CHINA MEDICAL SYSTEM HOLDINGS LIMITED
康哲藥業控股有限公司*

(Incorporated in the Cayman Islands with Limited Liability)
(Stock Code: 867)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

The board of Directors (the "Board") of China Medical System Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group" or "CMS") for the year ended 31 December 2020 (the "Reporting Period").

Financial Highlights

- Turnover up 14.4% to RMB6,946.0 million (2019: RMB6,073.6 million); excluding the effect of the "two-invoice system", turnover up 15.4% to RMB7,957.3 million (2019: RMB6,897.2 million)
- Gross profit up 12.9% to RMB5,134.2 million (2019: RMB4,546.3 million); excluding the effect of the "two-invoice system", gross profit up 16.0% to RMB4,842.7 million (2019: RMB4,173.3 million)
- Profit for the year up 30.7% to RMB2,555.7 million (2019: RMB1,955.7 million); normalized profit for the year# up 18.4% to RMB2,696.1 million (2019: RMB2,277.1 million)
- Basic earnings per share up 29.5% to RMB1.0237 (2019: RMB0.7905)
- As at 31 December 2020, the Group's bank balances and cash amounted to RMB2,668.4 million while readily realizable bank acceptance bills amounted to RMB446.0 million
- Proposed final dividend of RMB0.2033 per share, bringing the total dividend for the year ended 31 December 2020 to RMB0.4138 per share, representing an increase of 31.2% over last year (2019: final dividend of RMB0.1271 and total dividend of RMB0.3154 per share)

#Normalized profit for the year excluding an income tax provision arising from a change in income tax policy applicable to a subsidiary of the Group for the year of 2019, and excluding a provision on impairment for goodwill and intangible assets and a reversal of overprovision on income tax aforesaid for the Reporting Period, respectively.

**For identification purpose only*

Business Highlights

During the Reporting Period, while achieving a sound growth, the Group has made significant progress in the expansion of the innovative pipeline, the clinical development of innovative products and the deployment of the healthcare business, which are summarized as follows:

The Innovative Pipeline Continued to Expand

- Acquired the exclusive license of Methylene Blue MMX in Mainland China, HK SAR, Macao SAR and TWN. The product is an oral methylene blue modified-release formulation that enhances diagnosis sensitivity in detecting the cancerous/precancerous lesions during colonoscopy for the screening of colorectal cancer.
- Acquired the exclusive license of Methotrexate Pre-filled Syringe/Pen in Mainland China, HK SAR, Macao SAR and TWN. The product is expected to be the first MTX pre-filled injection for subcutaneous administration for the treatment of RA in China.
- Acquired the exclusive license of BCG for Intravesical Instillation in Mainland China, HK SAR and Macao SAR. The product is the only BCG therapy available in many countries.
- Acquired the exclusive license of PLENITY® in Mainland China, HK SAR, Macao SAR, TWN, Singapore and the U.A.E. The product is a U.S. FDA-cleared, safe and effective orally-administered weight management product made from naturally derived materials.
- Acquired the exclusive license of Desidustat Tablets in Mainland China, HK SAR, Macao SAR and TWN. The product is a patented new molecular entity and an oral hypoxia-inducible factor-prolyl hydroxylase inhibitor (HIF-PHI), used for the treatment of anemia in patients with chronic kidney disease.

The Clinical Development of Innovative Products in China Progressed Rapidly

- Completed dosing and blood sample collection of all subjects in the registration trial of Diazepam Nasal Spray, which is an innovative drug targeting acute repetitive seizures in people 6 years of age and older that is convenient to use outside the medical setting with a very rapid onset of action.
- Completed the first subject dosing in the registration trial of Cyclosporine Eye Drops 0.09%, which is a preservative-free innovative ophthalmic formulation using globally patented nanotechnology.
- Completed the first subject dosing in the registration trial of Tildrakizumab, which is a monoclonal antibody specifically targeting IL-23.
- The clinical trial application of Desidustat Tablets (Category 1 new drug) has been accepted by China NMPA.

The Healthcare Cross-border E-commerce Business Officially Launched

- "CMS Health Overseas Flagship Stores" have been officially launched on JD Worldwide and Youzan Mall. As at 31 December 2020, 18 quality products of 4 well-known European healthcare brands have been put on the cross-border e-commerce stores.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	3	6,945,964	6,073,624
Cost of goods sold		(1,811,749)	(1,527,308)
Gross profit		5,134,215	4,546,316
Other income/ other gains and losses	4	(73,480)	73,801
Selling expenses		(2,053,233)	(1,939,167)
Administrative expenses		(251,180)	(206,236)
Finance costs	5	(27,520)	(56,255)
Research and development expenses		(66,517)	(45,054)
Share of results of associates		153,804	114,293
Profit before tax		2,816,089	2,487,698
Income tax expense	6	(260,389)	(532,004)
Profit for the year	7	2,555,700	1,955,694
Item that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		(9,327)	(14,523)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive (expense) income of associates		(34,127)	8,865
Exchange differences arising from translation of foreign operations		227	(629)
Change in fair value on cash flow hedges			
- fair value loss		(5,746)	(16,286)
- deferred tax relating to change in fair value		948	2,687
Other comprehensive expense for the year, net of income tax		(48,025)	(19,886)
Total comprehensive income for the year		2,507,675	1,935,808
Profit (loss) for the year attributable to:			
Owners of the Company		2,530,398	1,960,712
Non-controlling interests		25,302	(5,018)
		2,555,700	1,955,694
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		2,482,373	1,940,826
Non-controlling interests		25,302	(5,018)
		2,507,675	1,935,808
		RMB	RMB
Earnings per share	9		
Basic		1.0237	0.7905

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

	NOTES	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment		474,823	472,901
Right-of-use assets		56,862	64,986
Interests in associates		2,639,711	2,590,159
Intangible assets		2,239,588	2,459,128
Goodwill		1,214,535	1,384,535
Equity instruments at fair value through other comprehensive income		415,585	269,704
Deposits paid for acquisition of intangible assets		628,989	325,126
Amount due from an associate		30,000	31,816
Derivative financial instruments		682	-
Deferred tax assets	14	21,759	20,298
		7,722,534	7,618,653
Current assets			
Inventories		381,215	407,058
Financial asset at fair value through profit or loss		3,884	2,736
Trade and other receivables and prepayments	10	1,705,606	1,585,724
Tax recoverable		12,082	10,801
Derivative financial instruments		49	28,192
Amount due from an associate		207,271	152,804
Bank balances and cash	11	2,668,426	1,365,008
		4,978,533	3,552,323
Current liabilities			
Trade and other payables	12	619,284	372,796
Lease liabilities		7,266	9,388
Contract liabilities		14,406	12,939
Bank borrowings	13	10	693,909
Derivative financial instruments		-	142
Deferred consideration payables		2,929	10,744
Tax payable		268,068	447,784
		911,963	1,547,702
Net current assets		4,066,570	2,004,621
Total assets less current liabilities		11,789,104	9,623,274
Capital and reserves			
Share capital	15	84,634	84,963
Reserves		10,949,508	9,387,898
Equity attributable to owners of the Company		11,034,142	9,472,861
Non-controlling interests		68,573	43,271
		11,102,715	9,516,132

	NOTES	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Deferred tax liabilities	14	86,133	91,552
Lease liabilities		5,640	10,491
Deferred consideration payables		1,487	5,099
Bank borrowings	13	587,241	-
Derivative financial instruments		5,888	-
		686,389	107,142
		11,789,104	9,623,274

1. GENERAL INFORMATION

China Medical System Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2006. On 26 June 2007, the Company was listed on the Alternative Investment Market ("AIM") operated by the London Stock Exchange plc. The Company was listed on the Main Board operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 September 2010 and it was delisted from the AIM on the same date. The Company's ultimate holding company and immediate holding company is Treasure Sea Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are production of medicines, marketing, promotion and sale of drugs.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and majority of its subsidiaries.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and the amendments to IFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to IAS 1 and IAS 8 Definition of Material

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

Impacts on application of Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

The Group has applied the amendments for the first time in the current year. The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform. The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures.

The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures. The application of the amendments impacts the Group's accounting in the following ways:

- The Group has floating rate bank borrowings, linked to London Interbank Offered Rate ("LIBOR"), which it cash flow hedges using interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.

- The Group will retain the cumulative gain or loss in the hedging reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to IFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2[5]
Amendments to IFRS 10	Sale or Contribution of Assets between an Investor

and IAS 28	and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018 - 2020[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 June 2020
5 Effective for annual periods beginning on or after 1 January 2021

Except for the amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IFRS 3 *Reference to the Conceptual Framework*

The amendments:

- update a reference in IFRS 3 *Business Combinations* so that it refers to the *Conceptual Framework for Financial Reporting* issued by International Accounting Standards Board in March 2018 (the "Conceptual Framework") instead of the International Accounting Standards Committee's *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in September 2010);
- add a requirement that, for transactions and other events within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, an acquirer applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

Amendments to *IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2*

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform - Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying IFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRSs requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16;

- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and
- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has several LIBOR bank borrowings which will be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

Amendments to IFRSs *Annual Improvements to IFRSs 2018 - 2020*

The annual improvements make amendments to the following standards.

IFRS 9 Financial Instruments

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

IFRS 16 Leases

The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

IAS 41 Agriculture

The amendment ensures consistency with the requirements in IFRS 13 *Fair Value Measurement* by removing the requirement in paragraph 22 of IAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

The following is an analysis of the Group's revenue from its major products and services:

At a point in time	2020 RMB'000	2019 RMB'000
Sales of pharmaceutical products	5,709,327	4,768,335
Promotion income	1,236,637	1,305,289
Total revenue	6,945,964	6,073,624

(ii) Performance obligations for contracts with customers

The Group sells and promotes pharmaceutical products to hospital and medical institutions throughout the PRC through distributors of direct network and agency network.

The Group has acted as principal for transactions of pharmaceutical products and acted as agent for the promotion services. In assessing whether the Group acted as principal or agent, the Group has considered whether it controls the pharmaceutical products and promotion services before such products and/or services are transferred to customers, indicators including but not limited to whether the Group has primary responsibility in providing the goods and services to the customers, inventory risk before the customers' order and whether it has discretion in establishing price.

For sales of pharmaceutical products to customers, revenue is recognised at a point in time when control of the pharmaceutical products is passed to customers, i.e. when the products are delivered and titles have passed to customers upon receipt by customers. Sales rebates will be granted to customers by the Group for qualified purchases at a pre-determined amount per unit.

