SUMMARY

This summary aims to give you an overview of the information contained in this document and should be read in conjunction with the full text of this document. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document, including our financial statements and the accompanying notes, before you decide to invest in the [**REDACTED**]. *There are risks associated with any investment. Some of the particular risks of investing in the* [**REDACTED**] *are set forth in the section headed "Risk Factors." You should read that section carefully before you decide to invest in the* [**REDACTED**].

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 play an important role in China's clear aligner market, which is a subset of the overall orthodontics market. We facilitate dental professionals throughout the entire clear aligner treatment process with Angelalign clear aligner system, which comprises a trio of interrelated components:

- ***Digitally-assisted case assessment support and treatment planning services.*** We provide all dental professionals, including orthodontists and GP dentists, with digitally-assisted case assessment support and treatment planning services. Leveraging intraoral scanners and our digitally-assisted case assessment support, dental professionals may help patients visualize how their teeth may look at the end of the treatment within a few minutes after intraoral scanning. After dental professionals place orders and initiate treatment cases through *iOrtho*, our cloud-based service platform, our medical design team will help dental professionals design, review and modify treatment plans.

- ***Clear aligners.*** Clear aligner is a removable, transparent, plastic form of dental braces used to treat malocclusion. Upon the dental professional's approval of the treatment plan, we manufacture tailor-made clear aligners according to the specific treatment plan. By applying calculated forces to teeth and moving them into an optimal position, our clear aligners help treat malocclusion with more comfort and reduced treatment time and clinic visits.

- ***Cloud-based service platform.*** Our *iOrtho*, a cloud-based service platform, allows dental professionals to perform multiple tasks in the entire treatment process, including (1) placing orders with us; (2) reviewing, modifying and finalizing their treatment plans online with the help from our medical designers, and (3) reviewing, editing and managing medical records of their patients. We primarily communicate and interact with dental professionals regarding delivery of our digitally-assisted case assessment support and treatment planning services through *iOrtho*.

We currently market four lines of clear aligners, including *Angelalign*, *Angelalign Pro*, *Angelalign Kid* and *COMFOS*. Our diversified clear aligners, in synergy with our medical and technological services, allow dental professionals to deliver effective treatment for a growing number of malocclusion cases with varying complexities and for an enlarging patient base of a broad spectrum of ages and different spending powers. Our case shipments increased from approximately 77,700 in 2018 to approximately 120,100 in 2019, and further to approximately 137,600 in 2020. The following table sets forth a breakdown of our sales volume, as measured by case shipments, and the average selling price by product line for the periods indicated.

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

With profound understanding of the medical principles and practice of digital orthodontics which refers to the application of computer science and technology in malocclusion treatment, we are able to fully address disparate demands of China's dental professionals with varying levels of sophistication, in particular a multitude of GP dentists. See "Business — Our Angelalign Clear Aligner System" for details and "Business — Our Technology and Data Platforms" for details, and "Business — Research and Development" for our R&D efforts in this regard. 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 are well positioned to capture the enormous market opportunities in China. As the second largest in the world, China's overall clear aligner market, in terms of retail sales revenue, is expected to increase from US$1.5 billion in 2020 to US$11.9 billion in 2030 at a CAGR of 23.1%, according to the CIC Report. Moreover, the market share of China's clear aligner market in the overall orthodontics market, in terms of retail sales revenue, increased from 6.9% in 2015 to 19.0% in 2020, and is expected to reach 40.3% by 2030. As an increasing number of traditional orthodontic cases will become addressable by clear aligners, we expect to seize the overall potential of China's orthodontics market, which is expected to reach US$29.6 billion in terms of retail sales revenue in 2030 at a CAGR of 14.2% from 2020 to 2030, according to the same source. On the other hand, China's clear aligner market is still at a nascent stage. In 2020, China had approximately 1,040 million malocclusion cases; however, among the 3.1 million treated malocclusion cases in China in 2020, only 11.0% were addressed with clear aligners, which indicates a huge underpenetrated clear aligner market in China. Leveraging our market leadership and our intimate understanding of China's digital orthodontics market, we believe that we are well positioned to capture the upside potential of the enormous market. Furthermore, we are poised to explore opportunities of expanding into the global clear aligner market, which is expected to reach US$46.2 billion in terms of retail sales revenue by 2030.

