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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, 2023

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 interim results of the Group for the six months ended June 30, 2023 (the “**Review Period**”), together with the comparative figures for the six months ended June 30, 2022, which have been reviewed by the audit committee of the Board (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

- The total amount of our case shipments in the domestic and international markets increased by 23.6% year over year to approximately 95,400 in the six months ended June 30, 2023, as compared to 77,200 in the six months ended June 30, 2022. The total amount of our case shipments in the international markets were approximately 9,400 in the six months ended June 30, 2023.
- Our revenue for the six months ended June 30, 2023 increased to approximately RMB616.3 million, as compared to approximately RMB570.9 million for the six months ended June 30, 2022, primarily due to the stable growth in our clear aligner treatment solution business in China and the continuous investment in our international business.
- Our gross profit for the six months ended June 30, 2023 increased to approximately RMB365.7 million, as compared to approximately RMB331.4 million for the six months ended June 30, 2022.
- Our gross profit margin for the six months ended June 30, 2023 increased to 59.3%, as compared with 58.0% for the six months ended June 30, 2022. Our gross profit margin for domestic clear aligner treatment solutions increased to 61.7% in the six months ended June 30, 2023, as compared with 60.2% in the six months ended June 30, 2022, primarily due to the decrease in unit cost of clear aligners brought by the improvement of our production technology.
- Our net profit, adjusted EBITDA⁽¹⁾ and adjusted net profit⁽¹⁾ for the six months ended June 30, 2023 decreased to approximately RMB29.3 million, RMB45.3 million and RMB49.5 million, respectively, as compared to approximately RMB73.3 million, RMB111.9 million and RMB82.0 million for the six months ended June 30, 2022, respectively, primarily due to our early investment in initiating the international business.
- The Board did not declare any interim dividend for the six months ended June 30, 2023.

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. Adjusted net profit is defined as profit for the period adjusted by non-recurring or non-operating items, including share-based payments. Please refer to page 52-53 of this announcement for more details.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended June 30,	
	<i>Note</i>	2023	2022
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	6	616,329	570,936
Cost of revenue	8	<u>(250,600)</u>	<u>(239,541)</u>
Gross profit		365,729	331,395
Selling and marketing expenses	8	(204,066)	(127,795)
Administrative expenses	8	(120,682)	(83,817)
Research and development expenses	8	(86,121)	(75,441)
Net impairment losses on financial assets		(3,983)	(1,625)
Other income	7	5,165	5,649
Other expenses	7	–	(284)
Other gains – net	7	<u>27,617</u>	<u>24,605</u>
Operating (loss)/profit		(16,341)	72,687
Finance income	9	53,035	10,787
Finance costs	9	(981)	(872)
Finance income – net	9	52,054	9,915
Share of results of investments accounted for using the equity method		<u>(147)</u>	<u>(71)</u>
Profit before income tax		35,566	82,531
Income tax expense	10	<u>(6,267)</u>	<u>(9,260)</u>
Profit for the period		<u>29,299</u>	<u>73,271</u>
Profit attributable to			
– Owners of the Company		32,308	74,307
– Non-controlling interests		(3,009)	(1,036)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Exchange differences on translation of the Company		88,079	121,315
<i>Items that may be subsequently reclassified to profit or loss</i>			
Exchange differences on translation of subsidiaries		<u>12,912</u>	<u>2,226</u>
		100,991	123,541
Total comprehensive income for the period		<u>130,290</u>	<u>196,812</u>

		Six months ended June 30,	
		2023	2022
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Total comprehensive income for the period attributable to:			
– Owners of the Company		128,744	197,676
– Non-controlling interests		<u>1,546</u>	<u>(864)</u>
		<u>130,290</u>	<u>196,812</u>
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
– Basic	<i>11</i>	<u>0.19</u>	<u>0.44</u>
– Diluted	<i>11</i>	<u>0.19</u>	<u>0.44</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	<i>12</i>	383,786	347,311
Right-of-use assets	<i>14</i>	78,840	81,967
Intangible assets	<i>13</i>	156,165	16,205
Investments accounted for using the equity method		18,710	14,448
Prepayments for non-current assets	<i>17</i>	19,889	15,150
Deferred tax assets		25,706	19,099
Financial assets at fair value through profit or loss	<i>19</i>	131,688	121,227
Long-term receivables	<i>15</i>	61,739	–
		876,523	615,407
Current assets			
Inventories		116,550	113,156
Trade and other receivables	<i>17</i>	161,699	108,270
Term deposit with initial terms over three months	<i>18</i>	505,806	–
Cash and cash equivalents	<i>18</i>	3,028,317	3,649,376
		3,812,372	3,870,802
Total assets		4,688,895	4,486,209
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	<i>20</i>	110	110
Share premium	<i>20</i>	2,839,060	2,941,876
Shares held for employee share scheme	<i>20</i>	(1,098)	(1,098)
Other reserves		60,428	237,820
Retained earnings		460,366	428,058
		3,358,866	3,606,766
Non-controlling interests		69,791	(4,569)
Total equity		3,428,657	3,602,197

		As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Non-current liabilities			
Bank borrowings		8,881	–
Contract liabilities		54,921	55,719
Lease liabilities		12,072	14,858
Deferred income		31,375	31,212
Deferred tax liabilities		29,873	733
Other non-current financial liabilities	23	<u>292,419</u>	<u>–</u>
		<u>429,541</u>	<u>102,522</u>
Current liabilities			
Bank borrowings		7,759	–
Trade and other payables	22	438,242	365,612
Contract liabilities		349,435	359,656
Current income tax liabilities		19,063	40,619
Lease liabilities		14,393	13,346
Deferred income		<u>1,805</u>	<u>2,257</u>
		<u>830,697</u>	<u>781,490</u>
Total liabilities		<u>1,260,238</u>	<u>884,012</u>
Total equity and liabilities		<u><u>4,688,895</u></u>	<u><u>4,486,209</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Share capital	Share premium	Shares held for employee share scheme	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)								
Balance at January 1, 2023	110	2,941,876	(1,098)	237,820	428,058	3,606,766	(4,569)	3,602,197
Comprehensive income								
Profit for the period	-	-	-	-	32,308	32,308	(3,009)	29,299
Other comprehensive income								
- Currency translation differences	-	-	-	96,436	-	96,436	4,555	100,991
Total comprehensive income for the period	-	-	-	96,436	32,308	128,744	1,546	130,290
Transactions with owners in their capacity as owners								
Equity-settled share-based payment transactions	21	-	-	20,188	-	20,188	-	20,188
Shares issued for option exercise	20	*	3,150	(1,597)	-	1,553	-	1,553
Non-controlling interests arising from acquisition of a subsidiary	24	-	-	-	-	-	72,814	72,814
Shares issued for restricted share award scheme	20	*	-	-	-	*	-	*
Dividends declared	20	-	(105,966)	-	-	(105,966)	-	(105,966)
Recognition of put option liabilities arising from business combinations	23	-	-	(234,875)	-	(234,875)	-	(234,875)
Changes in put option liabilities in respect of non-controlling interests	23	-	-	(57,544)	-	(57,544)	-	(57,544)
Total transactions with owners in their capacity as owners	*	(102,816)	*	(273,828)	-	(376,644)	72,814	(303,830)
Balance at June 30, 2023	<u>110</u>	<u>2,839,060</u>	<u>(1,098)</u>	<u>60,428</u>	<u>460,366</u>	<u>3,358,866</u>	<u>69,791</u>	<u>3,428,657</u>

* The balance represents an amount less than RMB1,000.

	Attributable to owners of the Company								
	Note	Share capital RMB'000	Share premium RMB'000	Shares held for employee share scheme RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
(Unaudited)									
Balance at January 1, 2022		110	3,117,920	(4,393)	(27,545)	232,978	3,319,070	(4,338)	3,314,732
Comprehensive income									
Profit for the period		-	-	-	-	74,307	74,307	(1,036)	73,271
Other comprehensive income									
- Currency translation differences		-	-	-	123,369	-	123,369	172	123,541
Total comprehensive income for the period		-	-	-	123,369	74,307	197,676	(864)	196,812
Transactions with owners in their capacity as owners									
Equity-settled share-based payment transactions	21	-	-	-	8,768	-	8,768	-	8,768
Shares issued for restricted share award scheme	20	*	-	*	-	-	*	-	*
Dividends declared	20	-	(176,044)	-	-	-	(176,044)	-	(176,044)
Total transactions with owners in their capacity as owners		*	(176,044)	*	8,768	-	(167,276)	-	(167,276)
Balance at June 30, 2022		<u>110</u>	<u>2,941,876</u>	<u>(4,393)</u>	<u>104,592</u>	<u>307,285</u>	<u>3,349,470</u>	<u>(5,202)</u>	<u>3,344,268</u>

* The balance represents an amount less than RMB1,000.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended June 30,	
	2023	2022
<i>Note</i>	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash (used in)/generated from operations	(57,121)	52,301
Income tax paid	(35,906)	(20,805)
	<u>(93,027)</u>	<u>31,496</u>
Net cash (used in)/generated from operating activities		
Cash flows from investing activities		
Purchases of property, plant and equipment and other non-current assets	(49,255)	(30,684)
Purchases of intangible assets	(6,104)	(5,274)
Proceeds from disposal of property, plant and equipment	1,255	429
Consideration paid for the acquisition of a subsidiary	24 (23,895)	–
Consideration paid for derivative financial asset	19 (5,842)	–
Purchase of term deposit with initial terms over three months	18 (505,806)	–
Purchases of financial assets at fair value through profit or loss	19 (3,100,000)	(1,218,809)
Proceeds from disposals of financial assets at fair value through profit or loss	19 3,110,310	1,156,351
Loans provided to employees for individual income tax paid related to share-based payment	15 (61,739)	–
Interest received	45,138	10,787
	<u>(595,938)</u>	<u>(87,200)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from shares issued for option exercise	20 1,553	–
Dividend paid	–	(176,044)
Proceeds from bank borrowings	–	2,851
Borrowing interest paid	(149)	(51)
Repayments of bank borrowings	(19,996)	(2,851)
Principal elements of lease payments	(7,373)	(7,280)
Interest paid of lease liabilities	(832)	(821)
	<u>(26,797)</u>	<u>(184,196)</u>
Net cash used in financing activities		
Net decrease in cash and cash equivalents		
Cash and cash equivalents at beginning of the period	3,649,376	3,626,983
Exchange gains on cash and cash equivalents	94,703	132,891
	<u>3,028,317</u>	<u>3,519,974</u>
Cash and cash equivalents at the end of the period		

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

Angelalign Technology Inc. (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, PO 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. 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 offering (“**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, 2023 (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 24, 2023.

2 BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting”. The Interim Financial Information does not include all the notes of the type normally included in an annual financial report and thus should be read in conjunction with the annual financial statements of the Group for the year ended December 31, 2022 (the “2022 Financial Statements”), which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board (“**IASB**”), and any public announcements made by the Company during the six months ended June 30, 2023.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the 2022 Financial Statements, except for the business combination (see Note 24(a)(iv)) and the adoption of new and amendments to the IFRS effective for the financial year beginning January 1, 2023.

(a) New standards and amendments adopted by the Group

The following standards and amendments apply for the first time to financial reporting periods commencing January 1, 2023:

		Effective for accounting periods beginning on or after
IFRS 17	Insurance Contract	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

The Group has adopted International Tax Reform – Pillar Two Model Rules -Amendments to IAS 12 upon their release on May 23, 2023. The amendments provide a temporary mandatory exception applying retrospectively from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about the Pillar Two exposure from December 31, 2023.

As an exception to requirements in the amendments to IAS 12, the Group neither recognizes nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes because no new legislation to implement the top-up tax was enacted or substantively enacted at December 31, 2022 in any jurisdiction in which the Group operates.

The relief and the new disclosures will also be reflected in the Group’s consolidated financial statements as at and for the year ending December 31, 2023.

The standards and amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(b) New amendments not yet been adopted

		Effective for accounting periods beginning on or after
Amendments to IAS 1	Classification of liabilities as current or non-current	January 1, 2024
Amendments to IAS 1	Non-Current Liabilities with Covenants	January 1, 2024
Amendments to IFRS 16	Lease liability in a Sale and Leaseback	January 1, 2024
Amendments to IAS 7 and IFRS 7	Supplier finance arrangements	January 1, 2024
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures	To be determined

Based on management’s preliminary assessment, none of the above amendments is expected to have a significant impact on the Group’s consolidated financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of 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 2022 Financial Statements.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the 2022 Financial Statements, and should be read in conjunction with the 2022 Financial Statements.

