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ANGELALIGN TECHNOLOGY INC.

時代天使科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6699)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Angelalign Technology Inc. (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited consolidated results of the Group for the six months ended June 30, 2021 (the “**Review Period**”), together with the comparative figures for the six months ended June 30, 2020, which have been reviewed by the Company’s audit committee (the “**Audit Committee**”).

In this announcement, “we,” “us,” “our” and “Angelalign” refer to the Company and where the context otherwise requires, the Group. Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as those defined in the prospectus of the Company dated June 3, 2021 (the “**Prospectus**”).

RESULTS HIGHLIGHTS

- Our revenue for the six months ended June 30, 2021 was approximately RMB571.0 million, representing an increase of 85.0% from approximately RMB308.7 million for the six months ended June 30, 2020.
- Our gross profit for the six months ended June 30, 2021 was approximately RMB377.6 million, representing an increase of 78.3% from approximately RMB211.7 million for the six months ended June 30, 2020.
- Our net profit for the six months ended June 30, 2021 was approximately RMB95.7 million, representing an increase of 55.8% from approximately RMB61.4 million for the six months ended June 30, 2020.

- Our adjusted EBITDA for the six months ended June 30, 2021 was approximately RMB195.4 million, representing an increase of 60.8% from approximately RMB121.5 million for the six months ended June 30, 2020.⁽¹⁾
- Our adjusted net profit for the six months ended June 30, 2021 was approximately RMB156.9 million, representing an increase of 68.6% from approximately RMB93.1 million for the six months ended June 30, 2020.⁽¹⁾
- We recorded net cash generated from operating activities of approximately RMB174.0 million for the six months ended June 30, 2021, as compared with approximately RMB101.7 million for the six months ended June 30, 2020.
- Our case shipments increased from approximately 47,200 in the six months ended June 30, 2020 to approximately 79,500 in the six months ended June 30, 2021.
- The number of dental professionals we served increased from approximately 11,700 in the six months ended June 30, 2020 to approximately 17,300 in the six months ended June 30, 2021.

Note

- (1). Adjusted EBITDA is defined 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 period with adjustments of non-recurring or non-operating items, including share-based payments and listing expenses. Adjusted net profit is defined as profit for the period adjusted by non-recurring or non-operating items, including share-based payments and listing expenses. Please refer to pages 38 and 39 of this announcement for more details.

		For the six months ended June 30,	
		2021	2020
		(Unaudited)	(Unaudited)
	Notes	(RMB in thousands)	
Revenue	7	571,049	308,651
Cost of revenue	9	(193,417)	(96,902)
Gross profit		377,632	211,749
Selling and marketing expenses	9	(96,586)	(44,207)
Administrative expenses	9	(111,076)	(61,409)
Research and development expenses	9	(59,610)	(38,262)
Net reversal/(losses) of impairment on financial assets		3,957	(2,413)
Other income	8	4,204	8,754
Other expenses	8	–	(2,000)
Other (losses)/gains-net	8	(1,014)	1,647
Operating profit		117,507	73,859
Finance income		4,844	2,144
Finance costs		(536)	(638)
Finance income – net		4,308	1,506
Share of results of investments accounted for using the equity method		(842)	(219)
Profit before income tax		120,973	75,146
Income tax expense	10	(25,311)	(13,753)
Profit for the period		95,662	61,393
Profit attributable to			
– Owners of the Company		96,157	61,766
– Non-controlling interests		(495)	(373)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Exchange differences on translation of the Company		18,598	3
<i>Items that may be subsequently reclassified to profit or loss</i>			
Exchange differences on translation of subsidiaries		(972)	332
		17,626	335
Total comprehensive income for the period		113,288	61,728
Total comprehensive income for the year attributable to:			
– Owners of the Company		113,816	62,050
– Non-controlling interests		(528)	(322)
		113,288	61,728
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
– Basic	11	0.74	0.53
– Diluted	11	0.64	0.43

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As of June 30, 2021 (Unaudited) (RMB in thousands)	As of December 31, 2020 (Audited)
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment	12	166,982	105,299
Right-of-use assets	13	72,290	70,759
Intangible assets		6,407	6,188
Investments accounted for using the equity method		15,639	13,848
Prepayments for non-current assets	14	8,739	764
Deferred income tax assets		6,220	9,573
		<u>276,277</u>	<u>206,431</u>
Current assets			
Inventories		29,128	19,914
Trade and other receivables	14	77,079	101,693
Amounts due from related parties	21	–	4,523
Cash and cash equivalents	15	3,164,970	877,578
		<u>3,271,177</u>	<u>1,003,708</u>
Total assets		<u>3,547,454</u>	<u>1,210,139</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	16	108	97
Share premium	16	2,770,561	486,572
Shares held for employee share scheme	16	(8,138)	(29,529)
Other reserves		5,311	(22,135)
Retained earnings		63,237	66,698
		<u>2,831,079</u>	<u>501,703</u>
Non-controlling interests		<u>(4,557)</u>	<u>(4,029)</u>
Total equity		<u>2,826,522</u>	<u>497,674</u>

		As of June 30, 2021 (Unaudited) <i>(RMB in thousands)</i>	As of December 31, 2020 (Audited)
	<i>Notes</i>		
Liabilities			
Non-current liabilities			
Contract liabilities		42,507	18,924
Lease liabilities		7,763	5,543
Deferred income		6,480	6,280
Deferred income tax liabilities		—	6,000
		56,750	36,747
Current liabilities			
Trade and other payables	<i>18</i>	278,865	238,587
Amounts due to related parties	<i>21</i>	—	5,940
Contract liabilities		354,886	399,692
Current income tax liabilities		21,039	22,274
Lease liabilities		8,792	8,625
Deferred income		600	600
		664,182	675,718
Total liabilities		720,932	712,465
Total equity and liabilities		3,547,454	1,210,139

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>Notes</i>	For the six months ended June 30,	
		2021	2020
		(Unaudited)	(Unaudited)
		<i>(RMB in thousands)</i>	
Cash flows from operating activities			
Cash generated from operations		203,195	99,537
Income tax (paid)/refunded		(29,178)	2,176
Net cash generated from operating activities		174,017	101,713
Cash flows from investing activities			
Purchases of property, plant and equipment		(80,918)	(7,226)
Purchases of intangible assets		(1,145)	—
Proceeds from disposal of property, plant and equipment		175	48
Investments in joint ventures		(2,922)	—
Purchases of financial assets at fair value through profit or loss		—	(600,000)
Proceeds from disposals of financial assets at fair value through profit or loss		—	411,093
Settlement of consideration in relation with acquisition of a subsidiary		(3,239)	—
Loans repaid by related parties		4,523	—
Interest received		4,844	2,144
Net cash used in investing activities		(78,682)	(193,941)
Cash flows from financing activities			
Issue of ordinary shares	16	2,403,286	—
Payments for share issuance costs		(115,430)	—
Dividend paid	19	(99,618)	—
Loans provided by related parties		17	—
Repayment of loans to related parties		(156)	—
Consideration from disposals of interests in subsidiaries without change of control	14	969	—
Principal elements of lease payments		(5,269)	(4,807)
Interest paid of lease liabilities		(536)	(629)
Net cash generated from/(used in) financing activities		2,183,263	(5,436)
Net increase/(decrease) in cash and cash equivalents		2,278,598	(97,664)
Cash and cash equivalents at beginning of the period		877,578	504,697
Exchange gains on cash and cash equivalents		8,794	789
Cash and cash equivalents at the end of the period		3,164,970	407,822

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION AND GROUP REORGANIZATION

1.1 General information

The Company was incorporated in the Cayman Islands on November 29, 2018 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in the clear aligner treatment solutions including treatment planning services, manufacturing and marketing of clear aligners in the People’s Republic of China (“**PRC**”). CareCapital Group is the ultimate holder of the Company which controlled the business of the Group through CareCapital Orthotech Limited (“**CareCapital Orthotech**”), a company incorporated in Hong Kong.

The Company completed its Initial Public Offerings (“**IPO**”) and listed its shares on the Main Board of the Stock Exchange of Hong Kong Limited (“**HKSE**”) on June 16, 2021.

The Interim Financial Information for the six months ended June 30, 2021 (the “**Interim Financial Information**”) is presented in Renminbi (“**RMB**”), unless otherwise stated, and was approved for issue by the Board of Directors of the Company on August 26, 2021.

1.2 Reorganization

Prior to the Reorganization (as defined below), the business of the Group was primarily operated by Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司, “**Wuxi EA**”), a limited liability company incorporated in the PRC, and its subsidiaries, with its 67.7896% equity interests held by CareCapital Orthotech.

In preparation for the IPO and the listing of the shares of the Company on the Main Board of the HKSE (the “**Listing**”), a group reorganization was undertaken under which the business of the Group was transferred to the Company (the “**Reorganization**”). The Reorganization mainly involved the followings:

(a) ***Incorporation of the Company***

On November 29, 2018, the Company was established as a listing vehicle in the Cayman Islands as an exempted company with limited liability. On the same date, the Company issued one share of the Company with par value of USD0.01 each to Mapcal Limited at nominal value, which was transferred to CareCapital Orthotech on the same date.