(1) Case shipments refer to the number of newly submitted clear aligner treatment cases for which we have shipped the first batch of clear aligners during a given period; while the treatment process may last for more than one year and the clear aligners may be shipped in multiple batches across the treatment process, all cases will not be double-counted in any subsequent periods for the delivery of the remaining clear aligners.

We attribute our capability in digital orthodontics to the integrated application of our dedicated scientific research efforts on a range of relevant subjects, including clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies, including 3D printing and manufacturing automation. As the nucleus of our Angelalign clear aligner system, our self-developed and solid technology and data platforms, nicknamed *masterForce*, *masterControl* and *masterEngine*, play a vital role in our capability to continuously make breakthroughs in digital orthodontics, which has created entry barriers and underpinned our long-term growth. Furthermore, we manufacture all the clear aligners pertinent to specific treatment plans through a "mass customization" model, leveraging our intelligent manufacturing technologies, including 3D printing and automated production lines.

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

COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our success and differentiated us from our competitors: (1) pioneer and leading clear aligner treatment solution provider in China well positioned to capture the enormous market opportunities; (2) comprehensive product portfolio addressing diverse user needs; (3) premium medical and technological services; (4) self-developed technology and data platforms underpinned by industry-leading R&D capabilities; (5) strong brand recognition and profound academic influence; (6) solid intelligent manufacturing capabilities with stringent quality assurance system; and (7) visionary and seasoned management team with strong shareholder support.

GROWTH STRATEGIES

User satisfaction is our top priority. We aim to serve dental professionals and their patients with more customized products and services, refined manufacturing capability and flexible supply chain. To this end, we intend to pursue the following key strategies to grow our business sustainably and maintain our market leadership: (1) strengthen R&D capabilities and continue orthodontic solution innovations; (2) further intelligentize and digitalize our systems to improve operational efficiency; (3) optimize medical services to enhance user experience; (4) increase production capacity and improve production efficiency; and (5) solidify our market leading position by expanding sales network and enhancing brand awareness and academic influence.

OUR CUSTOMERS AND SALES CHANNELS

We directly sell a substantial portion of our services and products to hospitals and dental clinics through our wholly-owned subsidiary which holds the record-filling proof for operation of Class II medical devices (第二類醫療器械經營備案憑證). In addition to direct sales, we have engaged distributors who possess such record-filing proofs to increase sales and market share by leveraging their channel resources and, as a result, reduce our marketing cost. By doing so, we are able to scale our operations and replicate our success into unexplored regions, in particular certain lower-tier cities where we may not fully penetrate solely with our in-house sales team, quickly and cost-effectively with minimal incremental costs.

Our relationship with our distributors is that of seller and buyer and not principal and agent. Our distributors extend sales to public hospitals and private clinics which are not covered by our in-house sales team. We recognize revenue generated from sales to distributors with the wholesale prices entered into with our distributors. As such, our customers include public hospitals, private dental clinics and distributors. We require a lump sum payment from all customers with or without a credit period. Any customer drop-off in the middle of a treatment cycle would not have a material and adverse impact on our business, results of operations and financial condition, considering that (1) we require full-payout from customers while manufacturing and delivering our clear aligners by batches, and (2) we generally would not refund such drop-off customers. During the Track Record Period and up to the Latest Practicable Date, we had not received any material requests for drop-off or product return and refund, or any other material complaints in this regard from our customers. In 2018, 2019 and 2020, we had 76, 73 and 77 cases involving customer drop-off in the middle of a treatment cycle, respectively, of which the relevant loss of revenue was approximately RMB0.3 million, RMB0.3 million and RMB0.4 million, respectively. In addition, we processed return and exchange requests for approximately 1,900, 3,600 and 5,900 units of clear aligners in 2018, 2019 and 2020, respectively, which accounted for approximately 0.03%, 0.03% and 0.04% of all clear aligners we delivered in the corresponding year, respectively. We generally did not incur any additional refund for these returned and exchanged clear aligners.

Revenue generated from our top five customers accounted for 11.7%, 13.5% and 13.3% of our total revenue in 2018, 2019 and 2020, respectively, and revenue generated from our largest customer accounted for 4.1%, 3.8% and 3.3% of our total revenue in the same periods, respectively. Sales to distributors increased during the Track Record Period, as we engaged an increasing number of distributors to utilize sales channels of distributors to expand our business in a more cost-effective manner and increase our sales efficiency. Going forward, we will continue to focus on expanding our direct sales network and supplement our sales coverage with qualified distributors with considerable sales channels, which we believe is more suitable for our business model. See "Business — Sales and Distribution — Sales to Distributors" and "Business — Our Customers" for details. The following table sets forth a breakdown of our sales volume, as measured by case shipments, and the average selling price by sales channel and customer type for the periods indicated.