There have been no significant changes in the risk factors and management policies since the year ended December 31, 2022.

(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 mainly 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, 2023 (Unaudited)					
Lease liabilities	15,472	9,804	2,680	–	27,956
Trade and other payables excluding non-financial liabilities	262,334	–	–	–	262,334
Bank borrowings	8,076	4,735	5,103	–	17,914
Other non-current financial liabilities	–	–	731,129	–	731,129
Total	285,882	14,539	738,912	–	1,039,333
As at December 31, 2022 (Audited)					
Lease liabilities	14,656	10,575	4,875	–	30,106
Trade and other payables excluding non-financial liabilities	187,531	–	–	–	187,531
Total	202,187	10,575	4,875	–	217,637

5.2 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, 2023 and December 31, 2022, the Group maintained at net cash position.

5.3 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 statements. 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.

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's policies are to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the period/year. There were no transfers between levels 1, 2 and 3 during the period ended June 30, 2023.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Black-Scholes Model and unobservable inputs mainly including assumptions of expected volatility.
- The latest round financing, i.e. the prior transaction price or the third-party pricing information; and
- A combination of observable and unobservable inputs, mainly including expected volatility, risk-free interest rate, market multiples, etc.

As at June 30, 2023, the Group had no level 1 financial instruments.

During the period ended June 30, 2023 and the year ended December 31, 2022, the Group purchased wealth management products with variable return based on forward exchange rates or gold prices at certain dates. The Group classified these wealth management products into level 2 financial instruments as the inputs included were observable for the assets. For the investments in unlisted equity investments and derivative financial asset, more than one significant inputs were not based on observable market data and the instrument was classified to level 3.

(a) Financial instruments in level 3

The following table presents the changes in level 3 instruments during the period/year.

	As at June 30, 2023 <i>RMB '000</i> (Unaudited)	As at December 31, 2022 <i>RMB '000</i> (Audited)
Derivative financial asset		
Balance at the beginning of the period/year	–	–
Additions (Note (24)(a)(i)(1))	5,842	–
Unrealized fair value losses recognized in profit or loss	(24)	–
Exchange gains	756	–
	<u>6,574</u>	<u>–</u>
Balance at the end of the period/year	<u>6,574</u>	<u>–</u>
Investments in unlisted equity investments		
Balance at the beginning of the period/year	121,227	–
Additions	–	107,912
Unrealized fair value gains recognized in profit or loss	1,816	12,293
Exchange gains	2,071	1,022
	<u>2,071</u>	<u>1,022</u>
Balance at the end of the period/year	<u>125,114</u>	<u>121,227</u>

(b) Valuation inputs and relationships to fair value

The fair value of financial instruments in level 2 is determined using valuation techniques with the use of observable market data such as the future cash flows based on forward exchange rates or gold price and observable yield curve.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at June 30, 2023 RMB'000	Un-observable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investments in unlisted equity investments	125,114	Expected volatility Risk-free interest rate	45.08%-50.16% 2.68%-4.27%	Increased/decreased expected volatility by 100 basis points (bps), the fair value for investments in unlisted equity investments would have been approximately RMB21,000 lower/RMB12,000 higher. Increased/decreased risk-free interest rate by 100 bps, the fair value for investments in unlisted equity investments would have been approximately RMB1,035,000 lower/ RMB1,082,000 higher.
Derivative financial asset	6,574	Expected volatility	52.09%	Increased/decreased expected volatility by 100 bps, the fair value would have been approximately RMB191,000 higher/lower.

(i) Valuation processes

The Group has a team that manages the valuation of level 2 and level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case-by-case basis. Every half year, the team would use valuation techniques to determine the fair value of the Group's level 2 and level 3 instruments. External valuation experts will be involved when necessary.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- Expected volatility for investments in unlisted equity investments and derivative financial asset are estimated based on average volatility for similar types of companies.
- Risk-free interest rate for investments in unlisted equity investments and derivative financial asset are derived from interest rates on treasury bonds over the same period.

The carrying amounts of the Group's financial assets and liabilities, including cash and cash equivalents, term deposit with initial terms over three months, trade and other receivables (excluding non-financial assets) less allowance for impairment, Long-term receivables, trade and other payables (excluding non-financial liabilities), lease liabilities, bank borrowings and other non-current financial liabilities approximated their fair values due to their short maturities.

6 REVENUE AND SEGMENT INFORMATION

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
	China	China
Revenue from external customers is recognized over time and is derived from the rendering of:		
– Clear aligner treatment solutions	553,224	546,419
– Other services	8,593	7,335
	<u>561,817</u>	<u>553,754</u>
Revenue from external customers is recognized at a point in time and is derived from:		
– Sales of products (i)	54,512	17,182
	<u>54,512</u>	<u>17,182</u>
Total revenue	<u><u>616,329</u></u>	<u><u>570,936</u></u>

- (i) This represented: (1) sales of intraoral scanners to hospitals, dental clinics and distributors and (2) sales of brackets, aligners and other products. Revenue from sales of products was recognized when the products were delivered to and accepted by the customers.

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 considers that the Group is operated and managed as a single operating segment, accordingly no segment information is presented.

Geographical information

The Company is domiciled in the Cayman Islands while most of the Group’s revenue and operating profit were generated in Mainland China, with less than 10% revenue and operating profit generated from countries outside the People’s Republic of China (“PRC”) and the Group’s identifiable assets and liabilities were substantially located in Mainland China and Hong Kong, no geographical information is presented in accordance with IFRS 8 “Operating Segments”.

Information about major customers

Since none of the Group’s provision of services to a single customer amounting to 10% or more of the Group’s total revenue for the periods ended June 30, 2023 and 2022, no major customer information is presented in accordance with IFRS 8 “Operating Segments”.

7 OTHER INCOME, OTHER EXPENSES AND OTHER GAINS – NET

	Six months ended June 30,	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
Other income		
Government grants	3,866	5,649
Interest on term deposit with initial terms over three months	1,299	–
	<u>5,165</u>	<u>5,649</u>
Other expenses		
Donations	–	(284)
	<u>–</u>	<u>(284)</u>
Other gains – net		
Net foreign exchange gains	14,792	16,867
Realized and unrealized gains on financial assets at FVPL	12,102	7,473
Losses on disposals of property, plant and equipment	(48)	(38)
Others	771	303
	<u>27,617</u>	<u>24,605</u>

8 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,	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
Changes in inventories of finished goods and work in progress	(1,108)	(1,440)
Raw materials and consumables used and other inventories	115,787	117,231
Employee benefit expenses	327,216	256,761
Advertising and promotion expenses	44,901	35,120
Depreciation and amortization	41,571	30,517
Professional service and consulting fees	31,668	17,810
Delivery costs	13,020	15,109
Outsourcing costs	12,750	14,035
Travelling expenses	16,603	5,871
Taxes and surcharges	7,925	5,086
Short-term lease and variable lease expenses	5,760	5,041
Utility costs	4,174	3,734
Office expenses	8,149	3,701
Entertainment expenses	3,977	2,584
Auditor's remuneration		
– Interim review services	1,725	1,100
– Non-Audit services	1,794	–
Others	25,557	14,334
	<u>661,469</u>	<u>526,594</u>

9 FINANCE INCOME – NET

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income:		
– Interest income on bank deposits	<u>53,035</u>	<u>10,787</u>
Finance costs:		
– Interest expense on lease liabilities	(832)	(821)
– Interest expense on bank borrowings	<u>(149)</u>	<u>(51)</u>
Finance income – net	<u>52,054</u>	<u>9,915</u>

10 INCOME TAX EXPENSE

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax		
– PRC corporate income tax (“CIT”)	14,043	19,212
– Hong Kong profits tax	<u>57</u>	<u>509</u>
	<u>14,100</u>	<u>19,721</u>
Deferred income tax	<u>(7,833)</u>	<u>(10,461)</u>
	<u>6,267</u>	<u>9,260</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,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before income tax	<u>35,566</u>	<u>82,531</u>
Tax calculated at respective statutory tax rates	(2,073)	15,080
Tax effects of:		
– Preferential income tax rates applicable to subsidiaries	(689)	(76)
– Expenses not deductible for taxation purposes	4,881	1,100
– Temporary differences and tax losses not recognized for deferred income tax in current year	18,945	6
– Super deduction for research and development expenditure	(13,917)	(6,857)
– Share of results of investments accounted for using the equity method	49	7
– Income not subject to tax	<u>(929)</u>	<u>–</u>
	<u>6,267</u>	<u>9,260</u>

(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 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, 2023.

The Company's subsidiary, Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司) ("Wuxi EA"), was approved as High and New Technology Enterprise ("HNTE") under the relevant tax rules and regulations of the PRC in 2014 and it has renewed the qualification of HNTE in 2017 and 2020, and accordingly, is subject to a reduced preferential CIT rate of 15% during the six months ended June 30, 2023.

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 HNTE under the relevant tax rules and regulations of the PRC in 2019 and it has renewed the qualification of HNTE in 2022, and accordingly, is subject to a reduced preferential CIT rate of 15% during the six months ended June 30, 2023.

According to the CIT laws and Detailed Implementation Rules, an enterprise is allowed to claim research and development expenses incurred for the development of new technologies, new products and new craftsmanship from 2008 onwards. From 2022, according to [2022] No.16 (財稅[2022] 16 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) Profit/income tax rate in other major jurisdictions as shown below:

Countries	Income/profits tax rate
United States	21.67%-29.84%
Singapore	17%
Brazil	15% & 34%
Germany	Corporation tax standard rate: 15.83% Trade tax standard rate: 16.63%
France	25%
Australia	30%
Spain	25%

(e) **Withholding tax**

According to the relevant regulations of the CIT 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%. The Company's application to be a resident of the Hong Kong Special Administrative Region under the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" was approved on May 19, 2023. The Company became a resident of Hong Kong Special Administrative Region with effect from the calendar year 2021 to 2023, and accordingly, is subject to a reduced preferential withholding tax rate of 5%.

As at June 30, 2023, the retained earnings of the Group's PRC subsidiaries not yet remitted to holding companies incorporated outside the PRC, for which no deferred tax liability had been provided, were approximately RMB551,538,000 (December 31, 2022: RMB495,044,000). Such earnings are expected to be retained by the PRC subsidiaries for reinvestment purposes and would not be remitted to their overseas holding companies in the foreseeable future based on management's best estimates of the Group's overseas funding requirements.

11 EARNINGS PER SHARE

(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, 2023 and 2022.

	Six months ended June 30,	
	2023	2022
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (RMB'000)	32,308	74,307
Weighted average number of ordinary shares outstanding	168,252,300	167,022,600
Basic earnings per share (in RMB)	<u>0.19</u>	<u>0.44</u>

(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, 2023 which were the restricted shares and share options granted before IPO ("**the Pre-IPO Share Award Schemes**") (Note 21(a)), the restricted shares granted after IPO ("**the Post-IPO RSU Schemes**") (Note 21(b)) and the share options granted after IPO ("**the Post-IPO Share Option Scheme**") (Note 21(c)).

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 restricted shares 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 restricted shares.