For promotion of pharmaceutical products, revenue is recognised at a point in time when the Group satisfies its obligation to arrange for the pharmaceutical products to be provided by suppliers to distributors.

A contract liability represents the Group's obligation to sales of pharmaceutical products to customers for which the Group has received consideration from (or an amount of consideration is due from) customers while revenue has not yet been recognised. All the revenue contracts are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

(iii) Segment information

The Group determines its operating segments based on the internal reports reviewed by the Executive Directors of the Company, being the chief operating decision maker that are used for resources allocation and assessment of segment performance.

The Group only has one reportable operating segment that is marketing, promotion, sales and manufacturing of pharmaceutical products. No operating results and discrete financial information is available for the assessment of performance of the respective business divisions and resources allocation purpose. Therefore, no analysis of the Group's revenue, results, assets and liabilities by operating segments is presented.

The Group's production of medicines, marketing, promotion and sale of drugs are primarily in the PRC. Almost all revenue from external customers is attributed to the PRC, 74% and 26% of non-current assets excluding amount due from an associate, derivative financial instruments and deferred tax assets of the Group are located in the PRC and Dubai, respectively (2019: 74% and 26%).

No single customer contributes over 10% of the total revenue of the Group for both years.

4. OTHER INCOME/ OTHER GAINS AND LOSSES

	2020 RMB'000	2019 RMB'000
Impairment loss on intangible assets	(57,598)	(4,730)
Impairment loss on goodwill	(170,000)	-
Impairment loss on deposit paid for acquisition of intangible assets	-	(963)
Interest income	61,031	41,998
Government subsidies (Note a)	46,927	47,377
Loss on disposal of property, plant and equipment	(145)	(9,122)
Gain on disposal of right-of-use assets	-	6,268
Net foreign exchange gain (loss)	60,560	(18,851)
Change in fair value of derivative financial instruments	(13,827)	8,904
Change in fair value of financial assets at fair value through profit or loss	(567)	-
Release on deferred difference on initial recognition of financial instruments	1,929	1,929
Others	(1,790)	991
	(73,480)	73,801

Note:

(a) The amounts for both years mainly represented the incentive subsidies provided by the PRC local authorities to the Group to encourage business operation in the PRC. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

5. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on bank borrowings	26,109	53,862
Interest on lease liabilities	1,094	1,314
Imputed interest on deferred consideration payables	317	1,079
	27,520	56,255

6. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current tax:		
The PRC Enterprise Income Tax	223,843	161,737
Malaysian Corporate Income Tax	-	357,219
Hong Kong Profits Tax	627	7,009
Macau Complementary Income Tax	127,866	4,782
Others	-	40

	352,336	530,787
(Over) underprovision in prior years:		
The PRC Enterprise Income Tax	1,168	7,975
Malaysian Corporate Income Tax	(87,183)	-
	(86,015)	7,975
Deferred taxation (note 14):		
- Current year	(5,932)	(6,758)
	260,389	532,004

Notes:

(a) The PRC Enterprise Income Tax

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for the PRC taxation purposes at the applicable rates for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except for those described below.

天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% (2019: 15%) granted by the local tax authority until 2020. 康哲(湖南)制藥有限公司 (Kangzhe (Hunan) Medical Co., Ltd.) ("Kangzhe Hunan") is entitled to a reduced tax rate of 15% (2019: 15%) granted by local tax authority until 2022. 西藏康哲藥業發展有限公司 (Tibet Kangzhe Pharmaceutical Development Co., Ltd.) ("Tibet Kangzhe Development") is entitled to a reduced tax rate of 9% (2019: 9%) granted by local tax authority until 2021.

(b) Malaysian Corporate Income Tax and Withholding Income Tax

Due to the tax reform under Labuan New Tax Legislation, the Group's Malaysian subsidiary is taxed under the Malaysian Income Tax Act 1967 (the "Act 1967") with effect from the year of assessment 2019. The statutory income tax of the Group's Malaysian subsidiary is at 24% of the chargeable income and withholding income tax of 15% and 10% shall be levied on the interest payment and royalty payment, respectively from the companies established in Malaysia to overseas entities for the year ended 31 December 2019. The Malaysian subsidiary had been disposed of by the Group on 17 December 2019.

(c) Hong Kong Profits Tax

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%, while only one entity nominated by a group of "connected" entities will be entitled to select the lower tax rate. The profits of group entities not elected/qualified for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

(d) PRC Withholding Income Tax

PRC withholding income tax of 10% shall be levied on the dividend declared by the companies established in the PRC to their foreign investors out of their profits earned after 1 January 2008. A lower 5% withholding rate may be applied when the immediate holding company of the PRC subsidiaries are incorporated or operated in Hong Kong and fulfil the requirements to the tax treaty arrangements between the PRC and Hong Kong.

(e) Overseas Income tax

The company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap.22 of Cayman Islands and accordingly, is exempted from the Cayman Islands Income Tax.

(f) Macau Complementary Income Tax

Macau Complementary Income Tax is calculated at the progressive rate on the estimated assessable profits. The maximum tax rate is 12% for the years ended 31 December 2020 and 2019.

(g) Dubai Tax

The United Arab Emirates does not have a federal corporate income tax regime. Instead, corporate income tax is determined on a territorial basis under the respective Tax Decrees issued by the government of each individual Emirate (of which there are seven that make up the United Arab Emirates), among which Dubai has no legislation imposing corporate income taxes. On the basis of the above, most entities registered in Dubai are currently not required to file corporate tax returns in Dubai, regardless of where the business is registered. According to prevailing regulations in Dubai, no income tax is imposed on the Company's subsidiaries in Dubai.

7. PROFIT FOR THE YEAR

	2020 RMB'000	2019 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	1,218	1,146
Salaries and other benefits	11,372	8,652
Contribution to retirement benefits schemes	80	185
	12,670	9,983
Other staff costs	710,472	604,816
Contribution to retirement benefits schemes	28,911	43,608
Employee benefits expense (note 16)	25,000	14,000
Total staff costs	777,053	672,407
Auditor's remuneration	3,305	3,186
Written off for inventories (included in cost of goods sold)	-	2,948
Depreciation of property, plant and equipment	35,117	32,181

Depreciation of right-of-use assets	11,257	9,557
Amortisation of intangible assets (included in cost of goods sold)	161,942	162,317
Cost of inventories recognised as an expense	1,641,855	1,349,705

For the year ended 31 December 2020, Covid-19 related government grants amounted to RMB19,617,000 have been offset against staff costs.

8. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2020 Interim - RMB0.2105 (2019: 2019 interim dividend RMB0.1883) per share	520,095	467,061
2019 Final - RMB0.1271 (2019: 2018 final dividend RMB0.1434) per share	314,034	355,691
	834,129	822,752
Dividends proposed		
Dividends proposed during the year:		
2020 final – RMB0.2033 (2019: 2019 final - RMB0.1271) per share	502,306	315,260

The Board has declared a final dividend of RMB0.2033 per ordinary share for the year ended 31 December 2020 (2019: RMB0.1271 per ordinary share).

9. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	2020 RMB'000	2019 RMB'000
Earnings for the purposes of basic earnings per share (profit attributable to owners of the Company)	2,530,398	1,960,712

	Number of ordinary shares as at 31 December	
	2020	2019
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,471,841,299	2,480,408,512

The Group has no outstanding potential ordinary shares as at 31 December 2020 and 2019 and during the years ended 31 December 2020 and 2019. Therefore, no diluted earnings per share is presented.

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2020 RMB'000	2019 RMB'000
Trade receivables	1,056,176	1,010,198
Less: Allowance for credit losses	(8,228)	(8,336)
	1,047,948	1,001,862
Bills receivables	445,998	414,017
Purchase prepayments	137,360	73,039
Other receivables and deposits	74,300	96,806
	1,705,606	1,585,724

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB1,280,702,000.

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers, but longer credit period up to four months is allowed to some selected customers.

The following is an analysis of trade receivables by age, net of allowance for credit losses presented based on the dates of receipt of goods at the respective reporting dates, which approximate the revenue recognition dates and an analysis of bill receivables by age, net of allowance for credit losses, presented based on the bills issuance date at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Trade receivables		
0 - 90 days	1,034,677	923,722
91 - 365 days	13,271	78,140
	1,047,948	1,001,862
Bill receivables		
0 - 90 days	276,546	303,460
91 - 120 days	45,732	29,524
121 - 180 days	123,720	81,033
	445,998	414,017

As at 31 December 2020, total bills receivables amounting to RMB445,998,000 (2019: RMB414,017,000) are held by the Group. All bills receivables by the Group are with a maturity period of less than six months.

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB10,872,000 (2019: RMB93,057,000) which are past due at the reporting date. Included in the past due balances, RMB3,604,000 (2019: RMB70,103,000) was aged 90 days or more and is not considered as in default. Based on the historical experiences of the Group, trade receivables past due are generally recoverable due to the long term relationship and good repayment record.

The Group does not hold any collateral over these balances.

11. BANK BALANCES AND CASH

The bank deposits carry interest at the prevailing market rate of approximately 0.30% to 1.95% (2019: 0.35% to 2.75%) per annum. Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2020 RMB'000	2019 RMB'000
Euro ("EUR")	8,459	33,090
Hong Kong Dollar ("HK$")	13,613	12,749
United States Dollar ("US$")	10,411	2,927
CHF	1,557	717
GBP	3,180	1,266

12. TRADE AND OTHER PAYABLES

An aging analysis of the trade payables presented based on the invoice date at the end of the reporting periods is as follows:

	2020 RMB'000	2019 RMB'000
0 - 90 days	128,643	37,941
91 - 365 days	3,185	4,762
Over 365 days	2,980	1,337
Trade payables	134,808	44,040
Payroll and welfare payables	205,357	124,873
Other tax payables	90,935	67,186
Accrued promotion expenses	84,233	85,555
Accrued sales rebates	25,000	-
Accruals	44,872	31,746
Other payables	34,079	19,396
	619,284	372,796

The credit period on purchases of goods is ranging from 0 to 120 days.