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

OUR SUPPLIERS

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

MANUFACTURING

We produce customized clear aligners through a "mass customization" model based on intelligent manufacturing technologies, including complex software solutions, 3D printing, rapid prototyping methods and automated production lines. Our principal manufacturing facilities are located in the Wuxi (Huishan) Life Science and Technology Industrial Park in Jiangsu Province, China, with an aggregate area of approximately 9,000 square meters. The following table sets forth our production capacity, production volume and utilization rate of our clear aligners for the periods indicated.

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

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

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

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

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

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

QUALITY CONTROL

We are committed to developing and producing high quality products in compliance with international and applicable domestic standards, regulations and directives. We have established what we believe to be a stringent quality management system. We have a quality and regulatory affairs department and devote significant resources to quality management of our products. During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaints about product quality and our products had not been subject to any material claim, litigation or investigation. In addition, during the Track Record Period and up to the Latest Practicable Date, there were no product recalls or fatal accidents related to our products. See "Business — Quality Control."

LICENSES, PERMITS AND APPROVALS

All of our clear aligners are classified as Class II medical devices, which represents medium level of risks to the human body and requires relatively high level of supervision to ensure safety and effectiveness. According to the relevant laws and regulations, our clear aligners are examined by the provincial branches of the NMPA, and we are required to apply for registration certificates from competent authorities for commercialization of our clear aligners. To obtain such registration certificates, we are required to conduct product registration testing and clinical trials for our clear aligners. In addition, any substantial change of the designs, raw materials, production technologies, scopes of application and application methods of our registered clear aligners, such as the fundamental change of appearance and raw materials of clear aligners, increased indications of clear aligners, and principle changes in key production process, may affect the safety and effectiveness of such medical devices; accordingly, we shall apply to the original registration department for registration modification. For example, in connection with our launch of *Angelalign Kid*, we had successfully applied for registration modification for increased indications of our clear aligners. In case of any non-substantial change thereof, which does not affect the safety and effectiveness of such medical devices, we shall report the information on the change to the original registration department for filings. The registration certificate for our clear aligners is valid for five years, and we shall apply to the relevant departments for renewal six months prior to the expiration date. We also need to apply for a production permit in connection with our manufacture of clear aligners. Renewal of such certificates and permits requires substantive review similar to that of the initial application. See "Regulatory Overview — Laws and Regulations Relating to Medical Devices" for details. As advised by our PRC legal advisors, we had obtained all licenses, permits, and approvals necessary to conduct our operations in all material respects from the relevant government authorities in China, including a registration certificate for medical device which suffices for all of our current product lines, and such licenses, permits, approvals and certificates remained in effect as of the Latest Practicable Date. The following table sets out a list of material licenses, permits, and approvals relating to our operations.

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

OUR RISKS AND CHALLENGES

Our business and operations involve certain risks and uncertainties including those set out in the "Risk Factors" section in this document. We may fail to achieve and further promote brand recognition and acceptance of our Angelalign clear aligner system among dental professionals, or grow or retain the number of dental professionals who utilize our solutions. Demand for clear aligner treatment may not increase as rapidly as we anticipate due to a variety of factors, including weakness in general economic conditions. In addition, we face competition in the clear aligner industry with domestic and international competitors. Our historical business growth, revenue and profitability may not be indicative of future performance, and our success depends in large part on our ability to execute our business strategy. We also may fail to execute our expansion plan as planned. As different investors may have different interpretations and criteria when determining the significance of a risk, you should carefully read the "Risk Factors" section in its entirety before you decide to invest in our Shares.

SUMMARY OF FINANCIAL INFORMATION

The following tables present the summary of our financial information for the Track Record Period and should be read in conjunction with our financial information included in the Accountant's Report in Appendix I to this document, including the notes thereto.

Summary of 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
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
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 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 directors, 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. 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. 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

See "Financial Information — Non-IFRS Measures" for details.

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 orthodontics and cosmetic dentistry services and other dental services through our dental clinics. 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

The following table sets forth a breakdown of our revenue generated from the provision of clear aligner treatment solutions by product line for the periods indicated.

