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Arrail Group Limited
瑞爾集團有限公司

(Incorporated in the British Virgin Islands with limited liability and continued in the Cayman Islands)

(Stock Code: 6639)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2023

The Board is pleased to announce the unaudited consolidated results of the Group for the six months ended September 30, 2023, together with comparative interim figures for the six months ended September 30, 2022.

In this announcement, “we”, “us”, and “our” refer to the Company and where the context otherwise requires, the Group. Certain amounts and percentage figures included in this announcement have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any tables, charts or elsewhere between totals and sums of amounts listed therein are due to rounding.

FINANCIAL HIGHLIGHTS

	For the six months ended September 30,		Changes %
	2023	2022	
	RMB'000	RMB'000	
Revenue	886,156	771,574	14.9%
Cost of sales	(683,306)	(604,400)	13.1%
Gross profit	202,850	167,174	21.3%
Operating profit/(loss)	14,711	(71,731)	120.5%
Net profit/(loss) for the period	6,234	(89,970)	106.9%
EBITDA for the period	144,943	61,831	134.4%
Adjusted Net Profit for the period	44,707	10,670	319.0%
Patient visits	986,359	765,216	28.9%

Our revenues increased by 14.9% from RMB771.6 million for six months ended September 30, 2022, to RMB886.2 million for six months ended September 30, 2023, primarily due to the business recovery after COVID-19 and the increase in the number of patient visits.

Our gross profit increased by 21.3% from RMB167.2 million for six months ended September 30, 2022, to RMB202.9 million for six months ended September 30, 2023, primarily due to the increase in revenue and improvement in operating efficiency.

Our net profit turned from net loss of RMB90.0 million for six months ended September 30, 2022 to net profit of RMB6.2 million for six months ended September 30, 2023.

Our Adjusted Net Profit (as defined in the definition section) increased by 319.0% from RMB10.7 million for six months ended September 30, 2022 to RMB44.7 million for six months ended September 30, 2023, primarily because of the continuing improvement of our business operation.

We continued to expand our business scale. For the six months ended September 30, 2023, we opened one dental hospital and one dental clinic with a total of 41 dental chairs and upgraded six dental clinics. Total dental chairs of our Group reached 1,530 as of September 30, 2023, increasing by 6.1% compared to March 31, 2023. Our patient visits for the six months ended September 30, 2023 reached 986,359, increasing by 28.9% as compared to the six months ended September 30, 2022. We believe our operating efficiency will continue to improve along with business expansion.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

We are a leading dental services provider in the premium private dental service market in China. Founded in 1999, we have served approximately 10.3 million patient visits in the past ten years, and have been instrumental in raising public awareness and driving consumer recognition of the importance of dental care and good oral hygiene in China. Our network of dental clinics and hospitals provides a wide array of dental healthcare services across China. We adopt a dual-brand strategy through our “Arrail Dental” and “Rytime Dental” brands to serve customers of different economic and geographic backgrounds. Through decades of commitment and service in the dental healthcare industry, we have earned the trust of our patients, and have successfully established an extensive presence in China, as we are continuing to expand our footprint nationwide. As of September 30, 2023, we had 123 stores, including 113 dental clinics and 10 hospitals in 15 cities across China, with 959 experienced dentists. Our mission is to give each of our patients a healthy and confident smile, and our vision is to become a world-leading dental service group.

We expanded our business by opening more clinics and hospitals in Tier-1 and Tier-2 cities across China. For the six months ended September 30, 2023, we opened one clinic and one hospital with a total of 41 dental chairs. We expanded and upgraded six existing clinics from 46 dental chairs to 73 dental chairs. In addition, there was one hospital with 40 dental chairs under construction. We continue to hire competent dentists and enhance our dental professional team. The number of our dentists increased from 914 as of March 31, 2023 to 959 as of September 30, 2023.

Our Services

Our clinics and hospitals offer a diverse range of professional and customized dental services, consisting of (i) general dentistry; (ii) orthodontics; and (iii) implantology.

General Dentistry

General dentistry largely refers to the preventive services that all patients should receive on a regular basis, such as tooth cleaning, checking soft tissue, and screening for oral diseases and other potential problems, along with a range of basic restorative treatments, including fillings, crowns, bridges, dentures and more. Our general dentistry services include oral examination, treatment planning, preventive and cosmetic dentistry, endodontics, oral surgery, periodontal treatment, prosthodontics, pedodontics services and patient education.

Orthodontics

Orthodontics is a branch of dentistry that treats malocclusions, a condition in which the teeth are not correctly positioned when the mouth is closed, which may be caused by dental irregularity and disproportionate jaw relationships, among others. Our orthodontists provide orthodontic treatment using a range of medical dental devices, including fixed and/or removable braces, headgear, aligners and other appliances.

Implantology

Oral implantology is the branch of dentistry that deals with the permanent implantation of artificial teeth in the jaw when it is determined that a natural tooth must be extracted. With their high level of expertise, our implant dentists are able to treat complex cases and provide customized solutions based on the health of the jawbone and the specific needs of a patient.

Dual-Brand Operations

As of September 30, 2023, we operated a total of 123 clinics and hospitals under the brand names of “Arrail Dental” and “Rytime Dental”, to provide dental services to different demographics across geographic regions.

Arrail Dental



We have been operating under the Arrail Dental brand since 1999, to provide premium dental services primarily to affluent consumers in Tier-1 and emerging Tier-1 cities in China. Arrail clinics are able to charge premium pricing based on their excellent quality of bespoke services and professionals. As of September 30, 2023, we operated a total of 50 Arrail clinics in 7 cities in China, namely Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, Tianjin and Xiamen. Our Arrail clinics are mainly concentrated in metropolitan areas and located at or in close proximity to prominent landmarks and properties. We plan to further penetrate existing markets to drive stronger monetization under the Arrail Dental brand.