(b) ***Transfer of registered share capital of Shanghai Tianzhi Dental Clinic Co., Ltd. (上海天智口腔門診部有限公司, “Shanghai Tianzhi”) and Shanghai Junxiao Dental Clinic Co., Ltd. (上海君笑口腔門診部有限公司, “Shanghai Junxiao”) to independent third parties***

To comply with the foreign investment restrictions on clinics and hospitals under the PRC laws and regulations after the Reorganization, the Group transferred 30% the registered share capital of Shanghai Tianzhi and Shanghai Junxiao, both of which are wholly-owned subsidiaries principally engaged in dental clinics business, to an independent third party at a consideration of RMB0.9 million and RMB69,000, respectively, which were determined after arm’s length negotiation and completed in December 2018.

(c) Onshore Share Purchase by CareCapital Orthotech

On December 17, 2020, CareCapital Orthotech purchased from the non-controlling shareholders of Wuxi EA all the outstanding 32.2104% equity interest in Wuxi EA at an aggregate consideration of USD11.38 million. The consideration was based on the initial consideration paid by such shareholders for acquisition of their respective equity interests in Wuxi EA, and was fully paid in December 2020. After such acquisition, CareCapital Orthotech became the sole shareholder of Wuxi EA. In consideration, 32.2104% shares of the Company were allotted and issued to these non-controlling shareholders (Note 1.2(e)).

(d) Issuance of Shares to CareCapital Orthotech

On December 21, 2020, CareCapital Orthotech transferred 100% equity interest in Wuxi EA held by it to the Company. On the same date, the Company issued a total of 999,999 new shares of the Company with par value of USD0.01 each to CareCapital Orthotech at nominal value, as the consideration for such acquisition. After such issuance, CareCapital Orthotech owned an aggregate of 1,000,000 shares of the Company with par value of USD0.01 each. Since then, Wuxi EA became a wholly owned subsidiary of the Company.

(e) Issuance of Shares to Offshore Holding Companies

For the Reorganization, seven offshore holding companies were established or used by certain of the directors, senior management and employees for the purpose of holding their respective corresponding equity interests in Wuxi EA prior to the Reorganization.

On December 21, 2020, the Company issued to such entities an aggregate of 475,152 shares of the Company with par value of USD0.01 each to reflect the respective equity interests of the beneficial owners of such entities in Wuxi EA, who are directors, senior management or employees of the Company, representing 32.2104% shares, comprising 15.8798% shares, 7.9452% shares, 0.95% shares, 0.4862% shares, 0.2682% shares, 2.8083% shares and 3.8727% shares of the Company to Sky Honour Enterprises Limited, which is wholly owned by Ms. LI Huamin, Vast Luck Global Limited, which is wholly owned by Mr. CHEN Kai, Ascend Benefit Limited, which is wholly owned by Mr. SONG Xin, Noble Affluent Limited, which is wholly owned by Mr. HUANG Kun, Macro Synergy Limited, which is wholly owned by Mr. MAO Yibin and Novel Boom Limited and All Beautiful Limited, respectively. All the considerations were fully paid by the respective companies.

Upon the completion of the Reorganization on December 21, 2020, the Company became the holding company of the companies now comprising the Group. The Company was owned as to 67.7896% by CareCapital Orthotech, and 32.2104% by certain directors, senior management and employees of the Group.

1.3 IPO and Listing

The shares of the Company were listed on the HKSE on June 16, 2021, whereby 16,829,600 new shares were issued at the offer price of HKD173.0 each by the Company for a total cash consideration of approximately HKD2,911,521,000 (equivalent to approximately RMB2,403,286,000).

2 BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. The Interim Financial Information does not include all the notes of the type normally included in an annual financial report. Accordingly, the Interim Financial Information should be read in conjunction with the Appendix I – Accountant’s Report as set out in the prospectus of the Company dated June 3, 2021 (the “**Historical Financial Information**”), which have been prepared in accordance with International Financial Reporting Standards (‘IFRS’) issued by the International Accounting Standards Board (“**IASB**”). The comparative information for the interim condensed consolidated statement of financial position is based on the audited financial statement as at December 31, 2020. The comparative information for the interim condensed consolidated statement of comprehensive income, changes in equity and cash flows, and related explanatory notes, for the period ended June 30, 2020 has not been audited or reviewed.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those as described in the Historical Financial Information.

(a) New standards, amendments to standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been issued and are effective for annual periods beginning on or after January 1, 2021 and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Amendments to IFRS 3	Reference to the conceptual framework	January 1, 2022
Amendments to IAS 16	Property, plant and equipment – proceeds before intended use	January 1, 2022
Amendments to IAS 37	Onerous contracts – Cost of fulfilling a contract	January 1, 2022
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual improvements to IFRS Standards 2018 to 2020	January 1, 2022
IFRS 17	Insurance contracts	January 1, 2023
Amendments to IAS 1	Classification of liabilities as current or non-current	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the directors, no significant impact on the financial performance and positions of the Group is expected when they become effective.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of this Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Historical Financial Information.

5 SIGNIFICANT CHANGES IN PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

There was no significant change in principal subsidiaries, joint ventures and associates of the Group during the six months ended June 30, 2021.

6 FINANCIAL RISK MANAGEMENT

6.1 Financial risk factors

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statement, and should be read in conjunction with the Historical Financial Information.

There have been no significant changes in the risk factors and management policies since the year ended December 31, 2020.

(a) Liquidity risk

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position dates to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at June 30, 2021					
(Unaudited)					
Lease liabilities	9,531	4,281	4,080	–	17,892
Trade and other payables excluding non-financial liabilities	160,048	–	–	–	160,048
Total	169,579	4,281	4,080	–	177,940
As at December 31, 2020					
(Audited)					
Lease liabilities	9,214	5,408	311	–	14,933
Amounts due to related parties	5,948	–	–	–	5,948
Trade and other payables excluding non-financial liabilities	100,771	–	–	–	100,771
Total	115,933	5,408	311	–	121,652

6.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the interim condensed consolidated statement of financial position.

As at June 30, 2021 and December 31, 2020, the Group maintained at net cash position.

6.3 Fair value estimation

The Group made judgements and estimates in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statement. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1, 2 and 3 during the six months ended June 30, 2021.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and expected rate of return.

As at June 30, 2021, the Group had no level 1, level 2 and level 3 financial instruments.

The carrying amounts of the Group's financial assets and liabilities, including cash and cash equivalents, trade and other receivables (excluding prepayments) less allowance for impairment, trade and other payables (excluding non-financial liabilities) and lease liabilities approximated their fair values due to their short maturities.

7 REVENUE AND SEGMENT INFORMATION

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from external customers is recognized over time and is derived from the rendering of:		
– Clear aligner treatment solutions	532,694	301,929
– Other services	9,776	6,722
	<u>542,470</u>	<u>308,651</u>
Revenue from external customers is recognized at a point in time and is derived from:		
– Sales of intraoral scanners	28,579	–
	<u>28,579</u>	<u>–</u>
Total revenue	<u><u>571,049</u></u>	<u><u>308,651</u></u>

The chief operating decision-maker (“CODM”) identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments. An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group’s management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

As a result of this evaluation, the CODM consider that the Group’s operations are operated and managed as a single operating segment, accordingly no segment information is presented.

8 OTHER INCOME, OTHER EXPENSES AND OTHER (LOSSES)/GAINS – NET

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Other income		
Government grants	<u>4,204</u>	<u>8,754</u>
Other expenses		
Donations	<u>–</u>	<u>(2,000)</u>
Other (losses)/gains – net		
Net foreign exchange (losses)/gains	(1,270)	811
Realized fair value gain of wealth management products	–	1,093
Losses on disposals of property, plant and equipment	(443)	(136)
Others	<u>699</u>	<u>(121)</u>
	<u><u>(1,014)</u></u>	<u><u>1,647</u></u>

9 EXPENSES BY NATURE

Expenses included in cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses are analyzed below:

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Changes in inventories of finished goods and work in progress	57	(104)
Raw materials and consumables used and other inventories	113,429	46,282
Employee benefit expenses	187,222	138,668
Advertising and promotion expenses	48,771	9,028
Listing expenses	35,429	–
Depreciation and amortization	17,514	16,198
Professional service and consulting fees	15,535	8,895
Delivery costs	13,162	6,856
Short-term lease and variable lease expenses	4,938	3,052
Taxes and surcharges	3,517	2,282
Outsourcing costs	2,744	2,224
Office expenses	2,607	1,048
Travelling expenses	2,006	698
Entertainment expenses	2,013	996
Utility costs	1,710	1,140
Auditor's remuneration		
– Audit services	1,000	–
Others	9,035	3,517
	<u>460,689</u>	<u>240,780</u>

10 INCOME TAX EXPENSE

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax		
– PRC corporate income tax	25,931	15,147
– Hong Kong profits tax	2,027	854
	<u>27,958</u>	<u>16,001</u>
Deferred income tax		
– PRC corporate income tax	(2,647)	(2,248)
	<u>25,311</u>	<u>13,753</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the standard tax rate applicable to profit to the respective companies of the Group as follows:

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before income tax	120,973	75,146
Tax calculated at respective statutory tax rates	38,177	18,370
Tax effects of:		
– Preferential income tax rates applicable to subsidiaries	(12,943)	(6,708)
– Expenses not deductible for taxation purposes	4,260	5,321
– Tax losses not recognized for deferred income tax	42	3
– Super deduction for research and development expenditure	(6,109)	(3,288)
– Share of results of investments accounted for using the equity method	84	55
– Withholding income tax on distributed profits	1,800	–
	25,311	13,753

(a) Cayman Islands income tax

Under the prevailing laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. In addition, no Cayman Islands withholding tax is payable on dividend payments by the Company to its shareholders.