	Year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands except for percentages)					
Angelalign	362,895	78.0	439,144	69.9	446,072	55.8
Angelalign Pro	97,622	21.0	146,803	23.4	212,934	26.7
Angelalign Kid	–	–	7,296	1.2	35,958	4.5
COMFOS	4,432	1.0	34,816	5.5	104,041	13.0
Total	464,949	100.0	628,059	100.0	799,005	100.0

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

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

Cost of revenue

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, staff costs, production costs, depreciation and amortization expenses and delivery costs. During the Track Record Period, our cost of revenue in absolute amount continuously increased, primarily due to the increased number of malocclusion cases we help addressed with our clear aligner treatment solutions. On the other hand, our cost of as a percentage of our total revenue continuously decreased during the Track Record Period, primarily due to (1) the decrease in production costs representing the significantly 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.

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

Summary of Consolidated Statements of Financial Position

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

	As of December 31,		
	2018	2019	2020
	(RMB in thousands)		
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
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
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
Net current assets	123,657	184,502	327,990
Total assets less current liabilities	223,344	381,716	534,421
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
Net assets	163,552	293,379	497,674
Equity attributable to owners of the Company			
Share capital and premium	—	—	486,669
Shares held for employee share scheme	(54,994)	(54,994)	(29,529)
Other reserves	240,034	307,823	(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

We recorded accumulated losses of RMB18.5 million as of December 31, 2018, and retained earnings of RMB44.6 million and RMB66.7 million as of December 31, 2019 and 2020, respectively.

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, the building and development of our R&D, operational and management teams, and the launch of *A-Tech Forum*. 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.

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, 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. We continued to recognize retained earnings as of December 31, 2020 in line with our continuous business growth. See "Financial Information — Discussion of Major Balance Sheet Items — Accumulated Losses/Retained Earnings" for details.

Summary of Consolidated Statements of 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

Key Financial Ratios

The following table sets forth certain of our key financial ratios as of the dates and for the periods indicated.

	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 "Financial Information — 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.

Our net profit margin decreased from 11.9% in 2018 to 10.5% in 2019, primarily due to the increases in our selling and marketing expenses as well as research and development expenses as percentages of our total revenue resulting from the increased headcount and compensation level of our sales and marketing as well as research and development personnel. Our net profit margin increased from 10.5% in 2019 to 18.5% in 2020, primarily due to the decreases in our costs and expenses as percentages of our total revenue resulting from economies of scale and the optimization of our cost and expense structure. See "Financial Information — Key Financial Ratios" for a detailed analysis of other key financial ratios.

OUR SHAREHOLDING STRUCTURE

Our Controlling Shareholders

As of the Latest Practicable Date, CareCapital Orthotech held approximately 67.1242% of the total issued share capital and thus, is a Controlling Shareholder of our Company. CareCapital Orthotech is wholly-owned by CareCapital EA, Inc., which is in turn owned by CareCapital Holdings and CareCapital Moonstone Holdings Limited, a wholly-owned subsidiary of CareCapital Holdings. As part of the capital management arrangements between them, CareCapital Group and HH Investors contributed 3.03% and 96.97% of the funds to the CareCapital Investment, respectively, which resulted in 3.03% and 96.97% of the beneficial ownership in CareCapital Holdings, respectively. Pursuant to the articles of CareCapital Holdings and the shareholders agreement of CareCapital Holdings dated June 12, 2015, CareCapital Group controls all the voting power of CareCapital Holdings, the controlling shareholder of our Company, and has the sole right to appoint the director of CareCapital Holdings and is responsible for the management and operation of our Group, while HH Investors are passive financial investors with no voting power in CareCapital Holdings or our Company and no right to appoint director of CareCapital Holdings or our Company. See "Our History and Corporate Development — CareCapital Group and CareCapital Investment — CareCapital Group — Voting Arrangement" for details. Pursuant to the Listing Rules and [**REDACTED**], CareCapital Group is our controlling shareholder, and HH Investors, being legal and beneficial shareholders of CareCapital Holdings, are collectively deemed as Controlling Shareholders. Immediately after the completion of the [**REDACTED**] (assuming no exercise of the [**REDACTED**] and without taking into account of any Shares that may be issued under the Share Award Schemes), CareCapital Orthotech will continue to control approximately [**REDACTED**]% of the voting rights at the general meetings of our Company, and thus continue to be the Controlling Shareholders of our Company upon [**REDACTED**]. See "Relationship with Our Controlling Shareholders" and "Our History and Corporate Development" for more information.