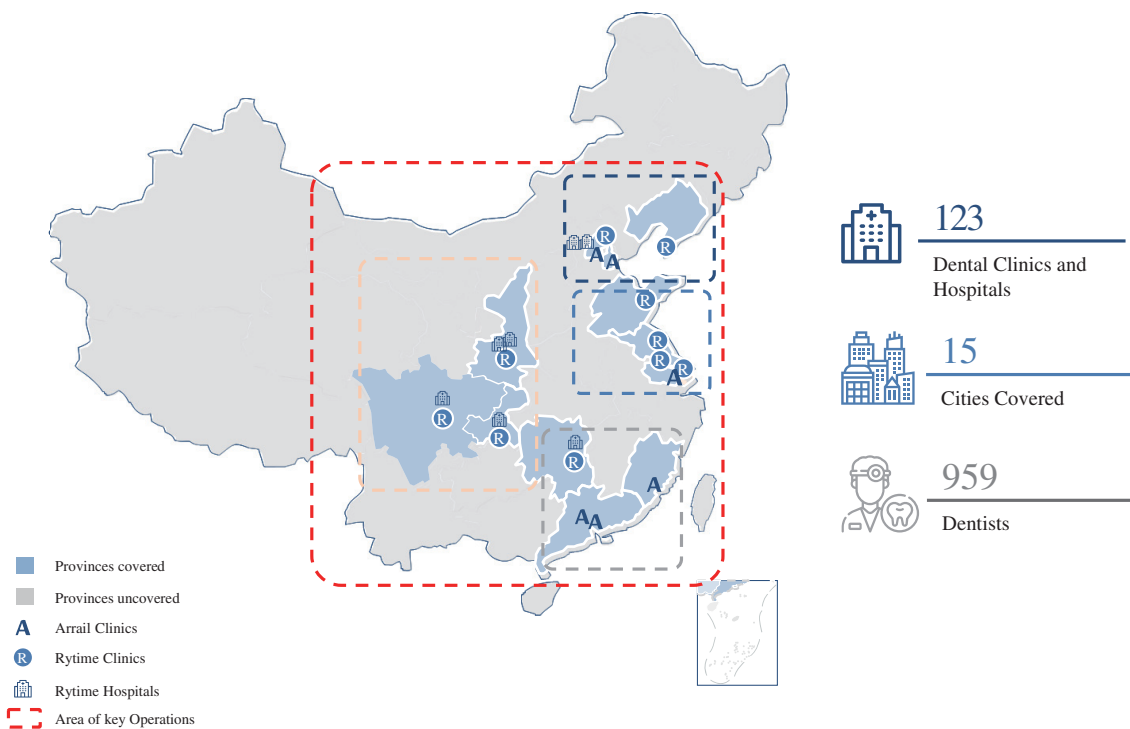
Rytime Dental



We launched our operations under the Rytime Dental brand in 2012, primarily aiming to provide treatments to middle class customers in Tier-1 and key Tier-2 cities in the Northern, Eastern, Southern and Western parts of China. Rytime Dental is positioned to capture the greater middle-end dental services market by offering high-quality dental services at attractive and relatively lower prices. As of September 30, 2023, we operated 73 stores, including 10 hospitals and 63 Rytime clinics in 11 cities in China. We are able to provide a greater variety of treatments at our dental hospitals, such as giving general anesthesia and performing more complicated oral surgery procedures. Our Rytime Dental hospitals and clinics are typically located in the vicinity of residential areas, giving our customers easy access to convenient and quality dental care services. We plan to continue to expand our Rytime Dental network by broadening our reach to targeted regions and cities across China.

Our Hospitals and Clinics

As of September 30, 2023, we operated 123 stores, including (i) 113 dental clinics of which 50 clinics were under the Arrail Dental brand and 63 clinics were under the Rytime Dental brand; and (ii) 10 hospitals under the Rytime Dental brand, as illustrated in the map below.



Due to the implementation of centralized procurement of dental implants and organic growth of customers, our total patient visits increased from 765,216 for the six months ended September 30, 2022 to 986,359 for the six months ended September 30, 2023, representing a year-on-year increase of 28.9%. The following table sets forth the breakdown by brands in relation to our operating and financial performance.

	For the six months ended	
	September 30,	
	2023	2022
Total patient visits	986,359	765,216
Arrail Dental	269,003	231,750
Rytime Dental	717,356	533,466
Total number of dental chairs	1,530	1,400
Arrail Dental	507	508
Rytime Dental	1,023	892
Visits per dental chair	645	547
Arrail Dental	531	456
Rytime Dental	701	598
Revenue per dental chair (RMB in thousands)	579,187	534,207
Arrail Dental	794,209	727,245
Rytime Dental	472,622	424,271

The increase of revenue per dental chair for the Reporting Period was primarily due to increased utilization rate of dental chairs.

Our repeat visit rates, defined as the percentage of patients that revisited our clinics or hospitals beyond six months after their initial visits, excluding follow-up consultations of the same treatment, were 47.7% for the six months ended September 30, 2023 (48.0% for the six months ended September 30, 2022). Approximately 22% of our new patients were referred by our existing patients for the six months ended September 30, 2023.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures during the Reporting Period

The Company had no significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Events after the Reporting Period

To deepen the Group's footprint in southern China as well as further strengthen the Group's leading position in China dental market, in September, 2023, two subsidiaries of the Company entered into an investment agreement to acquire 85% equity interests of Guangzhou Ruihua Dental Clinic Co., Ltd ("**Guangzhou Ruihua**") at a cash consideration of RMB17 million (the "**Acquisition**"). In October 2023, all conditions precedent to the completion of the Acquisition as stipulated in the agreement were satisfied and the Acquisition was completed. As of the date of this announcement, the Group paid RMB11 million for the Acquisition in total. The Group will pay the remaining consideration of RMB6 million in six months after the completion of the Acquisition. Upon the completion of the Acquisition, the financial results of the Guangzhou Ruihua will be consolidated into the consolidated financial statements of the Group. The Acquisition does not constitute a connected transaction or a notifiable transaction under the Listing Rules.

Save as disclosed above and elsewhere in this announcement, there have been no other material events subsequent to the Reporting Period, which require adjustment or disclosure in accordance with IFRSs.

Future Plans for Material Investments and Capital Assets

The Group intends to utilize the net proceeds raised from the Global Offering for business expansion, optimization of our IT infrastructure and working capital in the manner set out in the Prospectus and the section headed “Use of Proceeds from the Global Offering” below. Save as these, the Group does not have any concrete committed plans for material investments and capital assets in 2023.

Employees and Remuneration

As of September 30, 2023, we had a total of 3,456 full-time employees, all of whom were based in various cities in China. Our employees reflect the geographic footprint we currently serve. The following table sets forth our employees by functions as of September 30, 2023:

Function	Number of Employees	%
Dentists	959	27.7%
Nursing staff	1,277	37.0%
Customer service staff	639	18.5%
General administrative staff	332	9.6%
Marketing team	249	7.2%
Total	3,456	100%

We believe that maintaining a stable and motivated employee force is critical to the success of our business. We offer our employees different remuneration packages based on their positions. Generally, the remuneration structure of our employees includes salary, benefits and bonuses. Our compensation programs are designed to remunerate our employees based on their performance, measured against specified objective criteria. We maintain standard employee benefit plans required by PRC laws and regulations, including housing fund contributions, pension insurance, medical insurance, workplace injury insurance, unemployment insurance, and maternity insurance.

As of September 30, 2023, over 47.9% of our full-time dentists had master's degrees or above and many held titles and qualifications such as chief medical director or medical discipline leader. Our team of dentists have on average 10.8 years of post-qualification experience in the industry. The average monthly revenue generated per dentist who joined us in 2018, 2019, and 2020 during each calendar year, grew at a CAGR of 24%, 39%, and 57% during their respective employment periods up to the end of calendar year 2022. Dentists with more than five, ten and fifteen years of experience with us accounted for 38.0%, 14.0% and 6.4% of our total dentists, which indicates strong employee retention rates.

We have also adopted the RSU Scheme with an overall limit of 119,972,600 underlying shares to be granted under the RSU Scheme, representing approximately 20.6% of the total issued share capital of the Company as of the date of this announcement. As of September 30, 2023, an aggregate of 574 employees (including former employees) were approved by the Board to be the grantees with a total of 87,791,950 underlying shares pursuant to the RSU Scheme. We further adopted the 2022 RSU Scheme on September 3, 2022, pursuant to which the underlying Shares will be satisfied by the existing Shares to be acquired by the trustee on the market based on the trading price of the market. The total number of the restricted shares underlying all grants made pursuant to the 2022 RSU Scheme shall not exceed 10% of the issued Shares (i.e. 58,159,195 Shares) as at the adoption date (i.e. September 3, 2022). As of September 30, 2023, no employees were approved by the Board to be the grantees pursuant to the 2022 RSU Scheme.

During the Reporting Period, our Group did not experience any significant problems with its employees due to labour disputes nor did it experience any difficulty in the recruitment and retention of staff.

Industry Outlook

The development of the dental services market in China is mainly driven by economic development, an ageing population, digitalization, rising public awareness of dental health and other related factors. Based on the experience of overseas developed markets, a chained operation is generally considered to have greater advantages than an individual operation in terms of speed of development.