	Six months ended June 30,	
	2023	2022
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (RMB'000)	32,308	74,307
Weighted average number of ordinary shares in issue	168,252,300	167,022,600
Adjustments for unvested restricted shares and share options	634,185	1,604,954
Weighted average number of ordinary shares for diluted earnings per share	168,886,485	168,627,554
Diluted earnings per share (in RMB)	0.19	0.44

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Transportation equipment	Furniture, fixtures, equipment	Leasehold improvements	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2023							
Cost	189,716	122,099	1,790	77,696	61,592	2,907	455,800
Accumulated depreciation	(9,215)	(24,467)	(1,288)	(33,308)	(40,211)	-	(108,489)
Closing net book amount	180,501	97,632	502	44,388	21,381	2,907	347,311
Six months ended June 30, 2023 (Unaudited)							
Opening net book amount	180,501	97,632	502	44,388	21,381	2,907	347,311
Additions	-	3,701	805	6,750	256	10,969	22,481
Acquisition of a subsidiary	-	11,224	665	1,351	-	19,376	32,616
Transfers	2,723	-	-	-	2,371	(5,094)	-
Disposals	-	(951)	-	(352)	-	-	(1,303)
Depreciation	(4,556)	(6,902)	(194)	(7,720)	(5,992)	-	(25,364)
Foreign currency translation differences	-	1,525	84	161	-	6,275	8,045
Closing net book amount	178,668	106,229	1,862	44,578	18,016	34,433	383,786
At June 30, 2023 (Unaudited)							
Cost	192,439	136,509	3,265	85,460	64,219	34,433	516,325
Accumulated depreciation	(13,771)	(30,280)	(1,403)	(40,882)	(46,203)	-	(132,539)
Closing net book amount	178,668	106,229	1,862	44,578	18,016	34,433	383,786

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Transportation equipment <i>RMB'000</i>	Furniture, fixtures, 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, 2022							
Cost	6,638	128,495	1,790	9,490	47,083	122,426	315,922
Accumulated depreciation	(991)	(34,032)	(973)	(3,001)	(28,615)	-	(67,612)
Closing net book amount	<u>5,647</u>	<u>94,463</u>	<u>817</u>	<u>6,489</u>	<u>18,468</u>	<u>122,426</u>	<u>248,310</u>
Six months ended June 30, 2022 (Unaudited)							
Opening net book amount	5,647	94,463	817	6,489	18,468	122,426	248,310
Additions	-	28,002	-	4,343	342	69,850	102,537
Transfers	181,735	-	-	-	4,800	(186,535)	-
Disposals	-	(467)	-	-	-	-	(467)
Depreciation	(3,740)	(9,740)	(157)	(1,163)	(5,422)	-	(20,222)
Closing net book amount	<u>183,642</u>	<u>112,258</u>	<u>660</u>	<u>9,669</u>	<u>18,188</u>	<u>5,741</u>	<u>330,158</u>
At June 30, 2022 (Unaudited)							
Cost	188,373	155,796	1,790	13,833	52,225	5,741	417,758
Accumulated depreciation	(4,731)	(43,538)	(1,130)	(4,164)	(34,037)	-	(87,600)
Closing net book amount	<u>183,642</u>	<u>112,258</u>	<u>660</u>	<u>9,669</u>	<u>18,188</u>	<u>5,741</u>	<u>330,158</u>

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

	Six months ended June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of revenue	12,224	11,831
Selling and marketing expenses	968	566
Administrative expenses	10,638	6,670
Research and development expenses	1,534	1,155
	<u>25,364</u>	<u>20,222</u>

13 INTANGIBLE ASSETS

	Goodwill RMB'000	Software RMB'000	Patents RMB'000	Technology RMB'000	Customer relationship RMB'000	Brand RMB'000	Total RMB'000
At January 1, 2023							
Cost	2,964	19,980	6,400	-	2,442	-	31,786
Accumulated depreciation	-	(13,459)	(2,122)	-	-	-	(15,581)
Closing net book amount	<u>2,964</u>	<u>6,521</u>	<u>4,278</u>	<u>-</u>	<u>2,442</u>	<u>-</u>	<u>16,205</u>
Six months ended June 30, 2023 (Unaudited)							
Opening net book amount	2,964	6,521	4,278	-	2,442	-	16,205
Acquisition of a subsidiary	49,800	672	-	47,381	19,891	7,264	125,008
Additions	-	5,524	580	-	-	-	6,104
Amortization	-	(1,856)	(350)	(3,232)	(1,512)	(496)	(7,446)
Foreign currency translation differences	6,507	16	(1)	6,210	2,622	940	16,294
Closing net book amount	<u>59,271</u>	<u>10,877</u>	<u>4,507</u>	<u>50,359</u>	<u>23,443</u>	<u>7,708</u>	<u>156,165</u>
At June 30, 2023 (Unaudited)							
Cost	59,271	26,192	6,979	53,590	24,955	8,205	179,192
Accumulated depreciation	-	(15,315)	(2,472)	(3,232)	(1,512)	(496)	(23,027)
Closing net book amount	<u>59,271</u>	<u>10,877</u>	<u>4,507</u>	<u>50,358</u>	<u>23,443</u>	<u>7,709</u>	<u>156,165</u>
		Goodwill RMB'000	Software RMB'000	Patents RMB'000	Total RMB'000		
At January 1, 2022							
Cost		27	23,145	1,570	24,742		
Accumulated depreciation		-	(14,937)	(1,501)	(16,438)		
Closing net book amount		<u>27</u>	<u>8,208</u>	<u>69</u>	<u>8,304</u>		
Six months ended June 30, 2022 (Unaudited)							
Opening net book amount		27	8,208	69	8,304		
Additions		-	274	5,000	5,274		
Amortization		-	(1,188)	(412)	(1,600)		
Closing net book amount		<u>27</u>	<u>7,294</u>	<u>4,657</u>	<u>11,978</u>		
At June 30, 2022 (Unaudited)							
Cost		27	23,419	6,570	30,016		
Accumulated depreciation		-	(16,125)	(1,913)	(18,038)		
Closing net book amount		<u>27</u>	<u>7,294</u>	<u>4,657</u>	<u>11,978</u>		

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of revenue	106	239
Selling and marketing expenses	236	30
Administrative expenses	6,595	649
Research and development expenses	509	682
	<u>7,446</u>	<u>1,600</u>

14 RIGHT-OF-USE ASSETS

	Office premises	Land use rights	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2023			
Cost	61,487	59,413	120,900
Accumulated depreciation	(34,375)	(4,558)	(38,933)
Net book amount	<u>27,112</u>	<u>54,855</u>	<u>81,967</u>
Six months ended June 30, 2023 (Unaudited)			
Opening net book amount	27,112	54,855	81,967
Additions	5,990	–	5,990
Termination of lease contracts	(356)	–	(356)
Depreciation	(8,167)	(594)	(8,761)
Closing net book amount	<u>24,579</u>	<u>54,261</u>	<u>78,840</u>
At June 30, 2023 (Unaudited)			
Cost	47,602	59,413	107,015
Accumulated depreciation	(23,023)	(5,152)	(28,175)
Net book amount	<u>24,579</u>	<u>54,261</u>	<u>78,840</u>
At January 1, 2022			
Cost	58,365	59,413	117,778
Accumulated depreciation	(28,759)	(3,370)	(32,129)
Net book amount	<u>29,606</u>	<u>56,043</u>	<u>85,649</u>
Six months ended June 30, 2022 (Unaudited)			
Opening net book amount	29,606	56,043	85,649
Additions	567	–	567
Depreciation	(8,101)	(594)	(8,695)
Closing net book amount	<u>22,072</u>	<u>55,449</u>	<u>77,521</u>
At June 30, 2022 (Unaudited)			
Cost	48,245	59,413	107,658
Accumulated depreciation	(26,173)	(3,964)	(30,137)
Net book amount	<u>22,072</u>	<u>55,449</u>	<u>77,521</u>

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

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of revenue	2,999	3,103
Selling and marketing expenses	1,092	907
Administrative expenses	4,330	3,841
Research and development expenses	340	844
	<u>8,761</u>	<u>8,695</u>

15 LONG-TERM RECEIVABLES

	As at June 30, 2023			As at December 31, 2022		
	Book		Book	Book		Book
	balance	Impairment	value	balance	Impairment	value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans provided to employees for individual income tax paid related to share-based payment	<u>61,739</u>	<u>–</u>	<u>61,739</u>	<u>–</u>	<u>–</u>	<u>–</u>

16 FINANCIAL INSTRUMENTS BY CATEGORY

	As at	As at
	June 30,	December 31,
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Financial assets		
Financial assets at amortized cost		
Cash and cash equivalents	3,028,317	3,649,376
Term deposit with initial terms over three months	505,806	–
Trade and other receivables excluding non – financial assets	106,901	87,014
Long-term receivables	61,739	–
	<u>3,702,763</u>	<u>3,736,390</u>
Financial assets at FVPL	<u>131,688</u>	<u>121,227</u>
	<u>3,834,451</u>	<u>3,857,617</u>

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Financial liabilities		
Financial liabilities at amortized cost		
Other non-current financial liabilities	292,419	–
Trade and other payables excluding non-financial liabilities	262,334	187,531
Lease liabilities	26,465	28,204
Bank borrowings	16,640	–
	<u>597,858</u>	<u>215,735</u>
17 TRADE AND OTHER RECEIVABLES		
	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Included in current assets		
Trade receivables (<i>Note (a)</i>)		
– Due from third parties	119,201	87,848
– Due from related parties (<i>Note 27(d)</i>)	1,730	1,976
	<u>120,931</u>	<u>89,824</u>
Less: allowance for impairment of trade receivables	<u>(32,201)</u>	<u>(27,405)</u>
	<u>88,730</u>	<u>62,419</u>
Other receivables (<i>Note (b)</i>)		
– Interests receivables	9,196	–
– Deposits receivables	8,092	10,572
– Deductible input value-added tax	–	514
– Loan to Aditek do Brasil S.A. (“Aditek”) (<i>Note (b)(i)</i>)	–	13,317
– Others	1,220	1,004
	<u>18,508</u>	<u>25,407</u>
Less: allowance for impairment of other receivables	<u>(337)</u>	<u>(298)</u>
	<u>18,171</u>	<u>25,109</u>
Prepayments for		
– Taxes	16,155	4,009
– Suppliers	38,643	16,733
	<u>54,798</u>	<u>20,742</u>
	<u>161,699</u>	<u>108,270</u>
Included in non-current assets		
Prepayments for property, plant and equipment and other non-current asset	<u>19,889</u>	<u>15,150</u>

- (a) Trade receivables mainly arise from rendering of clear aligner treatment solutions and sales of products. The Group generally received advances prior to the rendering of services or sales, while certain customers are mainly given a credit term of 30 to 90 days.

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

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Within 60 days	47,944	25,386
61 to 180 days	16,687	21,814
181 to 365 days	17,968	11,041
1 to 2 years	10,277	7,326
2 to 3 years	6,348	6,858
Over 3 years	21,707	17,399
	120,931	89,824

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

The loss allowance provision as at June 30, 2023 and December 31, 2022 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, 2023 (Unaudited)							
Expected loss rate	0.59%	3.16%	10.37%	20.41%	79.63%	100.00%	
Gross carrying amount (RMB'000)	47,943	16,682	17,748	10,063	4,905	19,936	117,277
Loss allowance provision (RMB'000)	(283)	(527)	(1,841)	(2,054)	(3,906)	(19,936)	(28,547)
At December 31, 2022 (Audited)							
Expected loss rate	–	1.68%	1.73%	18.88%	74.55%	100.00%	
Gross carrying amount (RMB'000)	25,348	21,665	9,351	6,701	4,499	17,143	84,707
Loss allowance provision (RMB'000)	–	(364)	(162)	(1,265)	(3,354)	(17,143)	(22,288)

The Group takes into account the changes in its customers' operating performance and future recoverability of trade receivables. When considering a significant increase in credit risk, the Group makes individual assessment on such receivables.

Trade receivables subject to individual provision

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Gross carrying amount	3,654	5,117
Loss allowance provision	(3,654)	(5,117)
Expected loss rate	100%	100%

As at June 30, 2023 and December 31, 2022 receivables which were subject to individual provision for bad debts were as follows:

	As at June 30, 2023			As at December 31, 2022			Reason of individual provision
	Gross carrying amount <i>RMB'000</i> (Unaudited)	Loss allowance provision <i>RMB'000</i> (Unaudited)	Expected credit loss rate (Unaudited)	Gross carrying amount <i>RMB'000</i> (Audited)	Loss allowance provision <i>RMB'000</i> (Audited)	Expected credit loss rate (Audited)	
Company A	3,306	(3,306)	100.00%	4,770	(4,770)	100.00%	Trade receivables relating to customers with known financial difficulties or significant doubt on collection.
Company B	318	(318)	100.00%	320	(320)	100.00%	
Company C	30	(30)	100.00%	27	(27)	100.00%	
	<u>3,654</u>	<u>(3,654)</u>		<u>5,117</u>	<u>(5,117)</u>		

The loss allowance provision for trade receivables as at June 30, 2023 and 2022 reconciles to the opening loss allowance for that provision as follows:

	Six months ended June 30,	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
At the beginning of the period	27,405	18,580
Provision for loss allowance recognized in profit or loss	3,944	1,618
Acquisition of a subsidiary	852	—
At the end of the period	<u>32,201</u>	<u>20,198</u>

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

(i) The amount represented the loan to Aditek, a Brazilian company acquired by the Group in January 2023. Pursuant to the share purchase agreement (the “Share Purchase Agreement”), the loan has been converted into part of payments for equity purchase consideration (Note 24(a)). The loan was denominated in Brazilian Reals 10,102,000 (equivalent to approximately RMB13,282,000, upon conversion).