13. BANK BORROWINGS

	2020 RMB'000	2019 RMB'000
Bank loans	587,251	693,909
Analysed as:		
Secured	10	10
Unsecured	587,241	693,899
	587,251	693,909

	2020 RMB'000	2019 RMB'000

The carrying amounts of the above borrowings are repayable*:		
Within one year	10	693,909
Within a period of more than one year but not exceeding two years	117,448	-
Within a period of more than two years but not exceeding five years	469,793	-
	587,251	693,909
Less: Amounts due within one year shown under current liabilities	(10)	(693,909)
Amounts shown under non-current liabilities	587,241	-

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The ranges of effective interest rates (which are also equal to contractual interest rate) on the Group's borrowings and their carrying values are as follows:

	2020 RMB'000	2019 RMB'000
Fixed-rate borrowings		
Denominated in RMB (5.23% per annum as at 31 December 2020 and 2019)	10	10
Variable-rate borrowings (Note b)		
Denominated in US$ range from 1.44% to 1.49% per annum as at 31 December 2020 (2019: 3.53%) (Note a)	587,241	693,899
Total	587,251	693,909

Notes:

(a) Variable rates range from LIBOR plus 1.25% to LIBOR plus 1.3% as at 31 December 2020 (2019: LIBOR plus 1.8%).

(b) As at 31 December 2020, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB587,241,000 (2019: RMB693,899,000). The principal amount of the variable-rate bank borrowings will be repayable on 24 March 2023 and 27 March 2023 (2019: 23 June 2020).

As at 31 December 2020, the Group had unutilised banking facilities of approximately RMB1,478,227,000 (2019: RMB1,718,562,000).

14. DEFERRED TAX

The following are the deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

Unrealised profits on inventories	Fair value adjustments to assets acquired in business combinations	Unrealised profit of equity instruments at FVTOCI	Fair value (gain) loss on cash flow hedges	Others	Total

	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	19,511	(34,783)	(63,964)	(2,664)	1,201	(80,699)
(Charge) credit to profit or loss for the year (note 6)	(437)	7,195	-	-	-	6,758
Credit to other comprehensive income	-	-	-	2,687	-	2,687
At 31 December 2019	19,074	(27,588)	(63,964)	23	1,201	(71,254)
Credit to profit or loss for the year (note 6)	513	5,419	-	-	-	5,932
Credit to other comprehensive income	-	-	-	948	-	948
At 31 December 2020	19,587	(22,169)	(63,964)	971	1,201	(64,374)

15. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of US$0.005 each		
Authorised		
At 1 January 2019, 31 December 2019 and 31 December 2020	20,000,000	765,218
Issued and fully paid		
At 1 January 2019, 31 December 2019 and 1 January 2020	2,480,409	84,963
Shares repurchased and cancelled (Note)	(9,648)	(329)
At 31 December 2020	2,470,761	84,634

Note: During the year ended 31 December 2020, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Date of repurchase	No. of ordinary shares of US$0.005 each	Price per share Highest	Price per share Lowest	Aggregated consideration paid
11 February 2020	9,648,000	HK$10.30	HK$10.04	HK$98,164,100

The above ordinary shares were cancelled upon repurchase.

Save as disclosed above, none of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the years ended 31 December 2020 and 2019.

16. EMPLOYEE BENEFIT SCHEME

The 2009 Scheme was adopted by the Board on 31 July 2009 (the "Adoption Date"). Unless terminated earlier by the Board, the 2009 Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the 2009 Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the 2009 Scheme. A summary of some of the principal terms of the 2009 Scheme is set out in below.

(a) The purpose of the 2009 Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to

establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

(b) Under the 2009 Scheme, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think appropriate select an employee (the "Member") who completed 10 years' services in the Group (subject to consent of the Board if the employee completed 5 years' services in the Group) for participation in the 2009 Scheme for 10 years after retirement (the "Payment Year") (subject to adjustment set out in (d) below).

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (the "Fund"). If the value of the Fund is less than the aggregate amount of contributions previously made by the Company, the amount payable to the Members and the Payment Year will be adjusted by a factor derived from the value of the Fund and the aggregate amount of contributions previously made by the Company. The only obligation of the Company is to make the Yearly Contributions to the Fund. As such, the 2009 Scheme is classified as defined contribution scheme.

On 22 December 2016, the Board has resolved to adopt two new employee incentive schemes, with details as follows:

(a) The Bonus Scheme

i. This scheme is for the purpose of providing discretionary cash bonuses to selected employees of the Group to recognise their contribution to the Group.
ii. This scheme is open to the employees employed by the Group, except for the directors of the Company.

(b) The New KEB Scheme

i. The New KEB Scheme will replace the 2009 Scheme and shall comprise terms which are substantially similar to the 2009 Scheme.
ii. The subsisting rights of all participants under 2009 Scheme will be rolled over to the New KEB Scheme.

For the purposes of effecting the merger and facilitating the administration of the Bonus Scheme and the New KEB Scheme, the Company has resolved to set up a new trust comprising the Bonus Scheme and KEB Scheme (collectively referred to as the "Master Scheme"). Unless terminated earlier by the Board, the Master Scheme shall be valid and effective until the later of the termination of the Bonus Scheme or the New KEB Scheme. The term of each of the Bonus Scheme and the New KEB Scheme is 20 years subject to the terms of their respective scheme rules. TMF Trust (HK) Limited ("TMF"), a company incorporated in Hong Kong, is appointed as the initial trustee of the new trust (the "New Trustee").

A summary of some of the principal terms of the Bonus Scheme is set out in below:

(a) The Company will, on a yearly basis, contribute the sum equal to an amount of 0% to 15% on the net profit growth on the audited consolidated financial statements of the Group ("Annual Contribution"), subject to the approval from the Benefit Scheme Executive Committee, comprising executive directors of the Company. No contribution will be made by the Company if there is no growth on the net profit in the year.

(b) The amount payable to the members of the Bonus Scheme in a financial year depends on a variety of factors, including the value of the assets held by the New Trustee (the "New Fund"), the appreciation in the value of the assets held under the New Fund, the financial performance of the Group and the performances of individual employees during the year. The New Fund is independent from the Company and the change in value of the New Fund has no impact on the Group's financial performance and financial position. The only obligation of the Company is to make the Annual Contributions to the New Fund subject to the terms of the scheme rules of the Bonus Scheme. The Bonus Scheme is classified as a discretionary scheme of the Company.

During the year ended 31 December 2020, the Company recognised an expense of RMB25,000,000 (2019: RMB14,000,000) on the Master Scheme based on the Group's financial performance. RMB25,000,000 (2019: RMB14,000,000) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

CMS is a well-established, innovation-driven specialty pharma with a focus on sales and marketing in China. We concentrate on deploying innovative products that are global first-in-class, or with the best efficacy, safety or cost-effectiveness in the class due to their innovative formulations or drug delivery systems, and have established an innovative pipeline with relatively high innovation level, good market potential and competitive differentiation advantages. We have more than two decades of proven and successful experience in drug promotion, with many existing products being in leading market positions. Jointly driven by the strong product competence, the powerful sales and promotion capability, and the professional, efficient and refined internal management system, the Company has become one of the most efficient companies in China's pharmaceutical industry.

Business Review

In 2020, with the implementation of various policies such as the normalized National Volume-based Procurement ("VBP"), National Reimbursement Drug List negotiation, Registration Regulation on Pharmaceutical Representatives and anti-corruption related policies, the reform of China's pharmaceutical industry has delivered initial results. Facing the new business formats and competitive landscape of the pharmaceutical industry, the Group has constantly innovated and changed, accelerating the clinical development of innovative drugs in China while continuously reinforcing the investment and deployment of innovative drugs. In the meantime, keeping abreast of the consumption upgrade and internet trends, the Group capitalized on its overseas resources accumulated for over two decades to enter the healthcare field, aiming to inject new impetus for future development and performance growth.

During the Reporting Period, the Group utilized innovative digital marketing tools on a large scale and strengthened the refined management and the iterative training system. Jointly driven by the product competence, the sales and promotion capability and the efficient management system, the Group has achieved sound growth for the year.

I. Pharmaceutical Business

1. Innovative Pipeline

As at 31 December 2020, the Group had more than 20 innovative products with high innovation level, good market potential and competitive differentiation advantages. Among them, 9 products had been approved for marketing in the United States (U.S.) and/or Europe and 3 were under registration trials in China.

Launched Overseas or Under Marketing Approval Review

Product	Indication	Innovativeness	Clinical Trial Approval	Clinical Trial for Registration	Marketing Approval Application	Marketed	Marketed Country/ Region
Diazepam Nasal Spray	Seizure clusters or acute pepetitive seizures in patients with epilepsy 6 years of age and older	Proprietary technology for special dosage form					The U.S.
							China
Cyclosporine Eye Drops 0.09%	Increasing tear production in patients with keratoconjunctivitis sicca (dry eye)	Global nanotechnology patent					The U.S.,Australia
							China
Tildrakizumab (Biological Agent)	Moderate-to-severe plaque psoriasis	Innovative biological agent; substance and formulation patents					The U.S.,Europe, Australia,Japan
							China
PLENITY	An aid for weight management in adults with a BMI of 25-40 kg/m^2 when used in conjunction with diet and exercise	Formulation/use and preparation method patents					The U.S.,Europe
Methotrexate Pre-filled Syringe/Pen	Rheumatoid arthritis and other autoimmune diseases	Use, formulation and method patents in the U.S. and Europe					The U.S.,Europe
BCG for Intravesical Instillation (Biological Agent)	Non-invasive urothelial bladder carcinoma, including curative treatment of carcinoma in situ and prophylactic treatment of recurrence	High barriers of live strain cultivation technology and industrialized supply					Europe
Methylene Blue MMX	An oral diagnostic drug, enhancing visualisation of colorectal lesions in screening or surveillance colonoscopy	Formulation patent					Europe
Latanoprost Eye Drops*	Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension	Innovative technology platform to dissolve ophthalmic drugs with limited water absorbability					The U.S.
							China
Levetiracetam XR Tablet	Adjunctive therapy for the treatment of partial-onset seizures	Specialty formulation technology					The U.S.
Paclitaxel Injection Concentrate for Suspension	Metastatic breast cancer, locally advanced/metastatic non-small cell lung cancer, metastatic adenocarcinoma of the pancreas	Formulation patents					The U.S.
PoNS	Chronic balance deficit due to mild-to-moderate traumatic brain injury	Innovative medical device					Canada
							The U.S.

