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 2021

The board (the "Board") of directors (the "Directors") 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 2021 (the "Reporting Period").

Financial Highlights

- Turnover up 20.0% to RMB8,337.2 million (2020: RMB6,946.0 million); in the case that all medicines were directly sold by the Group, turnover up 24.8% to RMB9,230.2 million (2020: RMB7,395.2 million)
- Gross profit up 21.7% to RMB6,246.9 million (2020: RMB5,134.2 million); in the case that all medicines were directly sold by the Group, gross profit up 24.7% to RMB6,039.2 million (2020: RMB4,842.7 million)
- Profit for the year up 18.4% to RMB3,025.3 million (2020: RMB2,555.7 million)
- Basic earnings per share up 19.4% to RMB1.2228 (2020: RMB1.0237)
- As at 31 December 2021, the Group's bank balances and cash amounted to RMB3,385.7 million while readily realizable bank acceptance bills amounted to RMB453.4 million
- Proposed final dividend of RMB0.2269 per share, bringing the total dividend for the year ended 31 December 2021 to RMB0.4910 per share, representing an increase of 18.7% over last year (2020: final dividend of RMB0.2033 and total dividend of RMB0.4138 per share)

**For Identification Only*

Business Highlights

During the Reporting Period, the Group recorded steady business growth; made several breakthroughs in clinical trials for innovative medicines in China; initiated new models for industrial investment in Chinese biotech and customized development of innovative products; split the dermatology specialty line and expanded its business boundaries to the new business field of medical aesthetics. The new CMS has started a new journey.

Sustainable Incubation Platform of Innovative Medicines

- Initiated a new model for industrial investment in Chinese Biotech. By leveraging its clinical execution, commercialization capabilities and capital strength, the Group promoted advantages complementarity with Chinese Biotech to build a domestic incubation platform for innovative medicines; made equity investment in Trinomab and established a joint venture to develop 4 fully human antibody new drugs.
- Initiated the model of innovative products customization. The Group entrusted CROs for customized drug development with a focus on novel or popular targets of the Group's advantageous therapeutic fields, aiming to proactively promote the development of domestic innovative technologies and products; entrusted a CRO company for customized development of 4 innovative drugs with intellectual property rights mainly covering the treatment of autoimmune system, gynecology, cardio-cerebrovascular and central nervous system related diseases.

Progress in Innovative Product Development in China

- The bridging trial of Diazepam Nasal Spray in China achieved the expected targets, and its NDA was accepted in July.
- The bridging trial of Tildrakizumab Solution for Injection in China achieved positive results and its NDA was accepted in October.
- The NDA of Methotrexate Injection, Pre-filled Syringe (psoriasis indication) in China was accepted in December and received priority review designation in January, 2022.
- The clinical trial application of Methotrexate Injection, Pre-filled Syringe (RA indication) in China was approved in August.
- The clinical trial application of Desidustat Tablets was approved in China. Its phase I PK study was completed, and the first subject dosing of phase III bridging trial in China was completed in January, 2022.
- The clinical trial application of Methylthioninium Chloride Enteric-coated Sustained-release Tablets in China was approved in August, and the first subject dosing was completed in January, 2022.

Dermatology and Medical Aesthetic Business

- Acquired Luqa, a dermatology and medical aesthetic specialty company to enrich the dermatological portfolio and extend its reach to the medical aesthetic field.
- Acquired Carnation, a focused ultrasound technology platform company to initiate R&D and manufacture of energy-based medical aesthetic devices. The related work of pivotal clinical study of FUBA5200 Focused Ultrasound Body Contouring System was initiated in China.
- Acquired Xuli Medical, a medical aesthetic specialty company to obtain the exclusive distribution right of Vmonalisa, the 4th imported South Korean hyaluronate filler for injection approved in China, and expanded its professional teams as well as channel resources in the medical aesthetic field.
- Reached an exclusive collaboration agreement with OVMEDI on the embedding thread product with good quality and complete specifications, to meet the diversified needs of Chinese beauty-loving people.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	2021 RMB'000	2020 RMB'000
Revenue	3	8,337,221	6,945,964
Cost of goods sold		(2,090,283)	(1,811,749)
Gross profit		6,246,938	5,134,215
Other income	4	146,947	107,958
Other gains and losses	5	111,525	(181,438)
Selling expenses		(2,540,147)	(2,053,233)
Administrative expenses		(440,995)	(251,180)
Finance costs	6	(28,270)	(27,520)
Research and development expenses		(114,761)	(66,517)
Share of results of associates		75,352	153,804
Profit before tax		3,456,589	2,816,089
Income tax expense	7	(431,325)	(260,389)
Profit for the year	8	3,025,264	2,555,700
Item that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		(25,315)	(9,327)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive expense of associates		(10,541)	(34,127)
Exchange differences arising from translation of foreign operations		991	227
Change in fair value on cash flow hedges			
- fair value gain (loss)		3,929	(5,746)
- deferred tax relating to change in fair value		(731)	948
Other comprehensive expense for the year, net of income tax		(31,667)	(48,025)
Total comprehensive income for the year		2,993,597	2,507,675
Profit for the year attributable to:			
Owners of the Company		3,017,402	2,530,398
Non-controlling interests		7,862	25,302
		3,025,264	2,555,700
Total comprehensive income for the year attributable to:			
Owners of the Company		2,985,735	2,482,373
Non-controlling interests		7,862	25,302
		2,993,597	2,507,675
		RMB	RMB
Earnings per share	10		
Basic		1.2228	1.0237