18 CASH AND CASH EQUIVALENTS AND TERM DEPOSIT

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Cash at banks	3,028,300	3,649,321
Cash on hand	17	55
Cash and cash equivalents	<u>3,028,317</u>	<u>3,649,376</u>
Term deposit with initial terms over three months (i)	<u>505,806</u>	—

(i) The effective interest rate of term deposit with initial terms over three months amounting to United States dollar (“USD”) 70,000,000 (equivalent to approximately RMB505,806,000) is 5.74% per annum.

19 FINANCIAL ASSETS AT FVPL

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Wealth management products with variable return		
Balance at the beginning of the period/year	–	–
Additions (<i>Note a</i>)	3,100,000	3,060,000
Realized fair value gains recognized in profit or loss	10,310	16,378
Disposals	(3,110,310)	(3,076,378)
	<hr/>	<hr/>
Balance at the end of the period/year	–	–
	<hr/> <hr/>	<hr/> <hr/>
Derivative financial asset		
Balance at the beginning of the period/year	–	–
Additions (<i>Note (24)(a)(i)(1)</i>)	5,842	–
Unrealized fair value losses recognized in profit or loss	(24)	–
Exchange gains	756	–
	<hr/>	<hr/>
Balance at the end of the period/year	6,574	–
	<hr/> <hr/>	<hr/> <hr/>
Investments in unlisted equity investments		
Balance at the beginning of the period/year	121,227	–
Additions	–	107,912
Unrealized fair value gains recognized in profit or loss	1,816	12,293
Exchange gains	2,071	1,022
	<hr/>	<hr/>
Balance at the end of the period/year	125,114	121,227
	<hr/> <hr/>	<hr/> <hr/>

- (a) During the six months ended June 30, 2023, the Group subscribed several wealth management products with initial subscription price of no more than RMB200 million each, from five commercial banks from time to time. All of the wealth management products matured during the period.

20 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 (Unaudited)	Share capital RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)
Issued:				
At January 1, 2022	168,331,500	16,833	110	3,117,920
Issue of new shares	429,109	43	*	–
Dividends	–	–	–	(176,044)
At December 31, 2022 (Audited)	168,760,609	16,876	110	2,941,876
At January 1, 2023	168,760,609	16,876	110	2,941,876
Shares issued for option exercise (i)	180,000	18	*	3,150
Shares issued for restricted share award scheme (ii)	800,775	80	*	–
Dividends (iii)	–	–	–	(105,966)
At June 30, 2023 (Unaudited)	169,741,384	16,974	110	2,839,060

* The balance represents an amount less than RMB1,000.

- (i) On January 10, 2023, 180,000 shares of the Company were issued for the exercise of a senior management's option with exercise price of USD1.2 per share. The consideration received amounting to USD216,000 (equivalent to approximately RMB1,553,000) and share-based compensation expenses recorded in other reserves during the vesting period were transferred to share capital and share premium (Note 21(a)(iii)).
- (ii) On June 12, 2023, the Company issued and allotted 800,775 shares to Cultivate Happiness Limited (the "Trustee"), an entity held by a trustee entrusted by the Group for the purpose of the Post-IPO RSU Scheme (Note 21(b)(ii)).
- (iii) On March 23, 2023, the Board recommended the payment of a special final dividend of Hong Kong dollar ("HKD") 0.68 per share (equivalent to approximately RMB105,966,000) for the year ended December 31, 2022 out of the share premium account of the Company, which was approved by the shareholders of the Company at the annual general meeting held on June 29, 2023 and paid on July 27, 2023.

(b) Shares held for employee share scheme

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Balance at the beginning of the period/year	1,098	4,393
Shares issued for restricted share award scheme (Note 21(b)(ii))	*	*
Transfer of shares held for employee share scheme upon vesting	–	(3,295)
Balance at the end of the period/year	1,098	1,098

* The balance represents an amount less than RMB1,000.

21 SHARE-BASED PAYMENTS

(a) The Pre-IPO Share Award Schemes

- (i) On December 21, 2020, the Company issued 29,893,400 shares (after the effect of share subdivision), with par value of USD0.0001 each, to several offshore holding companies established or used by certain directors, senior management and employees for the purpose of holding their respective corresponding equity interests in Wuxi EA for incentive purposes prior to the reorganization for the purpose of the IPO of the Company. As at June 30, 2023, 29,569,400 shares of the Company were vested, 64,550 shares of the Company were lapsed, and the remaining 259,450 shares will be vested on September 30, 2023.
- (ii) On December 31, 2020, the Company issued an aggregate of 460,000 new shares (after the effect of share subdivision), with par value of USD0.0001 each to certain directors, senior management and employees of the Company for incentive purposes. As at June 30, 2023, 456,750 shares of the Company were vested, 641 shares of the Company were lapsed, and the remaining 2,609 shares will be vested on September 30, 2023.
- (iii) 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% when IPO completed 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. As at June 30, 2023, 180,000 shares of the Company were vested and exercised, the remaining 60,000 shares and 60,000 shares will be vested on September 30, 2023 and 2024, respectively.

The Group recorded aggregate RMB155,000 share-based compensation expenses in the interim condensed consolidated statement of comprehensive income for the six months ended June 30, 2023 for the Pre-IPO Share Award Schemes (six months ended June 30, 2022: RMB288,000).

(b) The Post-IPO RSU Schemes

- (i) On March 25, 2022, the Board of Directors granted the Post-IPO RSU Scheme to among other things, recognize the contributions by, and to encourage, motivate, retain the directors, senior management, and employees, whose contributions are beneficial to the continual operation, development and long-term growth of the Group, and closely align the interests and benefits of and risk sharing among the shareholders. On the same day, the Company granted 403,467 award shares to 133 eligible participants and 25,642 award shares to Ms. Li Huamin, a then executive director (together, the “Grantee”) under the scheme at nil consideration, respectively. The granted shares to Ms. Li Huamin were approved on the annual general meeting on May 26, 2022.

Pursuant to the Post-IPO RSU Scheme, 429,109 new shares were issued and allotted to the Trustee. The Trustee will hold such shares on behalf of the relevant eligible participants on trust, until such shares are vested. The Trustee is controlled and consolidated by the Group as a structured entity and the above new shares issued are recorded as shares held for employee share scheme.

The restricted shares granted to the eligible participants will be vested based on the following rates for the relevant financial year: (i) For 68,833 granted shares, 50%, 25% and 25% of the shares will be vested on the second, third and fourth anniversary of the employment date of each Grantee. (ii) For 360,276 shares (including the shares granted to Ms. Li Huamin), 30%, 30%, 20% and 20% will be vested on the date of September 30, 2022, 2023, 2024 and 2025, respectively. As at June 30, 2023, 98,050 shares of the Company were vested.

- (ii) Pursuant to the Post-IPO RSU Scheme, 800,775 further shares were granted to 175 eligible participants on June 12, 2023. The restricted shares will be vested based on the following rates for the relevant financial year: (i) For 233,161 granted shares, 50%, 25% and 25% of the shares will be vested on the second, third and fourth anniversary of the employment date of each Grantee. (ii) For 41,992 granted shares, 30%, 30%, 20% and 20% of the shares will be vested on the first, second, third and fourth anniversary of the employment date of each Grantee. (iii) For 28,764 granted shares, 30%, 30%, 20% and 20% of the shares will be vested on the second, third, fourth and fifth anniversary of the employment date of each Grantee. (iv) For 496,858 shares, 30%, 30%, 20% and 20% will be vested on the date of September 30, 2023, 2024, 2025 and 2026, respectively. As at June 30, 2023, no shares of the Company were vested.

The fair value of the restricted shares at grant date was determined with reference to the market price of the Company's shares on the respective grant dates.

The Group has to estimate the expected percentage of eligible participants that will stay within the Group (the “**Expected Retention Rate**”) of the restricted share award scheme in order to determine the amount of share-based payment expenses charged to the consolidated statements of comprehensive income. As at June 30, 2023, the Expected Retention Rate was assessed to be 92%.

The Group recorded aggregated RMB10,464,000 share-based compensation expenses in the interim condensed consolidated statement of comprehensive income for the six months ended June 30, 2023 for the Post-IPO RSU Scheme (six months ended June 30, 2022: RMB8,480,000).

(c) The Post-IPO Share Option Scheme

To incentivize employees and promote long-term growth, the Board of Directors announced to adopt the Post-IPO Share Option Scheme on April 28, 2023. 3,378,646 share options to subscribe for a total of 3,378,646 ordinary shares of USD0.0001 each in the share capital of the Company were granted to two directors and five employees of the Group with exercise price of HKD100.06 per share. Such options shall be vested in the following schedule: (i) for 1,688,646 share options granted for one director, 25%, 25%, 20%, 10%, 10%, 5% and 5% of the shares will be vested on each date of April 3 from 2024 to 2030, and (ii) for 1,690,000 share options granted for another director and five employees, 25%, 25%, 25% and 25% of the shares will be vested on each date of April 30 from 2024 to 2027. The exercise period shall be three years from the date of vesting of relevant options.

The above transaction was considered as equity-settled share-based payment to employees and others in exchange for their services. The Group uses the binomial option pricing model in determining the estimated fair value of the share options granted. The fair value of the share options, was RMB119,483,848. The significant inputs into the binomial valuation model were listed as below:

	As at Grant Date
Closing price of ordinary share	HKD97.95
Exercise price	HKD100.06
Expected exercise multiple	0.06 – 0.08
Expected volatility	42.92% – 44.27%
Risk-free interest rates	3.06% – 3.17%
Expected dividend yield	0.59%
Contractual lives	3.9 – 7.0 years

The Group recorded aggregated RMB9,569,000 share-based compensation expenses in the interim condensed consolidated statement of comprehensive income for the six months ended June 30, 2023 for the Post-IPO Share Option Scheme (six months ended June 30, 2022: nil).

22 TRADE AND OTHER PAYABLES

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Trade payables (<i>Note (a)</i>)	62,009	92,633
Employee benefits payable	115,973	125,901
Dividends payable (<i>Note 20(a)(iii)</i>)	105,966	–
Other taxes payable	59,935	52,180
Accrued expenses payable	24,144	21,746
Payables in relation with acquisition of property, plant and equipment	20,176	34,053
Deposits payable	19,814	20,509
Professional service fees payable	12,123	6,018
Advertising and promotion expenses payable	9,116	8,835
Payables in relation with acquisition of a subsidiary	1,366	1,342
Others	7,620	2,395
	438,242	365,612

- (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, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
0 to 60 days	59,982	84,706
61 to 180 days	321	7,694
181 to 365 days	1,505	42
Over 1 year	201	191
	62,009	92,633

- (b) As at June 30, 2023 and December 31, 2022, trade and other payables of the Group were interest-free and repayment on demand.

23 OTHER NON-CURRENT FINANCIAL LIABILITIES

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Measured at amortised cost:		
– Redemption liability (<i>Note (a)</i>)	292,419	–
Included in:		
– Non-current liabilities	292,419	–

- (a) It mainly comprised redemption liability arising from put option arrangements with non-controlling shareholders of Aditek of approximately RMB292,419,000 (December 31, 2022: nil) (*Note 24(a)(iv)*).

24 BUSINESS COMBINATION

(a) Current period

On October 28, 2022, Angelalign Technology Pte. Ltd. (“Angelalign SG”), a wholly-owned subsidiary of the Company, entered into a Share Purchase Agreement with Aditek, a leading manufacturer of orthodontic products in Brazil. Pursuant to the Share Purchase Agreement, Angelalign SG agreed to, among others, acquire 51% of the total enlarged share capital of Aditek at the consideration of approximately USD19,390,000 (equivalent to approximately RMB131,429,000). Details of the Share Purchase Agreement are set out in the Company’s voluntary announcement dated October 28, 2022. In December 2022, pursuant to the supplemental agreement to the Share Purchase Agreement, the contracted party was amended from Angelalign SG to Angelalign Brasil S.A., a wholly-owned subsidiary of Angelalign SG in Brazil.