Although the COVID-19 pandemic has had a certain impact on the industry in the past three years, the entire industry has still shown strong resilience and signs of rebound. At the same time, we have also observed the gradual enhancement of industry penetration and concentration of leading institutions. Following the complete easing of the pandemic control restrictions, the vitality and potential of the dental services market will be fully released, hence we are full of confidence in the prospects of our future development. With the full implementation of the domestic oral implantology policy and the nearly-two-years publicity and popularization of such policy in the market, patients in China gradually became aware that “oral implantology” is one of the most effective treatments for missing teeth; thus the dental health awareness of the public has been raised and more patients will be benefited by affordable prices. We have also seen a significant increase in the number of clients receiving dental implants. Before providing oral implantology treatment, the dentist will have a comprehensive assessment of the patient's dental

health, judging whether the patient is suitable for treatment and enabling the patient to complete the basic treatment required in the early stage, which will in turn further increase patient visits in dental institutions, especially for basic treatments of general dental and periodontal ailments. At the policy aspect, guided by a number of policies issued by the state and local governments in China, the private healthcare development environment in China will continue to be improved in a standardized, healthy and sustainable manner. As the largest premium dental chain group in China which covers the four core regions, namely North China, East China, South China and West China, comprising 15 Tier-1 and Tier-2 cities, the Company will further benefit from the core advantages of “Talent, Brand, System” and seize the huge opportunities arising from the development of the dental market.

Future Prospects

1) *Efficiency improvement and steady operation*

We focus on improving efficiency and operating steadily, aiming to ensure quality and sustainable growth. Faced with the recurring impact of the pandemic in the past three years, the industry needs to reorganize and recuperate. Therefore, we will continuously focus on existing resources, fortifying our foundation, while maintaining a development strategy of active expansion. We will continue to increase market share and operational efficiency through original site expansion and continuous intra-city encryption. Meanwhile, we will also actively explore new markets to maintain our business expansion opportunities. In order to improve our customer management efficiency and further enhance customer experience, we will launch the “5A Arrail Way” and convert “Satisfied Customer” to “Loyal Customer” with refined operations.

2) *Relying on the medical-oriented principle and respecting medical*

Ensuring medical quality is the essence of the development of the healthcare industry, and the dental industry is no exception. We adopt a number of systems including medical red line management, specialized case classification, dentist classification, complex medical condition discussion and multidisciplinary consultation to ensure medical quality and safety and provide customers with professional dental services. In recent years, more and more expert dentists have joined the Group, which also proves that we have been recognized and respected in the field of dental services. In future, we will adhere to the medical-oriented principle, and always regard medical quality management as a lifeline for enterprise development.

3) *Leveraging brand influence to strengthen the system of “recruitment, training and retention”*

We will further strengthen the system of “recruitment, training and retention” of talents by leveraging our brand influence. The Company has been adhering to the principle of “empowerment and support” and is committed to providing employees with effective platforms and development opportunities. In terms of medical services, we not only insist on campus recruitment, but also increase the recruitment of specialist dentists and senior dentists to ensure that our medical service level is always at the leading position in the industry. In terms of operation, we will gradually strengthen the construction of the echelon of core management personnel, and focus on selecting high-caliber management personnel with strong self-motivation, learning ability and development potential, so as to lay a sound organizational structure foundation for the Company’s long-term development.

4) *Enhancing corporate culture*

Corporate culture endows the Company with a unique working atmosphere, which will in turn regulate and affect everyone's behavior and way of doing things. As the corporate culture and core competitive edge of the Company, "integrity, professionalism and being a good person" is vital for the Company to achieve cross-regional development and off-site replication, thus becoming a national chain dental institution. It is one of the "moats" of the Company. In future, the Company will unswervingly promote and maintain the construction of its corporate culture.

5) *Risk management and sustainable development*

The Group will continue to strengthen its risk management system to ensure the stability and sustainability of business operations. At the same time, we will also build a market leading financial management system to maintain our financial health, as well as formulate reasonable financial goals and strategic planning. In addition, we will also pay attention to our environmental, social and governance responsibilities, continue to improve and strengthen corporate governance and the standardized management of listed companies, optimize the governance structure and continue to focus on charity and public welfare. Meanwhile, we will also further strengthen our communication with regulatory authorities such as the Stock Exchange as well as the Shareholders so as to keep information transparent, with a view to creating more value for the Shareholders.

FINANCIAL REVIEW

Overview

The following discussion is based on, and should be read in conjunction with, the financial information and the notes included elsewhere in this announcement.

Revenue

During the Reporting Period, we primarily generated revenues from operating dental clinics and hospitals across the PRC. Our revenues increased by 14.9% from RMB771.6 million for the six months ended September 30, 2022 to RMB886.2 million for the six months ended September 30, 2023, primarily due to the business recovery after COVID-19 pandemic and the increase in the number of patient visits.

Revenues by Dental Service Offerings

We offer a diverse range of professional and customized dental services, covering mainly three dental sectors: (i) general dentistry; (ii) orthodontics; and (iii) implantology. The following table sets forth a breakdown of our revenues by types of dental services, both in absolute amount and as a percentage of our total revenues, for the periods indicated.

	For the six months ended September 30,			
	2023		2022	
	<i>(RMB in thousands, except for percentages)</i>			
General dentistry	483,868	54.6%	409,479	53.1%
Orthodontics	206,414	23.3%	181,181	23.5%
Implantology	177,497	20.0%	156,570	20.3%
Others ⁽¹⁾	18,377	2.1%	24,344	3.1%
Total	<u>886,156</u>	<u>100.0%</u>	<u>771,574</u>	<u>100.0%</u>

Note:

- (1) Primarily include revenues generated from sale of dental materials in our ordinary course of business and the operation of our denture manufacturing plants.

Revenues generated from (i) general dentistry increased by 18.2% from RMB409.5 million for the six months ended September 30, 2022 to RMB483.9 million for the six months ended September 30, 2023; (ii) orthodontics increased by 13.9% from RMB181.2 million for the six months ended September 30, 2022 to RMB206.4 million for the six months ended September 30, 2023; and (iii) implantology increased by 13.4% from RMB156.6 million for the six months ended September 30, 2022 to RMB177.5 million for the six months ended September 30, 2023.

Revenues by Brand

We adopt a dual-brand strategy through our Arrail Dental and Rytime Dental brands to provide differentiated dental services to different target markets. As of September 30, 2023, we operated 50 dental clinics in Tier-1 cities under the Arrail Dental brand, and operated 63 dental clinics and 10 dental hospitals primarily in Tier-1 and key Tier-2 cities under the Rytime Dental brand. The following table sets forth a breakdown of our revenues by brands, both in absolute amount and as a percentage of our total revenues, for the periods indicated.

	For the six months ended September 30,			
	2023		2022	
	<i>(RMB in thousands, except for percentages)</i>			
Arrail Dental	402,664	45.4%	384,982	49.9%
Rytime Dental	483,492	54.6%	386,592	50.1%
Total	<u>886,156</u>	<u>100.0%</u>	<u>771,574</u>	<u>100.0%</u>

Cost of Sales

Our cost of sales primarily consists of (i) employee benefits expenses; (ii) depreciation and amortization; and (iii) dental materials used. Employee benefits expenses primarily consist of salaries, benefits and bonuses, including social security costs and housing benefits. Depreciation and amortization expenses primarily consist of depreciation of our medical equipment, office equipment and furniture, leasehold improvements, and right-of-use assets, representing the leases of dental clinics and hospitals. Dental material used primarily consist of purchase costs of raw materials and consumables mainly comprising customized dentures, dental braces, implant and dental crowns for implantology, orthodontics and restorations.

