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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, 2022

The Board is pleased to announce the unaudited consolidated results of the Group for the six months ended September 30, 2022, together with comparative interim figures for the six months ended September 30, 2021.

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

Our revenues came at RMB771.6 million for the six months ended September 30, 2022, our gross profit was RMB167.2 million and our Adjusted Net Profit (as defined in the definition section) was RMB10.7 million for the same period.

During the Reporting Period, our business in various cities was impacted by COVID-19, especially in Shanghai and Beijing from April to June 2022, but we still achieved Adjusted Net Profit thanks to our improvement in operation efficiency and cost control.

Underpinned by our industrial experience and sufficient cash position, we continued to expand our footprint nationwide. During the Reporting Period, we acquired “Tongshan Dental”, a well-known dental group with one dental hospital and eight dental clinics in Wuxi of Jiangsu Province and nearby area. We opened a new dental clinic in Chongqing and upgraded a clinic. As of September 30, 2022, total dental chairs of our Group reached 1,400, increasing by 16% compared to March 31, 2022. Besides, two hospitals and four clinics are under construction. We believe these movements will further strengthen our leadership as a national chain in China’s dental market.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2022

		For the six months ended September 30,	
		2022	2021
	Note	(Unaudited) RMB'000	(Audited) RMB'000
Revenue	3(b)	771,574	841,339
Cost of sales	4	<u>(604,400)</u>	<u>(653,882)</u>
Gross profit		167,174	187,457
Selling and distribution expenses	4	(45,493)	(38,377)
Administrative expenses	4	(181,913)	(103,018)
Research and development expenses	4	(10,728)	(10,319)
Net (impairment loss)/reversal of impairment loss on financial assets		(1,224)	4,523
Other gains – net	5	<u>453</u>	<u>2,810</u>
Operating (loss)/profit		(71,731)	43,076
Finance income	6	5,572	5,979
Finance costs	6	<u>(21,821)</u>	<u>(32,251)</u>
Finance costs – net	6	(16,249)	(26,272)
Share of net profit of associates and joint ventures accounted for using the equity method		998	829
Fair value change of convertible redeemable preferred shares		–	(428,109)
Fair value change of bond		–	(22,650)
Fair value change of warrants		–	(13,686)
Fair value change of derivative liabilities		–	(1,129)
Fair value difference between termination of the warrants and recognition of derivative liabilities		–	<u>(11,136)</u>
Loss before income tax		(86,982)	(459,077)
Income tax expenses	7	<u>(2,988)</u>	<u>(5,110)</u>
Loss for the period		<u>(89,970)</u>	<u>(464,187)</u>
Loss attributable to:			
Equity holders of the Company		(88,588)	(468,429)
Non-controlling interests		<u>(1,382)</u>	<u>4,242</u>
		<u>(89,970)</u>	<u>(464,187)</u>
Loss per share for loss attributable to equity holders of the Company (expressed in RMB per share)			
Basic and diluted loss per share (adjusted for share subdivision)	8	<u>(0.15)</u>	<u>(5.88)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

For the six months ended September 30, 2022

	For the six months ended September 30,	
	2022	2021
	(Unaudited)	(Audited)
<i>Note</i>	RMB'000	RMB'000
Loss for the period	<u>(89,970)</u>	<u>(464,187)</u>
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss</i>		
Fair value change of convertible redeemable preferred shares due to own credit risk	–	(25,197)
Fair value change of bond due to own credit risk	–	(26)
Currency translation differences	<u>121,038</u>	<u>31,989</u>
Other comprehensive income for the period, net of tax	<u>121,038</u>	<u>6,766</u>
Total comprehensive income/(loss) for the period	<u><u>31,068</u></u>	<u><u>(457,421)</u></u>
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	32,450	(461,663)
Non-controlling interests	<u>(1,382)</u>	<u>4,242</u>
	<u><u>31,068</u></u>	<u><u>(457,421)</u></u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at September 30, 2022

	As at September 30, 2022 (Unaudited) RMB'000	As at March 31, 2022 (Audited) RMB'000
<i>Note</i>		
ASSETS		
Non-current assets		
Property, plant and equipment	311,804	297,798
Right-of-use assets	700,054	703,466
Intangible assets	60,742	24,612
Goodwill	176,054	98,467
Deferred tax assets	59,826	56,677
Prepayments	62,945	21,722
Investments accounted for using the equity method	16,980	14,155
Financial assets at fair value through profit or loss	50,675	34,675
Other receivables	9	109,476
	<u>1,538,031</u>	<u>1,361,048</u>
Total non-current assets		
Current assets		
Inventories	57,814	47,080
Prepayments	115,071	126,704
Trade and other receivables	9	96,885
Financial assets at fair value through profit or loss	248,156	197,055
Restricted cash	149,218	95,290
Time deposits with original maturity over three months	248,500	14,000
Cash and cash equivalents	601,411	1,052,285
	<u>1,620,459</u>	<u>1,629,299</u>
Total current assets		
	<u>3,158,490</u>	<u>2,990,347</u>
Total assets		
EQUITY		
Share capital	74,769	74,769
Reserves	5,047,681	4,841,683
Accumulated losses	(3,440,328)	(3,351,740)
	<u>1,682,122</u>	<u>1,564,712</u>
Equity attributable to equity holders of the Company		
Non-controlling interests	86,275	45,785
	<u>1,768,397</u>	<u>1,610,497</u>
Total equity		

		As at September 30, 2022 (Unaudited) RMB'000	As at March 31, 2022 (Audited) RMB'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Borrowings	<i>10</i>	33,399	–
Lease liabilities		612,594	611,187
Contract liabilities		21,657	21,597
Deferred tax liabilities		11,009	2,125
Other payables	<i>11</i>	12,836	–
		<hr/>	<hr/>
Total non-current liabilities		691,495	634,909
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	<i>11</i>	244,493	273,105
Contract liabilities		176,295	184,287
Current tax liabilities		14,364	8,065
Borrowings	<i>10</i>	126,206	137,363
Lease liabilities		137,240	142,121
		<hr/>	<hr/>
Total current liabilities		698,598	744,941
		<hr/>	<hr/>
Total liabilities		1,390,093	1,379,850
		<hr/>	<hr/>
Total equity and liabilities		3,158,490	2,990,347
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

Arrail Group Limited (the “**Company**”) is 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

This interim condensed consolidated financial statements for the six months ended September 30, 2022 has been prepared in accordance with International Accounting Standard (“**IAS**”) 34, “Interim financial reporting”. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended March 31, 2022, which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

The accounting policies applied are consistent with those of the annual financial statements for the year ended March 31, 2022, as described in those annual financial statements, except for the adoption of new and amended standards as set out below.

