more dispersed and, therefore, require prompt supplement of sales representatives.

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The following table sets forth a breakdown of our in-house sales representatives as of December 31, 2020 and our new sales representatives based on current estimation by geographic location.

Region	As of December 31, 2020		Estimated number of newly recruited sales representatives in three years	As of December 31, 2023	
	Number of sales representatives	% of Total		Estimated number of sales representatives	% of Total
Eastern China . . .	71	30.9%	105	176	26.3%
Western China . .	42	18.3%	78	120	17.9%
Southern China . .	53	23.0%	108	161	24.0%
Northern China . .	50	21.7%	120	170	25.4%
Central China . . .	14	6.1%	29	43	6.4%
Total	230	100.0%	440	670	100.0%

In contemplating our recruitment plan of in-house sales representatives for the next three years, we have taken into account the geographical allocation of our current in-house sales representatives and our market penetration level in the local areas. For example, we have established strong presence in the Eastern China, and therefore decided to increase in-house sales force there at a moderate level. In comparison, we will significantly enhance our sales force in the Northern China as our previously deployment there will not suffice for our growth plan.

In addition, we plan to recruit 43 sales managers over the next three years in proportion to the expansion of our sales team. They will be responsible for establishing and developing our sales team in the respective region, achieving our sales target in a cost-effective manner, and implementing our market strategy in the respective area.

The following table sets forth the details of our recruitment plan based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

Position	Expected number of new hires			Expected average compensation (RMB/year)	Primary qualifications
	2021	2022	2023		
Sales representative . . .	140	150	150	200,000-400,000	<ul style="list-style-type: none"> working experience in the sales and marketing of drugs and medical devices communication and customer relationship management skills

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Position	Expected number of new hires			Expected average compensation (RMB/year)	Primary qualifications
	2021	2022	2023		
Sales manager	14	15	14	300,000-600,000	<ul style="list-style-type: none"> extensive experience in sales and marketing of drugs and medical devices demonstrated organizational, project management, regional planning and customer relationship management skills

- approximately [REDACTED]% of the [REDACTED], or HK\$[REDACTED] million, for funding a variety of marketing and branding activities to expand user base and promote brand image, including organization of *A-Tech Forum* and other regional symposia focusing on specific products and technologies, attendance at academic conferences and industry exhibitions, sponsorship of national events, promotion of Yulong Plan (育龍計劃) in collaboration with China Oral Health Foundation, and various marketing and branding campaigns targeting prospective users.
- approximately [REDACTED]% of the [REDACTED], or HK\$[REDACTED] million, for optimizing our medical services by (1) establishing seven additional regional demonstration centers to improve the accessibility of our medical services offline and provide dental professionals with regular in-the-field training in application of our solutions, and (2) cultivating medical talent through joint programs in collaboration with China’s prestigious higher education institutions in China.

We intend to extend the network of our demonstration centers to Beijing, Shenzhen, Chengdu, Xi’an, Wuhan, Chongqing and Nanjing. We believe that the addition to demonstration centers is an integral part of our business expansion strategy and complements with other expansion initiatives. Unlike other forms of contact with dental professionals and patients, demonstration centers primarily serve the population in the surrounding area under an experiential setting and bolster our presence in the targeted city. Thus, selective addition to demonstration centers is a powerful tool to enhance our market position in certain regions. Through demonstration centers, we may provide training to dental professionals and enhance their understanding of our solutions and technological advantages. In addition, our demonstration centers have the potential to become a local hub for providing more responsive support to dental professionals, such as those required in medical design process. Moreover, demonstration centers provide patients with direct access to our products and services, which promotes their acceptance and adoption of our clear aligner treatment solutions.

In connection with our establishment of demonstration centers, we expect to recruit a total of eight dentists for each demonstration center, including at least three orthodontists, from 2021 to 2023. In selecting qualified dentists, we will primarily consider their academic background, professional experience, and their knowledge and skills in orthodontics and clear aligner treatment. We anticipate that the annual compensation for each dentist will range between RMB400,000 and RMB800,000, depending on their qualifications and expertise. In addition, we expect to hire approximately 15 to 20 supportive personnel, including nurses, assistants, and administrative and operational staff, for each demonstration center, whose compensation will vary depending on their job responsibilities.

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In addition, we believe that a sufficient supply of medical talents is crucial to our sustained ability to meet the increase in market demand for our solutions. In addition, a rich base of medical talent will allow us to provide greater and more comprehensive support to dental professionals with respect to their adoption and usage of our clear aligner treatment solutions, especially for GP dentists. By empowering more dental professionals through our underlying medical support, we are able to evoke the untapped market of the clear aligner industry and enhance our market position. To strengthen our medical design capacities, we plan to sponsor joint programs in collaboration with China’s prestigious higher education institutions to cultivate medical talent. We plan to launch such joint programs with three to five institutions each year from 2021 to 2023 and incur expenses relating to scholarships and purchase of equipment; and

- approximately [REDACTED]% of the [REDACTED], or HK\$[REDACTED] million, for working capital and other general corporate purposes.

The above allocation of the [REDACTED] will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed below or above the mid-point of the indicative price range. Any additional [REDACTED] received from the exercise of the [REDACTED] will also be allocated to the above purposes on a pro rata basis. In the event that the [REDACTED] is exercised in full, we will receive [REDACTED] of HK\$[REDACTED] million (after deducting the estimated [REDACTED] and other fees and expenses payable by us in connection with the [REDACTED] and assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of our indicative [REDACTED]).

To the extent that the [REDACTED] are not immediately applied to the above purposes, we intend to deposit the [REDACTED] into short-term demand deposits with licensed banks or financial institutions so long as it is deemed to be in the best interests of our Company.