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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, 2024

The Board is pleased to announce the unaudited consolidated results of the Group for the six months ended September 30, 2024, together with comparative interim figures for the six months ended September 30, 2023.

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,	
	2024	2023
	RMB'000	RMB'000
Revenue	887,468	886,156
Net profit for the period	3,821	6,234
Patient visits (times)	1,008,786	986,359

Our revenues increased by 0.1% from RMB886.2 million for six months ended September 30, 2023, to RMB887.5 million for six months ended September 30, 2024.

Our net profit decreased from RMB6.2 million for the six months ended September 30, 2023 to RMB3.8 million for the six months ended September 30, 2024.

We continued to steadily expand our business scale. For the six months ended September 30, 2024, we opened one dental hospital with a total of 41 dental chairs in Wuxi. Total dental chairs of the Group increased to 1,608 as of September 30, 2024.

Our patient visits for the six months ended September 30, 2024 reached 1,008,786, increasing by 2.3% as compared to the six months ended September 30, 2023. 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 11.0 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 of September 30, 2024, we had a total of 123 stores, including 112 dental clinics and 11 hospitals in 15 cities across China. Our mission is to give each of our patients a healthy and confident smile, and our vision is to become a world-leading dental group.

We expanded our business by opening more clinics and hospitals in Tier-1 and Tier-2 cities across China. During the Reporting Period, we opened one dental hospital with a total of 41 dental chairs in Wuxi. We continue to hire competent dentists and enhance our dental professional team. We have 934 dentists as of September 30, 2024.

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, 2024, we operated a total of 123 stores 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, 2024, we operated a total of 49 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.

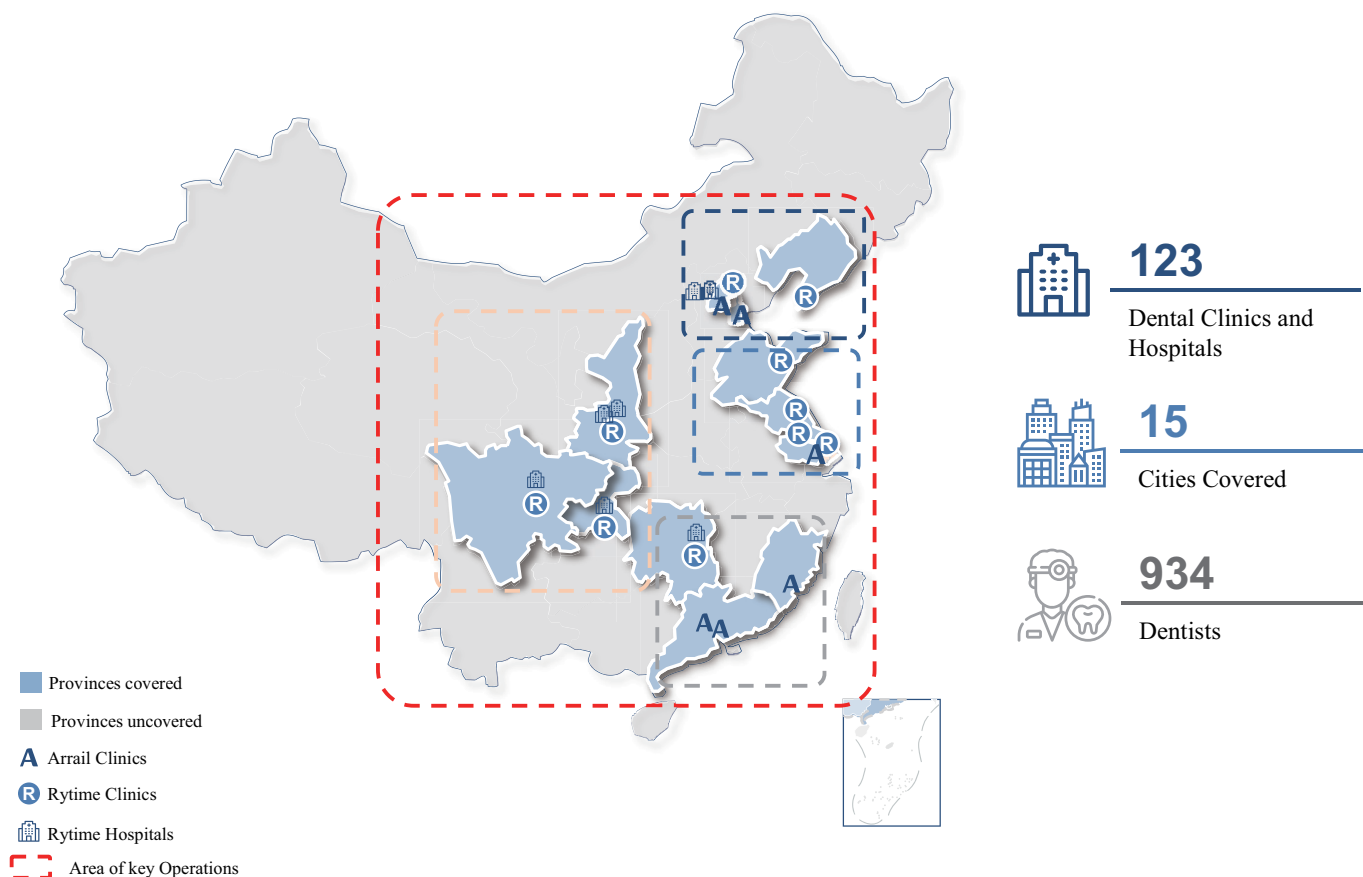
Rytime Dental



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, 2024, we operated a total of 74 stores, including 11 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, 2024, we operated a total of 123 stores, including (i) 112 clinics, of which 49 clinics were under the Arrail Dental brand and 63 clinics were under the Rytime Dental brand; and (ii) 11 hospitals under the Rytime Dental brand, as illustrated in the map below.