The following table sets forth a breakdown of our cost of sales by nature, both in absolute amounts and as a percentage of total cost of sales, for the periods indicated.

	For the six months ended September 30,			
	2023		2022	
	<i>(RMB in thousands, except for percentages)</i>			
Employee benefits expenses	366,691	53.7%	311,511	51.5%
Depreciation and amortization	118,610	17.4%	122,112	20.2%
Dental materials used	130,535	19.1%	124,154	20.5%
Consulting fees	16,513	2.4%	16,353	2.7%
Office and property management expenses	30,335	4.4%	23,473	3.9%
Others ⁽¹⁾	20,622	3.0%	6,797	1.2%
Total	683,306	100.0%	604,400	100.0%

Note:

(1) Primarily include rental expenses, travelling expenses, training expenses and utility expenses.

Our cost of sales increased by 13.1 % from RMB604.4 million for the six months ended September 30, 2022 to RMB683.3 million for the six months ended September 30, 2023, primarily due to the increase in employee benefits expenses, dental materials used and office and property management in line with the business growth.

Gross Profit

Our gross profit increased by 21.3% from RMB167.2 million for the six months ended September 30, 2022 to RMB202.9 million for the six months ended September 30, 2023, primarily due to the increase in revenue and improvement in operating efficiency.

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) employee benefits expenses for our sales and marketing staff; (ii) advertising and marketing expenses; and (iii) consulting fees. The following table sets forth a breakdown of our selling and distribution expenses, both in absolute amounts and as a percentage of total cost of revenues, for the periods indicated.

	For the six months ended September 30, 2023		2022	
	<i>(RMB in thousands, except for percentages)</i>			
Employee benefits expenses	34,875	50.1%	22,705	49.9%
Advertising and marketing expenses	28,394	40.8%	18,645	41.0%
Consulting fees	4,517	6.5%	2,447	5.4%
Others ⁽¹⁾	1,821	2.6%	1,696	3.7%
Total	69,607	100.0%	45,493	100.0%

Note:

(1) Primarily include travelling expenses, training expenses and recruitment expenses.

Our selling and distribution expenses increased by 53.0% from RMB45.5 million for the six months ended September 30, 2022 to RMB69.6 million for the six months ended September 30, 2023, primarily because we expanded marketing team and carried out more marketing and promotion activities during the Reporting Period.

Administrative Expenses

Our administrative expenses primarily consist of (i) share-based compensation expenses; (ii) employee benefits expenses for our directors, senior management and other administrative staff; (iii) consulting fees; and (iv) depreciation and amortization. The following table sets forth a breakdown of our administrative expenses, both in absolute amounts and as a percentage, for the periods indicated.

	For the six months ended September 30, 2023		2022	
	<i>(RMB in thousands, except for percentages)</i>			
Share-based compensation expenses	38,473	31.8%	100,641	55.3%
Employee benefits expenses	49,276	40.7%	46,103	25.3%
Consulting fees	9,885	8.2%	13,150	7.2%
Depreciation and amortization	10,159	8.4%	10,123	5.6%
Office and property management expenses	3,752	3.1%	2,257	1.2%
Others ⁽¹⁾	9,621	7.8%	9,639	5.4%
Total	121,166	100.0%	181,913	100.0%

Note:

(1) Primarily include auditor's remuneration, travelling expenses, training expenses and recruitment expenses.

Our administrative expenses decreased by 33.4% from RMB181.9 million for the six months ended September 30, 2022 to RMB121.2 million for the six months ended September 30, 2023, primarily due to the decrease in share-based compensation expenses for RSUs already vested before the Reporting Period.

Research and Development Expenses

Our research and development expenses primarily consist of (i) employee benefits expenses for our research and development staff; and (ii) consulting fees. The following table sets forth a breakdown of our research and development expenses, both in absolute amounts and as a percentage, for the periods indicated.

	For the six months ended September 30,			
	2023		2022	
	<i>(RMB in thousands, except for percentages)</i>			
Employee benefits expenses	1,693	37.0%	8,906	83.0%
Consulting fees	1,841	40.2%	1,475	13.8%
Depreciation and amortization	946	20.7%	132	1.2%
Others ⁽¹⁾	101	2.1%	215	2.0%
Total	4,581	100.0%	10,728	100.0%

Note:

(1) Primarily include travelling expenses, property management expenses and utility expenses.

Our research and development expenses decreased by 57.3% from RMB10.7 million for the six months ended September 30, 2022 to RMB4.6 million for the six months ended September 30, 2023, primarily due to the decrease in employee benefits expenses reflecting the decrease in the expenses of maintenance and follow-up development of our self-developed information technology.

Reversal of Impairment Loss/(Impairment Loss) on Financial Assets – Net

Reversal of impairment loss/(impairment loss) on financial assets – net refer to impairment charges recorded based on the difference between the cash flows contractually due and all the cash flows that we expect to receive from trade and other receivables. Our reversal of impairment loss on financial assets was RMB2.9 million for the six months ended September 30, 2023, compared to impairment loss on financial assets of RMB1.2 million for the six months ended September 30, 2022, primarily due to the decrease in trade receivables.

Operating Profit

For the six months ended September 30, 2023, our operating profit was RMB14.7 million, compared to an operating loss of RMB71.7 million for the six months ended September 30, 2022, mainly due to the increase in revenue and the decrease in share-based compensation expenses. Excluding the share-based compensation expenses, our operating profit would be RMB53.2 million.

Net Finance Costs

Our net finance costs decreased by 69.6% from RMB16.2 million for the six months ended September 30, 2022 to RMB4.9 million for the six months ended September 30, 2023, primarily due to the increase in interest income from bank deposits.

Net Profit/(Loss) for the Period

As a result of the foregoing, our profit for the period turned from loss of RMB90.0 million for the six months ended September 30, 2022 to a profit of RMB6.2 million for the six months ended September 30, 2023.

Property, Plant and Equipment

Our property, plant and equipment primarily consist of (i) medical equipment; (ii) office equipment and furniture; (iii) motor vehicles; and (iv) leasehold improvements. Our property, plant and equipment decreased from RMB324.2 million as of March 31, 2023 to RMB318.7 million as of September 30, 2023, mainly due to the depreciation of property, plant and equipment.

Right-of-use Assets

Our right-of-use assets represent leases of dental clinics, hospitals, and office space in accordance with IFRS 16. Our right-of-use assets increased from RMB692.1 million as of March 31, 2023 to RMB715.9 million as of September 30, 2023, primarily due to the increase in leases for dental clinics and hospitals.

Net Current Assets

We had net current assets of RMB907.6 million as of September 30, 2023, compared to RMB802.6 million as of March 31, 2023, primarily because of the increase in time deposits with original maturity over three months.

Trade Receivables

Trade receivables are primarily amounts due from customers for dental services performed and dental materials sold in the ordinary course of business. Trade receivables are classified as current assets if they are expected to be collected in one year or less. We typically charge our individual patients upon rendering our services. In addition, for our corporate clients, we usually grant them a credit period ranging from 10 to 60 days.

Our trade receivables decreased from RMB75.6 million as of March 31, 2023 to RMB67.6 million as of September 30, 2023. Our trade receivables turnover days were 23 days for year ended March 31, 2023, and 19 days for the six months ended September 30, 2023. The decrease in turnover days was mainly due to the improvement in collecting trade receivables from insurance companies and corporate clients.