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2021

	NOTES	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment		453,154	474,823
Right-of-use assets		76,713	56,862
Interests in associates		2,687,286	2,639,711
Intangible assets		2,215,697	2,239,588
Goodwill		1,691,179	1,214,535
Equity instruments at fair value through other comprehensive income		400,471	415,585
Deposits paid for acquisition of intangible assets		790,483	628,989
Amount due from an associate		30,000	30,000
Derivative financial instruments		-	682
Loan receivable		31,879	-
Deposit paid for acquisition of a subsidiary		15,000	-
Deferred tax assets	15	36,299	21,759
		8,428,161	7,722,534
Current assets			
Inventories		472,598	381,215
Financial assets at fair value through profit or loss		977,874	3,884
Trade and other receivables and prepayments	11	2,204,002	1,705,606
Tax recoverable		19,469	12,082
Derivative financial instruments		-	49
Amount due from an associate		320,036	207,271
Bank balances and cash	12	3,385,739	2,668,426
		7,379,718	4,978,533
Current liabilities			
Trade and other payables	13	629,547	619,284
Lease liabilities		16,922	7,266
Contract liabilities		23,715	14,406
Bank borrowings	14	1,103,760	10
Deferred consideration payables		2,000	2,929
Tax payable		305,310	268,068
		2,081,254	911,963
Net current assets		5,298,464	4,066,570
Total assets less current liabilities		13,726,625	11,789,104
Capital and reserves			
Share capital	16	84,177	84,634
Reserves		12,668,267	10,949,508
Equity attributable to owners of the Company		12,752,444	11,034,142
Non-controlling interests		94,543	68,573
		12,846,987	11,102,715

	NOTES	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Deferred tax liabilities	15	123,575	86,133
Lease liabilities		17,810	5,640
Deferred consideration payables		736	1,487
Bank borrowings	14	573,813	587,241
Derivative financial instruments		11,291	5,888
Obligation arising from put options		152,413	-
		879,638	686,389
		13,726,625	11,789,104

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 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 following amendments to IFRSs for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to IFRS 16	Covid-19 Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

Except as described below, the application of the amendments to IFRSs in the current year has 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 IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying IFRS 7 Financial Instruments: Disclosures ("IFRS 7").

As at 1 January 2021, the Group has several financial liabilities, the interests of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform. The following table shows the total amounts of these outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts.

	London Interbank Offered Rate ("LIBOR") RMB'000
Financial liabilities	
Bank borrowings	587,241

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowings measured at amortised cost.

Impacts on application of the agenda decision of the Committee - Cost necessary to sell inventories (IAS 2 Inventories)

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group's accounting policy prior to the Committee's agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee's agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and other cost necessary to sell inventories. The new accounting policy has been applied retrospectively.

The application of the Committee's agenda decision has had no material impact on the Group's financial positions and performance.

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[3]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to IAS 8	Definition of Accounting Estimates[3]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]

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 IFRSs	Annual Improvements to IFRSs 2018 - 2020[2]

[1] Effective for annual periods beginning on or after 1 April 2021
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after 1 January 2023
[4] Effective for annual periods beginning on or after a date to be determined

Except for the new and 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 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 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	2021 RMB'000	2020 RMB'000
Sales of pharmaceutical products	6,655,017	5,709,327
Promotion income	1,682,204	1,236,637
Total revenue	8,337,221	6,945,964

(ii) Performance obligations for contracts with customers

The Group mainly sells pharmaceutical products to hospital and medical institutions throughout the PRC through distributors and provides promotion services to certain pharmaceutical manufacturers.