Our total patient visits increased from 986,359 for the six months ended September 30, 2023 to 1,008,786 for the six months ended September 30, 2024. The following table sets forth the breakdown by brands in relation to our operating and financial performance.

	For the six months ended	
	September 30,	
	2024	2023
Total patient visits	1,008,786	986,359
Arrail Dental	274,242	269,003
Rytime Dental	734,544	717,356
Total number of dental chairs	1,608	1,530
Arrail Dental	507	507
Rytime Dental	1,101	1,023
Visits per dental chair	627	645
Arrail Dental	541	531
Rytime Dental	667	701
Revenue per dental chair (RMB)	551,908	579,187
Arrail Dental	817,590	794,209
Rytime Dental	429,564	472,622

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 47.4% for the six months ended September 30, 2024 (47.7% for the six months ended September 30, 2023). Approximately twenty percent of our new patients were referred by our existing patients for six months ended September 30, 2024.

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

The Company had no significant investments (including any investment constituting 5% or above of the total assets of the Group as at September 30, 2024), material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Events after the Reporting Period

On November 29, 2024, upon request by the Company, Mingda International Limited (“**Mingda**”), a private company limited by shares incorporated in Hong Kong and indirectly wholly owned by Mr. ZOU Qifang, the executive Director and one of the controlling shareholders of the Company, and the Company entered into a security agreement, pursuant to which Mingda will pledge 8,500,000 Shares in favor of the Company as additional security for the Loan. For further details, please refer to the Company’s announcements dated September 29, 2022, June 27, 2023, June 26, 2024 and November 29, 2024.

Save as disclosed above, the Company is not aware of any material subsequent events from the end of the Reporting Period to the date of this announcement, 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.

Employees and Remuneration

As of September 30, 2024, we had a total of 3,296 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, 2024:

Function	Number of Employees	% of total number of employees
Dentists	934	28.3%
Nursing staff	1,237	37.5%
Customer service staff	594	18.0%
General administrative staff	309	9.5%
Marketing team	222	6.7%
Total	3,296	100.0%

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, 2024, over 47.1% 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 11.4 years of post-qualification experience in the industry. Dentists with more than five, ten and fifteen years of experience with us accounted for 44.1%, 16.2% and 6.7% 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, representing approximately 21.3% of the total issued share capital (excluding the treasury shares) of the Company as of September 30, 2024, for the participants under the RSU Scheme. As of September 30, 2024, an aggregate of 637 employees were approved by the Board to be the grantees with a total of 98,392,181 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. Up to September 30, 2024, no employee was approved by the Board to be the grantees pursuant to the 2022 RSU Scheme.

During the Reporting Period, the 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 the level of socio-economic development, an ageing population, digitalization, rising public awareness of dental health and other related factors. According to the Frost & Sullivan Report, the market size of dental services in China was approximately RMB150.0 billion in 2023, maintaining an average annual growth rate of over 15%. It is expected to reach RMB270.0 billion by 2027.

As indicated by data such as China's incidence rate of dental diseases, per capita dental expenditure, the number of dentists per million population and the number of dental implants per 10,000 population, China's dental market has a low penetration rate and vast room for development, and we are full of confidence in the future development prospects of the dental industry.

The centralized procurement policy for dental implants has been fully implemented nationwide in China. After nearly two years of promotion and popularization in the market, more and more patients have come to understand that "dental implants" is one of the effective treatments for missing teeth, leading to increased awareness among patients about their dental health and the more affordable pricing allowing a growing number of patients to benefit from this treatment. Due to the characteristics of dental implant treatment, the increase in the volume of the dental implant market has also driven an increase in patient visits to dental institutions, particularly for basic treatments such as restorations, periodontal care, and root canals. In general, the dental implant market has shown the characteristics of "volume-price balance and product category substitution". Medical institutions in the industry that maintain high medical quality, have a reasonable dental implant revenue structure, and possess general dental capabilities will benefit in the long run.

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 in 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 Development Directions/Strategies

1) *Efficiency improvement and steady development*

We focus on improving efficiency and operating steadily, aiming to ensure quality and sustainable growth. We will adopt the strategy of pooling resources to strengthen and expand our existing markets, forming competitive advantages and unleashing economies of scale in the markets we have already entered, as we continue to advance our business strategy of focusing on the existing markets and fortifying our foundation with more resolute steps. For the store operations, the Company has summarized and refined a series of effective working methods from its frontline operations through a process of “distilling best practices and focusing on execution”. The Company has then formalized these distilled best practices into standardized operating procedures (SOPs), which are now being continuously replicated and rolled out across the top-tier store network. In improving the customer management and service system, we are leveraging the “Arrail’s care” (the 5 touchpoints of a dental patient’s journey) to further refine and streamline the service processes, enhance service quality, and improve customer experience. Meanwhile, we are actively seeking new market opportunities to maintain the external growth potential of the business.