2.2 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, 2022.

	Effective for accounting periods beginning on or after
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	January 1, 2022
Reference to the Conceptual Framework – Amendments to IFRS 3	January 1, 2022
Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37	January 1, 2022
Annual Improvements to IFRSs 2018 – 2020 cycle	January 1, 2022

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.

2.3 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, 2022 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
IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	January 1, 2023
IAS 8 (Amendments)	Definition of Accounting Estimate	January 1, 2023
IAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023
IFRS 17	Insurance Contracts	January 1, 2023
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate and Joint Venture	To be determined
Hong Kong Interpretation 5 (Revised)	Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	Applied when an entity applies IAS 1 (Amendments) – Classification of Liabilities as Current or Non-current

Except for the impact of amendments to IAS 12 Income tax as disclosed in the Group's annual financial statements for the year ended March 31, 2022, 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 AND REVENUE

(a) Description of segments and principal activities

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 previously operated and managed as a single segment, prior to September 30, 2021. The Group has adopted the new business group structure due to a change in the internal reporting structure effective since September 30, 2021. Segments by business group comprise Arrail Dental and Rytime Dental. The comparative segment information has been reclassified to conform to the reporting format under the current internal reporting structure.

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, (impairment losses)/reversal of impairment losses on financial assets, share of net profit of investments accounted for using the equity method, fair value changes of financial instruments, 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,			
	2022 (Unaudited)		2021 (Audited)	
	Revenue	Operating	Revenue	Operating
	RMB'000	profit	RMB'000	profit
		RMB'000		RMB'000
Arrail Dental	384,982	29,637	432,188	39,077
Rytime Dental	386,592	34,538	409,151	46,620
Total	771,574	64,175	841,339	85,697
Unallocated:				
Headquarter and corporate expenses		(134,682)		(47,144)
Net (impairment loss)/reversal of impairment loss on financial assets		(1,224)		4,523
Finance income		5,572		5,979
Finance costs		(21,821)		(32,251)
Share of net profit of investments accounted for using the equity method		998		829
Fair value changes of Preferred Shares		–		(428,109)
Fair value change of bond		–		(22,650)
Fair value change of warrants		–		(13,686)
Fair value changes of derivative liabilities		–		(1,129)
Fair value difference between termination of the warrants and recognition of derivative liabilities		–		(11,136)
Loss before income tax		(86,982)		(459,077)

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, 2022 and 2021, substantially all of the non-current 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, 2022 and 2021.

Other segment information

	For the six months ended September 30,			
	2022 (Unaudited)		2021 (Audited)	
	Arrail Dental RMB'000	Rytime Dental RMB'000	Arrail Dental RMB'000	Rytime Dental RMB'000
Depreciation and amortisation	68,042	64,522	60,372	57,154
Addition to property, plant and equipment	9,531	45,991	24,611	36,926
Addition to right-of use assets	44,569	39,620	73,410	41,124

(b) Revenues by service categories

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

	For the six months ended September 30,	
	2022 (Unaudited) RMB'000	2021 (Audited) RMB'000
General Dentistry – recognised at a point in time	409,479	448,807
Orthodontics – recognised over time	181,181	199,680
Implantology – recognised over time	156,570	174,067
Others – recognised at a point in time	24,344	18,785
	771,574	841,339

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

	For the six months ended September 30,	
	2022 (Unaudited) RMB'000	2021 (Audited) RMB'000
Northern China	323,846	357,675
Eastern China	158,177	203,342
Southern China	92,788	81,782
Western China	196,763	198,540
	771,574	841,339

	For the six months ended September 30,	
	2022	2021
	(Unaudited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>
Arrail Dental	384,982	432,188
Rytime Dental	386,592	409,151
	<u>771,574</u>	<u>841,339</u>

4 EXPENSES BY NATURE

	For the six months ended September 30,	
	2022	2021
	(Unaudited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefits expenses	489,866	431,840
Depreciation and amortization	132,564	117,526
Dental materials used	124,447	127,754
Advertising and marketing expenses	18,645	16,307
Office and property management expenses	25,927	25,652
Consulting fees	33,425	33,958
Listing expenses	–	17,675
Other expenses	17,660	34,884
	<u>842,534</u>	<u>805,596</u>

5 OTHER GAINS – NET

	For the six months ended September 30,	
	2022	2021
	(Unaudited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>
Net (losses)/gains on disposal of property, plant and equipment	(140)	592
Net fair value gains on financial assets at fair value through profit or loss	1,385	293
Net foreign exchange losses	(861)	(16)
Reversal of accrual for water discharge license penalties	–	2,000
Others	69	(59)
	<u>453</u>	<u>2,810</u>

6 FINANCE COSTS – NET

	For the six months ended September 30,	
	2022 (Unaudited) RMB'000	2021 (Audited) RMB'000
Finance income		
Interest income from bank deposits	5,208	2,168
Interest income from loans to related parties and employees	364	3,811
	5,572	5,979
Finance costs		
Interest expense on borrowings	(2,439)	(5,613)
Interest expense on lease liabilities	(19,382)	(17,468)
Transaction costs on issuance of Series-E preferred shares	–	(9,170)
	(21,821)	(32,251)
	(16,249)	(26,272)

7 INCOME TAX EXPENSES

The income tax expense of the Group for the six months ended September 30, 2022 and 2021 is analysed as follows:

	For the six months ended September 30,	
	2022 (Unaudited) RMB'000	2021 (Audited) RMB'000
Current income tax		
– PRC corporate income tax	6,545	7,011
Deferred income tax	(3,557)	(1,901)
	2,988	5,110
	2,988	5,110

(a) Cayman Islands

The Company is registered by way of continuation 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, 2022 and 2021.