The acquisition was completed on January 16, 2023, and after the acquisition, Aditek became an indirect non-wholly-owned subsidiary of the Company, and the financial results of it was consolidated into the financial statements of the Group.

	At January 16, 2023, the date of acquisition <i>RMB'000</i>
Purchase consideration	
– Purchase consideration for acquisition of Aditek	125,587
– Purchase consideration for a call option (i)(1)	5,842
	<hr/>
	131,429
	<hr/> <hr/>
Purchase consideration for acquisition of Aditek	
– Cash paid to original shareholder	26,033
– Capital injection from the Group	86,272
– Conversion from loan to Aditek into equity (Note 17(b)(i))	13,282
	<hr/>
	125,587
	<hr/> <hr/>

The fair values of the identifiable assets and liabilities of Aditek as at the date of the acquisition are set out as follows:

	Fair value <i>RMB'000</i>
Intangible assets – Customer relationship	19,891
Intangible assets – Brand	7,264
Intangible assets – Technology	47,381
Other intangible assets	672
Property, plant and equipment	32,616
Investments accounted for using the equity method	3,922
Inventories	19,500
Trade and other receivables	17,727
Cash and cash equivalents (i)	<u>88,410</u>
	237,383
Deferred tax liabilities	(34,289)
Bank borrowings	(36,636)
Trade and other payables	<u>(17,857)</u>
	(88,782)
Fair value of net identifiable assets	148,601
Less: non-controlling interests	<u>(72,814)</u>
Goodwill	49,800
Net asset acquired	<u><u>75,787</u></u>

The goodwill is attributable to the selling network and the high market share of the acquired business in Brazil. None of the goodwill is expected to be deductible for tax purposes.

**At January 16, 2023,
the date of acquisition**
RMB'000

Outflow of cash to acquire a subsidiary, net of cash acquired	
Cash consideration	(118,147)
Less: Cash and cash equivalents acquired	88,410
Less: Cash paid for call option	<u>5,842</u>
Net outflow of cash – investing activities	<u><u>(23,895)</u></u>

(i) The amount included RMB86,272,000 of capital injection from the Group.

- (1) According to the Share Purchase Agreement, Angelalign Brasil S.A. has a call option to acquire further up to 9% of shares held by the original shareholders of Aditek in the period between the date of issuance of Aditek's audited financial statements for fiscal year of 2025 and the sixtieth day after such issuance. The option was recognized as derivative financial asset at the acquisition date with a fair value of RMB5,842,000.

(ii) Acquisition related cost

Acquisition-related costs of RMB2,366,000 are included in administrative expenses in profit or loss for the six months ended June 30, 2023.

(iii) Revenue and loss contribution

The acquired business contributed revenues of RMB32,764,000 and net loss of RMB2,286,000 to the Group for the six months ended June 30, 2023.

(iv) Accounting policy choice for non-controlling interests

The Group recognizes non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in the Group, the Group elected to recognize the non-controlling interests at its proportionate share of the acquired net identifiable assets.

Put options on non-controlling interest of the Group are financial instruments granted by the Group which permit the holders to put back to the Group their shares in certain non wholly-owned subsidiaries of the Group for cash or other financial instruments when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or other financial instruments under the put option, a financial liability is initially recognized under "Other financial liabilities" in the consolidated financial statements at the present value of the estimated future cash outflows on exercise under the put option. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability (including the fair value change of principal and the adjustment of interest) to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount based on the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustment will be recognized in the consolidated statement of changes in equity. In the event that the put option expires unexercised, the liability is derecognized with a corresponding adjustment to equity.

According to the Share Purchase Agreement, Angelalign Brasil S.A. and the original shareholders of Aditek have a symmetrical put and call options to acquire/sell further up to 49% of shares held by the original shareholders of Aditek at any time after the fifth anniversary of the execution of the Share Purchase Agreement for a price per share calculated based on the formula agreed upon reflecting audited financial statements of Aditek for the year immediately prior to the date of receipt of the option exercise notice. The symmetrical put and call options was recognized at the present value of the expected redemption amount at the acquisition date and classified as non-current liabilities as it becomes exercisable 12 months after the end of the reporting period (Note 23).

(b) Prior period

(i) Acquisition of 100% interest in Orthodontic Aligners Pty Ltd

In 2022, the Group entered into a share purchase agreement to acquire the entire equity interest in Orthodontic Aligners Pty Ltd for a cash consideration of the Australian dollar ("AUD") 949,000 (equivalent of RMB4,473,000). The acquisition was completed on December 31, 2022, and after the acquisition, Orthodontic Aligners Pty Ltd became an indirect wholly-owned subsidiary of the Company. Goodwill of RMB2,937,000, being the excess of considerations transferred in the acquirees over the fair value of identified net assets acquired, was recognized.

25 DIVIDENDS

The board of directors of the Company did not propose to declare any interim dividend for the six months ended June 30, 2023 (six months ended June 30, 2022: nil).

26 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 14 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, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
No later than 1 year	1,368	185

(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, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Investments in unlisted equity investments	119,025	87,510
Property, plant and equipment	2,651	17,626
Acquisition of a subsidiary	–	118,062
Intangible assets	13,697	–
	135,373	223,198

27 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, 2023:

Name of the related party	Relationship with the Group
Shanghai Junxiao Clinic Co., Ltd. ("Shanghai Junxiao")	Joint venture held by the Group (Before June 2, 2022)
Huizhou Dental Hospital	An entity controlled by CareCapital Group
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
Guangzhou Yilu Precision Medical Devices Co., Ltd. ("Guangzhou Yilu")	An entity controlled by CareCapital Group
Heyuan Hengxin Dental Hospital ("Heyuan Hengxin")	An entity controlled by CareCapital Group
Huizhou Huiyang Huikou Dental Clinic Co., Ltd. ("Huikou Dental Clinic")	An entity controlled by CareCapital Group
Luoyang Smile Songbai Medical Equipment Co., Ltd. ("Luoyang Smile")	An entity controlled by CareCapital Group
Shanghai Qirui Dental Clinic Co., Ltd. ("Shanghai Qirui")	An entity controlled by CareCapital Group
Songbai Leye Medical Equipment (Ningbo) Co., Ltd. ("Songbai Leye")	An entity controlled by CareCapital Group
Yiwu Huizhou Dental Hospital	An entity controlled by CareCapital Group
Zhenjiang Wenjie Medical Equipment Co., Ltd. ("Zhenjiang Wenjie")	An entity controlled by CareCapital Group
Songbai Oukang (Liaoning) Medical Instrument Co., Ltd. ("Songbai Oukang (Liaoning)")	An entity controlled by CareCapital Group
Shanghai Qimei Dental Clinic Co., Ltd. ("Shanghai Qimei")	An entity controlled by CareCapital Group
Taizhou Yafei Dental Co., Ltd. ("Taizhou Yafei")	An entity controlled by CareCapital Group
Yunnan Kunqian technology Co., Ltd. ("Yunnan Kunqian")	An entity controlled by CareCapital Group
Songbai Maishi (Shanxi) Medical Instrument Co., Ltd. ("Songbai Maishi (Shanxi)")	An entity controlled by CareCapital Group
Brazilian Corporation for Research and Development of Astronomical Sciences	Joint venture held by the Group (after January 16, 2023)

(b) Transactions with related parties

During the six months ended June 30, 2023, 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,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of clear aligner treatment solutions		
Guangzhou Yilu	15,509	13,893
Zhengzhou Smile	14,689	13,200
Zhenjiang Wenjie	2,891	1,377
Yishunkang	2,564	1,917
Songbai Oukang (Liaoning)	1,761	608
Songbai Leye	721	493
Guiyang Jinxin	509	723
Changsha Minjian	395	170
Henan Red Sun	156	178
Luoyang Smile	172	217
Songbai Maishi (Shanxi)	52	–
Huizhou Dental Hospital	15	56
Huikou Dental Clinic	1	3
Yiwu Huizhou Dental Hospital	1	1
Heyuan Hengxin	–	7
Shanghai Junxiao	–	20
	39,436	32,863
Sales of intraoral scanners		
Zhengzhou Smile	1,683	1,447
Guangzhou Yilu	139	31
Zhenjiang Wenjie	136	524
Songbai Oukang (Liaoning)	125	–
Yishunkang	31	274
	2,114	2,276

(c) Key management compensation

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

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	1,110	1,129
Salaries, wages and bonuses	3,498	3,726
Share-based compensation expenses	7,074	788
Pension costs – defined contribution plans	131	164
Other social security costs, housing benefits and other employee benefits	134	190
	11,947	5,997

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

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Trade and other receivables		
Guiyang Jinxin	711	962
Guangzhou Yilu	460	460
Changsha Minjian	335	338
Zhenjiang Wenjie	121	121
Yishunkang	96	95
Zhengzhou Smile	5	–
Taizhou Yafei	2	–
	<u>1,730</u>	<u>1,976</u>

As at June 30, 2023 and December 31, 2022, the balances were with trade nature, unsecured, interest-free, and collectable on demand.

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Contract liabilities		
Zhengzhou Smile	11,112	14,841
Guangzhou Yilu	8,688	9,965
Yishunkang	2,117	2,006
Zhenjiang Wenjie	1,996	1,253
Songbai Oukang (Liaoning)	1,077	764
Songbai Leye	553	374
Yunnan Kunqian	360	–
Luoyang Smile	351	266
Henan Red Sun	279	448
Guiyang Jinxin	265	1,012
Changsha Minjian	50	–
Songbai Maishi (Shanxi)	35	12
Huizhou Dental Hospital	8	11
Shanghai Qimei	6	5
	<u>26,897</u>	<u>30,957</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.

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Trade and other payable		
Brazilian Corporation for Research and Development of Astronomical Sciences	<u>510</u>	<u>–</u>

As at June 30, 2023, RMB510,000 represented the consideration in relation with acquisition of a joint venture of Aditek.

28 CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at June 30, 2023.

29 SUBSEQUENT EVENTS

- (i) On July 19, 2023, the Company granted 54,800 restricted shares to 13 employees and 760 restricted shares to an executive Director, under the Post-IPO RSU Scheme at nil consideration, respectively. Such restricted shares shall be vested in the following schedule: (i) For 54,800 granted shares, 30%, 30%, 20% and 20% will be vested on the dates of September 30, 2023, 2024, 2025 and 2026, respectively and (ii) For 760 shares, 25%, 25%, 20%, 10%, 10%, 5% and 5% of the shares will be vested on the each date of April 3 from 2024 to 2030. Details of the transaction was disclosed in the announcement of the Group dated July 19, 2023.
- (ii) In July 2023, the Company repurchased a total of 252,400 ordinary shares on the HKSE with an aggregate amount of HKD16,983,000. These repurchased ordinary shares had been cancelled by the Company on August 14, 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Despite of the recent volatile demands in China's clear aligner market, we've been focusing our attention on long-standing strategic layout, sustained investment, and pressing ahead with digitalization and internationalization steadfastly. We firmly believe that it remains to be the industry trend that patients pursue cost-effective products, dental professionals pursue treatment efficiency, and the whole industry pursues accelerating the digitalization process. Angelalign is affirmative to the "Customer-first" value, and giving full play to the strategy of "Leverage Products and Technical Services Empowered by Digital Technology to Enable Dental Professionals to Realize Stable, Easy, Efficient, and Accurate Diagnosis and Treatment", which enables us to lead the market and better capture the development opportunities of the industry at different stages.

During the Review Period, in parallel with the stable growth in our business in China, leveraging our continuous investment in international markets, we have successfully built up our presence in international markets and started to generate revenue there, which is expected to become our new growth engine driving the future development of our business. In the first half of 2023, the clear aligner shipment features a growth from approximately 77,200 to approximately 95,400 cases, representing a 23.6% year-on-year growth, among which approximately 9,400 were contributed by our international business. The Company's revenue increased by 8.0% year-on-year to RMB616.3 million, which was contributed by the stable growth of our clear aligner treatment solutions business in China as well as our continuous investment in international business. Compared with last year, our gross profit rose by 10.4% to RMB365.7 million with gross profit margin improving to 59.3%, and our adjusted net profit drop by 39.7% to RMB49.5 million, primarily due to our early investment in initiating the international business.