During the Reporting Period, we proactively promoted the technology of utilizing artificial intelligence to read the dental films, identify the parts to be treated and provide a preliminary treatment option, so as to reduce clinical misdiagnosis, assist dentists in formulating diagnostic schemes, and improve medical efficiency and patients’ experience. We continued to implement the measures of cost reduction and efficiency improvement, optimized personnel allocation and lowered the rent of clinics, which achieved good results. We will continuously improve operational efficiency and unleash profitability.

2) *Relying on the medical-oriented principle and practice medicine with respect*

Ensuring medical quality is the essence of the development of the healthcare industry, and the dental industry is not an exception. We adopt a number of systems including preceptorship training, 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 the future, we will adhere to the medical-oriented principle, and always regard medical quality management as a crucial standard for enterprise development.

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

Echoing the words of a doctor hired through the Company’s campus recruitment program, “Today I take pride in joining Arrail, and before long Arrail will take pride in having me as one of their own.” Arrail Group’s strong brand influence in the industry is one of its key strengths. We will further strengthen the system of recruitment, training, and retention of talent 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 have maintained our tradition of campus recruitment, with campus hires currently making up nearly 20% of our medical team. Over 30% of these campus recruits have already taken on various management positions. We also continue to actively recruit specialist dentists and senior dentists to consistently ensure our clinical capabilities remain industry-leading. In terms of operations, we will gradually strengthen the development of our core management talent pipeline. We will focus on identifying and selecting high-caliber management personnel with strong self-motivation, learning ability, and growth potential. This will help establish a solid organizational foundation to support the Company’s long-term development.

4) *Enhancing corporate culture*

Over the past 25 years at Arrail Group, what has remained unchanged is our commitment to building corporate culture. We firmly believe in the power of culture and the healthy and sustainable growth driven by culture. Corporate culture endows the Company with a unique working atmosphere, which in turn regulates and influences everyone’s behavior and approach to doing things. Over the years, a distinct “group culture” has taken root within the Company. In this environment, our colleagues are united by a shared set of values, which fosters a profound sense of security and belonging. During the Reporting Period, guided by the Arrail culture of “Integrity, professionalism, and being a good person”, we continued to implement the code of conduct summarized in 46 words within the Company, namely “trying to solve problems instead of making excuses, acting properly with courageous commitment, seeking win-win cooperation with open communication, pursuing progress with unremitting efforts, focusing more on practical operation instead of theoretical knowledge, and taking the lead to offer more help and less preaching at others”. Our corporate culture is a core competitive advantage of the Company, and an important factor in achieving cross-regional development, replicating our model to new locations, and establishing the Company as a nationwide chain of dental institutions. It is one of our key “moats”. Going forward, the Company will steadfastly promote and maintain the construction of its corporate culture.

5) *Risk management and sustainable development*

Arrail 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 well-being, 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 0.1% from RMB886.2 million for the six months ended September 30, 2023, to RMB887.5 million for the six months ended September 30, 2024.

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,			
	2024		2023	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
<i>(RMB in thousands, except for percentages)</i>				
General dentistry	481,719	54.3%	483,868	54.6%
Orthodontics	193,460	21.8%	206,414	23.3%
Implantology	161,966	18.3%	177,497	20.0%
Others ⁽¹⁾	50,323	5.6%	18,377	2.1%
Total	887,468	100.0%	886,156	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 0.4% from RMB483.9 million for the six months ended September 30, 2023 to RMB481.7 million for the six months ended September 30, 2024; (ii) orthodontics decreased by 6.3% from RMB206.4 million for the six months ended September 30, 2023 to RMB193.5 million for the six months ended September 30, 2024; and (iii) implantology decreased by 8.8% from RMB177.5 million for the six months ended September 30, 2023 to RMB162.0 million for the six months ended September 30, 2024.

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, 2024, we operated 49 dental clinics in Tier-1 cities under the Arrail Dental brand, and operated 63 dental clinics and 11 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,			
	2024		2023	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
<i>(RMB in thousands, except for percentages)</i>				
Arrail Dental	414,518	46.7%	402,664	45.4%
Rytime Dental	472,950	53.3%	483,492	54.6%
Total	887,468	100.0%	886,156	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 and sold. 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 materials 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, and dental materials sold primarily consist of purchase costs of dental materials sold.

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,			
	2024		2023	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
<i>(RMB in thousands, except for percentages)</i>				
Employee benefits expenses	374,681	52.6%	366,691	53.7%
Depreciation and amortization	111,102	15.6%	118,610	17.4%
Dental materials used and sold	165,589	23.2%	130,535	19.1%
Consulting fees	5,418	0.8%	16,513	2.4%
Office and property management expenses	29,983	4.2%	30,335	4.4%
Others ⁽¹⁾	25,682	3.6%	20,622	3.0%
Total	<u>712,455</u>	<u>100.0%</u>	<u>683,306</u>	<u>100.0%</u>

Note:

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

Our cost of sales increased by 4.3% from RMB683.3 million for the six months ended September 30, 2023 to RMB712.5 million for the six months ended September 30, 2024, primarily due to the increase in dental materials sold.