(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, 2022 and 2021 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, 2022. During the six months ended September 30, 2022 and 2021, 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 LOSS PER SHARE

(a) **Basic loss per share**

Basic loss per share for the six months ended September 30, 2022 and 2021 is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

The weighted average number of class 1 and class 2 ordinary shares has been retrospectively adjusted for the effect of the share subdivision completed on March 21, 2022 whereby each class 1 and class 2 ordinary shares was subdivided into 25 class 1 and class 2 shares.

For the purpose of calculating the weighted average number of class 1 and class 2 ordinary shares outstanding, the number of shares shown below has taken the share subdivision into account as if the share subdivision was deemed to be effective since April 1, 2021.

	For the six months ended	
	September 30,	
	2022	2021
	(Unaudited)	(Audited)
Loss attributable to equity holders of the Company (RMB’000)	(88,588)	(468,429)
Weighted average number of class 1 ordinary shares outstanding (in thousand)	–	49,872
Weighted average number of class 2 ordinary shares outstanding (in thousand)	–	29,730
Weighted average number of ordinary shares outstanding (in thousand)	581,592	–
Basic loss per share, for class 1 and class 2 ordinary shares and ordinary shares (expressed in RMB per share)	<u>(0.15)</u>	<u>(5.88)</u>

(b) Diluted loss per share

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

For the six months ended September 30, 2022, the Company had potential ordinary shares, including RSUs. For the six months ended September 30, 2021, the Company had potential ordinary shares, including Preferred Shares, warrants and derivative liabilities. As the Group incurred losses for the six months ended September 30, 2022 and 2021, the 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 and 2021 were the same as basic loss per share of the respective period.

9 TRADE AND OTHER RECEIVABLES

	As at September 30, 2022 (Unaudited) RMB'000	As at March 31, 2022 (Audited) RMB'000
<i>Non-current</i>		
Other receivables		
Loans to employees	36,120	40,300
Rental deposits	59,746	61,970
Deposits paid for investments	3,000	5,000
Others	1,470	3,642
	<u>100,336</u>	<u>110,912</u>
Less: loss allowance	(1,385)	(1,436)
	<u>98,951</u>	<u>109,476</u>
<i>Current</i>		
Trade receivables	100,758	87,379
Other receivables		
Loans to related parties	79,158	1,500
Amounts due from related parties	1,595	1,359
Petty cash granted to employees	7,278	7,728
Rental and other deposits	1,951	1,824
Amounts due from sole proprietorship	14,033	12,272
Amounts due from minority shareholders	3,150	–
Loans to employees	4,670	–
Others	7,793	4,604
	<u>220,386</u>	<u>116,666</u>
Less: loss allowance	(20,097)	(19,781)
	<u>200,289</u>	<u>96,885</u>
	<u><u>299,240</u></u>	<u><u>206,361</u></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:

	As at September 30, 2022 (Unaudited) RMB'000	As at March 31, 2022 (Audited) RMB'000
Up to 3 months	59,229	36,985
3 to 6 months	16,280	22,400
6 months to 1 year	9,511	6,744
1 to 2 years	5,271	7,780
Over 2 years	10,467	13,470
	<u>100,758</u>	<u>87,379</u>

10 BORROWINGS

	As at September 30, 2022 (Unaudited) RMB'000	As at March 31, 2022 (Audited) RMB'000
Included in non-current liabilities		
Secured bank borrowing (a)	<u>33,399</u>	–
	<u>33,399</u>	–
Included in current liabilities		
Secured bank borrowings (a)	78,851	80,100
Unsecured bank borrowings (b)	<u>47,355</u>	<u>57,263</u>
	<u>126,206</u>	<u>137,363</u>
	<u>159,605</u>	<u>137,363</u>

(a) Secured bank borrowings

Secured bank borrowings as at September 30, 2022 and March 31, 2022 bear annual weighted average interest rate at 4.27% and 4.47%, respectively.

The maturity of secured bank borrowings is as follows:

	As at September 30, 2022 (Unaudited) RMB'000	As at March 31, 2022 (Audited) RMB'000
Within 1 year	78,851	80,100
Between 1 and 2 years	3,711	–
Between 2 and 3 years	<u>29,688</u>	–
	<u>112,250</u>	<u>80,100</u>

Secured bank borrowings of the Group are secured as follows:

	As at September 30, 2022 (Unaudited) RMB'000	As at March 31, 2022 (Audited) RMB'000
Time deposits with original maturity over three months	<u>149,218</u>	<u>95,290</u>

(b) Unsecured bank borrowings

Unsecured bank borrowings as at September 30, 2022 and March 31, 2022 bear annual weighted average interest rate at 4.47% and 4.63%, respectively.

The maturity of unsecured bank borrowings is as follows:

	As at September 30, 2022 (Unaudited) RMB'000	As at March 31, 2022 (Audited) RMB'000
Within 1 year	<u>47,355</u>	<u>57,263</u>

An unsecured bank borrowing amounting to RMB2,000,000 (March 31, 2022: Nil) was guaranteed by two non-controlling shareholders and the spouse of a non-controlling shareholder of Wuxi Tongshan Dental Hospital Co., Ltd (無錫市通善口腔醫院有限公司) (“Tongshan Dental”).

11 TRADE AND OTHER PAYABLES

	As at September 30, 2022 (Unaudited) RMB'000	As at March 31, 2022 (Audited) RMB'000
Trade payables	80,039	74,211
Other payables	<u>177,290</u>	<u>198,894</u>
	<u>257,329</u>	<u>273,105</u>

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

	As at September 30, 2022 (Unaudited) RMB'000	As at March 31, 2022 (Audited) RMB'000
Up to 3 months	31,030	38,755
3 to 6 months	13,949	11,154
6 months to 1 year	15,628	8,462
Over 1 year	<u>19,432</u>	<u>15,840</u>
	<u>80,039</u>	<u>74,211</u>

The breakdown of other payables is as follows:

	At 30 September 2022 (Unaudited) RMB'000	At 31 March 2022 (Audited) RMB'000
Non-current		
Other payables		
Consideration payable to original shareholders for acquisition of Tongshan Dental	12,836	–
Current		
Other payables		
Amounts due to minority shareholders	7,853	7,325
Amounts due to former shareholders	8,425	7,836
Amounts due to related parties	7,972	7,114
Employee benefits payable	64,122	80,607
Consideration payable for acquisition of additional interest in a subsidiary	–	36,500
Consideration payable to original shareholders for acquisition of Tongshan Dental	30,801	–
Taxes payable	11,813	9,467
Listing fees	7,693	24,493
Others	25,775	25,552
	<u>164,454</u>	<u>198,894</u>
	<u>177,290</u>	<u>198,894</u>

12 DIVIDENDS

No dividend was declared by the Company during the six months ended September 30, 2022 and 2021.