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, 76% and 24% 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 (2020: 74% and 26%).

Sales to the largest customer of the Group account for 12.6% of the Group's sales and no other single customers contribute over 10% of the total revenue of the Group for the year ended 31 December 2021.

No single customer contributes over 10% of the total revenue of the Group for the year ended 31 December 2020.

4. OTHER INCOME

	2021 RMB'000	2020 RMB'000
Interest income	81,853	61,031
Government subsidies (Note a)	65,094	46,927
	146,947	107,958

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. OTHER GAINS AND LOSSES

	2021 RMB'000	2020 RMB'000
Impairment loss on intangible assets	-	(57,598)
Impairment loss on goodwill	(20,000)	(170,000)
Loss on disposal of property, plant and equipment	(225)	(145)
Net foreign exchange gain	22,622	60,560
Change in fair value of derivative financial instruments	(10,063)	(13,827)
Change in fair value of financial assets at fair value through profit or loss	115,656	(567)

Release on deferred difference on initial recognition of financial instruments	1,929	1,929
Others	1,606	(1,790)
	111,525	(181,438)

6. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on bank borrowings	15,397	26,109
Interest on lease liabilities	2,211	1,094
Interest on obligation arising from put options	10,413	-
Imputed interest on deferred consideration payables	249	317
	28,270	27,520

7. INCOME TAX EXPENSE

	2021 RMB'000	2020 RMB'000
Current tax:		
The PRC Enterprise Income Tax ("EIT")	273,739	223,843
Hong Kong Profits Tax	136	627
Macau Complementary Income Tax	151,969	127,866
	425,844	352,336
Under (over) provision in prior years:		
The PRC EIT	2,524	1,168
Malaysian Corporate Income Tax	-	(87,183)
Macau Complementary Income Tax	(6,744)	-
	(4,220)	(86,015)
Deferred taxation (note 15):		
- Current year	9,701	(5,932)
	431,325	260,389

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% (2020: 15%) granted by the local tax authority until 2023. 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% (2020: 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% (2020: 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 2021 and 2020.

(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.

The tax charge for the year can be reconciled to the 'profit before tax' per the consolidated statement of profit or loss and other comprehensive income as follows:

	2021 RMB'000	2020 RMB'000
Profit before tax	3,456,589	2,816,089
Tax at PRC EIT rate of 25%	864,147	704,022
Tax effect of share of results of associates	(18,838)	(38,451)
Tax effect of expenses that are not deductible in determining taxable profit	89,572	102,881
Tax effect of income that is not taxable in determining taxable profit	(1,536)	(6,449)
Tax effect of offshore income that is not taxable in determining taxable profit	(88,583)	(71,355)
Tax effect of tax losses not recognised	3,400	3,546
Tax effect of deductible temporary differences not recognised	16,132	27,474
Tax effect of tax concession	(137,190)	(111,060)
Effect on different applicable tax rates of subsidiaries	(160,426)	(134,424)
Effect of taxable profit that is not taxable in Dubai	(132,222)	(129,154)
Overprovision in prior years	(4,220)	(86,015)
Others	1,089	(626)
Income tax expense for the year	431,325	260,389

8. PROFIT FOR THE YEAR

	2021 RMB'000	2020 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	1,194	1,218
Salaries and other benefits	11,149	11,372
Contribution to retirement benefits schemes	139	80
	12,482	12,670
Other staff costs	1,032,220	710,472
Equity-settled share-based expense	17,156	-
Contribution to retirement benefits schemes	136,583	28,911
Employee benefits expense (note 17)	-	25,000

Total staff costs	1,198,441	777,053
Auditor's remuneration	4,058	3,305
Depreciation of property, plant and equipment	41,853	35,117
Depreciation of right-of-use assets	13,771	11,257
Amortisation of intangible assets (included in cost of goods sold)	164,196	161,942
Cost of inventories recognised as an expense	1,919,419	1,641,855

For the year ended 31 December 2021, Covid-19 related government grants amounted to nil (2020: RMB19,617,000) have been offset against staff costs.