Gross Profit

Our gross profit decreased by 13.7% from RMB202.9 million for the six months ended September 30, 2023 to RMB175.0 million for the six months ended September 30, 2024, primarily due to the fact that we developed dental materials selling business, gross margin of which was lower than dental services.

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) advertising and marketing expenses; (ii) employee benefits expenses for our sales and marketing staff; 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 selling and distribution expenses, for the periods indicated.

	For the six months ended September 30, 2024		2023	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
<i>(RMB in thousands, except for percentages)</i>				
Advertising and marketing expenses	33,699	47.9%	28,394	40.8%
Employee benefits expenses	32,781	46.6%	34,875	50.1%
Consulting fees	2,144	3.0%	4,517	6.5%
Others ⁽¹⁾	1,747	2.5%	1,821	2.6%
Total	70,371	100.0%	69,607	100.0%

Note:

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

Our selling and distribution expenses remained stable of RMB69.6 million for the six months ended September 30, 2023 as compared with RMB70.4 million for the six months ended September 30, 2024.

Administrative Expenses

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

	For the six months ended September 30, 2024		2023	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
<i>(RMB in thousands, except for percentages)</i>				
Employee benefits expenses	52,369	56.4%	49,276	40.7%
Depreciation and amortization	12,035	13.0%	10,159	8.4%
Consulting fees	10,767	11.6%	9,885	8.2%
Share-based compensation expenses	3,534	3.8%	38,473	31.8%
Office and property management expenses	3,338	3.6%	3,752	3.1%
Others ⁽¹⁾	10,836	11.6%	9,621	7.8%
Total	92,879	100.0%	121,166	100.0%

Note:

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

Our administrative expenses decreased by 23.3% from RMB121.2 million for the six months ended September 30, 2023 to RMB92.9 million for the six months ended September 30, 2024, primarily due to decrease in share-based compensation expenses for the RSUs, majority of which had been already vested before the beginning of 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 of total research and development expenses, for the periods indicated.

	For the six months ended September 30,			
	2024		2023	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
<i>(RMB in thousands, except for percentages)</i>				
Employee benefits expenses	1,611	40.4%	1,693	37.0%
Consulting fees	1,980	49.7%	1,841	40.2%
Depreciation and amortization	369	9.3%	946	20.7%
Others ⁽¹⁾	23	0.6%	101	2.1%
Total	3,983	100.0%	4,581	100.0%

Note:

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

Our research and development expenses decreased by 13.1% from RMB4.6 million for the six months ended September 30, 2023 to RMB4.0 million for the six months ended September 30, 2024, primarily because the decrease in depreciation and amortization reflecting the decrease in the expenses of maintenance and follow-up development of our self-developed information technology.

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

(Impairment loss)/reversal of 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 impairment loss on financial assets was RMB0.7 million for the six months ended September 30, 2024, compared to reversal of RMB2.9 million for the six months ended September 30, 2023, due to the increase of receivables from insurance companies.

Operating Profit

For the six months ended September 30, 2024, our operating profit was RMB11.9 million, compared to RMB14.7 million for the six months ended September 30, 2023, mainly due to increase in cost of sales. Excluding the share-based compensation expenses, our adjusted operating profit would be RMB15.4 million for the six months ended September 30, 2024.

Net Finance Costs

Our net finance costs decreased by 18.4% from RMB4.9 million for the six months ended September 30, 2023 to RMB4.0 million for the six months ended September 30, 2024, primarily due to the decrease of interest expenses on lease liabilities.

Net Profit for the Period

As a result of the foregoing, our profit for the period decreased from RMB6.2 million for the six months ended September 30, 2023 to RMB3.8 million for the six months ended September 30, 2024, primarily due to we developed dental materials selling business, gross margin of which is lower than dental services.

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 RMB320.1 million as of March 31, 2024 to RMB308.0 million as of September 30, 2024 primarily due to 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 decreased from RMB670.5 million as of March 31, 2024 to RMB603.7 million as of September 30, 2024, primarily due to depreciation of right-of-use assets.

Net Current Assets

We had net current assets of RMB765.9 million as of September 30, 2024, compared to net current assets of RMB877.7 million as of March 31, 2024, primarily because of decrease in cash and cash equivalents.

Trade Receivables

Trade receivables primarily consist of 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 RMB88.6 million as of March 31, 2024 to RMB90.3 million as of September 30, 2024, due to the increase of receivables from insurance companies. Our trade receivables turnover days were 21 days for the year ended March 31, 2024, and 21 days for the six months ended September 30, 2024 accordingly.

Other Receivables

Our other receivables primarily consist of (i) loans to related parties; (ii) receivable from the 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 decreased by 6.0% from RMB184.5 million as of March 31, 2024 to RMB173.5 million as of September 30, 2024, primarily due to collection of loans to employees.