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 8.7 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, 2022, we had 114 dental clinics and 8 hospitals in 15 cities across China, with 910 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. In April 2022, we opened one clinic with 16 dental chairs. In October 2022, we opened two clinics with a total of 32 dental chairs. We expanded and upgraded an existing clinic from eight dental chairs to 12 dental chairs. In addition, there were four clinics with a total of 41 dental chairs and two hospitals with a total of 75 dental chairs under construction as of the date of this announcement. To speed up our expansion, we acquired Tongshan Dental with 97 dental chairs in August 2022. We continue to hire competent dentists and enhance our dental professional team. The number of our dentists increased from 883 as of March 31, 2022 to 910 as of September 30, 2022.

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, 2022, we operated a total of 122 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, 2022, we operated a total of 51 Arrail clinics in seven 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.

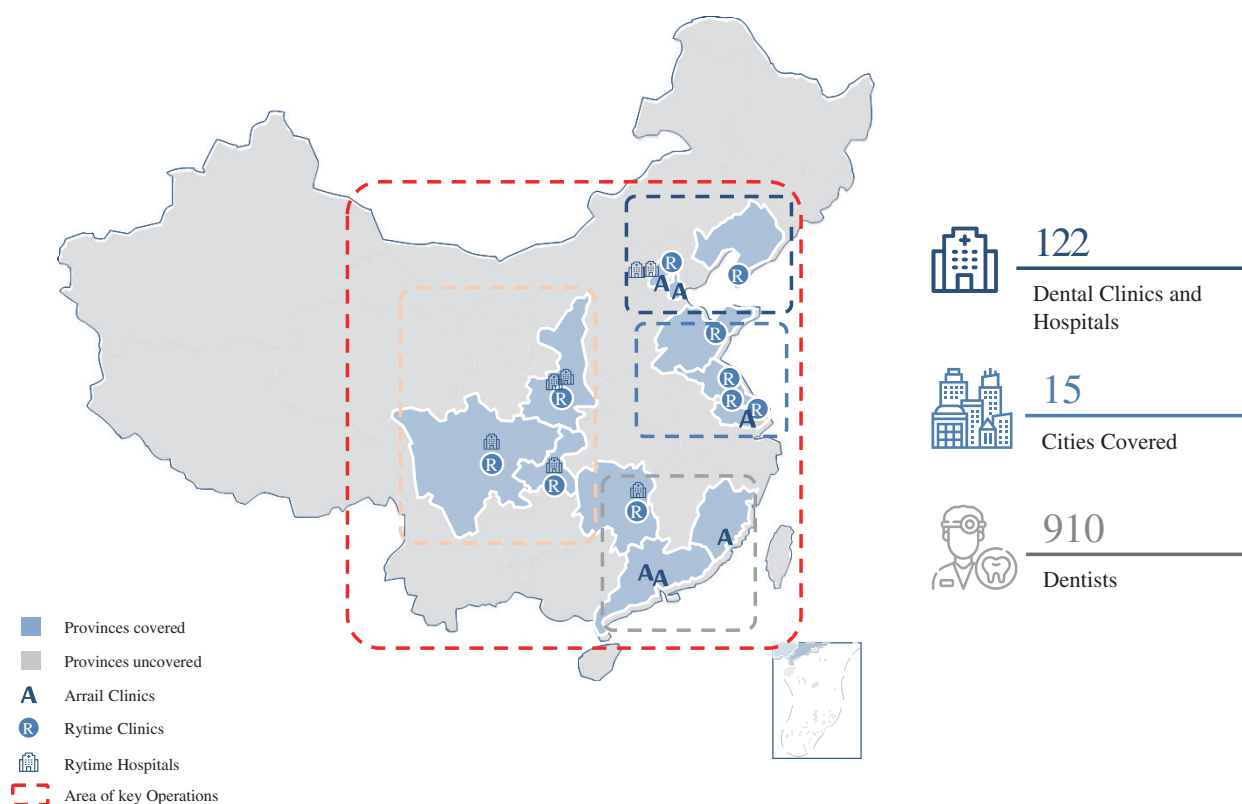
Rytime Dental



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, 2022, we operated a total of eight hospitals and 63 Rytime clinics in 10 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 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, 2022, we operated (i) 114 dental clinics of which 51 clinics were under the Arrail Dental brand and 63 clinics were under the Rytime Dental brand; and (ii) eight hospitals under the Rytime Dental brand, as illustrated in the map below.



Notes:

- (1) Operating data as of September 30, 2022.
- (2) Including four clinics in Changsha operated under exclusive consultation and service agreements whose financial results are not consolidated into our consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”).

As COVID-19 had severer impact to our business compared to the same period last year, the number of our total patients decreased from 398,785 for the six months ended September 30, 2021 to 371,800 for the six months ended September 30, 2022, representing a decrease of 6.8%, and our total patient visits decreased from 805,049 for the six months ended September 30, 2021 to 765,216 for the six months ended September 30, 2022, representing a decrease of 4.9%. The following table sets forth the breakdown by brands in relation to our operating and financial performance.

	For the six months ended	
	September 30,	
	2022	2021
Total patient visits	765,216	805,049
Arrail Dental	231,750	292,381
Rytime Dental	533,466	512,668
Total number of dental chairs	1,400	1,204
Arrail Dental	508	482
Rytime Dental	892	722
Visits per dental chair	547	669
Arrail Dental	456	607
Rytime Dental	598	710
Revenue per dental chair (RMB in thousands)	534,207	682,626
Arrail Dental	727,245	870,813
Rytime Dental	424,271	556,994

The decrease of revenue per dental chair for the Reporting Period was partially because the acquisition of Tongshan Dental was completed in August 2022 and we can only consolidate its revenue from September 2022.

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 48.0% for the six months ended September 30, 2022 (47.6% for the six months ended September 30, 2021). Approximately 24% of our new patients were referred by our existing patients for the six months ended September 30, 2022.