Other Receivables

Our other receivables primarily consist of (i) loans to related parties; (ii) receivable from RSU management agency and deposit in a security broker for share repurchase; and (iii) loans to employees, net of loss allowance. Our other receivables included in current assets remained stable at RMB206.5 million as of March 31, 2023 and RMB205.6 million as of September 30, 2023.

Trade Payables

Our trade payables primarily represent the amount due to our suppliers. Our suppliers typically granted us a credit period of 90 days.

Our trade payables remained stable at RMB85.0 million as of March 31, 2023 and RMB83.4 million as of September 30, 2023. Our trade payables turnover days decreased from 59 days for the year ended March 31, 2023 to 49 days for the six months ended September 30, 2023, primarily because we accelerated payment process.

Other Payables

Our other payables primarily consist of (i) employee benefits payable; (ii) consideration payable for acquisition of Wuxi Tongshan Dental Hospital Co., Ltd.; and (iii) taxes payables. Our other payables decreased by 18.4% from RMB124.5 million as of March 31, 2023 to RMB101.6 million as of September 30, 2023, primarily due to the settlement of employee benefits and amounts due to employees arisen from exercise of RSUs.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss primarily represent our investments in wealth management products with an aggregate principal amount of approximately RMB273.3 million, unlisted debt instruments of RMB35.7 million and unlisted equity instruments of RMB30 million. As of September 30, 2023, the Company invested in wealth management products from GF Global Capital Limited of US\$20.7 million (equivalent to RMB148.8 million) and Huatai International Financial Products Limited of US\$16.7 million (equivalent to RMB120.0 million). The unlisted debt instruments represent 8.22% interest in Hangzhou Jarvis. The unlisted equity instruments represent 20% equity interest in Hangzhou Jinyaori.

Prepayments

Our prepayments primarily consist of (i) prepayments for braces; (ii) incremental cost of obtaining contracts, representing the commissions to dentists; (iii) prepayments for inventories other than braces; (iv) prepayments for equipments; and (v) short-term lease prepayments. Our prepayments increase by 11.1% from RMB142.2 million as of March 31, 2023 to RMB158.0 million as of September 30, 2023, primarily due to increase in prepayments for dental materials and renovation for dental clinics and hospitals.

Foreign Exchange Exposure

Since we operate mainly in the PRC with most of the transactions settled in Renminbi, our management considers that our business is not exposed to significant foreign exchange risk as there are no significant assets or liabilities which are denominated in the currencies other than our functional currency. During the Reporting Period, the Group's currency translation differences mainly arise from the translation of the financial statements of the Company from its functional currency in United States dollars to the reporting currency in Renminbi.

Our Directors would from time to time review the analysis prepared by our account department and assess whether there is any material and adverse impact on our financial performance and whether we should enter into any hedging or derivative financial instruments to manage such foreign exchange risk exposures.

Contingent Liabilities

As of September 30, 2023, we did not have any material contingent liabilities, guarantees, or legal, arbitration or administrative proceedings pending or threatened against us that we expect would materially adversely affect our financial position or results of operations.

Liquidity and Financial Resources and Capital Structure

During the Reporting Period, we financed our operations and other capital expenditure requirements primarily through cash generated from our operations and proceeds raised from the Company's series-E round of financing and the Listing. As of September 30, 2023, we had cash and cash equivalents of RMB630.0 million, as compared with RMB621.9 million as of March 31, 2023. As of September 30, 2023, we had time deposits with original maturity over three months of RMB183.6 million, as compared with RMB52.7 million as of March 31, 2023.

There is no material change in the capital structure of the Company during the Reporting Period. The capital of the Company comprises only ordinary shares.

Capital Expenditures

Capital expenditures represent purchase of property, plant and equipment and intangible assets. For the six months ended September 30, 2023, we incurred additions in property, plant and equipment and intangible assets of RMB68.3 million, compared to RMB95.8 million for the six months ended September 30, 2022. The decrease was primarily because we acquired "TongShan Dental", a dental group with one dental hospital and eight dental clinics, in August 2022, leading to the increase of property, plant and equipment and intangible assets for the six months ended September 30, 2022. We intend to fund our planned capital expenditures through a combination of the net proceeds from the Global Offering, bank facilities and other borrowings, as well as cash generated from operations.

Borrowings and Gearing Ratio

During the Reporting Period, we incurred borrowings which were primarily denominated in Renminbi, to finance our business acquisition, capital expenditure, and working capital requirements. As of September 30, 2023, we had obtained undrawn bank loan facilities of RMB535.8 million.

As of September 30, 2023, the gearing ratio (calculated as total borrowings divided by total equity and multiplied by 100%) is 15.7%.

Charge on Assets

As of September 30, 2023, we pledged US\$16.7 million (equivalent to RMB120.0 million) to a bank as the collateral for bank loans of RMB98.5 million.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Main Board of the Stock Exchange on March 22, 2022. The net proceeds received by the Company from the Global Offering amounted to HK\$589.9 million. During the Reporting Period, the Company had used the net proceeds from the Global Offering for the following purposes:

	Amount of net proceeds for the relevant use <i>HK\$ million</i>	Percentage of total net proceeds <i>Percentage</i>	Unutilized net proceeds as of April 1, 2023 <i>HK\$ million</i>	Utilization during the six months ended September 30, 2023 <i>HK\$ million</i>	Unutilized net proceeds as of September 30, 2023 <i>HK\$ million</i>	Expected timeframe for unutilized net proceeds
Business expansion						
Increase penetration and grow footprint in existing and emerging Tier-1 cities in China and existing Tier-2 cities in China	324.4	55.0%	275.2	63.5	211.7	by the year ending March 31, 2027
Expansion into new key Tier-2 cities in China	118.0	20.0%	93.0	–	93.0	by the year ending March 31, 2027
Subtotal	442.4	75.0%	368.2	63.5	304.7	
Build and optimize IT infrastructure	88.5	15.0%	53.5	9.9	43.6	by the year ending March 31, 2027
Working capital	59.0	10.0%	51.1	3.8	47.3	by the year ending March 31, 2027
Total	589.9	100%	472.8	77.2	395.6	

Note:

The net proceeds have been and will be utilized in accordance with the purposes set out in the Prospectus. The unutilized net proceeds are expected to be fully utilized by the year ending March 31, 2027. The expected timeline for utilizing the remaining proceeds is based on the best estimation of the future progress of business expansion and market conditions made by the Company. It will be subject to change based on the current and future development of market conditions.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2023

	Note	For the six months ended	
		September 30, 2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Revenue	3	886,156	771,574
Cost of sales	4	<u>(683,306)</u>	<u>(604,400)</u>
Gross profit		202,850	167,174
Selling and distribution expenses	4	(69,607)	(45,493)
Administrative expenses	4	(121,166)	(181,913)
Research and development expenses	4	(4,581)	(10,728)
Reversal of impairment loss/(impairment loss) on financial assets – net		2,916	(1,224)
Other gains – net	5	<u>4,299</u>	<u>453</u>
Operating profit/(loss)		14,711	(71,731)
Finance income	6	17,469	5,572
Finance costs	6	<u>(22,416)</u>	<u>(21,821)</u>
Finance costs – net	6	(4,947)	(16,249)
Share of net profit of associates and joint ventures accounted for using the equity method		398	998
Profit/(loss) before income tax		10,162	(86,982)
Income tax expenses	7	<u>(3,928)</u>	<u>(2,988)</u>
Profit/(loss) for the period		<u>6,234</u>	<u>(89,970)</u>
Profit/(loss) attributable to:			
Owners of the Company		4,981	(88,588)
Non-controlling interests		<u>1,253</u>	<u>(1,382)</u>
		<u>6,234</u>	<u>(89,970)</u>
Earnings/(loss) per share attributable to owners of the Company (expressed in RMB per share)			
Basic earnings/(loss) per share	8	0.01	(0.2)
Diluted earnings/(loss) per share	8	<u>0.01</u>	<u>(0.2)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