Under Clinical Stages

Product	Indication	Innovativeness	Clinical Trial Approval	Phase I	Phase II	Phase III	Marketing Approval Application	Marketed	Country/ Region for Clinical Trials
SDN-037	Eye pain and inflammation after cataract surgery	Proprietary nano-sized micelle drug delivery system							Overseas
Desidustat Tablets**	Anemia in patients with chronic kidney disease	New molecular entity; substance patent							Overseas
									China
PDP-716	Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension	Resin microparticle-complexed drug technology							Overseas
CF101	Psoriasis	New lead compound							Overseas
CF102	Hepatocellular carcinoma	New lead compound							Overseas
	Non-alcoholic fatty liver disease/non-alcoholic steatohepatitis								Overseas
XF-73	Prevention of post-surgical staphylococcal infections	New lead compound; compound patent and use patent							Overseas
BB2603	Onychomycosis and tinea pedis	Formulation patents							Overseas
ACT017 (Biological Agent)	Acute phase of ischemic stroke	Innovative biological agent; substance patent							Overseas
VXM01 (Biological Agent)	Recurrent glioblastoma	Innovative biological agent; production process patent and use patent							Overseas

* In January 2021, the clinical trial application of Latanoprost Eye Drops has been accepted by National Medical Products Administration ("NMPA") of China.

** In January 2021, the clinical trial application of Desidustat Tablets has been approved by China NMPA. During the second half of 2020, the Group terminated the extended Phase III clinical trial of Tyroserleutide (CMS024).

1.1 Continuous Expansion of the Innovative Pipeline

Strategically collaborated with Cosmo and acquired the innovative product Methylene Blue MMX - an oral methylene blue modified-release formulation that enhances diagnosis sensitivity in detecting the cancerous/precancerous lesions during colonoscopy for the screening of colorectal cancer

In December 2020, the Group signed a license, collaboration and distribution agreement with Cosmo Technologies Ltd. ("Cosmo") for Methylthioninium Chloride Cosmo (Methylene Blue MMX) and any line extension thereof, and gained an exclusive license to develop and commercialize the product and use the product mark in association with the commercialization of the product in Mainland China, the Hong Kong Special Administrative Region ("HK SAR"), the Macao Special Administrative Region ("Macao SAR") and Taiwan ("TWN").

Formulated by Cosmo's proprietary technology, Methylene Blue MMX is a novel oral formulation of the existing liquid colon staining dye methylene blues. The product has been approved by the European Medicines Agency ("EMA") to be commercialized in Europe under the trade name Lumeblue™ for the detection of lesions during colonoscopy in August 2020.

Colorectal cancer is one of the most common malignant tumours in the digestive system. In China, there were 376,000 new cases and 191,000 deaths reported each year, according to the 2018 China Cancer Statistics Report. The detection and removal of the lesions, such as adenomas, is critical, as survival is significantly better when colorectal cancer is diagnosed early before it spreads and advances, thus population-based screening for colorectal cancer is widely recommended globally. Colonoscopy is regarded as the gold standard in screening for colorectal cancer, and Methylene Blue MMX is clinically approved to improve the detection of all lesions, including precancerous lesions, such as adenoma, in the colon during endoscopy. The potential benefits of adding Methylene Blue MMX to routine colonoscopy screening procedures are clear.

Strategically collaborated with medac and acquired the innovative products Methotrexate Pre-filled Syringe/Pen and BCG for Intravesical Instillation

In September 2020, the Group signed a distribution, supply and license agreement with medac Gesellschaft für klinische Spezialpräparate m.b.H ("medac") for the standard-care products including Methotrexate Pre-filled Syringe/Pen and BCG for Intravesical Instillation, which have been marketed in Europe and/or in the U.S. The Group gained an exclusive license to use all relevant intellectual property and intellectual property rights owned or controlled by medac or its affiliates for the development, registration and commercialization of the products in Mainland China, HK SAR, Macao SAR and TWN (TWN is not applicable to the product BCG for Intravesical Instillation).

Methotrexate Pre-filled Syringe/Pen - expected to be the first MTX pre-filled injection for subcutaneous administration for the treatment of RA in China

Methotrexate Pre-filled Syringe/Pen is Methotrexate (MTX) injectables of multiple low-dose formulations in a small volume, allowing self-administration subcutaneously by patients. The products have been approved by European Heads of Medicine Agencies ("HMA") or/and the U.S. Food and Drug Administration ("FDA") for the treatment of rheumatoid arthritis (RA) and other autoimmune diseases.

RA is one of the major autoimmune diseases, as stated by the *Chinese Rheumatoid Arthritis Diagnosis and Treatment Guidelines 2018*, the incidence of RA in Mainland China is 0.42%, with around 5 million patients. MTX is internationally well accepted as the first-line gold standard medicine for the systemic treatment for RA. Compared with the oral application of MTX, subcutaneous administration route can achieve better bioavailability, significant improvement of clinical efficacious response and favorable adverse effect profile for patients as well as convenience of dosage management in practice. As neither pre-filled MTX injection products nor MTX injectables for the treatment of RA is marketed in China, Methotrexate Pre-filled Syringe/Pen is expected to become better alternatives for RA patients.

BCG for Intravesical Instillation - launched in Europe for many years, and is the only BCG therapy available in many countries

BCG for Intravesical Instillation is the lyophilised powder of live Bacillus Calmette-Guérin (BCG) bacteria derived from *Mycobacterium bovis*, strain RIVM. It has been approved as a biologics by European HMA for the treatment of non-invasive urothelial bladder carcinoma, including curative treatment of carcinoma in situ and prophylactic treatment of recurrence of urothelial carcinoma limited to mucosa (Ta G1-G2 if multifocal and/or recurrent tumour; Ta G3), urothelial carcinoma in lamina propria but not the muscular of the bladder (T1) and carcinoma in situ. The product has been launched in many countries in Europe and beyond, including Germany, France, Ireland and Italy since 2001.

According to the *Analysis of the Incidence and Death of Bladder Cancer in China in 2014*, there were approximately 78,100 new cases of bladder cancer nationwide in 2014, with an incidence of 5.71 per 100,000, among which non-muscular invasive bladder cancer (NMIBC) accounts for nearly 80% of all initial diagnoses. Approximate 63.4% of those patients, about 40,000 per year, with NMIBC are at intermediate or high risk. For the high-risk and some intermediate-risk NMIBC patients, postoperative intravesical BCG is recommended to prevent recurrence and disease progression, based on both international and Chinese domestic treatment guidelines. The treatment is a well-established immunotherapy for bladder cancers. However, there has been a worldwide BCG shortage, including in China, in recent years. The introduction of BCG for Intravesical Instillation will greatly improve the availability of BCG for bladder cancer patients.

Made equity investment in Gelesis and acquired the innovative product PLENITY® - a safe and effective orally-administered weight management product made from naturally derived materials

In June 2020, the Group made an equity investment in Gelesis, Inc. ("Gelesis") (As at 31 December 2020, the Group held 5.62% ownership of Gelesis) and signed a license, collaboration and supply agreement

with Gelesis for PLENITY®, gaining an exclusive license under Gelesis intellectual property and applicable regulatory approvals to develop, import, register, make and have made, manufacture and commercialize the product in Mainland China, HK SAR, Macao SAR, TWN, Singapore and the United Arab Emirates (U.A.E.).

PLENITY® is a non-systemic, non-stimulant, safe and effective orally-administered weight management product made from naturally derived materials. It was cleared by the U.S. FDA in April 2019 as an aid for weight management in adults with a Body Mass Index (BMI) of 25–40 kg/m^2 when used in conjunction with diet and exercise. In addition, PLENITY® also received a CE mark, allowing it to be marketed in European Economic Area.

Statistics show that in 2015, overweight and obesity accounted for 23% and 5% of the adult population, respectively, in China. Currently, the commonly used weight loss and weight maintenance drugs have different degrees of adverse reactions; whilst, most products in the healthcare market have not been fully validated by evidence-based medicine in terms of effectiveness and safety. The pivotal clinical trial supporting the U.S. FDA clearance showed that after six months of treatment with PLENITY®, nearly 60% of patients achieved at least 5% weight loss (an average of 10% weight loss, or 10 kg) and 26% achieved at least 10% (an average of 14% weight loss, or 13 kg). Meanwhile, PLENITY® demonstrated a highly favorable safety profile: no difference in the overall incidence of adverse events compared with placebo. The introduction of PLENITY® would meet the market demand and provide patients with an effective and safe treatment option.

Strategically collaborated with Zydus and acquired the innovative product Desidustat Tablets - an oral hypoxia-inducible factor-prolyl hydroxylase inhibitor

In January 2020, the Group signed a license agreement with Cadila Healthcare Limited ("Zydus") for Desidustat Tablets and gained a royalty-bearing, exclusive, sub-licensable license under the licensed technology and Zydus data to develop, register and to manufacture, use and commercialize the product in Mainland China, HK SAR, Macao SAR and TWN. The manufacturing of the product preparations will be localized by the Group in China with technology transfer from Zydus.

Desidustat Tablets, which is under two Phase III clinical trials overseas, is a novel oral hypoxia-inducible factor-prolyl hydroxylase inhibitor (HIF-PHI) for treating anemia in chronic kidney disease (CKD) patients. During the Reporting Period, the Group has completed the manufacturing of preparations used for clinical trials through technology transfer and submitted the Category 1 new drug's clinical trial application, which has been approved by the NMPA of China in January 2021. The Group is currently actively preparing for the relevant clinical trials.

It has been reported that more than 120 million people are estimated to be living with CKD in China, and anemia is one of the frequent complications of CKD. A survey in China showed that the prevalence of anemia in patients at CKD stage 1 to 5 were 22.0%, 37.0%, 45.4%, 85.1%, and 98.2%, respectively. However, the target-achieving rate was only 8.2% for anemia patients in non-dialysis CKD and 35.2%

for hemodialysis CKD. As a HIF-PHI, Desidustat Tablets is administrated orally and has good efficacy, safety and treatment compliance, expected to meet this unmet treatment need.

1.2 Clinical Development Progress of the Innovative Pipeline

Diazepam Nasal Spray - an innovative drug targeting acute repetitive seizures that is convenient to use outside the medical setting with a very rapid onset of action

Diazepam Nasal Spray is a proprietary formulation of diazepam and was approved for marketing in January 2020 by the U.S. FDA under the VALTOCO® brand name for the treatment of intermittent, stereotypic episodes of frequent seizure activity (i.e., seizure clusters, acute repetitive seizures) in patients with epilepsy six years of age and older.