Focus on Operation and Improve Efficiency

As a national dental chain enterprise, we continue to pay attention to the sharing of experience in cross-regional store operation and management and the effect of improving operational efficiency. During the Reporting Period, we established 4 working groups on management of complex cases, customer acquisition, customer complaint and evaluation and medical management at the group level, aiming to summarize the best management practices from 122 dental clinics and hospitals in 15 cities across China, and then refine, polish and finally promote and replicate such practices. These measures have increased initial visit rates, repeat visit rates and transaction rates of complex cases in the short to medium term, and will improve the efficiency of operation and management of our stores in the long term.

Steady Expansion of Stores and Brand Upgrade to Consolidate High-end Market Position

As of the date of this announcement, we had officially opened three clinics with 48 new dental chairs in this fiscal year. The construction and opening of the remaining two hospitals and four clinics are expected to be completed in four cities during this fiscal year, and more than 160 dental chairs are expected to be newly added throughout the year. The Company will be able to secure incremental business for the next three years with the increase of these stores.

At the same time, the Company's newly opened "Samsung Tower" store in Beijing is the first store of "Arrail Plus 瑞爾甄選" and also marks a brand new upgrade of the "Arrail Dental" brand. Such store, combining membership system with "Quality Medical Care and Excellent Service", will continue to serve as a brand new boutique store model in Tier-1 and Tier-2 cities in China. The launch of the "Arrail Plus 瑞爾甄選" brand will further consolidate the Arrail Group's absolute leading position in the high-end dental market.

Rytime Dental Entered a New Market Due to Extensive Growth

"Nationwide chain distribution and cross-regional operation" are the core advantages of Arrail Group, and the brand influence accumulated in the past 23 years has been widely recognized in the domestic dental market. During the Reporting Period, we completed the acquisition of Tongshan Dental, and Arrail Group officially entered the Wuxi dental market in Eastern parts of China. Tongshan Dental, whose founder has been operating in the local area for 20 years, has about 100 dental chairs and more than 60 dentists, is one of the largest private dental chains in Wuxi. The acquisition will generate synergies in many aspects such as "retention/cultivation of dentists team, expansion of the recruitment of professional dentists and improvement of operational efficiency", and will also significantly increase the market share of the Arrail Group in Eastern parts of China.

Social Responsibility and Charity

As cities such as Shanghai, Beijing, Shenzhen and Chengdu in China have been hit by the outbreak of the epidemic, the first-line medical staff of the Arrail Group in each city remained on the front line of the fight against the epidemic regardless of the weather, with many of them going to isolation points to support the work, serving the close contacts 24 hours a day and demonstrating the good mental outlook of Arrail Group staff with their actions. During the Reporting Period, the Arrail Group sent more than 900 medical staff to participate in the front line of the fight against the epidemic and provided nucleic acid testing to more than 350,000 citizens across the country.

On September 20, 2022, Arrail Group held the 12th "Arrail Cup" Charity Golf Tournament. Since 2011, Arrail Group has been working with China Oral Health Foundation for twelve consecutive years to organize this event, while participating as a volunteer in charity projects, taking care of children's oral health with practices. Over the past decade, we have provided oral health services to more than 40,000 children in 51 places in 23 provinces and cities across China.

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

On April 2, 2022, a subsidiary of the Company entered into an investment agreement to acquire and subscribe 14.1% equity interest of Shenzhen Baocheng Dental Hospital (深圳寶城口腔醫院) (“**Shenzhen Baocheng**”) for a cash consideration of RMB25 million (the “**Baocheng Investment**”). The Baocheng Acquisition does not constitute a connected transaction or a notifiable transaction under the Listing Rules.

On July 8, 2022, a subsidiary of the Company entered into an investment agreement to acquire 51% equity interest of Tongshan Dental (the “**Tongshan Investment**”). For further details on the Tongshan Investment, please refer to the announcement of the Company dated July 8, 2022.

Save as disclosed above, 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

In October 2022, the Company purchased wealth management products from GF Global Capital Limited amounting to US\$17,000,000 (equivalent to RMB120,875,000).

In October 2022, the Company partially redeemed the wealth management products from Growth Vanguard Fund SPC amounting to US\$16,610,000 (equivalent to RMB119,207,000).

On November 3, 2022, the Group entered into a cooperation agreement with Hangzhou Jarvis and Hangzhou Jinyaori, pursuant to which the Group agreed to subscribe for 20% of the registered capital of the Hangzhou Jinyaori at the subscription amount of RMB30 million. Upon completion of the subscription, Hangzhou Jinyaori will be owned as to 20% and 80% by the Group and Hangzhou Jarvis respectively. On the same day, the Group entered into a licensing agreement with Hangzhou Jinyaori, pursuant to which the Group shall license certain intellectual property rights to the Hangzhou Jinyaori for a term of three years. Please refer to the announcements of the Company dated November 3, 2022 and November 11, 2022 for details. On November 23, 2022, the Group paid RMB10 million to Hangzhou Jinyaori for the purpose of this subscription.

Save as disclosed above and elsewhere in this announcement, there have been no other material events subsequent to the period ended September 30, 2022.

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 “Future Prospects” below. Save as these, the Group does not have any concrete committed plans for material investments and capital assets in 2022.

Employees and Remuneration

As of September 30, 2022, we had a total of 3,387 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, 2022:

Function	Number of Employees	%
Dentists	910	26.9%
Nursing staff	1,260	37.2%
Customer service staff	628	18.5%
General administrative staff	362	10.7%
Marketing team	227	6.7%
Total	3,387	100%

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, 2022, over 46.8% 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 10.4 years of post-qualification experience in the industry. The average monthly revenue generated per dentist who joined us in 2017, 2018, and 2019 during each calendar year, grew at a CAGR of 53%, 31%, and 80% during their respective employment periods up to the end of calendar year 2021. Dentists with more than five, ten and fifteen years of experience with us accounted for 34.6%, 13.0% and 5.8% of our total dentists, which indicates strong employee retention rates.

We have also set up a platform in the BVI to hold incentive shares for a total amount of 119,972,600 shares, representing approximately 20.6% of the total issued share capital of the Company as of September 30, 2022, for the participants under the RSU Scheme. As of September 30, 2022, an aggregate of 616 employees were approved by the Board to be the grantees with a total of 20.6% 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. As of September 30, 2022, 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.