(b) PRC corporate income tax (“CIT”)

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowance. The general PRC CIT rate is 25% during the six months ended June 30, 2021.

The Company's subsidiary, Wuxi EA, was approved as High and New Technology Enterprise (“HNTTE”) under the relevant tax rules and regulations of the PRC in 2014 and it has renewed the qualification of HNTTE in 2017 and 2020, and accordingly, is subject to a reduced preferential CIT rate of 15% during the six months ended June 30, 2021.

The Company's subsidiary, Shanghai EA Medical Instruments Co., Ltd (上海時代天使醫療器械有限公司, “Shanghai EA”), was approved as HNTTE under the relevant tax rules and regulations of the PRC in 2019, and accordingly, is subject to a reduced preferential CIT rate of 15% for six months ended June 30, 2021.

According to the CIT laws and Detailed Implementation Rules, an enterprise is 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 onwards. From 2021, according to [2021] No. 13 (財稅[2021]13號), an extra 100% of the amount of research and development expenses can be deducted before tax.

(c) Hong Kong profit tax

The Hong Kong profits tax rate of the subsidiary of the Group incorporated in Hong Kong is 16.5%.

(d) Withholding tax

According to the relevant regulations of the corporate income tax laws of the PRC, when a foreign investment enterprise in the PRC distributes dividends out of the profits earned from January 1, 2008 onwards to its overseas investors, such dividends are subject to withholding tax at a rate of 10%.

11 EARNINGS PER SHARE

For the purpose of computing basic and diluted earnings per share, ordinary shares issued in the Reorganization described in Note 1.2 were assumed to have been issued and allocated on January 1, 2020.

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the six months ended June 30, 2021.

	Six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (RMB'000)	96,157	61,766
Weighted average number of ordinary shares outstanding	129,274,103	117,621,816
Basic earnings per share (in RMB)	0.74	0.53

For the purpose of calculating the weighted average number of ordinary shares outstanding, the number of shares shown below has taken the share subdivision (Note 16(a)(iv)) into account as the share subdivision was deemed to be effective since January 1, 2020, and:

- (i) The following shares issued during the Reorganization are treated as if they had been in effect and issued on January 1, 2020:
 - 100 shares issued on November 29, 2018, the date of incorporation of the Company and
 - 99,999,900 shares issued on December 21, 2020 to CareCapital Orthotech.
- (ii) Out of 47,515,200 shares issued on December 21, 2020 to offshore holding companies controlled by certain directors, senior management and employees of the Group:
 - 17,621,800 shares issued to Ms. LI Huamin and Mr. CHEN Kai reflecting their shareholdings in Wuxi EA prior to January 1, 2020 were treated as if they were outstanding on January 1, 2020; and
 - The remaining 19,876,200 shares, 6,382,100 shares and 3,635,100 shares issued to certain directors, senior management and employees of the Group reflecting their respective shareholdings in Wuxi EA, which were purchased by the Group from the then shareholders of Wuxi EA and were granted on December 22, 2016, December 28, 2017 and November 22, 2018 under the Employee Share Award Scheme but unvested (Note 16(b)), respectively. These shares were treated as treasury stocks and therefore excluded from the calculation of weighted average number of ordinary shares from January 1, 2020. Subsequently, 7,512,900 shares vested on September 30, 2020, 103,300 shares vested on April 30, 2021 and 19,876,200 shares vested on June 16, 2021. These vested shares were treated as if they were outstanding from their respective vested day.
- (iii) The 1,002,300 shares offered to Wuxi Jinhe Venture Investment Co., Ltd. (無錫市金禾創業投資有限公司, “Wuxi Jinhe”) on December 31, 2020.
- (iv) Out of the 460,000 shares offered to offshore holding companies controlled by certain directors, senior management and employees of the Group issued on December 31, 2020:
 - 248,350 shares, 1,025 shares and 187,100 shares were treated as if they were outstanding from December 31, 2020, April 30, 2021 and June 16, 2021, the days they became vested, respectively; and
 - The remaining unvested 23,525 shares held on behalf on the Company were excluded from the calculation weighted average number of ordinary shares.
- (v) The shares of the Company were listed on the HKSE on June 16, 2021, whereby 16,829,600 new shares were issued by the Company.

(b) Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares.

The Group has three categories of potential ordinary shares in the six months ended June 30, 2021 which were the shares held for employee scheme (Note 16), the share options granted to a senior management on October 9, 2020 (Note 17(b)) and the over-allotment option granted with the IPO of the Company.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding shares held for employee scheme and share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and the vest of the shares held for employee scheme.

	Six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (RMB'000)	96,157	61,766
Weighted average number of ordinary shares in issue	129,274,103	117,621,816
Adjustments for share options and awarded shares	21,233,154	26,463,960
Weighted average number of ordinary shares for diluted earnings per share	150,507,257	144,085,776
Diluted earnings per share (in RMB)	0.64	0.43

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and	Transportation	Furniture,	Leasehold	Construction	Total
	RMB'000	machinery	equipment	fixtures and	improvements	in progress	RMB'000
	RMB'000	RMB'000	RMB'000	equipment	RMB'000	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2021							
Cost	6,638	76,378	1,666	6,178	39,661	23,966	154,487
Accumulated depreciation	(686)	(25,190)	(1,031)	(2,032)	(19,353)	-	(48,292)
Accumulated impairment	-	(896)	-	-	-	-	(896)
Closing net book amount	5,952	50,292	635	4,146	20,308	23,966	105,299
Six months ended June 30, 2021							
(Unaudited)							
Opening net book amount	5,952	50,292	635	4,146	20,308	23,966	105,299
Additions	-	24,795	-	1,027	300	46,642	72,764
Transfers	-	-	-	-	4,144	(4,144)	-
Disposals	-	(489)	(16)	(113)	-	-	(618)
Depreciation	(153)	(5,382)	(114)	(560)	(4,254)	-	(10,463)
Closing net book amount	5,799	69,216	505	4,500	20,498	66,464	166,982
At June 30, 2021 (Unaudited)							
Cost	6,638	97,444	1,336	6,910	44,087	66,464	222,879
Accumulated depreciation	(839)	(28,228)	(831)	(2,410)	(23,589)	-	(55,897)
Closing net book amount	5,799	69,216	505	4,500	20,498	66,464	166,982

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Transportation equipment <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2020							
Cost	6,638	72,984	1,666	5,467	36,881	943	124,579
Accumulated depreciation	(380)	(21,639)	(707)	(1,120)	(12,345)	–	(36,191)
Accumulated impairment	–	(4,050)	–	–	–	–	(4,050)
Closing net book amount	<u>6,258</u>	<u>47,295</u>	<u>959</u>	<u>4,347</u>	<u>24,536</u>	<u>943</u>	<u>84,338</u>
Six months ended June 30, 2020 (Unaudited)							
Opening net book amount	6,258	47,295	959	4,347	24,536	943	84,338
Additions	–	2,005	–	589	838	1,786	5,218
Disposals	–	(175)	–	(9)	–	–	(184)
Depreciation	(153)	(4,144)	(127)	(550)	(3,387)	–	(8,361)
Closing net book amount	<u>6,105</u>	<u>44,981</u>	<u>832</u>	<u>4,377</u>	<u>21,987</u>	<u>2,729</u>	<u>81,011</u>
At June 30, 2020 (Unaudited)							
Cost	6,638	67,469	1,666	5,901	37,718	2,729	122,121
Accumulated depreciation	(533)	(20,894)	(834)	(1,524)	(15,731)	–	(39,516)
Accumulated impairment	–	(1,594)	–	–	–	–	(1,594)
Closing net book amount	<u>6,105</u>	<u>44,981</u>	<u>832</u>	<u>4,377</u>	<u>21,987</u>	<u>2,729</u>	<u>81,011</u>

Depreciation expenses were charged to the following categories in the interim condensed consolidated statement of comprehensive income:

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of revenue	6,163	4,906
Selling and marketing expenses	189	155
Administrative expenses	3,369	2,549
Research and development expenses	742	751
	<u>10,463</u>	<u>8,361</u>