For the six months ended September 30, 2023

	For the six months ended	
	September 30,	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit/(loss) for the period	<u>6,234</u>	<u>(89,970)</u>
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss</i>		
Currency translation differences	<u>49,501</u>	<u>121,038</u>
Other comprehensive income for the period, net of tax	<u>49,501</u>	<u>121,038</u>
Total comprehensive income for the period	<u>55,735</u>	<u>31,068</u>
Total comprehensive income/(loss) attributable to:		
Owners of the Company	54,482	32,450
Non-controlling interests	<u>1,253</u>	<u>(1,382)</u>
	<u>55,735</u>	<u>31,068</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at September 30, 2023

	As at September 30, 2023 (Unaudited) RMB'000	As at March 31, 2023 (Audited) RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	318,721	324,202
Right-of-use assets	715,873	692,067
Intangible assets	72,620	56,343
Goodwill	182,754	182,754
Deferred tax assets	68,293	63,929
Prepayments	28,250	34,635
Investments accounted for using the equity method	42,866	30,677
Financial assets at fair value through profit or loss	70,216	65,714
Other receivables	9 77,148	77,767
Total non-current assets	1,576,741	1,528,088
Current assets		
Inventories	52,237	51,386
Prepayments	129,746	107,600
Trade and other receivables	9 273,216	282,138
Financial assets at fair value through profit or loss	268,813	263,013
Restricted cash	120,046	154,894
Time deposits with original maturity over three months	183,574	52,657
Cash and cash equivalents	629,991	621,860
Total current assets	1,657,623	1,533,548
Total assets	3,234,364	3,061,636
EQUITY		
Share capital	74,769	74,769
Reserves	5,216,024	5,107,566
Accumulated losses	(3,566,668)	(3,571,649)
Equity attributable to owners of the Company	1,724,125	1,610,686
Non-controlling interests	87,361	85,204
Total equity	1,811,486	1,695,890

		As at September 30, 2023 (Unaudited) RMB'000	As at March 31, 2023 (Audited) RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	10	44,472	47,252
Lease liabilities		595,640	566,223
Contract liabilities		22,513	16,323
Deferred tax liabilities		10,189	11,062
Total non-current liabilities		<u>672,814</u>	<u>640,860</u>
Current liabilities			
Trade and other payables	11	184,979	209,464
Contract liabilities		132,948	154,024
Current tax liabilities		27,917	19,195
Borrowings	10	240,224	172,767
Lease liabilities		163,996	169,436
Total current liabilities		<u>750,064</u>	<u>724,886</u>
Total liabilities		<u>1,422,878</u>	<u>1,365,746</u>
Total equity and liabilities		<u><u>3,234,364</u></u>	<u><u>3,061,636</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

Arrail Group Limited (the “**Company**”) was incorporated in the British Virgin Islands (the “**BVI**”) on May 23, 2001 as a company limited by shares. On November 16, 2020, the Company discontinued as a company incorporated under the BVI Business Companies Act 2004 (as amended) and was registered by way of continuation as an exempted company limited by shares under the Companies Act (Cap.22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The registered office of the Company is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, the Cayman Islands.

The Company is an investment holding company and together with its subsidiaries (the “**Group**”), is principally engaged in the provision of dental services (including general dentistry, orthodontics and implantology) through operations of dental clinics and hospitals in the People’s Republic of China (the “**PRC**”).

The Company’s shares were listed on Main Board of The Stock Exchange of Hong Kong Limited on March 22, 2022.

This interim condensed consolidated financial information is presented in Renminbi (“**RMB**”), unless otherwise stated.

This interim condensed consolidated financial information has not been audited.

These interim condensed consolidated financial statements have been approved by the Board of Directors on November 28, 2023.

1.2 Basis of preparation

This interim condensed consolidated financial information for the six months ended September 30, 2023 has been prepared in accordance with International Accounting Standard (“**IAS**”) 34, “Interim financial reporting”. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended March 31, 2023, which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended March 31, 2023, as described in those annual financial statements, except for the adoption of new and amended standards and accounting policies for investments and other financial assets as set out below.

2.1 New and amended standards adopted by the Group

The following amended standards have been adopted by the Group for the first time for the financial period beginning on April 1, 2023.

	Effective for accounting periods beginning on or after
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	January 1, 2023
Definition of Accounting Estimate – Amendments to IAS 8	January 1, 2023
Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12	January 1, 2023
Insurance Contracts – Amendments to IFRS 17	January 1, 2023

The Group has applied new and amended standards effective for the current financial period. The adoption of these new and revised standards does not have any significant impact on the interim condensed consolidated financial information.

2.2 New and amended standards and interpretation not yet adopted by the Group

Certain new standards and amendments have been issued but not yet effective on April 1, 2023 and not been early adopted by the Group.

		Effective for annual periods beginning on or after
IAS 1 (Amendments)	Classification of liabilities as current or non-current	January 1, 2024

Management does not anticipate any significant impact on the Group's consolidated financial position and consolidated results of operations upon adopting the above new standards and amendments. Management plans to adopt these new standards and amendments when they become mandatory.

3 SEGMENT INFORMATION

The Group's business activities, being mainly the provision of dental services (including general dentistry, orthodontics and implantology) through the operations of dental clinics and hospitals in the PRC, are regularly evaluated by the board of directors of the Group. Management has determined the operating segments based on the reports reviewed by the board of directors for the purpose of making decisions about resource allocation and performance assessment. The Group's business activities were operated and managed as segments by business group, which comprise Arrail Dental and Rytime Dental.

The Management assesses the performance of the operating segments based on a measure of operating profit. The measurement basis excludes the effects of allocation of certain income, expenses, gains and losses from headquarter, reversal of impairment loss/(impairment loss) on financial assets, share of net profit of investments accounted for using the equity method, and finance income and costs. There were no separate segment assets and segment liabilities information provided to the board of directors of the Group, as they do not use this information to allocate resources to or evaluate the performance of the operating segments.

	For the six months ended September 30,			
	2023 (Unaudited)		2022 (Unaudited)	
	Revenue	Operating profit	Revenue	Operating profit
	RMB'000	RMB'000	RMB'000	RMB'000
Arrail Dental	402,664	23,018	384,982	29,637
Rytime Dental	483,492	50,623	386,592	34,538
Total	886,156	73,641	771,574	64,175
Unallocated:				
Headquarter and corporate expenses		(61,846)		(134,682)
Reversal of impairment loss/(impairment loss) on financial assets – net		2,916		(1,224)
Finance income		17,469		5,572
Finance costs		(22,416)		(21,821)
Share of net profit of investments accounted for using the equity method		398		998
Profit/(loss) before income tax		10,162		(86,982)

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC and earns substantially all of the revenues from external customers in the PRC.

As at September 30, 2023 and March 31, 2023, substantially all of the non-current assets (excluding financial instruments and deferred tax assets) of the Group were located in the PRC.

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue for the six months ended September 30, 2023 and 2022.