9. DIVIDENDS

	2021 RMB'000	2020 RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2021 Interim - RMB0.2641 (2020: 2020 Interim dividend RMB0.2105) per share	652,528	520,095
2020 Final - RMB0.2033 (2020: 2019 final dividend RMB0.1271) per share	502,306	314,034
	1,154,834	834,129
Dividends proposed		
Dividends proposed during the year:		
2021 final – RMB0.2269 (2020: 2020 final - RMB0.2033) per share	557,594	502,306

The Board of Directors have declared a final dividend of RMB0.2269 per ordinary share for the year ended 31 December 2021 (2020: RMB0.2033 per ordinary share).

10. EARNINGS PER SHARE

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

	2021 RMB'000	2020 RMB'000
Earnings for the purposes of basic earnings per share (profit for the year attributable to owners of the Company)	3,017,402	2,530,398

	Number of ordinary shares as at 31 December	
	2021	2020
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,467,696,556	2,471,841,299

The computation of diluted earnings per share for the year ended 31 December 2021 does not assume the exercise of put options by the non-controlling shareholder of a subsidiary as the

exercise of the put option would result in an increase of earnings per share for the year ended 31 December 2021. The diluted earnings per share for the year ended 31 December 2020 was not presented as there was no dilutive potential ordinary shares outstanding as at 31 December 2020 and during the year ended 31 December 2020.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2021 RMB'000	2020 RMB'000
Trade receivables	1,405,322	1,056,176
Less: Allowance for credit losses	(9,533)	(8,228)
	1,395,789	1,047,948
Bills receivables	453,350	445,998
Purchase prepayments	213,125	137,360
Other receivables and deposits	141,738	74,300
	2,204,002	1,705,606

As at 1 January 2020, trade receivables from contracts with customers amounted to RMB1,001,862,000.

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:

	2021 RMB'000	2020 RMB'000
Trade receivables		
0 - 90 days	1,297,684	1,034,677
91 - 365 days	98,105	13,271
	1,395,789	1,047,948
Bill receivables		
0 - 90 days	306,457	276,546
91 - 120 days	51,281	45,732
121 - 180 days	95,612	123,720
	453,350	445,998

As at 31 December 2021, total bills receivables amounting to RMB453,350,000 (2020: RMB445,998,000) are held by the Group. All bills receivables by the Group are accepted by banks with a maturity period of less than six months.

As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB56,942,000 (2020: RMB10,872,000) which are past due at the reporting date. Included in the past due balances, RMB30,570,000 (2020: RMB3,604,000) 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.

12. BANK BALANCES AND CASH

The bank deposits carry interest at the prevailing market rate of approximately 0.30% to 3.40% (2020: 0.30% to 1.95%) per annum. Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2021 RMB'000	2020 RMB'000
Euro ("EUR")	9,566	8,459
Hong Kong Dollar ("HK$")	24,398	13,613
United States Dollar ("US$")	14,109	10,411
Confederation Helvetica Franc ("CHF")	2,059	1,557
Great Britain Pound ("GBP")	1,802	3,180

13. 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:

	2021 RMB'000	2020 RMB'000
0 - 90 days	142,639	128,643
91 - 365 days	2,757	3,185
Over 365 days	502	2,980
Trade payables	145,898	134,808
Payroll and welfare payables	280,000	205,357
Other tax payables	38,031	90,935
Accrued promotion expenses	61,229	84,233
Accrued sales rebates	50,000	25,000
Accruals	35,098	44,872
Other payables	19,291	34,079
	629,547	619,284

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

14. BANK BORROWINGS

	2021 RMB'000	2020 RMB'000
Bank loans	1,677,573	587,251

Analysed as:

Secured	-	10
Unsecured	1,677,573	587,241
	1,677,573	587,251

	2021 RMB'000	2020 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	1,103,760	10
Within a period of more than one year but not exceeding two years	573,813	117,448
Within a period of more than two years but not exceeding five years	-	469,793
	1,677,573	587,251
Less: Amounts due within one year shown under current liabilities	(1,103,760)	(10)
Amounts shown under non-current liabilities	573,813	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:

	2021 RMB'000	2020 RMB'000
Fixed-rate borrowings		
Denominated in RMB (5.23% per annum as at 31 December 2020)	-	10
Variable-rate borrowings		
Denominated in HK$ range from 0.77% to 0.85% per annum as at 31 December 2021 (Note a)	1,103,760	-
Denominated in US$ range from 0.80% to 1.46% per annum as at 31 December 2021 (2020: from 1.44% to 1.49%) (Notes b & c)	573,813	587,241
Total	1,677,573	587,251

Notes:

(a) Variable rates range from Hong Kong Interbank Offered Rate ("HIBOR") plus 0.62% to HIBOR plus 0.7% as at 31 December 2021.