According to the clinical trial notice issued by China NMPA, the Group has been carrying out a comparative pharmacokinetics (PK) study in Chinese subjects and will submit a post-marketing study plan to further verify the efficacy and safety at the same time of submitting New Drug Application. As at 31 December 2020, the Group has completed the dosing and blood sample collection of all subjects of the comparative PK study.

According to the estimation based on domestic epidemiological data, there are about 6 million active epilepsy patients in China and about 0.4 million new cases reported each year. In patients with epilepsy who have received regular treatment (about 2 million), 20%-30% are still out of effective control and are at risk of repetitive seizures. Diazepam Nasal Spray's formulation incorporates the unique combination of a vitamin E-based solvent and Intravail® absorption enhancement, which help it to obtain unparalleled absorption, tolerability, and reliability. The clinical trials supporting the U.S. FDA clearance showed that compared with intravenous diazepam, PK studies in the product in healthy subjects demonstrated 96% absolute bioavailability and comparable bioavailability to rectal diazepam gel with significantly less variability. Diazepam Nasal Spray will effectively fulfill the market gap and become a long-term prepared medicine that is easy to use outside the medical setting and has a very rapid onset of action for patients with acute repetitive seizures.

Cyclosporine Eye Drops 0.09% - a preservative-free, innovative ophthalmic formulation using globally patented nanotechnology

Cyclosporine Eye Drops 0.09% is a novel, twice-a-day, preservative-free, clear ophthalmic solution using a globally patented nanotechnology. The product has been approved for marketing in the U.S. under the brand name of CEQUA™ for increasing tear production in patients with keratoconjunctivitis sicca (dry eye), and has also been approved for commercialization in Australia.

The Group received the clinical trial notice issued by China NMPA in June 2020, which agreed to carry out a randomized, double-blind, placebo-controlled, multi-center Phase III clinical study on the safety and effectiveness of Cyclosporine Eye Drops 0.09% for the treatment of dry eye. As at 31 December 2020, the Group has completed the first subject dosing of this registration trial.

The incidence of dry eye in China is 21%-30%, of which moderate-to-severe patients account for 40%, or about 118-168 million patients. Although various symptom alleviating agents such as artificial tears are available in the market, there are few satisfactory options in practice. In addition, in terms of ophthalmic cyclosporine, relevant treatment options are still limited due to the historic challenge of making an optic formulation of this agent at a relatively higher concentration without increasing side effects. Based on patented nanotechnology, Cyclosporine Eye Drops 0.09% uses a unique tiny structure called "micelles" as the vehicle to allow for greater tissue penetration with gentle side effect profile even in a high concentration, and is expected to provide patients with dry eye a safe and effective treatment option.

Tildrakizumab - a monoclonal antibody specifically targeting IL-23

Tildrakizumab is a humanized lgG1/k monoclonal antibody designed to selectively bind to the p19 subunit of interleukin-23(IL-23) and inhibit its interaction with the IL-23 receptor, leading to inhibition of the release of pro-inflammatory cytokines and chemokines. The product has been approved for marketing in the U.S. under the brand name of ILUMYA™ for the treatment of adults with moderate-to-severe plaque psoriasis who are candidates for systemic therapy or phototherapy, and it has also been approved for commercialization in Europe, Australia and Japan.

The Group received the clinical trial notice issued by China NMPA in August 2020, which agreed to carry out a randomized, double-blind, placebo-controlled, multi-center Phase III clinical trial on the effectiveness and safety of Tildrakizumab for the treatment of patients among the Chinese population with moderate-to-severe plaque psoriasis. As at 31 December 2020, the Group has completed the first subject dosing of this registration trial.

There are more than 6.5 million people suffering from psoriasis in China. About 30% of patients are with moderate-to-severe psoriasis; among them, nearly 62% are dissatisfied with existing treatment options. The pivotal Phase III clinical trials supporting the U.S. FDA clearance showed that an average of 63% of patients receiving Tildrakizumab achieved 75% of skin clearance by week 12, and 77% of patients achieved 75% of skin clearance after 28 weeks. In the meantime, a higher number of Tildrakizumab-treated patients achieved 90% and 100% of skin clearance compared with placebo and Etanercept. Once marketed in China, Tildrakizumab is expected to be a safe, effective and the most cost-effective innovative monoclonal antibody targeting IL-23, benefiting more patients and their families in China.

1.3 List of Equity-invested R&D Companies

The Group acquires asset rights (including intellectual property rights) or obtains exclusive licensing rights (collectively, the "Product Rights") of innovative products through equity investment and strategic cooperation. For equity investments in overseas product projects under clinical stages, to reduce risks assumed and capital spending by the Group, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder (as defined in the Listing Rules of the Stock Exchange (the "Listing Rules")) of the Company, will typically through his privately-owned company make equity investments together with the Group on a 50:50 basis, to assist the Group in securing 100% of the

Product Rights of innovative products in the relevant territories from potential R&D companies. As at 31 December 2020, the Group and/or Mr. Lam Kong (through his privately-owned company) have made equity investments in certain R&D companies, which are summarized as follows:

Overseas R&D Companies	Ownership* Held by the Group	Ownership* Held by Mr. Lam Kong#	Main Products in Respect of Which the Group Acquired the Product Rights
Destiny Pharma plc.	5.77%	5.77%	XF-73
Acticor Biotech	9.32%	9.32%	ACT017
Blueberry Therapeutics Limited	14.06%	14.06%	BB2603
Neurelis, Inc.	8.01%	12.35%	Diazepam Nasal Spray
Vaximm AG	4.74%	4.74%	VXM01
Midatech Pharma PLC	8.24%	8.24%	MTX110
Gelesis, Inc.	5.62%	-	PLENITY®

*The above ownership percentages were calculated based on the shares issued by the overseas R&D companies as at 31 December 2020

The interest is held by Mr. Lam Kong through his privately-owned company

With the continuous expansion of the business, the Group's risk resistance ability is gradually enhanced. The Board has approved that, starting from 1 January 2021, the equity investments related to overseas products under clinical stages will be solely made by the Group, and Mr. Lam Kong will no longer through his privately-owned company make equity investments together with the Group on a 50:50 basis.

2. Competitive Generics

As at 31 December 2020, the Group had exclusive licenses of 1 complex generic and 10 competitive generics in Mainland China and/or HK SAR, Macao SAR and TWN. Among them, 10 generics including the complex generic have been approved for marketing in the U.S. or Europe.

Complex generics are with high technical barriers and can enhance the accessibility of medicines for patients, while competitive generics are expected to contribute additional growth for the Group via participating in the National VBP. According to 2020 IQVIA data, the total sales of drugs with the same active pharmaceutical ingredients ("API") of the Group's generics in Mainland China were more than RMB20 billion.

During the Reporting Period, the Group constantly worked on registration of the generics in China and made the following progress:

Product	Indication	Registration Progress in China	2020 IQVIA Data of Products with the Same API
Tacrolimus Capsules	Liver or kidney transplant rejection	ANDA Under Review	~RMB4.3 billion

Oxcarbazepine Tablets	Epilepsy	ANDA Under Review	~RMB0.6 billion
Etoricoxib Tablets	Osteoarthritis, acute gouty arthritis, primary dysmenorrhea	ANDA Under Review	~RMB0.4 billion
Paliperidone Sustained -release Tablets	Schizophrenia	ANDA Under Review	~RMB0.3 billion
Tetrabenazine Tablets	Huntington's disease	IND Approved	No Relevant Data

3. Existing Products

The Group's existing products mainly cover four fields, including cardio-cerebrovascular, digestion, ophthalmology and dermatology. During the Reporting Period, revenues by the product lines were as follows:

- The products under cardio-cerebrovascular line recorded a revenue of RMB3,150.8 million, an increase of 18.9% compared with the same period last year. If excluding the effect of the "two-invoice system", the revenue of products under cardio-cerebrovascular line would increase by 16.8% to RMB4,441.0 million compared with the same period last year, accounting for 55.8% of the Group's revenue excluding the effect of the "two-invoice system".
- The revenue of products under digestion line increased by 18.5% to RMB2,589.2 million compared with the same period last year, accounting for 32.5% of the Group of revenue excluding the effect of the "two-invoice system".
- The revenue of the product under ophthalmology line increased by 16.3% to RMB299.7 million, compared with the same period last year, accounting for 3.8% of the Group's revenue excluding the effect of the "two-invoice system".
- The revenue of products under dermatology line increased by 20.3% to RMB219.5 million compared with the same period last year, accounting for 2.8% of the Group's revenue excluding the effect of the "two-invoice system".
- Other products recorded revenue of RMB686.8 million, a decrease of 14.1% compared with the same period last year. If excluding the effect of the "two-invoice system", the revenue would decrease by 12.9% to RMB408.0 million compared with the same period last year, accounting for 5.1% of the Group's revenue excluding the effect of the "two-invoice system".

The Group's major existing products are as follows:

Product Line	Product	Indication	Product Advantage
Cardio-cerebro vascular Line	Plendil (Felodipine Sustained Release Tablets)	Hypertension and stable angina pectoris	Calcium Channel Blocker (CCB) drug suitable for Chinese patients, providing cardio-cerebrovascular protection and high vascular selectivity
	XinHuoSu (Recombinant Human Brain Natriuretic Peptide	Acute heart failure	The only Recombinant Human Brain Natriuretic Peptide (rhBNP) drug available in China's market as at 31

	for Injection)		December 2020
	Deanxit (Flupentixol and Melitracen Tablets)	Mild-to-moderate depression, anxiety and psychosomatic affections	Ranking the first in the market share of antidepressant drugs in China according to 2020 IQVIA data
Digestion Line	Ursofalk (Ursodeoxycholic Acid Capsules)	Cholesterol gallstones in the gallbladder, cholestatic liver disease and biliary reflux gastritis	Stably ranking the first in sales among products in the Chinese cholagogue market according to 2020 IQVIA data
	Salofalk (Mesalazine)	Ulcerative colitis, including the treatment of acute exacerbations and the maintenance treatment to prevent recurrence, as well as the treatment of acute exacerbations of Crohn's disease	Ranking the first in the market share of inflammatory bowel disorder drugs in China according to 2020 IQVIA data
	Bioflor (Saccharomyces Boulardii Sachets)	Diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance	Probiotics preparations with abundant evidence-based medical evidence and high-level recommendations from authoritative Chinese and overseas guidelines
	Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablets)	Dyspepsia caused by a decrease in digestive enzymes	Effective in both stomach and intestines, the recommended digestive enzyme preparation for the replacement therapy of pancreatic exocrine insufficiency
Ophthalmology Line	Augentropfen Stulln Mono Eye Drops (Esculin and Digitalisglycosides Eye Drops)	Senile macula degeneration and all forms of asthenopia	The representative drug for the treatment of asthenopia and the only eye drops in China market for the treatment of macula degeneration
Dermatology Line	Hirudoid (Mucopolysaccharide Polysulfate Cream)	Blunt traumata with or without hematomas, and superficial phlebitis that cannot be treated by compression	Repair agent for skin barrier with multiple functions