13 RIGHT-OF-USE ASSETS

	Office premises <i>RMB'000</i>	Land use rights <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2021			
Cost	27,833	59,413	87,246
Accumulated depreciation	(14,305)	(2,182)	(16,487)
Net book amount	<u>13,528</u>	<u>57,231</u>	<u>70,759</u>
Six months ended June 30, 2021 (Unaudited)			
Opening net book amount	13,528	57,231	70,759
Additions	7,656	–	7,656
Depreciation	(5,531)	(594)	(6,125)
Closing net book amount	<u>15,653</u>	<u>56,637</u>	<u>72,290</u>
At June 30, 2021 (Unaudited)			
Cost	33,754	59,413	93,167
Accumulated depreciation	(18,101)	(2,776)	(20,877)
Net book amount	<u>15,653</u>	<u>56,637</u>	<u>72,290</u>
	Office premises <i>RMB'000</i>	Land use rights <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2020			
Cost	38,781	59,413	98,194
Accumulated depreciation	(16,405)	(994)	(17,399)
Net book amount	<u>22,376</u>	<u>58,419</u>	<u>80,795</u>
Six months ended June 30, 2020 (Unaudited)			
Opening net book amount	22,376	58,419	80,795
Addition	805	–	805
Depreciation	(4,935)	(594)	(5,529)
Early termination of lease contracts	(565)	–	(565)
Closing net book amount	<u>17,681</u>	<u>57,825</u>	<u>75,506</u>
At June 30, 2020 (Unaudited)			
Cost	27,527	59,413	86,940
Accumulated depreciation	(9,846)	(1,588)	(11,434)
Net book amount	<u>17,681</u>	<u>57,825</u>	<u>75,506</u>

Depreciation expenses were charged to the following categories in the interim condensed consolidated statement of comprehensive income:

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of revenue	3,142	2,601
Selling and marketing expenses	292	314
Administrative expenses	2,292	2,251
Research and development expenses	399	363
	<u>6,125</u>	<u>5,529</u>

14 TRADE AND OTHER RECEIVABLES

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Included in current assets		
Trade receivables (<i>Note (a)</i>)		
– Due from third parties	57,205	88,369
– Due from related parties	1,543	378
	<u>58,748</u>	<u>88,747</u>
Less: allowance for impairment of trade receivables	<u>(14,361)</u>	<u>(18,344)</u>
	<u>44,387</u>	<u>70,403</u>
Other receivables (<i>Note (b)</i>)		
– Deposits receivables	5,796	3,008
– Deductible input value-added tax	3,563	13
– Consideration from disposals of interests in subsidiaries without change of control	–	969
– Others	1,558	1,668
	<u>10,917</u>	<u>5,658</u>
Less: allowance for impairment of other receivables	<u>(111)</u>	<u>(85)</u>
	<u>10,806</u>	<u>5,573</u>
Prepayments for		
– Taxes	1,605	3,169
– Suppliers	20,281	15,624
– Share issuance costs	–	6,924
	<u>21,886</u>	<u>25,717</u>
	<u>77,079</u>	<u>101,693</u>
Included in non-current assets		
Prepayments for property, plant and equipment	<u>8,739</u>	<u>764</u>

- (a) Trade receivables mainly arise from rendering of clear aligner treatment solutions. The Group generally received advances prior to the rendering of services or sales, while customers are mainly given a credit term of 30 to 60 days.

The following is an ageing analysis of trade receivables presented based on invoice date:

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Within 60 days	18,067	26,703
61 to 180 days	10,909	17,341
181 to 365 days	6,625	12,214
1 to 2 years	8,665	16,004
2 to 3 years	6,448	10,666
Over 3 years	8,034	5,819
	58,748	88,747

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9.

The loss allowance provision as at June 30, 2021 and December 31, 2020 is determined as follows, the expected credit losses below also incorporate forward looking information.

	Within 60 days	61 to 180 days	181 to 365 days	1 to 2 years	2 to 3 years	Over 3 years	Total
At June 30, 2021 (Unaudited)							
Expected loss rate	–	1.50%	5.09%	18.17%	65.94%	100.00%	
Gross carrying amount (RMB'000)	18,067	10,909	6,625	8,665	6,448	8,034	58,748
Loss allowance provision (RMB'000)	–	(164)	(337)	(1,574)	(4,252)	(8,034)	(14,361)
At December 31, 2020 (Audited)							
Expected loss rate	–	1.50%	6.27%	19.14%	79.09%	100.00%	
Gross carrying amount (RMB'000)	26,703	17,341	12,214	16,004	10,666	5,819	88,747
Loss allowance provision (RMB'000)	–	(260)	(766)	(3,063)	(8,436)	(5,819)	(18,344)

The loss allowance provision for trade receivables as at June 30, 2021 and 2020 reconciles to the opening loss allowance for that provision as follows:

	Six months ended June 30, 2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
At the beginning of the period	18,344	8,203
(Reversal)/provision for loss allowance recognized in profit or loss	(3,983)	2,417
At the end of the period	14,361	10,620

- (b) All other receivables were unsecured, interest-free and collectable on demand.

15 CASH AND CASH EQUIVALENTS

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Cash at banks	3,164,958	877,568
Cash on hand	12	10
Cash and cash equivalents	<u>3,164,970</u>	<u>877,578</u>

16 SHARE CAPITAL AND PREMIUM AND SHARES HELD FOR EMPLOYEE SHARE SCHEME

(a) Share capital and premium

	Number of ordinary shares	Nominal value of ordinary shares USD	Share capital RMB'000	Share premium RMB'000	Total RMB'000
Issued:					
At January 1, 2020	1	–	–	–	–
Issuance of ordinary shares to CareCapital Orthotech (i)	999,999	10,000	65	300,932	300,997
Issuance of ordinary shares to non-controlling shareholders of Wuxi EA prior to Reorganization (i)	475,152	4,752	31	145,921	145,952
Issuance of ordinary shares to Wuxi Jinhe (ii)	10,023	100	1	39,719	39,720
Issuance of ordinary shares for the employee share scheme (iii)	4,600	46	–	–	–
At December 31, 2020 (Audited)	<u>1,489,775</u>	<u>14,898</u>	<u>97</u>	<u>486,572</u>	<u>486,669</u>
At January 1, 2021	<u>1,489,775</u>	<u>14,898</u>	<u>97</u>	<u>486,572</u>	<u>486,669</u>
Share subdivision on May 20, 2021 (iv)	147,487,725	–	–	–	–
Shares issued in the IPO (v)	16,829,600	1,683	11	2,403,275	2,403,286
Share issuance costs (vi)	–	–	–	(119,286)	(119,286)
At June 30, 2021 (Unaudited)	<u>165,807,100</u>	<u>16,581</u>	<u>108</u>	<u>2,770,561</u>	<u>2,770,669</u>

- (i) On December 21, 2020, as part of the Reorganization, an aggregate of 999,999 ordinary shares with cash consideration of approximately RMB65,000 in total were issued to CareCapital Orthotech at nominal value. On December 21, 2020, the Company issued an aggregate of 475,152 ordinary shares with cash consideration approximately RMB2,963,000 in total to seven offshore holding companies used by certain directors, senior management and employees of the Group for the purpose holding their respective corresponding equity interests in Wuxi EA prior to the Reorganization. The exceed in the cash consideration of RMB3,028,000 over the equivalent nominal values of aforesaid 1,475,151 shares amounting to RMB2,932,000 were recognized in share premium. On the same day, the book value of Wuxi EA's net assets as at December 21, 2020, amounting to approximately RMB443,921,000, was transferred from capital reserves to share premium.

- (ii) On December 31, 2020, pursuant to the share purchase agreement dated December 21, 2020, Wuxi Jinhe agreed to subscribe for 10,023 ordinary shares of the Company with par value of USD0.01 each at the aggregate consideration of US dollar equivalent to RMB39,720,000.
- (iii) On December 31, 2020, the Company issued an aggregate of 4,600 new shares with par value of USD0.01 each to certain directors, senior management and employees of the Company for incentive purposes.
- (iv) On May 20, 2021, the shareholders of the Company resolved that, with immediate effect, the Company's issued and unissued 5,000,000 shares of a par value of USD0.01 each be subdivided into 100 shares of USD0.0001 par value each. As a result, the authorized share capital of the Company shall be USD50,000 divided into 500,000,000 shares of USD0.0001 par value each, and the issued share capital of the Company was divided from 1,489,775 shares to 148,977,500 shares.
- (v) The shares of the Company were listed on the HKSE on June 16, 2021, whereby 16,829,600 new shares were issued at the offer price of HKD173.0 each by the Company for a total cash consideration of approximately HKD2,911,521,000 (equivalent to approximately RMB2,403,286,000). The corresponding share capital amount was approximately RMB11,000 and share premium arising from the issuance was approximately RMB2,403,275,000.
- (vi) The share issuance costs paid and payable mainly include share underwriting commissions, lawyers' fees, reporting accountants' fee and other related costs, which were incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB119,286,000 were treated as a deduction against the share premium arising from the issuance.
- (vii) Subsequently on July 13, 2021, the Company issued 2,524,400 additional new ordinary shares of USD0.0001 each at HKD173.0 per share pursuant to an over-allotment option granted in conjunction with IPO. Gross proceeds from the issue are approximately HKD436,721,000 (equivalent to approximately RMB363,758,000).

(b) Shares held for employee share scheme

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Balance at the beginning of the period/year	29,529	54,994
Transfer of shares held for employee share scheme upon vesting (Note 17(b))	(21,391)	(25,465)
Balance at the end of the period/year	<u>8,138</u>	<u>29,529</u>

These shares representing 1.46% equity interest in the Company held by several offshore holding companies used by certain directors, senior managements and employees of the Group for incentive purpose were unvested and held for employee share scheme as at June 30, 2021.