Future Prospects

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. According to Frost & Sullivan Report, the market size of dental services in China is expected to reach RMB173.9 billion in 2022 and maintains an average annual growth rate of 20%. It is expected to reach RMB300.0 billion by 2025. Based on the experience of overseas developed markets, a chain operation is generally considered to have greater advantages than an individual operation in terms of speed of development. Though the Company's businesses are under the effect of the COVID-19 pandemic, we are of the opinion that the demand for dental services will not vanish and the pandemic will eventually end. As the pandemic enters a normalized stage in China, the operations of our affected clinics have also shown a tendency of rebound. In April to June 2022, the Company saw a drop in patient visits, down by 20.2% compared to the same period last year, mainly because clinics and hospitals in Beijing and Shanghai were temporarily closed due to the pandemic outbreak. But in the following July to September, patient visits rebounded by 9.7% compared to the same period last year, showing resilience of our business.

During the Reporting Period, policies on the collective purchase of implantology and orthodontics in China were frequently introduced and interpreted differently by the market. We believe that the collective purchase will benefit more people and enhance the penetration rate of the implantology and orthodontics market, and the market is expected to usher in the release phase. At the same time, behind the release, insisting on moderate medical treatment, giving patients the most suitable treatment plan and strictly controlling medical quality shall be the principles that medical service providers adhere to in the long term. In the past period, several cities in China have been hit by the outbreak of the epidemic, and store operations in different cities have been affected to varying degrees, particularly challenging the operations of some large-scale clinics/hospitals opening after 2019 and affecting the growth cycle of single stores. As the epidemic will eventually be overcome, by virtue of the unchanging desire for a better life, the stronger pursuit of becoming "healthier and more beautiful" and the ongoing demand for dental treatment of Chinese people, we believe that as long as we have stable customers and teams, the Company's performance will rebound and resume growth. As the largest premium dental chain group in China, the Company will further benefit from to the core advantages of "Talent, Brand, System" and seize the huge opportunities arising from the development of the dental market.

In the future, the Company is expected to:

1) Continue to take medical quality management as a lifeline for enterprise development

Like many industries, quality control is always the essence of the development of an industry, which also applies to the dental industry. The Company takes medical quality as a lifeline for enterprise development and ensures medical quality through various systems, such as dentist recruitment, professional training and development, medical red line management system, specialized case classification, dentist classification, complex medical condition discussion, and multidisciplinary treatment, so as to provide customers with professional dental services.

2) *Intensify talent development with brand influence*

The Company will adhere to “empowerment and assistance” as its talent development principle. In respect of medical affairs, we will increase the recruitment of specialists and senior dentists while insisting on on-campus recruiting; and in respect of operations, it will make greater efforts in the selection of management personnel and the construction of a talent echelon, and will focus on identifying outstanding management personnel with strong self-motivation, high learning ability and development potential.

3) *Continuously improve operating efficiency*

The Company will continue to focus on the improvement of operating efficiency. From the core indicators, including revenue per chair and performance per dentist, to various other indicators of operation in respect of customer acquisition, conversion, average customer unit price and customer satisfaction, etc., the Company will make real-time analysis and conclusions with its self-developed SaaS system “5i5ya” (吾愛吾牙) to be updated with the operation condition of its clinics and dentists in a timely manner. With standardized chain operations, the Company expects to improve the average value of the overall performance and reduce the variability among clinics.

4) *Enhance Corporate Culture*

Corporate culture endows our 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 become a national chain dental institution. It is one of the “moats” of the Company. In the future, the Company will unswervingly promote and maintain the construction of its corporate culture.

5) *Continue to strengthen the development of Environmental, Social and Governance policies*

The Company will improve the environmental management methods to save energy and reduce emissions, and focus on the management and recycling of medical wastes; the Company will assume its social responsibilities by organizing various public welfare activities, such as continuing to provide free dental diagnosis to communities, helping the less fortunate and the disabled, supporting the pandemic prevention and making charitable donations, to protect the interests of all stakeholders; and the Company will continue to improve and reinforce corporate governance and standardized public company management, optimize governance structure, strengthen internal control and risk management, further enhance the communications with the Stock Exchange and other regulators and shareholders, maintain the transparency of information, and constantly create value for the Shareholders.

Impact of COVID-19

To contain the spread of COVID-19, the local governments imposed various restrictions on business and social activities, including travel restrictions and mandated temporary shutdowns of business operations across certain regions. During the Reporting Period, we have undergone temporary closures of clinics and hospitals in 14 cities we operated. Particularly from April to June 2022, COVID-19 took a toll on our operation in Beijing and Shanghai. As a result, we had a decrease in patient visits from April to June 2022 by 20.2% compared to same period last year. However, patient visits increased by 9.7% from July to September compared to same period last year as a result of business rebound.

For the six months ended September 30, 2022, 74 of our clinics and hospitals with totally 780 dental chairs were temporarily closed ranging from 1 day to 70 days due to COVID-19, which impacted our capacity to provide services and prohibited our patients from visiting us. For example, in April and May 2022, all the clinic in Shanghai were closed. In May and June 2022, 19 clinics and hospitals in Beijing were closed for averagely two weeks. In May 2022, two clinics in Jiangsu were closed for about one month. In April and September 2022, three clinics in Dalian were closed for totally about one and a half months. In August 2022, six clinics in Chongqing and three clinics and hospitals in Xi'an were closed for about one week. In September 2022, eight clinics in Chengdu were closed for about two weeks. In addition, many patients postponed their dental treatment plan due to COVID-19.

After the Reporting Period, 16 of our clinics and hospitals were closed for about half a week due to COVID-19, while 57 of our clinics and hospitals, mainly located in Beijing, Chongqing and Shenzhen, were closed for one to three weeks in November 2022 due to COVID-19.

Having considered that (i) the governmental authorities have put significant resources and efforts to contain the regional COVID-19 outbreaks, and (ii) we do not plan to, nor are we aware of any government policy to, permanently shut down any of our existing hospitals or clinics in the affected areas, the Directors believe that despite the fact we may continue to experience slowdowns in patient visit growth and revenue growth in the short term, the sporadic regional outbreak of COVID-19 is unlikely to have a material adverse impact on our business, results of operations and financial conditions as a whole in the long term.