Pre-[REDACTED] Investments

We have completed certain pre-[**REDACTED**] equity financings to fund our rapid business expansion. See "Our History and Corporate Development — Pre-[**REDACTED**] Investments" for details of the identity and background of our Pre-[**REDACTED**] Investors.

Share Award Schemes

We value the contribution from our Directors, senior management and employees to the development and success of our Group. See "Our History and Corporate Development — Share Award Schemes" and "Statutory and General Information — D. Share Award Schemes" in Appendix IV to this document for details of or share incentives.

DIVIDEND

According to our dividend policy adopted on May 20, 2021, 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. Our Company in general meeting may from time to time by ordinary resolution declare dividends in any currency to be paid to the Shareholders but no dividend shall be declared in excess of the amount recommended by the Board, provided always that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. 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.

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. On March 11, 2020, amid the escalating situation, the World Health Organization further characterized COVID-19 as a pandemic. With quarantine 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 date of this document, 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.* We believe that the impact of COVID-19 on our results of operations and financial condition has been minimal. Despite a temporary decrease in our case shipments in the first quarter of 2020, 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. In addition, while revenue generated from other services decreased by 1.8% from RMB17.8 million in 2019 to RMB17.5 million in 2020 as a result of the impact of COVID-19 outbreak in early 2020, which temporarily affected the business operations of the dental clinics, we only generated 2.8% and 2.1% of our total revenue from other services in 2019 and 2020, respectively. Moreover, our net profit margin increased from 10.5% in 2019 to 18.5% in 2020, primarily due to the decreases in our costs and expenses as percentages of our total revenue resulting from economies of scale and the optimization of our cost and expense structure.

- *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, nor had we experienced any material delay or impediment of our research and development.

- *Impact on our employees.* As of the Latest Practicable Date, we were not aware of any suspected or confirmed case of COVID-19 among our staff.

- *Impact on our supply chain.* As of the Latest Practicable Date, we had not experienced any major supply chain disruption.

See "Financial Information — COVID-19 Outbreak and Effects on Our Business" for details of the impact of COVID-19 and our corresponding precautionary measures and social responsibility.

However, we cannot be entirely certain as to when the COVID-19 pandemic will be fully contained, and its impact will be completely alleviated. There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and occasional regional resurgence of COVID-19 cases in certain areas in China. 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 affected by the COVID-19 pandemic."

Sensitivity Analysis in View of the COVID-19 Outbreak

As of December 31, 2020, we had cash and cash equivalents of RMB877.6 million. Assuming the COVID-19 outbreak continues in China, and there has to be a complete suspension of our operations in the worst-case scenario, we expect that we would remain financially viable for a period of approximately 25 months from December 31, 2020 with (1) our cash reserves, (2) collection of a portion of our trade receivables as discussed below, and (3) approximately [**REDACTED**]%, or HK$[**REDACTED**] million of the [**REDACTED**] from the [**REDACTED**] as allocated for working capital and other general corporate purposes (assuming an [**REDACTED**] of HK$[**REDACTED**], being the mid-point of the indicative [**REDACTED**] range between HK$[**REDACTED**] and HK$[**REDACTED**], and assuming that the [**REDACTED**] is not exercised). Our estimation is based on the following assumptions that: (1) we will not generate any income due to the suspension of our operations; (2) we will incur raw material costs and delivery costs to the extent that we will produce and deliver clear aligners for cases that had not been completed as of December 31, 2020; (3) we expect to settle all of our trade payables as of December 31, 2020 upon their due dates within three months; (4) we assume that we will progressively collect a very limited portion of our trade receivables as of December 31, 2020 by reference to the collection of our trade receivables during the most severe time of the COVID-19 outbreak in China for the purpose of the worst-case scenario analysis; (5) we will suspend our marketing and branding activities, including *A-Tech Forum* and other regional symposia; (6) our expansion plans will be postponed; (7) all of our employees as of December 31, 2020 will be retained at current level of costs, including salaries, bonuses, social insurance and other benefits; (8) other operating and administrative expenses will be kept at a minimum level, except that we will fulfill our payment obligations under executed contracts, including [**REDACTED**] expenses in connection with the [**REDACTED**]; (9) we will not obtain any internal or external financing from our Shareholders or investors; and (10) no dividend will be declared and paid.