17 SHARE-BASED PAYMENTS

The share-based compensation expenses recognized are as follows:

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Expenses arising from equity-settled share-based payment transactions	<u>25,834</u>	<u>31,676</u>

(a) Share-based payments to individuals

On December 22, 2016, CareCapital Orthotech, the then parent company of Wuxi EA, established Wuxi Fujia Management Advisory Company (Limited Partnership) (無錫富嘉管理諮詢企業(有限合夥)), “**Wuxi Fujia**”), an equity awards entity in the form of limited liability partnerships and transferred 8.99% equity interests in Wuxi EA to Wuxi Fujia with consideration of approximately RMB24,690,000. On the same day, by way of subscribing for their partnership interests in Wuxi Fujia, Ms. LI Huamin and Mr. CHEN Kai, as senior management of Wuxi EA, acquired 8.99% equity interests in Wuxi EA in total from CareCapital Orthotech.

These equity interests awarded would be vested in 10 instalments over a 10-years requisite service period commencing from December 31, 2015. The fair value of these incentive interests at the grant date, which was determined by reference to the fair value of the equity interests of Wuxi EA determined by an external independent valuer, over respective cash consideration assumed by Ms. LI Huamin and Mr. CHEN Kai, were treated as share-based payment expenses and charged to the interim condensed consolidated statement of comprehensive income over the vesting period.

On December 15, 2020, pursuant to a supplemental agreement entered into amongst CareCapital Orthotech, Ms. LI Huamin and Mr. CHEN Kai, the remaining required service periods will be canceled upon the Listing.

For the six months ended June 30, 2021, the Group recognized share-based payment expenses amounting to RMB746,000 (same period in 2020: RMB178,000), for the aforesaid share-based payments to individuals.

(b) Employee Share Award Scheme

Wuxi EA set up a share incentive scheme for the purpose of retaining talent, promoting the long-term sustainable development of the Group. Under the share incentive scheme, Wuxi EA entered into employee share award contracts with certain senior management and employees of the Group, (collectively, the “**Incentive Targets**”) on December 22, 2016, December 28, 2017 and November 22, 2018 (collectively, the “**Grant Dates**”), respectively (collectively, the “**Engagement Agreements**”).

Pursuant to the Engagement Agreements, certain limited liability partnerships for purpose of issuing share incentive schemes (the “**ESOP LLPs**”) which held equity interests in Wuxi EA directly, were set up. For the years ended December 31, 2016, 2017 and 2018, the ESOP LLPs acquired 20.26% equity interests in Wuxi EA in total from the then shareholders with consideration of approximately RMB21,041,000, RMB21,632,000 and RMB12,321,000, respectively (the “**Predetermined Subscription Prices**”). Pursuant to the Engagement Agreements, the Group has discretion to invite any employee of the Group to participate in the ESOP LLPs by subscribing for their partnership interest. The Incentive Targets are entitled to all the economic benefits generated by the ESOP LLPs with the required service period. As the general partner of the ESOP LLPs are designed by the Group for its benefit and the Group has discretion in determining the participating employees, the ESOP LLPs are therefore controlled and consolidated by the Group as structured entities and the equity interests in Wuxi EA held by the ESOP LLPs for the purpose of employee share incentives, amounting to RMB8,138,000 as at June 30, 2021 (December 31, 2020: RMB29,529,000), are recorded as “shares held for employee share scheme”.

Pursuant to the Engagement Agreements, the Incentive Targets, through their interests in the ESOP LLPs, were granted 20.26% equity interests in Wuxi EA, at the Predetermined Subscription Prices (the “**Onshore Awarded Shares**”). These Onshore Awarded Shares are limited to be transferred or used in pledge within certain service periods. If an Incentive Target ceases to be employed by the Group within the service periods, the Incentive Target has to sell the Onshore Awarded Shares to designated persons at its original subscription price.

The Incentive Targets obtained above Onshore Share Awards at a price lower than their fair value on the respective Grant Dates, such transactions were considered as equity-settled share-based payment. The Group amortized this share-based compensation expense since the Grant Dates as the relevant services has been received since then and throughout the fulfillment of respective service periods.

On December 31, 2018, due to the Reorganization, the Company modified the employee share award scheme pursuant to which: (a) the subscription prices of the Onshore Awarded Shares were waived; and (b) the ESOP LLPs would transfer all their equity interests in Wuxi EA to CareCapital Orthotech with the considerations equal to the Predetermined Subscription Prices; and (c) the Company would issue an aggregate of 20.26% equity interests of the Company to the Incentive Targets with nominal share price as the replacement of the Onshore Share Awards. As such, the Group modified the terms of the employee share award scheme that are beneficial to the Incentive Targets. The incremental share-based compensation expenses, representing the excess of the fair value of the modified employee share award scheme on December 31, 2018 over the fair of the original employee share award scheme on December 31, 2018, were amortized within the respectively remaining service periods since December 31, 2018.

On December 17, 2020, CareCapital Orthotech purchased these shares from the ESOP LLPs with cash consideration of RMB49,537,000, following which on December 21, 2020, the Company issued 298,934 shares with par value of USD0.01 each, representing 20.26% equity interests in the Company, to several offshore holding companies established or used by certain of the directors, senior management and employees for the purpose of holding their respective corresponding equity interests in Wuxi EA prior to the Reorganization. The consideration of RMB49,537,000 was credited to “capital reserves” account as contributions from shareholders of the Company. On the same day, 75,129 shares of the Company out of these 298,934 shares of the Company were vested, resulted from which the shares in Wuxi EA held for employee share scheme amounting to RMB25,465,000 were debited from “share-based payment reserves” account. For the six months ended June 30, 2021, further 19,979,400 shares of the Company out of these 22,380,500 shares, both of which are after the effect of share subdivision as described in Note 16(a)(iv), were vested, resulted from which the shares held for employee share scheme amounting to RMB21,391,000 were transferred and debited from “share-based payment reserves” account upon vesting.

On October 9, 2020, the Company granted 3,000 share options to a senior management, with exercise price of USD120 per share. Such options shall be vested in the following schedule: (i) 20% upon the Listing and (ii) each 20% on the last day of each year commencing from October 1, 2020. Effective from May 20, 2021, these share options were subdivided into 300,000 shares with exercise price of USD1.2 per share.

On December 31, 2020, the Company further issued and allotted 4,600 shares with par value of USD0.01 each, representing 0.31% equity interests of the Company, to certain directors, senior management and employees of the Group with certain required service periods. Effective from May 20, 2021, these shares were subdivided into 460,000 shares with par value of USD0.0001 each.

For the six months ended June 30, 2021, the Group recognized share-based payment expenses amounting to aggregate RMB25,088,000 (same period in 2020: RMB31,498,000) for the aforesaid share award schemes.

18 TRADE AND OTHER PAYABLES

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Trade payables (<i>Note (a)</i>)	76,131	34,024
Employee benefits payable	77,931	82,302
Other taxes payable	40,886	55,514
Consideration payables in relation with acquisition of a subsidiary (<i>Note 21</i>)	–	3,262
Accrued expenses payable	43,047	15,531
Deposits payable	20,722	17,443
Advertising and promotion expenses payable	7,787	13,955
Donations payable	4,000	4,000
Professional service fees payable	5,547	6,128
Reimbursement payable	517	2,688
Payables in relation with acquisition of property, plant and equipment	107	286
Others	2,190	3,454
	278,865	238,587

- (a) The credit period granted by suppliers mainly ranges from 30 to 60 days. The following is an ageing analysis of trade payables presented based on the invoice date:

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
0 to 60 days	72,611	28,027
61 to 180 days	1,971	3,566
181 to 365 days	165	685
Over 1 year	1,384	1,746
	76,131	34,024

- (b) As at June 30, 2021 and December 31, 2020, trade and other payables of the Group were interest-free and repayment on demand.

19 DIVIDENDS

Pursuant to a resolution passed in the shareholders' meeting of the Company on April 10, 2021, dividends of USD15,230,000 (approximately RMB99,618,000) were declared to the then shareholder of the Company, which were fully paid in April 20, 2021.

The board of directors of the Company has resolved not to recommend payment of an interim dividend for the six months ended June 30, 2021.

20 COMMITMENTS

(a) Commitments relating to short-term leases

The Group has recognized right-of-use assets and lease liabilities for these leases, except for short-term leases, see Note 13 for further information.