(b) Variable rates range from LIBOR plus 0.7% to LIBOR plus 1.25% as at 31 December 2021 (2020: LIBOR plus 1.25% to LIBOR plus 1.3%).

(c) As at 31 December 2021, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately

RMB573,813,000 (2020: RMB587,241,000). The principal amount of the variable-rate bank borrowings will be repayable on 24 March 2023 and 27 March 2023 (2020: 24 March 2023 and 27 March 2023).

As at 31 December 2021, the Group had unutilised banking facilities of approximately RMB500,000,000 (2020: RMB1,478,227,000).

15. 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 change on cash flow hedges	Unrealised profit of equity instruments at FVTPL	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	19,074	(27,588)	(63,964)	23	-	-	1,201	(71,254)
Credit to profit or loss for the year (note 7)	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)
Credit (charge) to profit or loss for the year (note 7)	244	3,018	-	-	(27,991)	15,027	-	(9,702)
Charge to other comprehensive income	-	-	-	(731)	-	-	-	(731)
Acquisitions of subsidiaries	-	(12,469)	-	-	-	-	-	(12,469)
At 31 December 2021	19,831	(31,620)	(63,964)	240	(27,991)	15,027	1,201	(87,276)

The following is the analysis of the deferred tax assets (liabilities) for financial reporting purposes:

	2021	2020
	RMB'000	RMB'000
Deferred tax assets	36,299	21,759
Deferred tax liabilities	(123,575)	(86,133)
	(87,276)	(64,374)

At 31 December 2021, the Group had unused tax losses of approximately RMB156,276,000 (2020: RMB50,553,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB93,186,000 (2020: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB63,090,000 (2020: RMB50,553,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2021 are tax losses of approximately RMB29,189,000 (2020: RMB20,001,000) that will expire within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2021, tax losses of approximately RMB1,063,000 (2020: RMB2,051,000) was expired.

As at 31 December 2021, the Group had deductible temporary differences of RMB782,683,000 (2020: RMB717,183,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB79,320,000 (2020: RMB78,348,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining

balance of RMB703,363,000 (2020: RMB638,835,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB7,077,285,000 (2020: RMB5,680,490,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

16. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of US$0.005 each		
Authorised		
At 1 January 2020, 31 December 2020 and 31 December 2021	20,000,000	765,218
Issued and fully paid		
At 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
Shares repurchased and cancelled (Note)	(13,317)	(457)
At 31 December 2021	2,457,444	84,177

Note: During the year ended 31 December 2021, the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of ordinary shares of US$0.005 each	Price per share		Aggregated consideration paid
		Highest HK$	Lowest HK$	HK$
August 2021	2,190,000	15.62	14.60	32,748,420
September 2021	4,435,000	15.10	14.04	65,378,180
November 2021	6,692,000	13.18	12.48	85,472,060
Total	13,317,000			183,598,660

During the year ended 31 December 2020, the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Date of repurchase	No. of ordinary shares of US$0.005 each	Price per share		Aggregated consideration paid
		Highest HK$	Lowest HK$	HK$
11 February 2020	9,648,000	10.30	10.04	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 2021 and 2020.

17. EMPLOYEE BENEFIT SCHEME

The 2009 Scheme was adopted by the Board on 31 July 2009 ("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 of Directors (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 2021, the Company recognised an expense of nil (2020: RMB25,000,000) on the Master Scheme based on the Group's financial performance. Nil (2020: RMB25,000,000) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

MANAGEMENT DISCUSSION AND ANALYSIS

Company Overview

CMS is a well-established, innovation-driven specialty pharma with a focus on sales and marketing in China, dedicated to offering competitive products and services to meet China's unmet needs for health and beauty.

CMS has strong capabilities and professional teams covering key stages of the entire life-cycle of pharmaceutical products. In line with the clinical needs of patients, the Groups focuses 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, mainly through equity investment in overseas biotech companies ("Overseas Biotech") and strategic collaboration with global leading biopharmaceutical companies ("Global Biopharma"), industrial investment in Chinese biotech companies ("Chinese Biotech"), and customized development of innovative medicines. The Group has built an innovative pipeline of early-, mid- and late-phase products with relatively high innovation level, promising market potential and competitive differentiation advantages. The Group covers extensive expert and hospital network resources in wide therapeutic fields, and owns professional clinical development and registration teams, which run the clinical development and registration of innovative medicines in China with high efficiency and quality. The Group has created professional brand images and leading market positions for a number of medicines by leveraging its open commercialization platform, which is compliant, professional and with multi-channels coverage. With strong product competence, powerful commercialization capability and refined management system, the Group has become one of the pharmaceutical companies with the highest operating efficiency in China.