4. Sales and Promotion Network

The public health event in early 2020 affected everyone's life and working habits, which also facilitated the rapid application of the Group's digital marketing tools (online promotional activities). During the Reporting Period, the number of innovative online promotion conferences and client coverage increased significantly compared with the total number of online and offline conferences as well as the client coverage of the same period last year. Being normalized and diversified, the digital marketing model has further enhanced the operation efficiency of the promotion system. While widely utilizing the digital promotion, the Group also strengthened the refined management, adopted a monthly output feedback mode, and built a new management model that is based on goal generation, management and achievement, to promote the efficient implementation of product promotion strategies. At the same time, leveraging its well-developed organizational structure and clear departmental positioning, combined with

the intelligent cloud platform, the Group continuously enhanced the compliance management of the promotion system. As at 31 December 2020, the Group's academic promotion system had around 3,300 professional marketing and promotion related personnel; and the promotion network covered around 57,000 hospitals and medical institutions in China. In addition, the Group put more efforts into the retail market during the Reporting Period, continuing to expand and penetrate the coverage of retail chains and terminal drugstores and strengthening promotion at the terminal market, which helped to increase the retail market share.

During the Reporting Period, the Group has upgraded the training system of the academic promotion network to cultivate innovative, academic, compliant and all-round talents for the effective undertaking of the innovative product development strategy. The comprehensive and multi-dimensional training system with different "Navigation" training plans has been built for different groups, such as the "On-boarding Training", "Specialty Training", "Management Training", "Leadership Development", "Customized Training" and "CMS Internal Trainer". With the implementation and continuous improvement of the "Navigation" training plans, the Group's academic promotion team has further boosted its competitiveness.

5. Product Manufacturing

The Group has over two decades of experience in pharmaceutical manufacturing, and has established a strict production quality management system to ensure the standardization and safety of the production. The Group's manufacturing sites compliant with Good Manufacturing Practice (GMP) are located in Hunan, Hebei and Shenzhen, occupying a total area of more than 110,000 square meters. The Group has Pharmaceutical Production Licenses for various dosage forms such as powder, oral solution, small-volume injections, tablets, hard capsules, etc., and Production Permits for imported drugs (tablets, powders) sub-packaging. During the Reporting Period, while completing the production of the existing domestic produced products, the Group also completed the three batches of preparations production of the innovative drug Desidustat Tablets for clinical trial purpose through technology transfer, laying the foundation for the completion of the Category 1 new drug's clinical trial application and the future localized preparation manufacturing of the product in China.

II. Healthcare Business

In 2020, driven by various factors such as the growing demand for health, supporting policies and internet technologies, and catalyzed by the COVID-19, China's healthcare industry has ushered in a golden period for development. Capitalizing on its strengths of abundant overseas channel resources, good reputation, mature product evaluation system, responsive global supply chain system and strong promotion network, the Group has established the cross-border e-commerce business of healthcare products, injecting new impetus for future development.

Based on cross-border e-commerce platforms, the Group selects global healthcare products according to medical concept and high standards to build the new brand "CMS Health". The Group has formed a systematic product screening mechanism with stringent product selection criteria, under which quality

health product brands with an established history, reputation and brand image in Europe and the U.S. while not yet available in China will be chosen. Healthcare products, such as OTC drugs, devices, dietary supplements and foods for special medical purposes that meet certain health needs, with unique ingredients, academic value and recognized mechanism, and require professional guidance, will be rigorously selected. The Group has cooperated with e-commerce platforms and launched "CMS Health Overseas Flagship Stores", creating the one-stop shopping platform for quality overseas healthcare products. On 1 November 2020, "CMS Health Overseas Flagship Stores" have been officially launched on JD Worldwide and Youzan Mall. 18 products from 4 well-known European brands have been put on the market as at 31 December 2020. The Group will continuously introduce more healthcare products, so as to bring consumers a full range of health protection and create a more comfortable, better lifestyle.

As at 31 December 2020, the products available on "CMS Health Overseas Flagship Stores" have covered categories such as nourishment, sexual health, household medicine, nutritional supplement, hair care and beauty. Specific product information is available at "CMS Health Overseas Flagship Store" (JD Worldwide) https://mall.jd.hk/index-10213730.html and "CMS Health Overseas Flagship Store" (Youzan Mall) https://shop90929054.youzan.com.

Subsequent Events

Acquisition of a Dermatology Specialty Company Luqa Ventures Co., Limited

After the Reporting Period, on 1 February 2021, the Group through a wholly-owned subsidiary of the Company acquired all the issued and outstanding shares of Luqa Ventures Co., Limited (the "Target Company"), a dermatology specialty company, from certain third-party sellers (the "Sellers") (the "Acquisition"). The Target Company has an extensive product portfolio of prescription medicines, medical devices, medical aesthetic solutions and skin care products, that meets the diversified needs of consumers and provides the market with safe and effective solutions for a broad range of skin conditions. As at the date of this announcement, the Acquisition has been completed. The Target Company became a wholly-owned subsidiary of the Company, and the financial results, assets and liabilities of the Target Company will be consolidated into the accounts of the Group.

The Target Company's product portfolio will be complementary to the Group's existing dermatology line products, and together, they will strengthen and bolster the Group's medical aesthetic and skin care product portfolio, providing a significant development opportunity for the Group to advance into the field of medical aesthetic solutions and skin care. The Group plans to build a comprehensive skin health product matrix consisting of prescription medicines, medical devices and medical aesthetic solutions and skin care products based on which the Group will develop its market in the field of skin health. Meanwhile, the Group will leverage on its advantage in its commercialization capabilities in the Chinese market, a team of experienced professionals and a professional and efficient academic promotion system to fully exploit the opportunities presented by hospitals, professional medical institutions, online and offline retail channels to further penetrate the Chinese market, and to raise the market awareness of the products as well as their brands. Looking forward, the Group will continue to introduce global high-quality products, promote innovative research on skin lines, explore investment opportunities, develop

and build a China's leading skin health and high-end medical aesthetic solutions line with first-rate competitiveness, and continue its growth to meet Chinese consumers' increasingly diverse health and beauty needs.

Impacts of COVID-19

In 2020, the unexpected COVID-19 pandemic has severely affected people's lives as well as the social economy. In early 2020, the Group promptly made a cash donation to Wuhan Charity Federation, and, leveraging the extensive overseas channel resources and the fast responsive international supply chain system, urgently purchased protection and pandemic prevention materials globally and donated them to the frontline medical workers, an endeavor in contributing to the fight against the pandemic. In terms of the business operation, although sales volume of some of the Group's products, such as Augentropfen Stulln Mono Eye Drops and Bioflor, have seen negative growth due to the decline of hospital patient traffic and other factors in the first quarter of 2020; with the gradual control of the pandemic by the Chinese government, and benefited from the brand and academic advantages of the products, as well as the wide application of digital marketing tools, Augentropfen Stulln Mono Eye Drops and other products have turned positive growth in their annual revenue, Bioflor has narrowed its revenue decline for the year, and the Group has achieved sound growth during the Reporting Period. Meanwhile, reflecting a decrease in the Group's offline academic promotion activities as well as the wide application of digital marketing tools (online promotional activities) due to the impact of the pandemic, excluding the effect of the "two-invoice system", the Group's selling expenses as a percentage of turnover decreased by 0.6 percentage point to 22.1% for the Reporting Period from 22.7% for the same period last year. Meanwhile, the Group also had a healthy and stable operating cash flow, and there was no shortage of cash or working capital due to the pandemic during the Reporting Period, as detailed in "Liquidity and Financial Resources" of "Financial Review".

If the pandemic continues or gets worse which lead to substantial decline of hospital patient traffic, some of the Group's products, such as Augentropfen Stulln Mono Eye Drops and Bioflor, may again experience negative sales growth. If the pandemic continues or gets worse globally which lead issues such as shutdown of production or international shipping, there could be delays in the products supply or products shortage for the Group, which may cause negative growth of the Group's performance.

The Group will continue to pay close attention to the development of the pandemic, assess the possible impacts, and deploy measurement in advance to ensure the steady progress of various works.

Impacts of Significant Policies with Respect to Pharmaceutical Industry

In 2020, a number of reform policies were frequently issued in China pharmaceutical industry, and the National Volume Based Procurement ("VBP") remained the most influential one for the operation of pharmaceutical companies. With the normalization of the National VBP, the policy will further promote the industrial structure adjustment, creating better development opportunities for innovative products. As at 31 December 2020, none of the chemical names of major products sold by the Group was included in the National VBP catalog, thus the policy has not negatively affected the operation and profitability of the

Group during the Reporting Period. In the future, the Group will watch closely the number of generics competitors of the Group's existing products passing the consistency evaluation, and the time those generics competitors passing the evaluation, etc. If the Group's major products are included in the national VBP in the future, there will be a negative impact on the revenue of the products, the extent of which will depend on detailed rules of the policy at the time of implementation. Meanwhile, the Group will accelerate the clinical development and commercialization of innovative products in China, and comprehensively develop new businesses that are immune to the National VBP, such as the healthcare business and the medical aesthetic business, so as to offset the potential risk of the Group's original products that may be included into the VBP catalog in the future.

Future Development

Adhering to the mission of "offering competitive products and services to meet China's unmet medical needs" and empowered by new products and new businesses, the Group will continue to take the product competence and the promotion capability as core driving forces to achieve sustainable and rapid growth.

- **Continuously Making Investment and Deployment of the Innovative Pipeline**

The Group will continue to invest in innovative products with competitive differentiation advantages and good market potential based on the actual needs of China's market to ensure the Group's sustainable supplies of commercialized innovative products in China in the short, medium and long term.

- **Rapidly Promoting the Clinical Development of Innovative Products and Accelerating the Launching Process of Blockbuster Products in China**

While cooperating with CROs, the Group will further expand its clinical development team, integrate the sales and promotion network resources, accelerate patient recruitment and enhance the coordination and control of clinical projects while ensuring clinical quality, to achieve efficient progress and completion of all the clinical development projects.