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 decreased by 8.5% from RMB83.8 million as of March 31, 2024 to RMB76.7 million as of September 30, 2024, primarily due to acceleration of payment process. Our trade payables turnover days decreased from 49 days for the year ended March 31, 2024 to 43 days for the six months ended September 30, 2024 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 12.2% from RMB89.3 million as of March 31, 2024 to RMB78.4 million as of September 30, 2024, primarily due to the decrease in employee benefits payable.

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 amount of approximately RMB356.1 million, unlisted debt instruments of RMB35.7 million and unlisted equity instruments of RMB30.0 million. The unlisted debt instruments represent 8.22% interest in Hangzhou Jarvis. The unlisted equity instruments represent 20.0% 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) payment for equipments; and (v) short-term lease prepayments. Our prepayments increased by 12.4% from RMB134.2 million as of March 31, 2024 to RMB150.9 million as of September 30, 2024, primarily due to increase in prepayments for incremental cost of obtaining contracts and inventories.

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, our currency translation differences mainly arise from the translation of the financial statements of some of our entities from the 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, 2024, 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, 2024, we had cash and cash equivalents of RMB613.5 million, as compared with RMB656.3 million as of March 31, 2024.

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, equipment and intangible assets. For the six months ended September 30, 2024, we incurred capital expenditures of RMB38.7 million, compared to RMB68.3 million for the six months ended September 30, 2023, primarily due to implementation of cost optimization strategies, including reductions in capital expenditures. 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 capital expenditure and working capital requirements. As of September 30, 2024, we had obtained undrawn bank loan facilities of RMB491.3 million.

As of September 30, 2024, the gearing ratio (calculated as total borrowings divided by total equity and multiplied by 100%) is 24.4%.

Charge on Assets

As of September 30, 2024, we pledged US\$26.9 million (equivalent to RMB188.7 million) to a bank as the collateral for bank loans of RMB287.9 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 %	Unutilized net proceeds as of April 1, 2024 <i>HK\$ million</i>	Utilization of net proceeds during the Reporting Period <i>HK\$ million</i>	Unutilized net proceeds as of September 30, 2024 <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%	181.8	36.3	145.5	By the year ending March 31, 2027
Expansion into new key Tier-2 cities in China	118.0	20.0%	50.3	0.0	50.3	By the year ending March 31, 2027
Subtotal	442.4	75.0%	232.1	36.3	195.8	
Build and optimize IT infrastructure	88.5	15.0%	34.7	15.1	19.6	By the year ending March 31, 2027
Working capital	59.0	10.0%	41.3	2.5	38.8	By the year ending March 31, 2027
Total	589.9	100.0%	308.1	53.9	254.2	

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, 2024

		For the six months ended September 30,	
	Note	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Revenue	3	887,468	886,156
Cost of sales	4	(712,455)	(683,306)
Gross profit		175,013	202,850
Selling and distribution expenses	4	(70,371)	(69,607)
Administrative expenses	4	(92,879)	(121,166)
Research and development expenses	4	(3,983)	(4,581)
(Impairment loss)/reversal of impairment loss on financial assets – net		(706)	2,916
Other gains – net	5	4,823	4,299
Operating profit		11,897	14,711
Finance income	6	17,237	17,469
Finance costs	6	(21,195)	(22,416)
Finance costs – net	6	(3,958)	(4,947)
Share of net (loss)/profit of associates and joint ventures accounted for using the equity method		(541)	398
Profit before income tax		7,398	10,162
Income tax expenses	7	(3,577)	(3,928)
Profit for the period		3,821	6,234
Profit/(loss) attributable to:			
Owners of the Company		8,651	4,981
Non-controlling interests		(4,830)	1,253
		3,821	6,234
Earnings per share attributable to owners of the Company (expressed in RMB per share)			
Basic earnings per share	8	0.02	0.01
Diluted earnings per share	8	0.02	0.01

The above interim condensed consolidated income statement should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

For the six months ended September 30, 2024

	For the six months ended September 30,	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period	<u>3,821</u>	<u>6,234</u>
Other comprehensive (loss)/income		
<i>Items that will not be reclassified to profit or loss</i>		
Currency translation differences	<u>(27,885)</u>	<u>49,501</u>
Other comprehensive (loss)/income for the period, net of tax	<u>(27,885)</u>	<u>49,501</u>
Total comprehensive (loss)/income for the period	<u><u>(24,064)</u></u>	<u><u>55,735</u></u>
Total comprehensive (loss)/income attributable to:		
Owners of the Company	(19,234)	54,482
Non-controlling interests	<u>(4,830)</u>	<u>1,253</u>
	<u><u>(24,064)</u></u>	<u><u>55,735</u></u>

The above interim condensed consolidated statement of comprehensive (loss)/income should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at September 30, 2024

		As at September 30, 2024 (Unaudited) RMB'000	As at March 31, 2024 (Audited) RMB'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		308,027	320,108
Right-of-use assets		603,747	670,531
Intangible assets		73,251	75,583
Goodwill		197,120	197,120
Deferred tax assets		69,036	72,115
Prepayments		17,004	17,933
Investments accounted for using the equity method		43,680	42,859
Financial assets at fair value through profit or loss		81,294	71,253
Other receivables	9	84,543	67,497
Total non-current assets		1,477,702	1,534,999
Current assets			
Inventories		63,413	56,903
Prepayments		133,932	116,275
Trade and other receivables	9	263,834	273,056
Financial assets at fair value through profit or loss		354,485	335,220
Restricted cash		188,651	168,638
Time deposits with original maturity over three months		30,000	111,577
Cash and cash equivalents		613,459	656,280
		1,647,774	1,717,949
Assets classified as held for sale		541	—
Total current assets		1,648,315	1,717,949
Total assets		3,126,017	3,252,948
EQUITY			
Share capital		72,483	74,592
Reserves		5,140,348	5,235,062
Accumulated losses		(3,545,836)	(3,554,487)
Equity attributable to owners of the Company		1,666,995	1,755,167
Non-controlling interests		71,302	82,090
Total equity		1,738,297	1,837,257