We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any potential impact on our business, results of operations and financial condition.

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 decreased by 8.3% from RMB841.3 million for the six months ended September 30, 2021, to RMB771.6 million for the six months ended September 30, 2022. This was primarily because our patient visits decreased by 4.9% compared to the same period last year due to COVID-19 impact, especially in Beijing and Shanghai from April to June 2022.

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,			
	2022		2021	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(RMB in thousands, except for percentages)</i>			
General dentistry	409,479	53.1%	448,807	53.3%
Orthodontics	181,181	23.5%	199,680	23.7%
Implantology	156,570	20.3%	174,067	20.7%
Others ⁽¹⁾	24,344	3.1%	18,785	2.3%
Total	771,574	100.0%	841,339	100.0%

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 decreased by 8.8% from RMB448.8 million for the six months ended September 30, 2021 to RMB409.5 million for the six months ended September 30, 2022; (ii) orthodontics decreased by 9.3% from RMB199.7 million for the six months ended September 30, 2021 to RMB181.2 million for the six months ended September 30, 2022; and (iii) implantology decreased by 10.1% from RMB174.1 million for the six months ended September 30, 2021 to RMB156.6 million for the six months ended September 30, 2022.

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, 2022, we operated 51 dental clinics in Tier-1 cities under the Arrail Dental brand, and operated 63 dental clinics and eight 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,			
	2022		2021	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(RMB in thousands, except for percentages)</i>			
Arrail Dental	384,982	49.9%	432,188	51.4%
Rytime Dental	386,592	50.1%	409,151	48.6%
Total	771,574	100.0%	841,339	100.0%

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,			
	2022		2021	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(RMB in thousands, except for percentages)</i>			
Employee benefits expenses	311,511	51.5%	352,833	54.0%
Depreciation and amortization	122,112	20.2%	109,139	16.7%
Dental materials used	124,154	20.5%	127,645	19.5%
Consulting fees	16,353	2.7%	21,193	3.2%
Office and property management expenses	23,473	3.9%	22,803	3.5%
Others ⁽¹⁾	6,797	1.2%	20,269	3.1%
Total	604,400	100.0%	653,882	100.0%

Note:

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

Our cost of sales decreased by 7.6% from RMB653.9 million for the six months ended September 30, 2021, to RMB604.4 million for the six months ended September 30, 2022, primarily due to the decrease of labor cost, dental materials used and consulting fees in line with revenue decrease.

Gross Profit

Our gross profit decreased by 10.8% from RMB187.5 million for the six months ended September 30, 2021 to RMB167.2 million for the six months ended September 30, 2022, primarily due to the decrease of revenue.

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,			
	2022		2021	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(RMB in thousands, except for percentages)</i>			
Employee benefits expenses	22,705	49.9%	19,104	49.8%
Advertising and marketing expenses	18,645	41.0%	16,307	42.5%
Consulting fees	2,447	5.4%	1,162	3.0%
Others ⁽¹⁾	1,696	3.7%	1,804	4.7%
Total	45,493	100.0%	38,377	100.0%

Note:

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

Our selling and distribution expenses increased by 18.5% from RMB38.4 million for the six months ended September 30, 2021 to RMB45.5 million for the six months ended September 30, 2022, primarily due to the increased headcounts in marketing team and more marketing and promoting activities carried out in 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) listing expenses; (iv) consulting fees; and (v) 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, 2022		2021	
	RMB	%	RMB	%
	<i>(RMB in thousands, except for percentages)</i>			
Share-based compensation expenses	100,641	55.3%	–	–
Employee benefits expenses	46,103	25.3%	50,859	49.4%
Listing expenses	–	–	20,017	19.4%
Consulting fees	13,150	7.2%	10,466	10.2%
Depreciation and amortization	10,123	5.6%	8,180	7.9%
Office and property management expenses	2,257	1.2%	2,631	2.6%
Others ⁽¹⁾	9,639	5.4%	10,865	10.5%
Total	181,913	100.0%	103,018	100.0%

Note:

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

Our administrative expenses increased by 76.6% from RMB103.0 million for the six months ended September 30, 2021 to RMB181.9 million for the six months ended September 30, 2022, primarily due to share-based compensation expenses of RMB100.6 million in connection with the grant of RSUs to our employees pursuant to the RSU Scheme, offset by (i) the decrease of listing expenses; and (ii) decrease of employee benefit expense as we made more effort to control expenditures and improve efficiency.

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,			
	2022		2021	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(RMB in thousands, except for percentages)</i>			
Employee benefits expenses	8,906	83.0%	9,044	87.6%
Consulting fees	1,475	13.8%	1,137	11.0%
Depreciation and amortization	132	1.2%	53	0.5%
Others ⁽¹⁾	215	2.0%	85	0.9%
Total	10,728	100.0%	10,319	100.0%

Note:

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

Our research and development expenses increased by 4.0% from RMB10.3 million for the six months ended September 30, 2021 to RMB10.7 million for the six months ended September 30, 2022, primarily because of the increase of consulting fees to develop our information technology system.

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

Net reversal of impairment loss/(impairment loss) on financial assets 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 impairment loss on financial assets was RMB1.2 million for the six months ended September 30, 2022, compared to net reversal of impairment loss on financial assets of RMB4.5 million for the six months ended September 30, 2021, primarily due to the increase of account receivables.

Operating Loss

For the six months ended September 30, 2022, our operating loss was RMB71.7 million, compared to an operating profit of RMB43.1 million for the six months ended September 30, 2021, mainly due to (i) share-based compensation expenses for RSU granted on October 1, 2021; and (ii) the decrease of revenue. Excluding the share-based compensation expenses, our operating profit would be RMB28.9 million.

Net Finance Costs

Our net finance costs decreased from RMB26.3 million for the six months ended September 30, 2021 to RMB16.2 million for the six months ended September 30, 2022, primarily because of (i) the decrease of transaction costs on issuance of Series-E convertible redeemable preferred shares of RMB9.2 million; (ii) the increase of interest income from bank deposits; and (iii) the decrease of interest expense on borrowings due to repayment of bank loans.

Fair Value Changes of Convertible Redeemable Preferred Shares

As convertible redeemable preferred shares were converted to ordinary shares upon the Listing, we do not record fair value change of convertible redeemable preferred shares for the six months ended September 30, 2022.