1. Further Refine Product Capability and Expand the Market via Innovation to Reinforce the Primacy in Clear Aligner Market

In response to the changing demands in the post-pandemic market, we have constantly rolled out up-to-date technologies and novel solutions, and progressively established an all-inclusive and differentiated product matrix to deliver doctors and patients an extensive portfolio of products and services.

Continual technological enhancement, primarily continuous breakthroughs in treating complex malocclusions, enables us to extend the range of indications in adult orthodontic treatment. In June 2023, we unveiled a pioneering innovation, *angelLink Interface System* (時代天使接口系統). The first-ever biomechanical interface on clear aligners consists of various connectors that are used to integrate aligners with external auxiliaries. The connectors that are standard-shaped, including hook, tube, slot, and button etc, can effectively solve the clinical challenges in such cases as molar distalization and extraction. *angelLink Interface System* will be carried out in different product lines to assist dental professionals in more types of malocclusion cases.

Angelalign has been consistently upholding the scientific diagnosis and treatment philosophy of age-based treatment for children. Centered on the teeth-bone-muscle three-into-one solution, all the treatment plans contain predictions and are dynamically adjusted based on the growth and development of children and adolescents. In the first half of the year, we further optimized the processing technique for the product line for children. Elevating the design rules and technique of aligner trimming has bettered aligner fitting to gingival margin, and increased aligner retention and robustness. This upgrade is a cure to the problem of short crown-caused poor retention in early stage treatment, and generates early-stage treatment products that are more in line with children's oral conditions for dental professionals.

On the grounds of regularly fine-tuned product capabilities, wide-ranging and differentiated product portfolios, quick-response medical design capability, and widespread sales network around the country, we are in the position to penetrate into each-tier cities. In the first half of this year, we ran smoothly in expanding into the emerging markets of third and four-tier cities whose contributions to case shipments went up soundly.

2. *Focus on the Digitalization of the Whole Dental Diagnosis and Treatment Process, and Leverage Medical-centric Intelligent Technical Services for Holistic Empowerment*

In the journey of accelerating digitalization of dental diagnosis and treatment, we have been unceasingly pursuing innovations throughout the treatment process, ranging from digital imaging to intelligent orthodontic service platform, from intelligent diagnosis and treatment planning to digital remote monitoring. Diverse software and hardware are utilized to empower all types of dental organizations, and to build a sustained and efficient bond between the Company, dental professionals and patients, consequently raising doctor's productivity and bettering patient's experience in diagnosis and treatment.

Angelalign and 3Shape A/S ("**3Shape**") has tied-up for global strategic initiatives for intra-oral scanning, so that our partnered doctors worldwide can upload, via one-click, patient's intra-oral scan onto cloud service via 3Shape scanners that are seamlessly connected with Angelalign's digital orthodontic platform. Concurrently, 3Shape users in the international market can also have an easier access to holistic clear aligner solutions provided by Angelalign. In addition, we are taking a steady approach to integrate with the cloud service of a range of intra-oral scanners on a global basis to develop a more robust digital dental ecosystem.

To facilitate going global, we keep fine-tuning iOrtho, the digital intelligent orthodontic service platform for the interaction with doctors, to address the diversified needs of doctors from international markets. In the first half of this year, we launched the real-time link sharing service for case evaluation support module *Make it* and case treatment planning module *3D Setup*. Generating a link at the push of a button for patients helps doctors remotely demonstrate the treatment plan to and communicate with patients in a more convenient and intuitive way when patients can't make it to visit the practice. In turn, patients can have a more concrete understanding of Angelalign's plan and brand image.

Based on medical principles of digital orthodontics and long-term accumulation of massive practical cases, we have been successively elevating the efficiency and quality of varieties of data models, and making the staging design more intelligent and automatic. For instance, the Intelligent Root System (IRS) has accumulated a vast number of high-quality data since its launch. With the help of the state-of-the-art computer technology, CBCT (Cone Beam CT) and dental model integration has ascended to a higher-intelligence level, thus increasing the efficiency to generate the basic model for treatment planning. Not only that, by deep-diving into orthodontic tooth movement study, we have leveled up the underlying staging algorithm to be more intelligent with focus on staging optimization, deep learning, and computer graphics technology. The computer-assisted staging design is increasingly self-adaptive, and automatic, which further boosts the design capability and efficiency of the A-Treat digital orthodontic treatment planning platform.

The digital dental remote monitoring solution (“MOOELI”) is appreciated as a potent tool for doctors to have a real-time and holistic view of treatment progress to support medical evaluation. The newly-transformed MOOELI introduced in the first half of the year features small size and exquisiteness, intelligent assisted-diagnosis, professional photography and clear imaging, wireless connection with mobile phone, and convenient doctor-patient communication. In respect of hardware, the updated dental visualizer is embedded with a camera to capture better-quality intra-oral images. As to software, the up-to-date version has an extended scope of intelligent recognition. Assisted by algorithms, doctors can have access to a complete picture of malocclusion, orthodontic treatment progress, dental health, periodontal conditions, and aligner fitting, can monitor and manage treatment process at their fingertips, and can engage with patients in a more productive way. Patient’s compliance and treatment efficiency will be elevated onward.

Considering the full-cycle digital diagnosis and treatment, we believe that the clinical practice guidance based on dentistry, orthodontics, and biomechanics can increase the practice and dental professional’s awareness of clear aligner technology. Over the first half of this year, we sat together with clinicians to review treated cases, explored diagnosis approaches and treatment planning principles of part of their cases, and assisted them to carry out rule-oriented diagnosis, and medical-centric clear aligner treatment.

3. Uphold Medical Essence for Innovative Breakthroughs and Foremost Research and Development (“R&D”) Capability in the Industry

Upholding medical essence, we have built up interdisciplinary leading-edge technologies based on clinical dentistry, biomechanics, computer science, material science and intelligent manufacturing. To address industrial challenges, we have been undertaking a series of specific R&D initiatives resulting in multiple breakthrough innovations. During the Review Period, R&D investment remained as high as RMB86.1 million, accounting for 14.0% of the revenue. As of June 30, 2023, we had registered 165 patents and 16 software copyrights.

Among product innovations, the self-developed patented product of anti-caries clear aligner obtained the domestic medical device registration certificate in February 2023. This aligner product, one and only in the market that features long-lasting slow release of fluoride can prevent caries during orthodontic treatment. In June 2023, we launched an industry-exclusive technological innovation, *angelLink Interface System*. This systemic solution is comprised of diverse standardized connectors that are integrated onto clear aligners to utilize external force-applying devices, anchorage, and functional appliance, which not only expands the orthopaedic function of clear aligners but also enhances its corrective function. In May 2023, the laboratory in Angelalign Engineering Technology Research Center was the only clear aligner supplier in China accredited by China National Accreditation Service for Conformity Assessment (CNAS). As part of R&D infrastructure establishment, this endorsement is an embodiment of state-level competency, and internationally recognized technical capability of testing and calibration.

Industry-university research cooperation is crucial to technological innovation. We have established collaboration with universities, research institutes and public hospitals. A specialized orthodontics fund has been initiated to carry our profound research in orthodontics with prestigious institutes in China, including the Ninth People's Hospital, Shanghai Jiaotong University School of Medicine, Peking University Hospital of Stomatology, West China Hospital of Stomatology Sichuan University, and Hospital of Stomatology Wuhan University. In February 2023, the research paper on anterior intrusion "Stress and Movement Trend of Lower Incisors with Different IMPA Intruded by Clear Aligner: A Three-dimensional Finite Element Analysis" was published in the SCI journal *Progress in Orthodontics*, whose conclusions are of significance to clinical practice.

From a perspective of industrial practice and pain points, Angelalign has been paying attention to and rolling out footprint on the application of computer technology in orthodontics, and constantly generating forward-looking academic insights in this field. In the first half of the year, we published papers in international core journals and industry's premier conferences. For example, in May 2023, we published the paper "On the Effectiveness of Out-of-Distribution Data in Self-Supervised Long-Tail Learning" at the International Conference on Learning Representations (ICLR) Colloquium. In June 2023, we presented a paper at MICCAI 2023 titled as "TSegFormer: 3D Tooth Segmentation in Intraoral Scans with Geometry Guided Transformer". In July 2023, the article "Deep Learning-enabled 3D Multimodal Fusion of Cone-Beam CT and Intraoral Mesh Scans for Clinically Applicable Tooth-bone Reconstruction" was accepted by Cell Press Patterns.

4. Enhance Brand Awareness, Live up to Social Responsibilities, and Stimulate Healthy Industrial Development

Since the establishment, Angelalign has been keen to offer dental professionals medical-oriented products and technical services enabled by digital technology. The past two decades have witnessed Angelalign's transformation from being a follower to a competitive challenger, and now a trailblazer in clear aligner industry. Angelalign is being acknowledged as the best-known and most trustworthy China-based clear aligner treatment solution provider. In the first half of this year, all forms of marketing campaigns were instilling energy to enhance Angelalign's academic influence and brand awareness.

In June 2023, the Company hosted the 10th A-Tech Conference themed “Link Essence to Infinities” (溯本源 鏈無界) in Wuxi, stressing on Angelalign’s attachment and respect to medical science, dedication to refining technologies, passion to patients and the industry as a whole, and longing to center on medical science to foster the sustainable development of the industry. On this basis, *angelLink Interface System*, and upgraded Dental Remote Monitoring Solution MOOELI made a debut in the A-Tech. The Company also presented the application of clear aligner technology in extraction cases. Beyond that, in concerted efforts with China Insights Industry Consultancy Limited (“CIC”), we compiled the “White Paper on China’s Clear Aligner Industry” (《中國隱形正畸行業白皮書》), depicting a encyclopedic view of the 20-year development, industrial landscape, technological evolution, talent cultivation and future trend in China’s clear aligner sector.

The Company incorporated the images of “Transformers” (變形金剛) and “My Little Pony” (小馬寶莉) into an array of branding campaigns to enhance Angelalign’s brand awareness in the sector of adolescents’ and children’s dental health. We launched themed campaigns in the co-branding of “Angelalign” and “Transformers – Rise of the Beasts” (變形金剛•超能勇士崛起), catching the eye of tens of thousands of parents and youngsters. In the meantime, the Company partnered with a number of dental chain organizations to place the Key Vision posters of “Angelalign” X “Transformers – Rise of the Beasts” in social networking such as metros, community elevators, bus stops, community entrances and exits across the country as part of summer vacation campaigns, which gained a large number of impressions.

As the Asian Games 2023 in Hangzhou is approaching, as a sponsor appointed by National Sports Training Bureau (體育訓練局), Angelalign, together with dental organizations, has been stationing in the Training Bureau since May 2023 to provide professional orthodontic and oral care services for more than 40 athletes from the national team. This is to help national players prepare for the Asian Games with healthy dental conditions, and smile more brightly and confidently on the field in front of the world.

We rolled out public welfare projects with public welfare organizations in the country for the public benefits, including, among others, popular science education and volunteer medical consultation. Besides, we continued our commitment to the physical and psychological health of the young generation to pass on scientific and health knowledge to children and to transform smiles for children around the country. In the first half of the year, we launched the “Angels Love Singing” (天使愛歌唱) musical education welfare project to help popularize artistic education in primary and secondary schools in Ning’er County, Yunnan Province. With more professional and inclusive artistic education, an increasing number of children can gain a sense of well-being, get confidence boosted, and smile more brightly under the power and edification of music.

5. Catalyze Digital and Intelligent Transformation of Advanced Production for Intelligent Manufacturing Upgrading

Long-standing commitment into intelligent manufacturing is key to in-depth development of digital orthodontics. To that end, the Company has realized integration and coordination among steps of product design, process development, flexible manufacturing and quality inspection. Meanwhile, the Company pursued more vigorously the digital and intelligent transformation and achieved mass production of customized products. Such intelligent management and control enables visualized, standardized and traceable management at each link, further consolidating our core competitiveness in digital orthodontics.

In the first half of the year, a highlight in workshop intelligence is realizing the whole-process unmanned management from printing to post-processing in the 3D printing workshop. Furthermore, relying on self-developed materials and process equipment, we pioneered the eco-friendly upgrade of no-wash process after 3D printing to reduce the disposal of waste liquids and thus fulfill our commitment to environmental protection.