		As at September 30, 2024 (Unaudited) RMB'000	As at March 31, 2024 (Audited) RMB'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Lease liabilities		471,511	542,863
Contract liabilities		24,695	20,882
Deferred tax liabilities		9,142	11,693
		<hr/>	<hr/>
Total non-current liabilities		505,348	575,438
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	11	155,045	173,098
Contract liabilities		120,291	127,427
Current tax liabilities		32,453	29,849
Borrowings	10	423,428	355,627
Lease liabilities		151,155	154,252
		<hr/>	<hr/>
Total current liabilities		882,372	840,253
		<hr/>	<hr/>
Total liabilities		1,387,720	1,415,691
		<hr/>	<hr/>
Total equity and liabilities		3,126,017	3,252,948
		<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.

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 29, 2024.

1.2 Basis of preparation

This interim condensed consolidated financial information for the six months ended September 30, 2024 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, 2024, which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended March 31, 2024, as described in those annual financial statements.

2.1 Cash-settled share-based payment transactions

Cash-settled share-based payment transactions are those arrangements which the terms provide the Group to settle the transaction in cash. Upon the satisfaction of the vesting conditions, the Group shall account for that transaction as a cash-settled share-based payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the current fair value determined at the end of the reporting period, with any measurement changes recognised in profit or loss as employee benefit expense.

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, 2024.

	Effective for accounting periods beginning on or after
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	January 1, 2024
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	January 1, 2024
Non-current Liabilities with Covenants – Amendments to IAS 1	January 1, 2024
Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7	January 1, 2024

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, 2024 and not been early adopted by the Group.

		Effective for annual periods beginning on or after
Amendments to IAS 21	Lack of Exchangeability	January 1, 2025
Amendments to IFRS 9 and IFRS 7	Amendments to the Classification and Measurement of Financial Instruments	January 1, 2026
IFRS 18	Presentation and Disclosure in Financial Statements	January 1, 2027
IFRS 19	Subsidiaries without Public Accountability: Disclosures	January 1, 2027

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, (impairment loss)/reversal of impairment loss on financial assets – net, share of net (loss)/profit of associates and joint ventures 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,			
	2024 (Unaudited)		2023 (Unaudited)	
	Revenue	Operating profit	Revenue	Operating profit
	RMB'000	RMB'000	RMB'000	RMB'000
Arrail Dental	414,518	23,289	402,664	23,018
Rytime Dental	472,950	16,002	483,492	50,623
Total	887,468	39,291	886,156	73,641
Unallocated:				
Headquarter and corporate expenses		(26,688)		(61,846)
(Impairment loss)/reversal of impairment loss on financial assets – net		(706)		2,916
Finance income		17,237		17,469
Finance costs		(21,195)		(22,416)
Share of net (loss)/profit of associates and joint ventures accounted for using the equity method		(541)		398
Profit before income tax		7,398		10,162

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, 2024 and March 31, 2024, 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, 2024 and 2023.

Other segment information

	For the six months ended September 30,		2023 (Unaudited)	
	2024 (Unaudited)		Arrail Dental	Rytime Dental
	Arrail Dental	Rytime Dental	Arrail Dental	Rytime Dental
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation and amortisation	61,287	62,346	60,602	69,232
Addition to property, plant and equipment	17,832	15,257	17,392	28,032
Addition to right-of use assets	12,602	11,799	80,633	30,949

The breakdown of revenues by categories for the six months ended September 30, 2024 and 2023 is as follows:

	For the six months ended	
	September 30,	2023
	2024	
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
General Dentistry – recognised at a point in time	481,719	483,868
Orthodontics – recognised over time	193,460	206,414
Implantology – recognised over time	161,966	177,497
Others – recognised at a point in time (Note a)	50,323	18,377
	887,468	886,156

Note a: Others primarily include revenue from sales of dental supply and equipment purchased by the Group and sold to clinics and dental supply distributors, which amounts to RMB41,664,000 and RMB8,089,000 for the six month periods ended September 30, 2024 and 2023, respectively.