The future aggregate minimum lease payments under non-cancellable short-term leases contracted for at the end of the period/year but not recognized as liabilities, are as follows:

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
No later than 1 year	408	285

(b) Capital commitments

The Group's capital expenditure contracted for at the end of the period/year but not yet incurred is as follows:

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Property, plant and equipment	135,510	164,898
Intangible assets	8	8
Investment in a joint venture	–	500
	135,518	165,406

21 RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties

Below is the summary of the Group's related parties during the six months ended June 30, 2021:

Name of the related party	Relationship with the Group
Mr. FENG Dai	Director of the Company
Ms. LI Huamin	Director of the Company
CareCapital Orthotech	Parent Company
Wuxi Beifurui Education Consulting Company Limited ("Wuxi Beifurui")	Joint venture held by the Group
Shanghai Junxiao Clinic Co., Ltd. ("Shanghai Junxiao")	Joint venture held by the Group
Shanghai Moer Dental Hospital Investment Management Company Limited ("Shanghai Moer Hospital")	An entity significantly influenced by Mr. FENG Dai (before January 1, 2021)
Ningbo Meishan Bonded Port Area Zhaomin Investment Management Partnership (Limited partnership) ("Ningbo Zhaomin")	An entity controlled by a director of the Company
Ningbo Meishan Bonded Port Area Yonghan Investment Management Partnership (Limited partnership) ("Ningbo Yonghan")	An entity controlled by a director of the Company
Huizhou Dental Hospital	An entity controlled by the controlling shareholder of the Company
Guiyang Jinxin Medical Instrument Co., Ltd. ("Guiyang Jinxin")	An entity controlled by CareCapital Group
Zhengzhou Smile Songbai Industrial Co., Ltd. ("Zhengzhou Smile")	An entity controlled by CareCapital Group
Changsha Minjian Medical Equipment Co., Ltd. ("Changsha Minjian")	An entity significantly influenced by CareCapital Group
Henan Red Sun Medical Instrument Co. Ltd. ("Henan Red Sun")	An entity controlled by CareCapital Group
Taiyuan Yishunkang Medical Device Co., LTD ("Yishunkang")	An entity controlled by CareCapital Group

(b) Transactions with related parties

During the six months ended June 30, 2021, save as disclosed elsewhere in this report, the following is a summary of the significant transactions carried out between the Group and its related parties.

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Clear aligner treatment solutions		
Zhengzhou Smile	11,138	5,994
Guiyang Jinxin	1,428	576
Henan Red Sun	1,132	728
Yishunkang	504	—
Huizhou Dental Hospital	211	342
Changsha Minjian	74	111
Shanghai Junxiao	73	23
Shanghai Moer Hospital	—	765
	14,560	8,539
Sales of intraoral scanners		
Zhengzhou Smile	2,468	—
Interest expenses		
Ningbo Yonghan	—	4
Ningbo Zhaomin	—	5
	—	9

(c) Key management compensation

The Group's key management includes directors of the Company.

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	222	—
Salaries, wages and bonuses	1,813	1,358
Share-based compensation expenses	12,420	11,767
Pension costs – defined contribution plans	53	18
Other social security costs, housing benefits and other employee benefits	63	60
	14,571	13,203

(d) **Outstanding balances arising from sales/purchases of goods and services**

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Trade and other receivables		
Guiyang Jinxin	1,176	143
Changsha Minjian	367	222
Shanghai Moer Hospital	–	7
Zhengzhou Smile	–	6
	<u>1,543</u>	<u>378</u>

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Trade and other payables		
CareCapital Orthotech	–	3,262

As at June 30, 2021 and December 31, 2020, the balances were with trade nature, unsecured, interest-free, and collectable/repayable on demand.

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Contract liabilities		
Zhengzhou Smile	10,742	11,227
Henan Red Sun	1,206	927
Shanghai Junxiao	73	322
Guiyang Jinxin	53	19
Huizhou Dental Hospital	41	482
Shanghai Moer Hospital	–	201
	<u>12,115</u>	<u>13,178</u>

Contract liabilities of the Group mainly arose from the advance payments made by customers while the underlying goods or services are yet to be provided.

(e) Amounts due from/to related parties

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Amounts due from related parties		
Wuxi Beifurui	–	1,100
Shanghai Junxiao	–	3,423
	–	4,523
	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Amounts due to related parties		
CareCapital Orthotech	–	2,805
Ningbo Yonghan	–	1,456
Ningbo Zhaomin	–	1,145
Wuxi Beifurui	–	289
Ms. LI Huamin	–	77
Shanghai Junxiao	–	168
	–	5,940

The above balances were with non-trade nature.

During the six months ended June 30, 2021, the amounts due to related parties amounting to RMB5,344,000 in total were waived pursuant to agreements entered into between the Group and certain shareholders of the Company dated March 24, 2021 and April 22, 2021, respectively.

22 CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at June 30, 2021.

23 SUBSEQUENT EVENTS

Save as disclosed in other notes to the Interim Financial Information, there were no other material subsequent events took place after June 30, 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

We are a leading clear aligner treatment solution provider in China. We facilitate dental professionals throughout the entire clear aligner treatment process with Angelalign clear aligner system, which comprises a trio of interrelated 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.

On June 16, 2021, we were successfully listed on the Main Board of the Stock Exchange.

We currently market four lines of clear aligners with a variety of unique features that appeal to different user segments, including *Angelalign*, *Angelalign Pro*, *Angelalign Kid* and *COMFOS*. Our diversified 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 47,200 in the six months ended June 30, 2020 to approximately 79,500 in the six months ended June 30, 2021, with the average selling price decreasing from approximately RMB7,800 in the six months ended June 30, 2020 to approximately RMB7,500 in the six months ended June 30, 2021. The following table sets forth a breakdown of our sales volume, as measured by case shipments, by product line for the periods indicated.

	Six months ended June 30,	
	2021	2020
	<i>Sales volume</i>	
	<i>(number of case shipments⁽¹⁾)</i>	
<i>Angelalign</i>	36,900	27,200
<i>Angelalign Pro</i>	21,100	10,000
<i>Angelalign Kid</i>	4,000	1,400
<i>COMFOS</i>	17,500	8,600
	<hr/>	<hr/>
Total	79,500	47,200
	<hr/> <hr/>	<hr/> <hr/>

- (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.

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. The number of dental professionals we served increased from approximately 11,700 in the six months ended June 30, 2020 to approximately 17,300 in the six months ended June 30, 2021.

Starting from 2014, we have organized and hosted *A-Tech Forum*, an annual academic conference with the aim of gathering renowned orthodontists, stomatologists and experts in other relevant fields worldwide to exchange the most advanced digital orthodontics technologies and latest innovations. In the 2021 *A-Tech Forum* we hosted in June 2021, we gathered approximately 2,000 orthodontists, stomatologists and experts nationwide to exchange and share the most advanced orthodontic technology and latest innovations of China's digital orthodontics industry.

We attribute our capability in digital orthodontics to the integrated application of our dedicated scientific research efforts on a range of relevant subjects, including clinical stomatology, biomechanics, materials science, computer science and intelligent manufacturing technologies, including 3D printing and manufacturing automation. As the nucleus of our Angelalign clear aligner system, our self-developed and solid technology and data platforms, nicknamed *masterForce*, *masterControl* and *masterEngine*, play a vital role in our capability to continuously make breakthrough in digital orthodontics, which has created entry barriers and underpinned our long-term growth.

We have developed intelligent manufacturing capabilities to produce customized clear aligners with premium quality and high tolerance. We manufacture all the clear aligners pertinent to specific treatment plans through a "mass customization" model based on intelligent manufacturing technologies, including 3D printing and automated production lines. The following table sets forth our production capacity, production volume and utilization rate of our clear aligners for the periods indicated.

Six months ended June 30,
2021 2020
(unit in thousands,
except for the percentages)

Production capacity ⁽¹⁾	13,500	9,900
Production volume ⁽²⁾	12,020	6,300
Utilization rate ⁽³⁾	89.0%	63.6%

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

We are in the process of constructing our Chuangmei Center (時代天使創美基地) 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. As of the date of this announcement, the construction of the first phase of the project is running smoothly. We expect to commence production in our Chuangmei Center with the first few established automated production lines by the end of 2021 after we obtain relevant permits, certificates and approvals, such as a certificate for passing construction completion inspections and a medical device production permit.

We generate revenue primarily from the provision of clear aligner treatment solutions. Our revenue increased from RMB308.7 million in the six months ended June 30, 2020 to RMB571.0 million in the six months ended June 30, 2021. Our net profit increased from RMB61.4 million in the six months ended June 30, 2020 to RMB95.7 million in the six months ended June 30, 2021. Our adjusted EBITDA increased from RMB121.5 million in the six months ended June 30, 2020 to RMB195.4 million in the six months ended June 30, 2021. Our adjusted net profit increased from RMB93.1 million in the six months ended June 30, 2020 to RMB156.9 million in the six months ended June 30, 2021.

Outlook

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.

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 research and development 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.

Meanwhile, 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. Should there be an escalation of the spread, China may again take strict emergency measures to combat the spread of the virus, including travel restrictions, mandatory cessations of business operations including dental hospitals and clinics, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions, which may impact our business. As a result, the extent of the disruption to our business and the related impact on our financial results and outlook cannot be precisely estimated at this time. We are continuously evaluating its impact on our business, results of operations and financial condition, which we believe will depend on the duration of the pandemic and the government's responsive measures. The potential downturn brought by, and the duration of, the COVID-19 outbreak may be difficult to assess or predict as the actual effects will depend on many factors beyond our control. If the outbreak persists or escalates, we may be subject to further negative impact on our business operations, results of operations and financial condition.

Financial Review

The following discussions are based on the financial information and notes set out in other sections of this announcement and should be read in conjunction with them.

Revenue

Our revenue increased by 85.0% from RMB308.7 million in the six months ended June 30, 2020 to RMB571.0 million in the six months ended June 30, 2021. The following table sets forth a breakdown of our revenue, both in absolute amounts and as a percentage of total revenue, by business line for the periods indicated.