Out of the process breakthroughs made in the first half of the year, the elevated aligner cutting technique realizes more precise and smoother trim line and further improved automation of the cutting process. Equipped with the released *angellink Interface System*, processing capability is ready to mass produce diverse connectors through flexible manufacturing. Given the customization feature of clear aligners, we have developed data model for special cases. Empowered by algorithms, the data model can intelligently predict the technique needed for the special case for ahead-of-time involvement, so that the aligners will be high quality and yield rate can go up further.

In digital extension of the Manufacturing Execution System (“MES”), we further improved the granularity of real-time monitoring dashboard for manufacturing to secure on-time delivery, and to automatically alert on abnormal manufacturing and output product information for manual intervention, hence further strengthening sophisticated management capability. Moreover, staying true to supporting the rapid expansion of international business, we have further upgraded the MES system, so as to flexibly satisfy the differentiated needs of the international markets.

After being selected in the “Excellent Practices of Intelligent Manufacturing 2022”, “List of Innovative and Pilot Applications of Industrial Internet Platform in 2022” and “List of Demonstration of Industrial Internet Pilot in 2022” as announced by the Ministry of Industry and Information Technology, Angelalign won the distinction as National “Little Giant” (specialized, high-end and innovation-driven companies) in the first half of this year. This laureate heralds that the digital and intelligent innovation and development carried out by Angelalign for clear aligner technology have been further highly recognized and supported by the state government.

6. *Actively Drive Forward in Global Presence*

In the first half of the year, we kept expanding our global footprint. In the US, Europe, and Australia, we continue to bolster the local team by attracting members experienced in orthodontic industry. Many key opinion leaders (“KOL(s)”) acclaim Angelalign’s products and brand. In response to diversified needs from regional markets, the middle-end and back-end teams in the headquarter are taking vigorous approach to secure on-time aligner delivery globally and provide clinical support when optimizing refined operation and management. Following the successful acquisition of ADITEK DO BRASIL S.A. (formerly known as ADITEK DO BRASIL LTDA.) (“Aditek”) in the Brazilian market, we have advanced the integration plan in an organized manner to support the rapid growth of the business. During the Review Period, we delivered approximately 9,400 case shipments in the international markets.

- In the U.S. market, we participated in the 123rd American Association of Orthodontists in Chicago, U.S.A. on April 21-24, 2023. At the annual meeting, we demonstrated the latest digital orthodontic products, technologies and solutions, and exchanged with global orthodontic experts on cutting-edge technology, attracting the attention from US orthodontists. On the strength of our outstanding and stable product quality, responsive clinical service, and customized software and system, the number of case shipments is steadily increasing.
- In Europe, we debuted as a head sponsor at the European Aligner Society, one of the largest and most professional orthodontic exhibitions in Europe, on May 11-13, 2023 in Turin, Italy, attracting a great number of orthodontic experts and doctors from Europe, the Middle East and Africa (“EMEA”). Besides, KOLs shared with their counterparts how they applied Angelalign digital orthodontic solutions in different types of cases. Hundreds of new doctors were hence attracted to start exploring our orthodontic products and technical services. The first half of the year witnessed an impressive growth of case shipments in Europe.
- After transitioning from dealership to direct sales in Australia, we attach importance to more comprehensive and responsive digital orthodontic services for specialists and general practitioners in the whole process to continuously improve customer experience and brand awareness. This in turn facilitated our higher operational efficiency and faster business growth.
- Following the acquisition of Aditek in Brazil, the Company has orderly promoted synergistic empowerment in medical design and intelligent manufacturing, strongly driving the high-speed growth of Aditek’s clear aligner business. In the first half of the year, we trained Aditek online and offline to use A-Treat digital orthodontic treatment planning platform and iOrtho cloud service platform. Leveraging on the Company’s rich experience in intelligent manufacturing, we began to optimize the layout of Aditek’s production center and deliver automated production line solutions, which effectively leveled up the intelligent manufacturing in Aditek.

On the strength of our medical-oriented products and technical services, management competency from refined operations, and world-class scalable manufacturing capability, Angelalign can forge strong competitive edges in the global market.

Outlook

At present, we see vast market and impressive growth opportunity in the global clear aligner industry, particularly in China. Going forward, we will uphold medical essence at all times, stay committed to digital orthodontics, and continue to devote resources to boosting technological innovation. In parallel with strengthening the domestic business development, we will continue ahead in going global to increase doctors' diagnosis and treatment efficiency worldwide, and keep pace with patients' demands and experience in orthodontic treatment.

We aim to serve dental professionals and their patients with more customized products and services, more refined manufacturing capability, and more flexible supply chain. To this end, we set out the main strategies as follows to sustain our business and maintain our market leadership: (1) strengthen R&D capabilities to keep improving orthodontic solutions; (2) make our systems more intelligent and digital to increase operational efficiency; (3) optimize clinical services to enhance user experience; (4) increase production capacity and efficiency; (5) enlarge the sales network, and reinforce brand awareness and academic influence; and (6) further expand into the international market.

The uncertainty of the macroeconomic situation and its adverse impact on consumption patterns could lead to a decline in the overall number of orthodontic treatment cases or a reduction in consumer spending on discretionary or high-priced orthodontic solutions, which could adversely affect our operation outcomes. Accordingly, we need to continually evaluate their impact on our business, operation performance and financial position. We will formulate strategies in a timely manner to cope with uncertainties and challenges.

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 for the six months ended June 30, 2023 was RMB616.3 million, as compared to RMB570.9 million for the six months ended June 30, 2022. 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,			
	2023		2022	
	Revenue	%	Revenue	%
	<i>(RMB in thousands, except for the percentages)</i>			
Clear aligner treatment solutions	553,224	89.8%	546,419	95.7%
Sales of products	54,512	8.8%	17,182	3.0%
Other services	8,593	1.4%	7,335	1.3%
Total	616,329	100.0%	570,936	100.0%

- *Clear aligner treatment solutions.* Revenue generated from clear aligner treatment solutions mainly represents the revenue generated from provision of clear aligner treatment solutions services to our clients in the domestic market. Our revenue generated from the provision of clear aligner treatment solutions increased by 1.2% from RMB546.4 million in the six months ended June 30, 2022 to RMB553.2 million in the six months ended June 30, 2023, primarily due to an increase in the case shipments in China in the six months ended June 30, 2023, partially offset by (1) a slight decrease in the revenue recognized with the subsequent delivery of clear aligners for the case shipments initiated in prior periods, and (2) a decrease in the average selling price of our clear aligners as a result of the expansion into third- and fourth-tier cities in China. Our revenue is also affected by the frequency of delivery of clear aligners and the number of sets contained in each delivered batch, which are typically dependent on the product line involved and the complexity of the relevant treatment plan, subject to a number of factors, such as specific demand of our dental professionals and our production capacity in a given period.
- *Sales of products.* Revenue generated from sales of products mainly represents the revenue generated from the sales of intraoral scanners in the domestic market and the revenue generated from the sales of brackets, aligners and other products in international markets, including the revenue of Aditek. Our revenue generated from sales of products increased by 217.3% from RMB17.2 million in the six months ended June 30, 2022 to RMB54.5 million in the six months ended June 30, 2023, primarily because our international business started to generate revenue during the Review Period and we consolidated the revenue of Aditek, whereas in the comparable period of 2022, such revenue only comprised the revenue generated from sales of intraoral scanners in the domestic market.
- *Other services.* Revenue generated from other services primarily represented service fees generated by our dental clinics for the provision of orthodontics and cosmetic dentistry services and other dental services to patients. Our revenue generated from other services increased by 17.2% from RMB7.3 million in the six months ended June 30, 2022 to RMB8.6 million in the six months ended June 30, 2023, primarily due to the recovery of the operation of our dental clinic.

Cost of revenue

Our cost of revenue increased by 4.6% from RMB239.5 million in the six months ended June 30, 2022 to RMB250.6 million in the six months ended June 30, 2023.

- *Clear aligner treatment solutions.* Our cost of revenue related to the provision of clear aligner treatment solutions decreased by 2.5% from RMB217.2 million in the six months ended June 30, 2022 to RMB211.8 million in the six months ended June 30, 2023, primarily due to the decrease in the unit production cost of clear aligners as a result of the improvements in production technology brought by our continuous R&D efforts.
- *Sales of products.* Our cost of revenue related to the sales of products increased by 117.3% from RMB14.5 million in the six months ended June 30, 2022 to RMB31.6 million in the six months ended June 30, 2023, primarily due to the increase in the product cost of the brackets, aligners and other products sold in international markets.

- *Other services.* Our cost of revenue related to the provision of other services decreased by 7.5% from RMB7.8 million in the six months ended June 30, 2022 to RMB7.2 million in the six months ended June 30, 2023, primarily due to the decrease in employee benefit expenses of our dental clinic.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 10.4% from RMB331.4 million in the six months ended June 30, 2022 to RMB365.7 million in the six months ended June 30, 2023. The gross profit margin for the six months ended June 30, 2023 was 59.3%, as compared with 58.0% for the six months ended June 30, 2022. 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,			
	2023		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>(RMB in thousands, except for the percentages)</i>			
Clear aligner treatment solutions	341,413	61.7%	329,194	60.2%
Sales of products	22,927	42.1%	2,649	15.4%
Other services	1,389	16.2%	(448)	(6.1%)
Total	<u>365,729</u>	<u>59.3%</u>	<u>331,395</u>	<u>58.0%</u>

- *Clear aligner treatment solutions.* Our gross profit margin for clear aligner treatment solutions increased from 60.2% in the six months ended June 30, 2022 to 61.7% in the six months ended June 30, 2023, primarily due to the decrease in unit cost of clear aligners brought by the improvement of our production technology.
- *Sales of products.* Our gross profit margin for the sales of products increased from 15.4% for the six months ended June 30, 2022 to 42.1% for the six months ended June 30, 2023, primarily due to the higher gross profit margin products sold in the international market as compared to the gross profit margin of intraoral scanners.
- *Other services.* Our gross profit margin for other services increased from negative 6.1% in the six months ended June 30, 2022 to 16.2% in the six months ended June 30, 2023, primarily due to the recovery of the operation of our dental clinic.

Selling and marketing expenses

Our selling and marketing expenses increased by 59.7% from RMB127.8 million in the six months ended June 30, 2022 to RMB204.1 million in the six months ended June 30, 2023, primarily due to the increase in selling and marketing expenses associated with our international sales and marketing staff in the United States, EMEA, Australia and New Zealand incurred as a result of the expansion of our international business.

Administrative expenses

Our administrative expenses increased by 44.0% from RMB83.8 million in the six months ended June 30, 2022 to RMB120.7 million in the six months ended June 30, 2023, primarily due to the increase in administrative expenses incurred for our international business.

Research and development expenses

Our research and development expenses increased by 14.2% from RMB75.4 million in the six months ended June 30, 2022 to RMB86.1 million in the six months ended June 30, 2023, primarily due to the increase in professional and consulting fee and raw materials and consumables used in connection with our continuous R&D efforts.

Net losses of impairment on financial assets

We recorded net losses of impairment on financial assets of RMB4.0 million in the six months ended June 30, 2023, as compared with net losses of impairment on financial assets of RMB1.6 million in the six months ended June 30, 2022, primarily due to the increased balance of trade receivables. Please refer to note 17 to the financial statement above for details.

Other income

We recorded other income of RMB5.2 million in the six months ended June 30, 2023, as compared with RMB5.6 million in the six months ended June 30, 2022, which primarily represented the government grants we received.

Other gains – net

We had other gains – net of RMB27.6 million in the six months ended June 30, 2023, as compared with other gains – net of RMB24.6 million in the six months ended June 30, 2022, which primarily due to the increase in the investment return from wealth management products we purchased with our internal resources other than the proceeds from the Global Offering. None of the purchase or sale of wealth management products during the Review Period is large enough to constitute notifiable transactions as defined under Chapter 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Finance income

Our finance income increased by 391.7% from RMB10.8 million in the six months ended June 30, 2022 to RMB53.0 million in the six months ended June 30, 2023, primarily due to the increase in the interest income on our bank deposits.

Finance costs

Our finance costs increased by 12.5% from RMB0.9 million in the six months ended June 30, 2022 to RMB1.0 million in the six months ended June 30, 2023, primarily due to the increase in the interest expense on bank borrowings of Aditek.