The breakdown of revenues by geographic locations and by brands for the six months ended September 30, 2024 and 2023 is as follows:

	For the six months ended	
	September 30,	2023
	2024	
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Northern China	340,546	368,674
Eastern China	269,770	237,955
Southern China	80,963	68,882
Western China	196,189	210,645
	887,468	886,156

	For the six months ended	
	September 30,	2023
	2024	
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Arrail Dental	414,518	402,664
Rytime Dental	472,950	483,492
	887,468	886,156

4 EXPENSES BY NATURE

	For the six months ended September 30,	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Employee benefits expenses	464,976	491,007
Depreciation and amortization	123,633	129,834
Dental materials used and sold	165,589	130,535
Advertising and marketing expenses	33,699	28,394
Office and property management expenses	33,769	34,518
Consulting fees	20,309	32,757
Other expenses	37,713	31,615
	<u>879,688</u>	<u>878,660</u>

5 OTHER GAINS – NET

	For the six months ended September 30,	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net losses on disposal of property, plant and equipment	(2,587)	(964)
Net fair value gains on financial assets at fair value through profit or loss	6,868	3,692
Net foreign exchange gain/(loss)	86	(151)
Write backs of payables	2,500	2,029
Government grants	318	–
Loss on termination of lease agreements	(1,117)	–
Others	(1,245)	(307)
	<u>4,823</u>	<u>4,299</u>

6 FINANCE COSTS – NET

	For the six months ended September 30,	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Finance income		
Interest income from bank deposits	15,037	15,540
Interest income from loans to related parties and employees	2,200	1,929
	<u>17,237</u>	<u>17,469</u>
Finance costs		
Interest expense on borrowings	(7,189)	(4,995)
Interest expense on lease liabilities	(14,006)	(17,421)
	<u>(21,195)</u>	<u>(22,416)</u>
	<u>(3,958)</u>	<u>(4,947)</u>

7 INCOME TAX EXPENSES

The income tax expense of the Group for the six months ended September 30, 2024 and 2023 is analysed as follows:

	For the six months ended	
	September 30,	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	3,049	9,165
Deferred income tax	528	(5,237)
	3,577	3,928

i. 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.

ii. BVI

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

iii. 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, 2024 and 2023.

iv. 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, 2024 and 2023 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, 2024. During the six months ended September 30, 2024 and 2023, the majority of the Group's PRC subsidiaries meet the criteria of SMEs.

v. 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 PER SHARE

i. Basic earnings per shares

Basic earnings per share for the six months ended September 30, 2024 and 2023 is calculated by dividing the profit attributable to owners of the Company for the six months ended September 30, 2024 amounting to RMB8,651,000 (for the six months ended September 30, 2023: RMB4,981,000) by the weighted average number of ordinary shares outstanding less treasury shares during the period amounting to 454,552,000 shares (for the six months ended September 30, 2023: 462,569,000 shares).

ii. Diluted earnings per shares

Diluted earnings 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, 2024 and 2023, the Company had potential ordinary shares, including RSUs.

Diluted earnings per share for the six months ended September 30, 2024 is calculated by dividing the profit attributable to owners of the Company amounting to RMB8,651,000 (for the six months ended September 30, 2023: RMB4,981,000) by the weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share amounting to 475,085,000 shares (for the six months ended September 30, 2023: 488,895,000 shares), represented by the weighted average number of ordinary shares outstanding less treasury shares amounting to 454,552,000 shares (for the six months ended September 30, 2023: 462,569,000 shares), adding adjustments for RSUs amounting to 20,533,000 shares (for the six months ended September 30, 2023: 26,326,000 shares).

9 TRADE AND OTHER RECEIVABLES

	At September 30, 2024 (Unaudited) RMB'000	At March 31, 2024 (Audited) RMB'000
<i>Non-current</i>		
Other receivables		
Loans to employees (<i>Note a</i>)	8,945	5,740
Rental deposits	61,492	61,567
Loan to a related party	13,850	–
Others	2,111	2,112
	<u>86,398</u>	<u>69,419</u>
Less: loss allowance	(1,855)	(1,922)
	<u>84,543</u>	<u>67,497</u>
<i>Current</i>		
Trade receivables (<i>Note b</i>)	103,362	100,811
Other receivables		
Loans to related parties	89,168	88,112
Amounts due from related parties	2,753	2,787
Amount due from a non-controlling shareholder	–	3,150
Loans to employees and petty cash granted to employees (<i>Note a</i>)	12,937	26,588
Rental and other deposits	270	272
Receivable from RSU management agency and deposit in a security broker for share repurchase	52,337	43,397
Others	22,636	26,795
	<u>283,463</u>	<u>291,912</u>
Less: loss allowance	(19,629)	(18,856)
	<u>263,834</u>	<u>273,056</u>
	<u><u>348,377</u></u>	<u><u>340,553</u></u>

Note a: The loans to employees are secured, with interest accruing at 0%-3.5% per annum, and repayable after 1-5 years from the date of drawdown with an option to extend with the consent of the Group.

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

	At September 30, 2024 (Unaudited) RMB'000	At March 31, 2024 (Audited) RMB'000
Up to 3 months	72,400	69,370
3 to 6 months	11,104	9,172
6 months to 1 year	4,697	5,670
1 to 2 years	12,537	10,134
Over 2 years	2,624	6,465
	<u>103,362</u>	<u>100,811</u>

10 BORROWINGS

	At September 30, 2024 (Unaudited) RMB'000	At March 31, 2024 (Audited) RMB'000
Included in current liabilities		
Secured bank borrowings (a)	158,255	199,852
Unsecured bank borrowings (b)	265,173	155,775
	<u>423,428</u>	<u>355,627</u>

(a) Secured bank borrowings

Secured bank borrowings as at September 30, 2024 and March 31, 2024 bear annual weighted average interest rate at 3.62% and 3.68%, respectively.