	Six months ended June 30,			
	2021		2020	
	RMB'000	%	RMB'000	%
Clear aligner treatment solutions	532,694	93.3%	301,929	97.8%
Others				
Other services	9,776	1.7%	6,722	2.2%
Sales of intraoral scanners	28,579	5.0%	—	—
Total	571,049	100.0%	308,651	100.0%

- Clear aligner treatment solutions.** Our revenue generated from the provision of clear aligner treatment solutions increased by 76.4% from RMB301.9 million in the six months ended June 30, 2020 to RMB532.7 million in the six months ended June 30, 2021, primarily due to (1) the increase in the case shipments from approximately 47,200 in the six months ended June 30, 2020 to approximately 79,500 in the six months ended June 30, 2021, 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.* 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. Our revenue generated from other services increased by 45.4% from RMB6.7 million in the six months ended June 30, 2020 to RMB9.8 million in the six months ended June 30, 2021, primarily due to the rebound in the business volume of our other services resulting from economic recovery from the COVID-19 pandemic.
- *Sales of intraoral scanners.* 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. In the six months ended June 30, 2021, we generated revenue of RMB28.6 million from the sales of intraoral scanners.

Cost of Revenue

Our cost of revenue increased by 99.6% from RMB96.9 million in the six months ended June 30, 2020 to RMB193.4 million in the six months ended June 30, 2021, primarily due to the increased number of malocclusion cases we help addressed with our clear aligner treatment solutions and the development of our newly launched sales of intraoral scanners.

- *Clear aligner treatment solutions.* Our cost of revenue related to the provision of clear aligner treatment solutions increased by 76.8% from RMB91.8 million in the six months ended June 30, 2020 to RMB162.4 million in the six months ended June 30, 2021, primarily due to the increases in cost of raw materials and consumables used and delivery costs in line with the increase in the number of malocclusion cases we help addressed with our solutions.
- *Other services.* Our cost of revenue related to the provision of other services increased by 49.1% from RMB5.1 million in the six months ended June 30, 2020 to RMB7.6 million in the six months ended June 30, 2021, primarily due to the increases in material costs, rental expenses and employee benefit expenses in line with the recovery of business volume of our other services.
- *Sales of intraoral scanners.* As we have expanded our business to sell intraoral scanners to our customers since 2021, we recorded cost of revenue of RMB23.5 million.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 78.3% from RMB211.7 million in the six months ended June 30, 2020 to RMB377.6 million in the six months ended June 30, 2021. The gross profit margin for the six months ended June 30, 2021 was 66.1%, as compared with 68.6% for the six months ended June 30, 2020. The following table sets forth a breakdown of our gross profit and gross profit margin by business line for the periods indicated.

	Six months ended June 30,			
	2021		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>(RMB in thousands, except for the percentages)</i>			
Clear aligner treatment solutions	370,343	69.5%	210,100	69.6%
Others				
Other services	2,213	22.6%	1,649	24.5%
Sales of intraoral scanners	5,076	17.8%	—	—
Total	377,632	66.1%	211,749	68.6%

- *Clear aligner treatment solutions.* Our gross profit margin for clear aligner treatment solutions remained relatively stable at RMB69.6% and 69.5% in the six months ended June 30, 2020 and 2021, respectively.
- *Other services.* Our gross profit margin for other services decreased from 24.5% in the six months ended June 30, 2020 to 22.6% in the six months ended June 30, 2021, primarily because we were granted deduction in our rental expenses and contribution of social insurance premiums in the first half of 2020 according to relevant government relief policies during the COVID-19 outbreak, which resulted in a decrease in our fix cost in the six months ended June 30, 2020 as compared with the six months ended June 30, 2021.
- *Sales of intraoral scanners.* Our gross profit margin for the sales of intraoral scanners was 17.8% for the six months ended June 30, 2021.

Selling and Marketing Expenses

Our selling and marketing expenses increased 118.5% from RMB44.2 million in the six months ended June 30, 2020 to RMB96.6 million in the six months ended June 30, 2021, primarily because (1) we incurred spending on the 2021 *A-Tech Forum* which we hosted in June 2021, whereas we hosted the 2020 *A-Tech Forum* in December 2020, and (2) we resumed our normal marketing activities in the six months ended June 30, 2021, whereas we experienced limits on carrying out offline marketing activities during the COVID-19 outbreak in the six months ended June 30, 2020.

Administrative Expenses

Our administrative expenses increased by 80.9% from RMB61.4 million in the six months ended June 30, 2020 to RMB111.1 million in the six months ended June 30, 2021, primarily due to (1) the listing expenses we incurred in connection with our preparation for the Global Offerings in the six months ended June 30, 2021, and (2) the increase in employee benefit expenses incurred for our administrative personnel as we resumed the upward adjustment of the headcount and level of compensation in the six months ended June 30, 2021 following the containment of the COVID-19 pandemic, as compared with the six months ended June 30, 2020.

Research and Development Expenses

Our research and development expenses increased by 55.8% from RMB38.3 million in the six months ended June 30, 2020 to RMB59.6 million in the six months ended June 30, 2021, primarily due to the increase in employee benefit expenses incurred for our research and development personnel as we resumed the upward adjustment of the headcount and level of compensation in the six months ended June 30, 2021 following the containment of the COVID-19 pandemic, as compared with the six months ended June 30, 2020.

Net Reversal/(Losses) of Impairment on Financial Assets

We recorded net reversal on financial assets of RMB4.0 million in the six months ended June 30, 2021, as compared with net losses of impairment on financial assets of RMB2.4 million in the six months ended June 30, 2020, primarily due to the reversal of the loss allowance provision for trade receivables we recognized in prior reporting periods resulting from the decrease in the outstanding balance of our trade receivables.

Other Income

We recorded other income of RMB4.2 million in the six months ended June 30, 2021, as compared with RMB8.8 million in the six months ended June 30, 2020, which primarily represented government grants we received.

Other Expenses

We recorded other expenses of RMB2.0 million and nil in the six months ended June 30, 2020 and 2021, respectively, as we made a donation to China Oral Health Foundation in the six months ended June 30, 2020.

Other (Losses)/Gains – Net

We had other losses – net of RMB1.0 million in the six months ended June 30, 2021, as compared with other gains – net of RMB1.6 million in the six months ended June 30, 2020, primarily because (1) we recognized net foreign exchange losses of RMB1.3 million in the six months ended June 30, 2021, as compared with net foreign exchange gains of RMB0.8 million in the six months ended June 30, 2020, and (2) we recognized realized fair value gain of wealth management products of RMB1.1 million in the six months ended June 30, 2020, as compared with nil in the six months ended June 30, 2021.

Finance Income

Our finance income increased by 125.9% from RMB2.1 million in the six months ended June 30, 2020 to RMB4.8 million in the six months ended June 30, 2021, primarily due to the increase in the amount of interest income on our bank deposits.

Finance Costs

Our finance costs decreased by 16.0% from RMB0.6 million in the six months ended June 30, 2020 to RMB0.5 million in the six months ended June 30, 2021, primarily due to the decrease in 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 RMB0.2 million and RMB0.8 million in the six months ended June 30, 2020 and 2021, respectively, primarily due to the loss recognized by joint ventures and an associate we invested in.

Profit Before Income Tax

As a result of the foregoing, we recorded profit before tax of RMB121.0 million in the six months ended June 30, 2021, compared to RMB75.1 million in the six months ended June 30, 2020.

Income Tax Expenses

Our income tax expenses increased by 84.0% from RMB13.8 million in the six months ended June 30, 2020 to RMB25.3 million in the six months ended June 30, 2021, primarily due to the increase in our taxable income.

Profit for the Period

As a result of the above, our net profit increased by 55.8% from RMB61.4 million in the six months ended June 30, 2020 to RMB95.7 million in the six months ended June 30, 2021. The net profit margin for the six months ended June 30, 2021 was 16.8%, as compared with 19.9% for the six months ended June 30, 2020.

Non-IFRS Measures

To supplement our consolidated financial statement 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 listing expenses. We define adjusted net profit as profit for the year adjusted by non-recurring or non-operating items, including share-based payments and listing 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.

	Six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>(RMB in thousands)</i>	
Profit for the period	95,662	61,393
<i>Add:</i>		
Income tax expenses	25,311	13,753
Profit before income tax	120,973	75,146
<i>Add:</i>		
(Finance income-net)	(4,308)	(1,506)
Depreciation of property, plant and equipment	10,463	8,361
Depreciation of right-of-use assets	6,125	5,529
Amortization of intangible assets	926	2,308
EBITDA	134,179	89,838
<i>Add:</i>		
Share-based payments	25,834	31,676
Listing expenses	35,429	—
Adjusted EBITDA	195,442	121,514
Profit for the period	95,662	61,393
<i>Add:</i>		
Share-based payments	25,834	31,676
Listing expenses	35,429	—
Adjusted net profit	156,925	93,069

Liquidity, Capital Resources and Capital Structure

In the six months ended June 30, 2021, our primary use of cash is to fund our working capital requirements and other recurring expenses. We financed our capital expenditures and working capital requirements primarily through cash generated from our operating activities.