Loss for the Period

As a result of the foregoing, our loss for the period decreased from RMB464.2 million for the six months ended September 30, 2021 to RMB90.0 million for the six months ended September 30, 2022.

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 increased from RMB297.8 million as of March 31, 2022 to RMB311.8 million as of September 30, 2022, mainly due to clinics upgrades, opening and the acquisition of Tongshan Dental.

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 decreased from RMB703.5 million as of March 31, 2022 to RMB700.1 million as of September 30, 2022, primarily due to the depreciation of the right-of-use assets, partially offset by the additions.

Net Current Assets

We had net current assets of RMB921.9 million as of September 30, 2022, compared to RMB884.4 million as of March 31, 2022, primarily because of the decrease of current liabilities.

Trade Receivables

Trade receivables are primarily amounts due from customers for dental materials sold and dental services performed 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 increased from RMB71.3 million as of March 31, 2022 to RMB83.8 million as of September 30, 2022. Our trade receivables turnover days were 20 days for year ended March 31, 2022, and 23 days for the six months ended September 30, 2022. The increase of turnover days was mainly due to increase in account receivables from commercial and governmental medical insurance programs.

Other Receivables

Our other receivables primarily consist of (i) loans to related parties; (ii) rental and other deposits; and (iii) loans to employees, net of loss allowance. Our other receivables included in current assets increased by 355.1% from RMB25.6 million as of March 31, 2022 to RMB116.5 million as of September 30, 2022, primarily due to the loan to a related party of RMB79.1 million.

Trade and Other 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 increased by 7.9% from RMB74.2 million as of March 31, 2022 to RMB80.0 million as of September 30, 2022, primarily due to longer payment term to some suppliers. Our trade payables turnover days increased from 58 days for the year ended March 31, 2022 to 59 days for the six months ended September 30, 2022 accordingly.

Other Payables

Our other payables primarily consist of (i) employee benefits payable; (ii) payables due to related parties and shareholders; and (iii) taxes payables. Our other payables decreased by 10.9% from RMB198.9 million as of March 31, 2022 to RMB177.3 million as of September 30, 2022, primarily due to (i) settlement of unpaid consideration of RMB36.5 million to acquire additional interest of a subsidiary; (ii) settlement of annual bonus to employees; and (iii) partial settlement of listing fees, offset by the increase in unpaid consideration for the acquisition of of Tongshan Dental.

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 RMB246.2 million and unlisted debt and equity instruments of RMB50.7 million. The Group invested in wealth management products subscribed to Growth Vanguard Fund SPC amounting to US\$31,040,000 at fixed annualized return rate of 1.2%. The wealth management product is subject to a lock-up period of one month and can be redeemed by the Company at any time upon expiration of the lock-up period. On September 21, 2022, the Company acquired the wealth management products from GF Global Capital Limited amounting to US\$3,000,000 (equivalent to RMB21,299,000). The unlisted debt instruments represent 8.22% equity interest in Hangzhou Jarvis Medical Technology Company Limited and 10% equity interest in Shenzhen Baocheng Dental Hospital.

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) payment for equipments; and (v) short-term lease prepayments. Our prepayments increased by 19.9% from RMB148.4 million as of March 31, 2022 to RMB178.0 million as of September 30, 2022, primarily due to prepayments for equipments and decorations as a result of clinic and hospital under construction and upgrading.

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, 2022, 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, 2022, we had cash and cash equivalents of RMB601.4 million, as compared with RMB1,052.3 million as of March 31, 2022. As of September 30, 2022, we had time deposits with original maturity over three months of RMB248.5 million, as compared with RMB14.0 million as of March 31, 2022.

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, 2022, we incurred additions in property, plant and equipment and intangible assets of RMB95.8 million, compared to RMB66.4 million for the six months ended September 30, 2021, primarily due to clinics upgrades, opening and the acquisition of Tongshan Dental. 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, 2022, we had obtained undrawn bank loan facilities of RMB374.1 million.

As of September 30, 2022, the gearing ratio (calculated as total borrowings divided by total equity and multiplied by 100%) is 9.0%.

Charge on Asset

As of September 30, 2022, we pledged US\$21.0 million (equivalent to RMB149.2 million) to a bank as the collateral for bank loans of RMB112.3 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. For 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, 2022 <i>HK\$ million</i>	Utilization during the six months ended September 30, 2022 <i>HK\$ million</i>	Unutilized net proceeds as of September 30, 2022 <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%	324.4	15.5	308.9	over the next five years
Expansion into new key Tier-2 cities in China	118.0	20.0%	118.0	23.9	94.1	over the next five years
Subtotal	442.4	75.0%	442.4	39.4	403.0	
Build and optimize IT infrastructure	88.5	15.0%	88.5	19.3	69.2	over the next five years
Working capital	59.0	10.0%	59.0	4.9	54.1	over the next five years
Total	589.9	100%	589.9	63.6	526.3	

Note: The estimated schedule for utilising the remaining proceeds is based on the best estimation made by the Group of future market condition and may change with the current market condition and future development.

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.

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

Save for the 2,384,500 Shares purchased by Arrail Revival Holdings Limited, a limited liability company set up by the Company as a platform holding underlying Shares for the 2022 RSU Scheme, at cash consideration of HK\$18.4 million on the Stock Exchange for 2022 RSU Scheme, 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, 2022 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 as loss for the period adjusted by adding share-based compensation expenses
“Audit Committee”	the audit committee of the Board

“Beijing Ruier”	Beijing Ruier Shengbin Medical Technology Co., Ltd.* (北京瑞爾聖彬醫療科技有限公司), a limited liability company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“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
“Director(s)” or “our Director(s)”	the director(s) of our Company
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is a third party independent to our Group
“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
“Hangzhou Jinyaori”	Hangzhou Jinyaori Medical Technology Company Limited* (杭州金曜日醫療科技有限公司), a limited liability company established under the laws of the PRC
“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 our 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, 2022
“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 our Share(s)
“Shenzhen Ruijian”	Shenzhen Ruijian Consulting Management Co., Ltd.* (深圳市瑞健諮詢管理有限公司), a limited liability company established under the laws of the PRC and a consolidated affiliated entity of the Company
“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 29, 2022

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*