The maturity of secured bank borrowings is as follows:

	At September 30, 2024 (Unaudited) RMB'000	At March 31, 2024 (Audited) RMB'000
Within 1 year	<u>158,255</u>	<u>199,852</u>

Secured bank borrowings of the Group are secured as follows:

	At September 30, 2024 (Unaudited) RMB'000	At March 31, 2024 (Audited) RMB'000
Time deposits with original maturity within three months	—	49,665
Time deposits with original maturity over three months	<u>188,651</u>	<u>118,973</u>
	<u>188,651</u>	<u>168,638</u>

(b) Unsecured bank borrowings

Unsecured bank borrowings as at September 30, 2024 and March 31, 2024 bear annual weighted average interest rate at 3.38% and 3.50%, respectively.

The maturity of unsecured bank borrowings is as follows:

	At September 30, 2024 (Unaudited) RMB'000	At March 31, 2024 (Audited) RMB'000
Within 1 year	265,173	155,775
	<u>265,173</u>	<u>155,775</u>

11 TRADE AND OTHER PAYABLES

	At September 30, 2024 (Unaudited) RMB'000	At March 31, 2024 (Audited) RMB'000
Trade payables	76,653	83,764
Other payables	78,392	89,334
	<u>155,045</u>	<u>173,098</u>

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

	At September 30, 2024 (Unaudited) RMB'000	At March 31, 2024 (Audited) RMB'000
Up to 3 months	46,584	46,155
3 to 6 months	1,962	11,016
6 months to 1 year	6,205	5,327
Over 1 year	21,902	21,266
	<u>76,653</u>	<u>83,764</u>

The breakdown of other payables is as follows:

	At September 30, 2024 (Unaudited) <i>RMB'000</i>	At March 31, 2024 (Audited) <i>RMB'000</i>
Amounts due to minority shareholders	161	2,662
Amounts due to related parties	111	225
Employee benefits payable	37,942	51,860
Expense reimbursement payable to employees	11,774	10,127
Cash-settled share-based compensation payables	1,600	–
Taxes payable	12,610	9,111
Others	14,194	15,349
	<u>78,392</u>	<u>89,334</u>

12 DIVIDENDS

No dividend was declared by the Company for the six months ended September 30, 2024 and 2023.

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 was listed on the Main Board of the Stock Exchange on March 22, 2022. The Company has adopted the code provisions of the CG Code as set out in Part 2 of Appendix C1 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 the Group and has been managing the Group’s business and overall strategic planning since its establishment, the Directors consider that vesting the roles of chairman and chief executive officer in Mr. ZOU is beneficial to the business prospects and management of the Group by ensuring consistent leadership within the Group. Taking into account all the corporate governance measures that we have implemented since Listing, the Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. Accordingly, the Company has not segregated the roles of its chairman and chief executive officer. The Board will continue to review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company at an appropriate time if necessary, taking into account the circumstances of the 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 C3 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 Dividends

The Directors did not recommend any interim dividend for the Reporting Period (for the six months ended September 30, 2023: Nil).

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

During the Reporting Period, the Company repurchased a total of 13,239,500 Shares at an aggregate consideration of approximately HK\$73.2 million, among which all repurchased Shares were cancelled as of September 30, 2024. As of September 30, 2024, the Company did not hold any treasury shares.

Save as disclosed above, neither the Company, nor any of its subsidiaries, purchased, sold or redeemed any listed securities of the Company (including sale of treasury shares) 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, 2024 containing all the information in accordance with the requirements under the Listing Rules will be despatched to the Shareholders (if applicable) 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 RSU scheme adopted by the Company in accordance with the scheme rules on September 3, 2022
“adjusted operating profit”	adjusted operating profit as operating loss adjusted by adding share-based compensation expenses
“Audit Committee”	the audit committee of the Board
“Board”	the board of directors of our Company
“BVI”	the British Virgin Islands
“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”	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, the Shares of which are listed on the Main Board of the Stock Exchange since March 22, 2022
“Director(s)”	the director(s) of the Company
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Group”, “Arrail Group”, “we”, “us”, or “our”	the 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 the 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
“IFRS 16”	International Financial Reporting Standards 16 Leases
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange since March 22, 2022
“Listing Date”	March 22, 2022, on which the Shares were listed on the Stock Exchange and from which dealings in the Shares first commence on the Main Board
“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
“Loan”	the loan facility to be provided by the Company to Beier Holdings Limited in the principal amount of US\$11 million pursuant to the Loan Agreement
“Loan Agreement”	the loan agreement dated September 28, 2022 entered into between the Company and Beier Holdings Limited in relation to the provision of the Loan
“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, 2024
“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 US\$0.02 each
“Shareholder(s)”	holder(s) of our Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By Order of the Board
Arrail Group Limited
Zou Qifang
Chairman

Hong Kong, November 29, 2024

As of the date of this announcement, the executive Directors are Mr. ZOU Qifang and Mr. ZHANG Jincai, and the independent non-executive Directors are Ms. LIU Xiaomei Michelle, Mr. SUN Jian and Mr. ZHANG Bang.

* *For identification purpose only*