- **Constantly Optimizing and Upgrading the Promotion Network to Pave the Way for the Commercialization of Innovative Products**

The Group will continue to improve its digital promotion work, refined management and talent training system to further boost the competitiveness of the Group's sales and promotion capabilities while ensuring the stable growth of the existing products. Meanwhile, the Group will integrate the channel resources such as hospitals, medical institutions, retail and internet to achieve rapid market access and high-speed sales growth of the innovative products and promote the rapid development of the new businesses such as the healthcare business.

- **Comprehensively Advancing the Deployment of New Businesses Extended from the Group's Strengths to Achieve Diverse Growth**

The Group will continue to expand and refine the team of healthcare business, and enrich and broaden the healthcare product portfolio to achieve the overall expansion of the healthcare business, which will provide new momentum for the performance growth. Meanwhile, the Group will focus on integrating the

resources of the dermatology and medical aesthetic line and further develop the complete product matrix of prescription drugs, medical devices, medical aesthetic solutions and skin care products, so at to promote the Group's in-depth development in the dermatology and medical aesthetic field.

Financial Review

In reading the following discussion and analysis, please also refer to the audited consolidated financial statements and notes to the financial statements in this announcement.

The Group prepared the consolidated financial statements in accordance with the International Financial Reporting Standards. The Group's financial performance is summarized as follows:

Turnover

Turnover increased by 14.4% from RMB6,073.6 million for the year ended 31 December 2019 to RMB6,946.0 million for the year ended 31 December 2020. Excluding the effect of the "two-invoice system", turnover increased by 15.4% to RMB7,957.3 million for the year ended 31 December 2020 from RMB6,897.2 million for the year ended 31 December 2019, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 12.9% from RMB4,546.3 million for the year ended 31 December 2019 to RMB5,134.2 million for the year ended 31 December 2020; excluding the effect of the "two-invoice system", gross profit increased by 16.0% to RMB4,842.7 million for the year ended 31 December 2020 from RMB4,173.3 million for the year ended 31 December 2019, primarily reflecting an increase in turnover. Gross profit margin decreased by 1.0 percentage point to 73.9% for the year ended 31 December 2020 from 74.9% for the year ended 31 December 2019; excluding the effect of the "two-invoice system", gross profit margin increased by 0.4 percentage point to 60.9% for the year ended 31 December 2020 from 60.5% for the year ended 31 December 2019, mainly due to a change in sales weight of products.

Selling Expenses

Selling expenses increased by 5.9% from RMB1,939.2 million for the year ended 31 December 2019 to RMB2,053.2 million for the year ended 31 December 2020; selling expenses as a percentage of turnover decreased by 2.3 percentage points to 29.6% for the year ended 31 December 2020 from 31.9% for the year ended 31 December 2019. Excluding the effect of the "two-invoice system", selling expenses as a percentage of turnover decreased by 0.6 percentage point to 22.1% for the year ended 31 December 2020 from 22.7% for the year ended 31 December 2019, primarily reflecting a decrease in the group's academic promotion activities through offline mode during the outbreak of epidemic disease.

Administrative Expenses

Administrative expenses increased by 21.8% from RMB206.2 million for the year ended 31 December 2019 to RMB251.2 million for the year ended 31 December 2020; administrative expenses as a percentage of turnover increased by 0.2 percentage point to 3.6% for the year ended 31 December 2020

from 3.4% for the year ended 31 December 2019. Excluding the effect of the "two-invoice system", administrative expenses as a percentage of turnover increased by 0.2 percentage point to 3.2% for the year ended 31 December 2020 from 3.0% for the year ended 31 December 2019, primarily reflecting an increase in the Group's maintenance expenses.

Research and Development Expenditures

The Group's research and development expenditures included investments for the continuous expansion of product pipelines, expenditures on development, clinical trial and registration of new products, salaries and related expenses of staff who were engaged in the aforesaid affairs. Research and development expenditures included the expensed research and development expenditures (i.e. research and development expenses) and capital payments (including payments for acquisition of equity investments in research and development companies and payment for acquisition and development of product rights).

Total research and development expenditures increased by 35.0% from RMB390.5 million for the year ended 31 December 2019 to RMB527.3 million for the year ended 31 December 2020. Total research and development expenditures as a percentage of turnover for the year ended 31 December 2020 was 7.6%, representing an increase of 1.2 percentage points from 6.4% for the year ended 31 December 2019. Excluding the effect of the "two-invoice system", total research and development expenditures as a percentage of turnover increased by 0.9 percentage point to 6.6% for the year ended 31 December 2020 from 5.7% for the year ended 31 December 2019, primarily reflecting an expansion of product pipelines and an increase in development activities on clinical trial.

Research and development expenses increased by 47.6% from RMB45.1 million for the year ended 31 December 2019 to RMB66.5 million for the year ended 31 December 2020. Research and development expenses as a percentage of turnover for the year ended 31 December 2020 was 1.0%, representing an increase of 0.3 percentage point from 0.7% for the year ended 31 December 2019. Excluding the effect of the "two-invoice system", research and development expenses as a percentage of turnover increased by 0.1 percentage point to 0.8% for the year ended 31 December 2020 from 0.7% for the year ended 31 December 2019.

Payments for acquisition of equity investments in research and development companies and payment for acquisition and development of product rights (set out in the table below) increased by 33.4% from RMB345.4 million for the year ended 31 December 2019 to RMB460.8 million for the year ended 31 December 2020. Such capital payments as a percentage of turnover for the year ended 31 December 2020 was 6.6%, representing an increase of 0.9 percentage point from 5.7% for the year ended 31 December 2019. Excluding the effect of the "two-invoice system", such capital payments as a percentage of turnover increased by 0.8 percentage point to 5.8% for the year ended 31 December 2020 from 5.0% for the year ended 31 December 2019.

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000

Payment for acquisition of equity investments in research and development companies	156,923	42,510
Payment for acquisition and development of product rights	303,863	302,927
	460,786	345,437

Other Gains and Losses

Other gains and losses decreased by 199.6% from a gain of RMB73.8 million for the year ended 31 December 2019 to a loss of RMB73.5 million for the year ended 31 December 2020, mainly reflecting impairment losses on goodwill and intangible assets.

Share of Result of Associates

Share of result of associates increased by 34.6% from RMB114.3 million for the year ended 31 December 2019 to RMB153.8 million for year ended 31 December 2020, mainly reflecting an increase in profit of the associate Tibet Pharmaceutical.

Finance Costs

Finance costs decreased by 51.1% from RMB56.3 million for the year ended 31 December 2019 to RMB27.5 million for the year ended 31 December 2020, mainly reflecting decreases in amount and interest rate of bank borrowings.

Income Tax Expense

Income tax expense decreased by 51.1% from RMB532.0 million for the year ended 31 December 2019 to RMB260.4 million for the year ended 31 December 2020, mainly due to the income tax of a subsidiary of the Group provided at 24% for the year ended 31 December 2019. During the year ended 31 December 2020, the Group completed the aforesaid income tax filing and its payment, and the income tax overprovision was reversed accordingly. Excluding the impact on income tax provision and reversal of overprovision, income tax expense increased by 65.0% from RMB210.6 million for the year ended 31 December 2019 to RMB347.6 million for the year ended 31 December 2020, mainly reflecting an increase in profit and the effect of the internal reorganization of the Group in 2019.

Profit for the Year

Profit for the year increased by 30.7% from RMB1,955.7 million for the year ended 31 December 2019 to RMB2,555.7 million for the year ended 31 December 2020; excluding the impact of provisions on income tax, impairment for goodwill and intangible assets, and reversal of income tax overprovision, profit for the year increased by 18.4% to RMB2,696.1 million for the year ended 31 December 2020 from RMB2,277.1 million for the year ended 31 December 2019, mainly due to the continuous growth in turnover.

Inventories

Inventories decreased by 6.3% from RMB407.1 million as at 31 December 2019 to RMB381.2 million as at 31 December 2020. Average inventory turnover days decreased from 101 days for the year ended 31

December 2019 to 79 days for the year ended 31 December 2020, mainly due to the improvement on stock management efficiency.

Trade Receivables

Trade receivables increased by 4.6% from RMB1,001.9 million as at 31 December 2019 to RMB1,047.9 million as at 31 December 2020. Average trade receivables turnover days decreased to 54 days for the year ended 31 December 2020 from 69 days for the year ended 31 December 2019, mainly due to the strengthened management on trade receivables.

Trade Payables

Trade payables increased by 206.1% from RMB44.0 million as at 31 December 2019 to RMB134.8 million as at 31 December 2020, mainly reflecting the difference in time points of purchases. Average trade payables turnover days was 18 days for the year ended 31 December 2020, same as 18 days for the year ended 31 December 2019.

Liquidity and Financial Resources

As at 31 December 2020, the Group's bank balances and cash amounted to RMB2,668.4 million while readily realizable bank acceptance bills amounted to RMB446.0 million. As at 31 December 2019, the bank balances and cash amounted to RMB1,365.0 million while readily realizable bank acceptance bills amounted to RMB414.0 million.

As at 31 December 2020, the cash and cash equivalents of the Group were mainly denominated in RMB, with small amount denominated in United States Dollar ("US$"), Euro ("EUR"), Great Britain Pound ("GBP"), Swiss Franc ("CHF") and Hong Kong Dollars ("HK$").

The following table is a summary of our consolidated statements of cash flows:

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Net cash from operating activities	2,692,027	2,555,119
Net cash used in investing activities	(353,821)	(309,386)
Net cash used in financing activities	(1,034,556)	(1,695,137)
Net increase in cash and cash equivalent	1,303,650	550,596
Cash and cash equivalent at beginning of the year	1,365,008	815,081
Effect of foreign exchange rate changes	(232)	(669)
Cash and cash equivalent at end of the year	2,668,426	1,365,008

Net cash from operating activities

For the year ended 31 December 2020, the Group's net cash generated from operating activities was RMB2,692.0 million compared with RMB2,555.1 million for the year ended 31 December 2019, an increase of 5.4% mainly due to increases in turnover and cash turnover days.

Net cash used in investing activities

For the year ended 31 December 2020, the Group's net cash used in investing activities was RMB353.8 million compared with RMB309.4 million for the year ended 31 December 2019, an increase of 14.4% mainly due to an increase in investments concerned with innovative products.