We have continued to maintain a healthy and sound financial position, and have followed a set of funding and treasury policies to manage our capital resources and mitigate potential risks involved. Our current assets increased from approximately RMB1,003.7 million as of December 31, 2020 to approximately RMB3,271.2 million as of June 30, 2021, primarily due to the cash proceeds received from the global offering (“**Global Offering**”).

On June 16, 2021, we were successfully listed on the Main Board of the Stock Exchange. The aggregate net proceeds from our Global Offering, including the net proceeds from the full exercise of the Over-allotment Option and after deduction of the underwriting fees and other related expenses, was approximately HKD3,139.0 million.

The following table sets forth our cash flows for the period indicated.

	For the six months ended June 30,	
	2021	2020
	<i>(RMB in thousands)</i>	
Net cash generated from operating activities	174,017	101,713
Net cash used in investing activities	(78,682)	(193,941)
Net cash generated from/(used in) financing activities	2,183,263	(5,436)
Net increase/(decrease) in cash and cash equivalents	2,278,598	(97,664)
Cash and cash equivalents at beginning of the period	877,578	504,697
Exchange gains on cash and cash equivalents	8,794	789
Cash and cash equivalents at the end of the period	3,164,970	407,822

Cash and Cash Equivalents

Our cash and cash equivalents primarily consisted of cash at banks. Our cash and cash equivalents increased from RMB877.6 million as of December 31, 2020 to RMB3,165.0 million as of June 30, 2021, primarily due to the cash proceeds received from the Global Offering.

Exposure to Exchange Rate Fluctuation

Our business is principally conducted in RMB, and the majority of our assets is denominated in USD and RMB. Our non-RMB assets and liabilities primarily consist of bank deposits and 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.

We have not implemented any hedging arrangements. 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.

Capital Expenditure

For the six months ended June 30, 2021, our total capital expenditure amounted to approximately RMB81.6 million, which consisted primarily of purchases of property, plant and equipment in connection with the construction of our Chuangmei Center, as well as purchases of right-of-use assets and purchase of intangible assets.

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 June 30, 2021	As of December 31, 2020
	<i>(RMB in thousands)</i>	
Property, plant and equipment	135,510	164,898
Intangible assets	8	8
Investments in joint venture	—	500
Total	<u>135,518</u>	<u>165,406</u>

Contingent Liabilities

As of June 30, 2021, we did not have any material contingent liability, guarantee or any litigation or claim of material importance, pending or threatened against any member of our Group.

Future Plans for Material Investments and Capital Assets

Save as disclosed in the Prospectus, as of June 30, 2021, we did not have other substantial future plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

In the six months ended June 30, 2021, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Significant Investments and Acquisition of Capital Assets

In the six months ended June 30, 2021, we did not hold any significant investments nor made any significant acquisition of capital assets.

Charge on Group's Assets

As of June 30, 2021, we had no charges on our assets.

Borrowings and Gearing Ratio

Gearing ratio represents the percentage of bank borrowings to total equity. As of June 30, 2021, we did not have any outstanding bank loans or other borrowings. Thus, as of June 30, 2021, gearing ratio was not applicable.

Key Financial Indicators

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

	As of/for the six months ended June 30,	
	2021	2020
Profitability ratios		
Gross profit margin ⁽¹⁾	66.1%	68.6%
Net profit margin ⁽²⁾	16.8%	19.9%
Adjusted net profit margin ⁽³⁾	27.5%	30.2%
Liquidity ratios		
Current ratio ⁽⁴⁾	4.9	N/A

- (1) The calculation of gross profit margin is based on gross profit divided by revenue for the period indicated and multiplied by 100.0%.
- (2) The calculation of net profit margin is based on net profit divided by revenue for the period indicated and multiplied by 100.0%.
- (3) The calculation of adjusted net profit margin, a non-IFRS measure, is based on adjusted net profit divided by revenue for the period indicated and multiplied by 100.0%.
- (4) The calculation of current ratio is based on current assets divided by current liabilities as of June 30, 2021.

OTHER INFORMATION

Use of Proceeds

The ordinary shares of the Company (“**Shares**”) were listed on the Main Board of the Stock Exchange on the Listing Date, whereby 16,829,600 new Shares were issued at the offer price of HKD173.0 each by the Company. On July 8, 2021, the Joint Global Coordinators, on behalf of the International Underwriters, fully exercised the Over-allotment Option at the offer price of HKD173.0, pursuant to which the Company issued an addition of 2,524,400 Shares. The aggregate net proceeds from the Company’s Global Offering, including the net proceeds from the full exercise of the Over-allotment Option and after deduction of the underwriting fees and other related expenses, was approximately HKD3,139.0 million.

The Company intended to utilise all of such proceeds in the manner as stated in the section headed “Future Plans and Use of Proceeds” in the Prospectus. Since the Listing Date and up to June 30, 2021, the Company had not utilized any of the net proceeds raised from the Global Offering.

Employees, Training and Remuneration Policies

As of June 30, 2021, we had 1,565 employees. The staff costs including Directors' emoluments and share-based payment expenses were approximately RMB187.2 million in the six months ended June 30, 2021.

Our employees' compensation includes basic salary, performance-based cash bonuses, incentive shares and other incentives. We determine our employees' compensation based on each employee's performance, qualifications, position and seniority.

We recognize the importance of keeping the Directors updated with the latest information of duties and obligations of a director of a company whose shares are listed on the Stock Exchange and the general regulatory and environmental requirements for such listed company. To meet this goal, we are committed to the continuing education and development of our Directors and employees.

We provide pre-employment and regular continuing management and technical training to our employees, which we believe are effective in equipping them with the skill set and work ethics that we require.

Purchase, Sale or Redemption of the Company's Listed Securities

Save as disclosed below, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities from the Listing Date to the date of this announcement.

- On July 13, 2021, the Company issued an aggregate of 2,524,400 new Shares as a result of the full exercise of the Over-allotment Option at the offer price of HKD173.00 per Share. See the Company's announcement dated July 8, 2021 in respect of the full exercise of the Over-allotment Option for more information.

Interim Dividend

The Board has resolved not to recommend payment of any interim dividend for the six months ended June 30, 2021.

Sufficiency of Public Float

According to the information that is publicly available to the Company and within the knowledge of the Board, as of the date of this announcement, the Company has maintained to comply with the minimum percentage prescribed in the conditions imposed in the waiver granted by the Stock Exchange from strict compliance with Rule 8.08(1) of the Listing Rules.

Compliance with Corporate Governance

The Group is committed to maintaining high standards of corporate governance. The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of its Shareholders and corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions set out in the Corporate Governance Code (the "CG Code") under Appendix 14 of the Listing Rules as the basis of the Company's corporate governance practices. Since the Listing Date and up to the date of this announcement, the Company has complied with the code provisions under the CG Code.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors’ securities transactions. The provisions under the Listing Rules in relation to compliance with the Model Code by the Directors regarding securities transactions have been applicable to the Company since the Listing Date.

Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the requirements of the Model Code since the Listing Date and up to the date of this announcement.

Audit Committee and Review of Interim Financial Results

The Company established the Audit Committee with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules in June 2021. As of the date of this announcement, the Audit Committee comprises three independent non-executive Directors, namely, Ms. DONG Li, Mr. HAN Xiaojing and Mr. SHI Zi, and Ms. DONG Li serves as the chairwoman of the Audit Committee.

The Audit Committee has reviewed the unaudited consolidated interim financial statement of the Company for the six months ended June 30, 2021. The Audit Committee has also reviewed the accounting policies and practices adopted by the Company and discussed matters in relation to, among others, risk management, internal control and financial reporting of the Group with the management and PricewaterhouseCoopers, the independent auditor of the Company. Based on this review and discussions with the management and the independent auditor of the Company, the Audit Committee was satisfied that the Group’s unaudited consolidated interim financial statement were prepared in accordance with applicable accounting standards and fairly present the Group’s financial position and results for the six months ended June 30, 2021.

PricewaterhouseCoopers, certified public accountants and the independent auditor of the Company, has reviewed the unaudited condensed consolidated interim financial information for the six months ended June 30, 2021 in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.”

Events after the Review Period

As of the date of this announcement, save as disclosed in this announcement, there has been no significant event since the end of the Review Period that is required to be disclosed by the Company.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.angelalign.com). The interim report of the Company for the six months ended June 30, 2021 will be dispatched to the Shareholders and published on the aforesaid websites in due course.

APPRECIATION

On behalf of the Board, I would like to express our sincere gratitude to customers, end consumers and business partners for their trust in our Company, our staff and management team for their diligence, dedication, loyalty and integrity, and our Shareholders for their continuous support.

By order of the Board of Directors
Angelalign Technology Inc.
Mr. FENG Dai
Chairman

Hong Kong, August 26, 2021

As of the date of this announcement, the board of directors of the Company comprises Ms. LI Huamin and Mr. SONG Xin as executive Directors; Mr. FENG Dai, Mr. HUANG Kun and Mr. HU Jiezhong as non-executive Directors; Mr. HAN Xiaojing, Ms. DONG Li and Mr. SHI Zi as independent non-executive Directors.