Other segment information

	For the six months ended September 30,			
	2023 (Unaudited)		2022 (Unaudited)	
	Arrail	Rytime	Arrail	Rytime
	Dental	Dental	Dental	Dental
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation and amortisation	60,602	69,232	68,042	64,522
Addition to property, plant and equipment	17,392	28,032	9,531	45,991
Addition to right-of use assets	80,633	30,949	44,569	39,620

(a) Revenues by service categories

The breakdown of revenues by service categories during the Reporting Period is as follows:

	For the six months ended September 30,	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
General Dentistry – recognised at a point in time	483,868	409,479
Orthodontics – recognised over time	206,414	181,181
Implantology – recognised over time	177,497	156,570
Others – recognised at a point in time	18,377	24,344
	886,156	771,574

The breakdown of revenues by geographic locations and by brands during the Reporting Period is as follows:

	For the six months ended September 30,	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Northern China	368,674	323,846
Eastern China	237,955	158,177
Southern China	68,882	92,788
Western China	210,645	196,763
	886,156	771,574

	For the six months ended September 30,	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Arrail Dental	402,664	384,982
Rytime Dental	483,492	386,592
	<u>886,156</u>	<u>771,574</u>

4 EXPENSES BY NATURE

	For the six months ended September 30,	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Employee benefits expenses	491,007	489,866
Depreciation and amortization	129,834	132,564
Dental materials used	130,535	124,447
Advertising and marketing expenses	28,394	18,645
Office and property management expenses	34,518	25,927
Consulting fees	32,757	33,425
Other expenses	31,615	17,660
	<u>878,660</u>	<u>842,534</u>

5 OTHER GAINS – NET

	For the six months ended September 30,	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net losses on disposal of property, plant and equipment	(964)	(140)
Net fair value gains on financial assets at fair value through profit or loss	3,692	1,385
Net foreign exchange losses	(151)	(861)
Write backs of payables	2,029	–
Others	(307)	69
	<u>4,299</u>	<u>453</u>

6 FINANCE COSTS – NET

	For the six months ended September 30,	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Finance income		
Interest income from bank deposits	15,540	5,208
Interest income from loans to related parties and employees	1,929	364
	<u>17,469</u>	<u>5,572</u>
Finance costs		
Interest expense on borrowings	(4,995)	(2,439)
Interest expense on lease liabilities	(17,421)	(19,382)
	<u>(22,416)</u>	<u>(21,821)</u>
	<u>(4,947)</u>	<u>(16,249)</u>

7 INCOME TAX EXPENSES

The income tax expense of the Group for the six months ended September 30, 2023 and 2022 is analysed as follows:

	For the six months ended September 30,	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	9,165	6,545
Deferred income tax	(5,237)	(3,557)
	<u>3,928</u>	<u>2,988</u>

(a) Cayman Islands

The Company is registered by way of continuations as an exempted company with limited liability under the Companies Act of the Cayman Islands and is not subject to tax on income or capital gains. Additionally, the Cayman Islands do not impose a withholding tax on payments of dividends to shareholders. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

(b) BVI

The Group's entities established under the International Business Companies Acts of BVI are exempted from BVI income tax.

(c) Hong Kong Income Tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for taxable income earned in Hong Kong before April 1, 2018. Starting from the financial year commencing on April 1, 2018, the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK\$2 million and 16.5% for any assessable profits in excess of HK\$2 million. The subsidiary, Arrail Institute of Advanced Dentistry (AIAD) Limited, was established in Hong Kong and this tax policy is applicable. No provision for Hong Kong profits tax was made as the Group had no estimated assessable profit that was subject to Hong Kong profits tax during the six months ended September 30, 2023 and 2022.

(d) PRC Enterprise Income Tax ("EIT")

The income tax provision of the Group in respect of its operations in PRC was subject to statutory tax rate of 25% on the assessable profits for the six months ended September 30, 2023 and 2022 based on the existing legislation, interpretation and practices in respect thereof.

For the Group's PRC subsidiaries recognised as Small and Micro Enterprise ("SME") by the relevant government authorities, they are subject to a 50%-75% deduction of the assessable profits as well as a preferential tax rate of 20% or 10%, effective until December 31, 2023. During the six months ended September 30, 2023 and 2022, the majority of the Group's PRC subsidiaries meet the criteria of SMEs.

(e) Withholding tax in Mainland China ("WHT")

According to the New Corporate Income Tax Law ("New EIT Law"), beginning on January 1, 2008, distribution of profits earned by companies in mainland China since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas incorporated immediate holding companies.

8 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share for the six months ended September 30, 2023 and 2022 is calculated by dividing the profit attributable to owners of the Company for the six months ended September 30, 2023 amounting to RMB4,981,000 (for the six months ended September 30, 2022: loss attributable to owners of the Company amounting to RMB88,588,000) by the weighted average number of ordinary shares outstanding less treasury shares during the period amounting to 462,569,000 shares (for the six months ended September 30, 2022: 466,307,000 shares).

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. During the six months ended September 30, 2023 and 2022, the Company had potential ordinary shares, including RSUs.

Diluted earnings per share for the six months ended September 30, 2023 is calculated by dividing the profit attributable to owners of the Company amounting to RMB4,981,000 by the weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share amounting to 488,895,000 shares, represented by the weighted average number of ordinary shares outstanding less treasury shares amounting to 462,569,000 shares, adding adjustments for RSUs amounting to 26,326,000 shares.

As the Company incurred losses for the six months ended September 30, 2022, these potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, the amounts of diluted loss per share for the six months ended September 30, 2022 was the same as basic loss per share.

9 TRADE AND OTHER RECEIVABLES

	At September 30, 2023 (Unaudited) RMB'000	At March 31, 2023 (Audited) RMB'000
<i>Non-current</i>		
Other receivables		
Loans to employees	6,076	14,101
Rental deposits	62,103	59,895
Deposits paid for investments	9,000	4,500
Others	1,891	1,891
	<u>79,070</u>	<u>80,387</u>
Less: loss allowance	(1,922)	(2,620)
	<u>77,148</u>	<u>77,767</u>
<i>Current</i>		
Trade receivables	78,433	92,407
Other receivables		
Loans to related parties	84,549	78,664
Amounts due from related parties	2,821	2,700
Amount due from a non-controlling shareholder	3,150	3,150
Loans to employees and petty cash granted to employees	44,655	37,101
Rental and other deposits	242	1,548
Receivable from RSU management agency and deposit in a security broker for share repurchase	52,612	71,222
Others	22,051	16,806
	<u>288,513</u>	<u>303,598</u>
Less: loss allowance	(15,297)	(21,460)
	<u>273,216</u>	<u>282,138</u>
	<u>350,364</u>	<u>359,905</u>

The Group generally allows a credit period of 10 to 60 days to its customers. Ageing analysis of trade receivables based on billing date is as follows:

	At September 30, 2023 (Unaudited) RMB'000	At March 31, 2023 (Audited) RMB'000
Up to 3 months	52,591	47,220
3 to 6 months	5,923	14,723
6 months to 1 year	14,338	6,941
1 to 2 years	3,250	9,348
Over 2 years	2,331	14,175
	<u>78,433</u>	<u>92,407</u>

10 BORROWINGS

	At September 30, 2023 (Unaudited) RMB'000	At March 31, 2023 (Audited) RMB'000
Included in non-current liabilities		
Secured bank borrowings (a)	44,472	47,252
	<u>44,472</u>	<u>47,252</u>
Included in current liabilities		
Secured bank borrowings (a)	54,059	49,059
Unsecured bank borrowings (b)	186,165	123,708
	<u>240,224</u>	<u>172,767</u>
	<u><u>284,696</u></u>	<u><u>220,019</u></u>

(a) Secured bank borrowings

Secured bank borrowings as at September 30, 2023 and March 31, 2023 bear annual weighted average interest rate at 3.81% and 3.92%, respectively.