Net cash used in financing activities

For the year ended 31 December 2020, the Group's net cash used in financing activities was RMB1,034.6 million compared with RMB1,695.1 million for the year ended 31 December 2019, a decrease of 39.0% mainly due to a decrease in repayment of loans.

Net Current Assets

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Current Assets		
Inventories	381,215	407,058
Financial assets at fair value through profit or loss	3,884	2,736
Trade receivables	1,047,948	1,001,862
Other receivables and prepayments	657,658	583,862
Tax recoverable	12,082	10,801
Derivative financial instruments	49	28,192
Amount due from an associate	207,271	152,804
Bank balances and cash	2,668,426	1,365,008
	4,978,533	3,552,323
Current Liabilities		
Trade payables	134,808	44,040
Other payables	484,476	328,756
Lease liabilities	7,266	9,388
Contract liabilities	14,406	12,939
Bank borrowings	10	693,909
Derivative financial instruments	-	142
Deferred consideration payables	2,929	10,744
Tax payable	268,068	447,784
	911,963	1,547,702
Net current assets	4,066,570	2,004,621

The Group's liquidity requirements will be satisfied by a combination of cash flow generated from operating activities, long-term bank loans and other financing means, according to the corporate development strategy.

Capital Expenditures

The following table shows the Group's capital expenditure:

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Deposits for acquisition of intangible assets	303,863	302,927
Purchase of property, plant and equipment	37,558	37,546
Purchase of equity instruments	156,923	42,510
	498,344	382,983

Capital Structure and Gearing Ratio

The Company reviews the capital structure on a regular basis, and considers the cost of capital and the risks associated with each class of capital, for maximizing the return to shareholders of the Company.

The following table shows the Group's debts:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Interest bearing bank borrowings	587,251	693,909

The Group had bank borrowings of RMB587.3 million as at 31 December 2020 (31 December 2019: RMB693.9 million). During the year ended 31 December 2020, the Group repaid part of bank borrowings.

As said above, along with the decrease in the Group's bank borrowings, the Group's gearing ratio, calculated as bank borrowings divided by total assets, decreased by 1.6 percentage points to 4.6% as at 31 December 2020 from 6.2% as at 31 December 2019.

Market Risks

We are exposed to various types of market risks, including interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business.

The Group is mainly exposed to currency risk of the US$, EUR, GBP, CHF and HK$. For the Group's subsidiaries in China, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Any significant exchange rate fluctuations of foreign currencies against RMB may have a financial impact on the Group. The Group closely monitors the fluctuation of exchange rates and reviews the foreign currency risk

management strategy from time to time, the management will consider hedging foreign currency exposure as appropriate. As at 31 December 2020, the Group had entered into certain foreign currency forward contracts to hedge foreign currency risk.

The Group will closely monitor movements of interest rate and foreign currencies market so as to mitigate the expected risk on interest rate and foreign currencies.

Pledge of Assets

As at 31 December 2020, the Group had pledged property, plant and equipment and leasehold land with net book values of approximately RMB65,539,000 and RMB15,506,000, respectively to secure certain bank borrowings and general banking facilities granted to the Group.

Contingent Liabilities

As at 31 December 2020, the Group had no material contingent liabilities.

Loan Agreements with Covenants Relating to Specific Performance of the Controlling Shareholder

(i)

On 20 June 2017, Sky United (as borrower) (the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with Standard Chartered Bank (Hong Kong) Limited (as original lender, mandated lead arranger and bookrunner and agent) in respect of a US$300,000,000 term loan facility (the "Facility") has been made available to the Borrower for a term of 36 months from the first utilization date under the Facility Agreement.

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder (as defined in the Listing Rules) of the Company (i) ceases to directly or indirectly own more than 30% of the total issued shares (of each class) in the Company; or (ii) ceases to directly or indirectly be the single largest shareholder in the issued shares (of each class) in the Company, the agent (acting on the instructions of the majority lenders under the Facility) may, by not less than 30 days' notice in advance to the Borrower, cancel all commitments under the Facility and declare that all outstanding loans together with accrued interest and all other amounts accrued under the Facility will become immediately due and payable. As at 31 December 2020, Mr. Lam Kong (directly and indirectly) held approximately 46.04% of the total issued ordinary share capital of the Company.

The loan under the Facility was paid off during the Reporting Period.

(ii)

On 26 March 2020, Sky United (as borrower, the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with DBS Bank (China) Limited (as lender) in respect of a US$50,000,000 term loan facility (the "Facility") made available to the Borrower for a term of 36 months from the first utilization date under the Facility Agreement. On 27 March 2020, Sky United

Trading Limited, a wholly-owned subsidiary of the Company (as borrower, the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with Standard Chartered Bank (Hong Kong) Limited (as lender) in respect of a US$40,000,000 term loan facility (the "Facility") made available to the Borrower for a term of 36 months from the first utilization date under the Facility Agreement.

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder (as defined in the Listing Rules) of the Company: (i) ceases to directly or indirectly own more than 30% of the total issued shares (of each class) in the Company; or (ii)ceases to directly or indirectly be the single largest shareholder in the issued shares (of each class) in the Company, the lender may, by not less than 30 days' notice in advance to the Borrower, cancel all commitments under the Facility and declare that all outstanding loans together with accrued interest and all other amounts accrued under the Facility will become immediately due and payable. As at 31 December 2020, Mr. Lam Kong (directly and indirectly) holds approximately 46.04% of the total issued ordinary share capital of the Company.

Dividend

For the year ended 31 December 2020, the Group paid an interim dividend for 2020 and a final dividend for 2019 of RMB520.1 million and RMB314.0 million, respectively. For the year ended 31 December 2019, the Group paid an interim dividend for 2019 and a final dividend for 2018 of RMB467.1 million and RMB355.7 million, respectively.

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

For the year ended 31 December 2020, the Company repurchased an aggregate of 9,648,000 ordinary shares with a nominal value of US$0.005 each on the Stock Exchange at an aggregate consideration of HK$98,164,100. All of the purchased shares were cancelled on 30 March 2020. The Board believes that given the current financial resources of the Company, the share repurchase would not affect the Company's solid financial position in any material respect, and it would lead to an enhancement of the net asset value per share and/or earnings per share, which is in the interest of the shareholders as a whole.

Details of the repurchase are as follows:

Month of Repurchase	Number of Shares Repurchased	Price per Share (HK$)		Aggregate Consideration Paid (HK$)
		Highest Price	Lowest Price	
February 2020	9,648,000	10.30	10.04	98,164,100
Total	9,648,000	-	-	98,164,100

Save as disclosed above, none of the Company or any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the Reporting Period.

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the applicable Corporate Governance Code as set out in Appendix 14 to the Listing Rules from 1 January 2020 to 31 December 2020, except for a deviation from the Code Provision A.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual.

Mr. Lam Kong has been both the Chairman and Chief Executive of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Audit Committee

The Company established the Audit Committee in 2007. The Audit Committee comprises three independent non-executive Directors, and is currently chaired by Mr. Wu Chi Keung, with Mr. Leung Chong Shun and Ms. Luo, Laura Ying as the committee members. During the Reporting Period, Mr. Cheung Kam Shing, Terry resigned as an independent non-executive Director of the Company on 31 March 2020, he also resigned as a member of the Audit Committee of the Company. Ms. Luo, Laura Ying was appointed as an independent non-executive Director and a member of the Audit Committee of the Company.

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the Company's appointment of external auditors. The annual results announcement and annual report for the year ended 31 December 2020 of the Company have been reviewed by the Audit Committee, and approved by the Board with recommendation of the Audit Committee. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2020, the Audit Committee held three meetings. At the meetings, the Audit Committee reviewed the annual results for 2019 with the external auditors, the interim results for 2020, the activities of the Group's internal control functions and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board. Below is the attendance rate of the committee members:

Committee Members	**Attendance Rate of the Meetings for the Year ended 31 December 2020**
Mr. Wu Chi Keung	3/3
Mr. Cheung Kam Shing, Terry*	1/1

Mr. Leung Chong Shun	3/3
Ms. Luo, Laura Ying*	2/2

*Note：

1. Mr. Cheung Kam Shing, Terry resigned on 31 March 2020.
2. Ms. Luo, Laura Ying was appointed on 31 March 2020.

The annual results announcement and annual report for the year ended 31 December 2020 of the Company have been reviewed by the Audit Committee, and approved by the Board with recommendation of the Audit Committee.

Cash Dividend

The Company has paid an interim dividend of RMB0.2105 (equivalent to HK$0.234) per ordinary share of the Company (the "Share") for the six months ended 30 June 2020. The Board of Directors is pleased to recommend a final dividend of RMB0.2033 (equivalent to HK$0.243) per Share for the year ended 31 December 2020 to shareholders whose names appear on the register of members of the Company at the close of business on Monday, 3 May 2021. The register of members of the Company will be closed on Monday, 3 May 2021. The final dividend will be paid to shareholders in Hong Kong dollars about Monday, 10 May 2021 after the shareholders' approval at the Annual General Meeting (the "AGM") of the Company dated on Tuesday, 27 April 2021.

Closure of Register of Members

The Register will be closed from Wednesday, 21 April 2021 to Tuesday, 27 April 2021 (both days inclusive), during which the registration of transfer of Shares will be suspended. In order to qualify for attending and voting at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 20 April 2021.

The Register will be closed on Monday, 3 May 2021, on which date no transfer of Shares will be effected. The last day for dealing in the Shares on a cum-entitlement basis will be Wednesday, 28 April 2021. Shareholders are reminded that in order to qualify for the Final Dividend, all transfers of Shares must be duly completed, accompanied by the relevant share certificates and lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 30 April 2021.

Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (amended from time to time) as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in

relation to the compliance with the Model Code for securities transactions by the Company, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2020. The Model Code also applies to other specified senior management of the Company. Employees who are likely to be in possession of unpublished price-sensitive information about the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance of the guidelines by such employees was noted by the Company in the Reporting Period

Disclosure of Information

The information provided in this announcement is only the summary of 2020 Annual Report of the Company. The 2020 Annual Report will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cms.net.cn).

By order of the Board
China Medical System Holdings Limited
Lam Kong
Chairman

Hong Kong, 16 March 2021

As at the date of the announcement, the directors of the Company comprise (i) Mr. Lam Kong, Mr. Chen Hongbing and Ms. Chen Yanling as executive Directors; and (ii) Mr. Wu Chi Keung, Mr. Leung Chong Shun and Ms. Luo, Laura Ying as independent non-executive Directors.