The above-mentioned analysis is for illustrative purpose only and our Directors currently consider that the likelihood of such situation is remote. The actual and ultimate impact of the COVID-19 pandemic will depend on its subsequent development which is uncertain for now, and may differ from our estimate and assessment due to reasons beyond our control.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Considering the demand for intraoral scanners in the clear aligner treatment process and leveraging our large customer base, we have expanded our business to sell intraoral scanners to our customers since 2021 in collaboration with intraoral scanner manufacturers, which we deem primarily as supplemental value-added services to our customers to enhance their experience in applying our clear aligner treatment solutions. Since the commencement of our sale of intraoral scanners and up to the Latest Practicable Date, we recorded sales amount of approximately RMB13.5 million.

Our business operation remained stable after the Track Record Period and up to the date of this document. There was no material change to our general business model and, save as otherwise disclosed in "— COVID-19 Outbreak and Effects on Our Business" above, the economic environment remained generally stable up to the date of this document. Our Directors confirmed that, up to the date of this document, there had been no material adverse change in our financial, operating or trading conditions since December 31, 2020, being the end of the period reported in the Accountant's Report in Appendix I to this document. Our Directors further confirm that there has not been any material change in our indebtedness since April 30, 2021, being the latest practicable date for the purpose of the indebtedness statement in "Financial Information — Indebtedness."

STATISTICS OF THE [REDACTED]

All statistics in the following table, unless otherwise indicated, are based on the assumptions that (1) the [**REDACTED**] has been completed and [**REDACTED**] Shares are issued pursuant to the [**REDACTED**]; (2) options granted under the [**REDACTED**] are not exercised and no Shares may be issued under the Share Award Schemes; and (3) [**REDACTED**] Shares are issued and outstanding following the completion of the [**REDACTED**].

	Based on an [REDACTED] of HK$[REDACTED] per Share	**Based on an [REDACTED] of HK$[REDACTED] per Share**
Market capitalization of our Shares	HK$[**REDACTED**] million	HK$[**REDACTED**] million
Unaudited [**REDACTED**] adjusted consolidated net tangible asset value per Share(1)	HK$[**REDACTED**]	HK$[**REDACTED**]

(1) The unaudited [**REDACTED**] adjusted consolidated net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II to this document. No adjustment has been made to reflect any trading results or other transactions we entered into subsequent to December 31, 2020. In particular, no adjustment has made to reflect the dividend of US$15.2 million we declared and paid in April 2021. Had such dividend been taken into account, the unaudited [**REDACTED**] adjusted consolidated net tangible assets value per Share would be HK$[**REDACTED**] and HK$[**REDACTED**], assuming an [**REDACTED**] of HK$[**REDACTED**] and HK$[**REDACTED**] per Share, respectively.

[REDACTED] EXPENSES

We expect to incur a total of approximately RMB[**REDACTED**] million of [**REDACTED**] expenses in connection with the [**REDACTED**], representing approximately [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] (assuming an [**REDACTED**] of HK$[**REDACTED**], being the mid-point of the indicative [**REDACTED**] range between HK$[**REDACTED**] and HK$[**REDACTED**], and assuming that the [**REDACTED**] is not exercised). During the Track Record Period, we incurred [**REDACTED**] expenses of approximately RMB[**REDACTED**] million, out of which approximately RMB[**REDACTED**] million was charged to our consolidated statements of comprehensive income as administrative expenses, while the remaining amount of approximately RMB[**REDACTED**] million was capitalized as prepayment and will be deducted from the share premium upon the completion of [**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.

USE OF [REDACTED]

We estimate that the [**REDACTED**] from the [**REDACTED**] will be approximately HK$[**REDACTED**] million (after deducting the estimated [**REDACTED**] and other fees and expenses payable by us in connection with the [**REDACTED**]), assuming an [**REDACTED**] of HK$[**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:

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, for funding the construction of our Chuangmei Center which comprises new manufacturing facilities and a research and development center;

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, for strengthening our research and development capabilities and funding our in-house and collaborative R&D initiatives;

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, for developing a flexible and scalable intelligent information technology system and deploying a data middle platform, and upgrading our existing platforms and systems;

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, for expanding our in-house sales team and providing sales personnel with training sessions;

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, for funding a variety of marketing and branding activities to expand customer base and promote brand image;

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, for optimizing our medical services by establishing additional regional demonstration centers and cultivating qualified medical talent through joint programs; and

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

See "Future Plans and Use of [**REDACTED**] — Use of [**REDACTED**]."