The maturity of secured bank borrowings is as follows:

	At September 30, 2023 (Unaudited) RMB'000	At March 31, 2023 (Audited) RMB'000
Within 1 year	54,059	49,059
Between 1 and 2 years	44,472	5,559
Between 2 and 3 years	–	41,693
	<u>98,531</u>	<u>96,311</u>

Secured bank borrowings of the Group are secured as follows:

	At September 30, 2023 (Unaudited) RMB'000	At March 31, 2023 (Audited) RMB'000
Time deposits with original maturity within three months	–	91,997
Time deposits with original maturity over three months	80,557	62,897
	<u>80,557</u>	<u>154,894</u>

(b) Unsecured bank borrowings

Unsecured bank borrowings as at September 30, 2023 and March 31, 2023 bear annual weighted average interest rate at 2.65% and 3.58%, respectively.

The maturity of unsecured bank borrowings is as follows:

	At September 30, 2023 (Unaudited) <i>RMB'000</i>	At March 31, 2023 (Audited) <i>RMB'000</i>
Within 1 year	186,165	123,708
	<u>186,165</u>	<u>123,708</u>

11 TRADE AND OTHER PAYABLES

	At September 30, 2023 (Unaudited) <i>RMB'000</i>	At March 31, 2023 (Audited) <i>RMB'000</i>
Trade payables	83,379	84,968
Other payables	101,600	124,496
	<u>184,979</u>	<u>209,464</u>

Ageing analysis of trade payables of the Group based on invoice date is as follows:

	At September 30, 2023 (Unaudited) <i>RMB'000</i>	At March 31, 2023 (Audited) <i>RMB'000</i>
Up to 3 months	51,021	48,342
3 to 6 months	5,857	8,100
6 months to 1 year	4,916	5,495
Over 1 year	21,585	23,031
	<u>83,379</u>	<u>84,968</u>

The breakdown of other payables is as follows:

	At September 30, 2023 (Unaudited) RMB'000	At March 31, 2023 (Audited) RMB'000
Amounts due to minority shareholders	2,106	2,420
Amounts due to former shareholders	2,589	2,963
Amounts due to related parties	342	3,118
Amounts due to employees arisen from exercise of RSUs	449	9,280
Employee benefits payable	51,281	58,660
Consideration payable for acquisition of Wuxi Tongshan Dental Hospital Co., Ltd	12,837	12,837
Taxes payable	15,800	12,874
Others	16,196	22,344
	<u>101,600</u>	<u>124,496</u>

12 DIVIDENDS

No dividend was declared by the Company or during the six months ended 30 September 2023 and 2022.

OTHER INFORMATION

Compliance with the Corporate Governance Code (the “CG Code”)

The Company strives to maintain high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability.

The Company has adopted the code provisions of the CG Code as set out in Part 2 of Appendix 14 to the Listing Rules, and has complied with all applicable code provisions as set out in the CG Code during the Reporting Period, except for deviation from the code provision C.2.1 of the CG Code that the roles of chairman and chief executive officer of the Company are not separate and are both performed by Mr. ZOU Qifang (“**Mr. ZOU**”).

As Mr. ZOU is the founder of our Group and has been managing our Group’s business and overall strategic planning since its establishment, our Directors consider that vesting the roles of chairman and chief executive officer in Mr. ZOU is beneficial to the business prospects and management of our Group by ensuring consistent leadership within our Group. Taking into account all the corporate governance measures that we have implemented since Listing, our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Accordingly, our Company has not segregated the roles of its chairman and chief executive officer. Our Board will continue to review and consider splitting the roles of chairman of our Board and the chief executive officer of our Company at an appropriate time if necessary, taking into account the circumstances of our Group as a whole.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Guidelines for Securities Transactions by Directors (the “**Written Guidelines**”) on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Written Guidelines during the Reporting Period. No incident of non-compliance of the Written Guidelines by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

Compliance with Relevant Laws and Regulations

During the Reporting Period, the Group had complied with the applicable laws, regulations and regulatory requirements of the places where the Group operates in all material respects, including the requirements under the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Listing Rules, the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and the CG Code for, among other things, the disclosure of information and corporate governance.

Interim Dividend

The Directors do not recommend any interim dividend for the Reporting Period (for the six months ended September 30, 2022: Nil).

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

Neither the Company, nor any of its subsidiaries, purchased, sold or redeemed any listed securities of the Company during the Reporting Period.

Audit Committee and Review of Interim Results

The Audit Committee consists of three independent non-executive Directors, namely Mr. ZHANG Bang, Ms. LIU Xiaomei Michelle and Mr. SUN Jian. Mr. ZHANG Bang, being the chairman of the Audit Committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Company and overseeing the audit process.

The Audit Committee has reviewed together with the management and external auditor of the Company the accounting principles and policies adopted by the Company and the unaudited interim results for the Reporting Period.

Publication of Interim Results and Interim Report

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.arrailgroup.com). The interim report for the six months ended September 30, 2023 containing all the information in accordance with the requirements under the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees, business partners and customers of the Group for their support and contribution to the Group.

DEFINITIONS

“2022 RSU Scheme”	the 2022 restricted share unit scheme adopted by the Company in accordance with the scheme rules on September 3, 2022
“Adjusted Net Profit”	adjusted net profit for the period adjusted by adding share-based compensation expenses
“Audit Committee”	the audit committee of the Board
“Board”	the board of Director(s) of our Company
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“China” or “PRC”	People’s Republic of China, but for the purpose of this announcement and for geographical reference only and except where the context requires otherwise, references in this announcement do not apply to Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Company” or “our Company”	Arrail Group Limited (瑞爾集團有限公司), an exempted company registered by way of continuation under the laws of the Cayman Islands with limited liability on November 16, 2020, and registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) on July 26, 2021, whose shares are listed on the Main Board of the Stock Exchange
“Director(s)” or “our Director(s)”	the director(s) of our Company
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Group”, “our Group”, “we”, “us”, or “our”	our Company and all of our subsidiaries and the VIE Entities (as defined in the Prospectus) from time to time or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
“Hangzhou Jarvis”	Hangzhou Jarvis Medical Technology Company Limited* (杭州佳沃思醫療科技有限公司), a limited liability company established under the laws of the PRC and owned as to 56.9% by Ms. Zou Jin, the daughter of Mr. Zou Qifang
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange since March 22, 2022

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the GEM of the Stock Exchange
“Prospectus”	the prospectus issued by the Company on March 9, 2022
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reporting Period”	the six months ended September 30, 2023
“RSU(s)”	restricted share unit(s)
“RSU Scheme”	the RSU scheme adopted by the Company on August 3, 2021, details of which are set out in the Prospectus
“Share(s)”	ordinary share(s) in the share capital of the Company, with nominal value of US\$0.02 each
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent.

By order of the Board
Arrail Group Limited
Zou Qifang
Chairman

Hong Kong, November 28, 2023

As at the date of this announcement, the Board comprises Mr. Zou Qifang, Ms. Xin Qin Jessie, Mr. Zhang Jincai and Mr. Zou Jianlong as executive Directors, and Ms. Liu Xiaomei Michelle, Mr. Sun Jian and Mr. Zhang Bang as independent non-executive Directors.

* *For identification purpose only*