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 RMB0.1 million in the six months ended June 30, 2023, compared to RMB71,000 in the six months ended June 30, 2022, primarily due to the increased losses of the joint ventures and associate that we invested in.

Profit before income tax

As a result of the foregoing, we recorded profit before tax of RMB35.6 million in the six months ended June 30, 2023, compared to RMB82.5 million in the six months ended June 30, 2022.

Income tax expenses

Our income tax expenses decreased by 32.3% from RMB9.3 million in the six months ended June 30, 2022 to RMB6.3 million in the six months ended June 30, 2023, primarily due to the decrease in our taxable income.

Profit for the period

As a result of the foregoing, our net profit decreased by 60.0% from RMB73.3 million in the six months ended June 30, 2022 to RMB29.3 million in the six months ended June 30, 2023. The net profit margin for the six months ended June 30, 2023 was 4.8%, as compared with 12.8% for the six months ended June 30, 2022.

Non-IFRS measures

To supplement our Interim Financial Information, which is presented in accordance with the 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 period with adjustments of non-recurring or non-operating items, including share-based payments. We define adjusted net profit as profit for the period adjusted by non-recurring or non-operating items, including share-based payments. 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 facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does not consider indicative of our operating performance.

The following table reconciles our adjusted EBITDA and adjusted net profit for the period presented to the most directly comparable financial measure calculated and presented under IFRS.

	Six months ended June 30,	
	2023	2022
	<i>(RMB in thousands)</i>	
Profit for the period	29,299	73,271
<i>Add:</i>		
Income tax expenses	6,267	9,260
Profit before income tax	35,566	82,531
<i>Add:</i>		
Finance income – net	(52,054)	(9,915)
Depreciation of property, plant and equipment	25,364	20,222
Depreciation of right-of-use assets	8,761	8,695
Amortization of intangible assets	7,446	1,600
EBITDA	25,083	103,133
<i>Add:</i>		
Share-based payments	20,188	8,768
Adjusted EBITDA	45,271	111,901
Profit for the period	29,299	73,271
<i>Add:</i>		
Share-based payments	20,188	8,768
Adjusted net profit	49,487	82,039

Liquidity, capital resources and capital structure

In the six months ended June 30, 2023, our primary use of cash was 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 and the proceeds from the Global Offerings.

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 decreased from approximately RMB3,870.8 million as of December 31, 2022 to approximately RMB3,812.4 million as of June 30, 2023, primarily due to the decrease in cash and cash equivalents.

Cash and cash equivalents

Our cash and cash equivalents primarily consisted of cash at banks. Our cash and cash equivalents decreased from RMB3,649.4 million as of December 31, 2022 to RMB3,028.3 million as of June 30, 2023, primary due to the net cash outflow from operating activities in the six months ended June 30, 2023 and the increase of net cash used in investing activities.

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

	For the six months ended June 30,	
	2023	2022
	<i>(RMB in thousands)</i>	
Net cash (used in)/generated from operating activities	(93,027)	31,496
Net cash used in investing activities	(595,938)	(87,200)
Net cash used in financing activities	(26,797)	(184,196)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(715,762)	(239,900)
Cash and cash equivalents at beginning of the period	3,649,376	3,626,983
Exchange gains on cash and cash equivalents	94,703	132,891
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<u>3,028,317</u>	<u>3,519,974</u>

Exposure to exchange rate fluctuation

Our business is principally conducted in RMB, and the majority of our assets are 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 recognized net foreign exchange gains of RMB14.8 million in the six months ended June 30, 2023, as compared to net foreign exchange gains of RMB16.9 million in the six months ended June 30, 2022.

In addition, in the six months ended June 30, 2023, we recorded exchange differences on translation of the Company of RMB88.1 million as other comprehensive income, as compared with RMB121.3 million in the six months ended June 30, 2022, primarily due to the exchange rate fluctuation.

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 is 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, 2023, our total capital expenditure amounted to approximately RMB55.4 million, which primarily consisted of the cash paid for the purchases of property, plant and equipment in connection with the construction of the Chuangmei Center.

Capital commitments

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

	As of June 30, 2023	As of December 31, 2022
	<i>(RMB in thousands)</i>	
Property, plant and equipment	2,651	17,626
Intangible assets	13,697	–
Investments in unlisted equity investments	119,025	87,510
Acquisition of a subsidiary	–	118,062
	<hr/>	<hr/>
Total	135,373	223,198
	<hr/> <hr/>	<hr/> <hr/>

Contingent liabilities

As of June 30, 2023, 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 and this announcement, as of June 30, 2023, we did not have other substantial future plans for material investments and capital assets.

Material acquisitions and disposals of subsidiaries and affiliated companies

On October 28, 2022, Angelalign Technology Pte. Ltd. (“**Angelalign SG**”) entered into a share purchase agreement (the “**Aditek Share Purchase Agreement**”) with Aditek, pursuant to which, we agreed to acquire 51% of the total enlarged share capital of Aditek. For details, please refer to the announcement of the Company dated October 28, 2022. In December 2022, pursuant to the supplemental agreement to the Aditek Share Purchase Agreement, the contracted party was amended from Angelalign SG to Angelalign Brasil S.A., a wholly-owned subsidiary of the Company in Brazil. In January 2023, we completed the acquisition of Aditek.

Save as disclosed above and in this announcement, in the six months ended June 30, 2023, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Significant investments and acquisition of capital assets

Save as disclosed in this announcement, in the six months ended June 30, 2023, we did not hold any significant investments nor made any significant acquisition of capital assets.

Charge on Group’s assets

As of June 30, 2023, we had no charges on our assets.

Borrowings and gearing ratio

As of June 30, 2023, our bank borrowings amounted to approximately RMB16.6 million, all of which was made by Aditek. The gearing ratio as of June 30, 2023 was 0.5%, which represents the percentage of bank borrowings to total equity.

Key financial indicators

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

	For the six months ended June 30,	
	2023	2022
Profitability ratios		
Gross profit margin ⁽¹⁾	59.3%	58.0%
Net profit margin ⁽²⁾	4.8%	12.8%
Adjusted net profit margin ⁽³⁾	8.0%	14.4%
	As of	As of
	June 30,	December 31,
	2023	2022
Liquidity ratios		
Current ratio ⁽⁴⁾	4.6	5.0

(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, 2023.

OTHER INFORMATION

Use of Proceeds

The ordinary shares of the Company (the “Shares”) were listed on the Stock Exchange on June 16, 2021, 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 net proceeds from the Global Offering (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in that same manner, proportion and the expected timeframe as set out in the Prospectus under the section headed “Future Plans and Use of Proceeds”. The table below sets out the planned applications of the net proceeds and actual usage up to June 30, 2023.

	Net proceeds from the Global Offering	Utilization up to June 30, 2023	Unutilized proceeds as of June 30, 2023
	<i>(HKD in millions)</i>		
Funding the construction of Chuangmei Center	1,252.5	458.5	794.0
Strengthening our research and development capabilities and funding our in-house and collaborative R&D initiatives	574.4	239.0	335.4
Developing a flexible and scalable intelligent information technology system	339.0	121.0	218.0
Expanding our in-house sales team and providing sales personnel with training sessions	329.6	329.6	0.0
Funding marketing and branding activities	301.4	244.4	57.0
Optimizing medical services	194.6	166.6	28.0
Working capital and other general corporate purposes	147.5	138.0	9.5
Total	3,139.0	1,697.1	1,441.9

To the extent that the net proceeds have not been immediately utilized, the balance has been placed with banks. There has been no change in the intended use of net proceeds as previously disclosed in the Prospectus and the Group will apply the remaining net proceeds in the manner set out in the Prospectus, pursuant to which the remaining proceeds are expected to be utilized by the end of 2023.

Employees, Training and Remuneration Policies

As of June 30, 2023, we had 2,424 employees. The staff costs including Directors' emoluments and share-based payment expenses were approximately RMB327.2 million in the six months ended June 30, 2023.

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.

The Directors and senior management receive remuneration from the Company in the form of fees, salaries, contributions to pension schemes, discretionary bonuses, allowances and other benefits in kind. The Board has established the remuneration committee (the "**Remuneration Committee**") to review and recommend the remuneration and compensation packages of the Directors and senior management of the Company, and the Board, with the advice from the Remuneration Committee, will review and determine the remuneration and compensation packages taking into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management and performance of the Group.

In accordance with the labour laws and regulations in the PRC, Hong Kong and other countries or regions in which we conduct business, our local corporate entities have respectively established labour relationships with the local employees and, where applicable, entered into labour contracts covering matters such as wages, bonuses, employee benefits, workplace safety, confidentiality obligations, non-competition obligations and reasons for termination.

To incentivize our employees and promote the long-term growth of the Company, we have also conditionally adopted the Pre-IPO Share Award Schemes, the Post-IPO Share Option Scheme and the Post-IPO RSU Scheme to provide equity incentive to our employees, directors and senior management.

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.

We believe that we have maintained a good working relationship with our employees and we had not experienced any material labor disputes or any difficulty in recruiting staff for our operations during the Review Period.

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

Other than the issuance of Shares underlying the options and restricted share units granted under the Post-IPO Share Option Scheme and Post-IPO RSU Scheme of the Company, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the Review Period. For details, please refer to the announcements of the Company dated April 28, 2023, May 4, 2023 and June 12, 2023.

Interim Dividend

The Board did not declare any interim dividend for the six months ended June 30, 2023 (June 30, 2022: nil)

Public Float

Based on 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 Code

The Group is committed to maintaining high standards of corporate governance practices. The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of the shareholders of the Company (the “**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 its own code of corporate governance. During the Review Period, the Company has complied with the applicable code provisions under the CG Code.

During a certain period in April 2023, the Company tentatively failed to meet the requirements set out in (i) Rule 3.10(1) of the Listing Rules that the Company must have at least three independent non-executive Directors; (ii) Rule 3.10A of the Listing Rules that the Company must appoint independent non-executive Directors representing at least one-third of the Board; (iii) Rule 3.21 of the Listing Rules that the Audit Committee must comprise a minimum of three members, at least one of whom is an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules; and (iv) Rule 3.25 and Rule 3.27A of the Listing Rules that each of the Remuneration Committee and the nomination committee of the Board must comprise a majority of independent non-executive Directors due to re-designation and appointment of Ms. DONG Li from independent non-executive Director to executive Director with effect from April 3, 2023. Following the appointment of Mr. ZHOU Hao as independent non-executive Director with effect from April 11, 2023, the Company has re-complied with the above requirements. For details, please refer to the announcements of the Company dated March 23, 2023 and April 11, 2023.

Compliance with the Model Code

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.

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 during the Review Period.

Audit Committee and Review of Interim Financial Results

As of the date of this announcement, the Audit Committee comprises three independent non-executive Directors, namely, Mr. ZHOU Hao, Mr. HAN Xiaojing and Mr. SHI Zi, and Mr. ZHOU Hao serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited interim condensed consolidated financial information of the Group for the six months ended June 30, 2023. 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 interim condensed consolidated financial information 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, 2023.

PricewaterhouseCoopers, certified public accountants and the independent auditor of the Company, has reviewed the unaudited interim condensed consolidated financial information of the Group for the six months ended June 30, 2023 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

On July 19, 2023, the Company granted 54,800 restricted share units (“**RSU**”) to 13 employees and 760 RSUs to an executive Director under the Post-IPO RSU Scheme of the Company. For details, please refer to the announcement of the Company dated July 19, 2023.

In July 2023, the Company repurchased a total of 252,400 Shares on the Stock Exchange with an aggregated amount of approximately HKD16,983,000. These repurchased Shares had been cancelled by the Company on August 14, 2023.

As of the date of this announcement, save as disclosed above and 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 2023 INTERIM RESULTS AND 2023 INTERIM REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.angelalign.com). The interim report of the Company for the six months ended June 30, 2023 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 dental professionals, patients 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 24, 2023

As at the date of this announcement, the Board comprises Mr. HU Jiezhong, Mr. SONG Xin and Ms. DONG Li as executive Directors; Mr. FENG Dai and Mr. HUANG Kun as non-executive Directors; Mr. HAN Xiaojing, Mr. SHI Zi and Mr. ZHOU Hao as independent non-executive Directors.