While maintaining the in-depth development of the pharmaceutical business, the Group leveraged on its commercialization strengths, including brand and expert resources in specialty fields, continuously promotes the independent operation of specialty lines to expand its business depth and breadth, and its specialty-fields-focused business structure has further bolstered the Group's long-lasting growth.

Business Review

During the Reporting Period, the Group has achieved sustained and steady growth in business performance via expansion of products brand influences, integration and synergy of promotional team and channel resources, as well as reinforcement of the compliant, efficient and refined management. During the Reporting Period, the Group recorded a turnover of RMB8,337.2 million (2020: RMB6,946.0 million), representing an increase of 20.0% over the same period last year; in the case that all medicines were directly sold by the Group, turnover would increase by 24.8% to RMB9,230.2 million (2020: RMB7,395.2 million). Profit for the year reached RMB3,025.3 million (2020: RMB2,555.7 million), representing an increase of 18.4% over the same period last year.

In recent years, the Chinese pharmaceutical industry has been undergoing a "genetic recombination" driven by both demands and policies, and it has become a non-negligible trend for industry chain participants to utilize their strengths to seek for diversified collaborative development. By capitalizing on its capabilities in management and control of key stages in the entire life-cycle of innovation medicines, including the innovative medicine investment and incubation (investment, M&A), product development (project establishment, clinical development and

registration) and commercialization (NRDL inclusion, market access, and retail marketing), the Group has managed to build an open innovative medicines incubation platform bridging the pharmaceutical innovation and commercialization with the support of its professional teams and extensive resource in specialty fields. The Group actively approached and collaborated with global R&D forces to build an efficient pharmaceutical innovation ecosystem featured with collaborative and win-win mentality and strong synergy effect. At the same time, the Group proactively coordinated internal and external resources for incubation of independently-operated business units in specialty fields, and promoted the rapid development of the dermatology and medical aesthetic business, forming a replicable model for the specialty–fields-focused development strategy.

I. Innovative Research

Based on the clinical needs of patients, the Group has built a comprehensive, diversified and open system for investment, M&A, and development of innovative medicines, which effectively balances the efficiency of R&D input-output and provides continuous driving force for innovation, to build an innovative medicine incubation platform with "CMS characteristics".

1. Initiating Industrial Investment in Chinese Biotech to Build an Incubation Platform of Innovative Medicines for Biotech Companies

In recent years, Chinese Biotech have continuously made breakthroughs in innovative biotechnologies via leveraging their talent advantages, capital support and favorable policies, taking the Chinese pharmaceutical innovation into a new development cycle. In order to make both parties to focus on their own strengths and achieve an open, win-win cooperation and strong alliance, and improve the innovative medicines development efficiency in China, the Group initiated the model of industrial investment in Chinese Biotech with innovative technology platforms.

In April 2021, the Group announced that it would make equity investment in and establish a joint venture for co-development of innovative drugs with Trinomab Biotech Co., Ltd* (珠海泰諾麥博生物技術有限公司, the English name is for identification purpose) ("Trinomab"). As at 31 December 2021, the Group held 5.97% equity interests in Trinomab. Both parties own 50% of the equity interest of the joint venture, and the Group made capital contribution in cash and Trinomab made capital contribution using the rights and interests regarding the related technologies of collaborative products as intangible assets. According to the agreements, Trinomab will be responsible for drug discovery and preclinical studies, while the Group being responsible for clinical development, registration, and commercialization, etc., to promote integration and complementarity of advantageous industrial resources, and accelerate the clinical development and commercialization progress of domestic innovative products.

Trinomab's core technology is the fourth-generation antibody technology platform HitmAb®. The advantage of the natural fully human monoclonal antibodies developed by the platform is the high safety, having broad spectrum to foreign pathogens and strong affinity with pathogen targets, which can solve the problem of anti-drug antibody reaction in the clinical use of antibody drugs developed by traditional technologies. During the Reporting Period, the Group reached collaboration with Trinomab for 4 innovative products developed by the HitmAb® platform, the Fully Human Anti-Staphylococcus Aureus (SA) Alpha-hemolysin (Hlα) Antibody, Fully Human Anti-Human Cytomegalovirus (HCMV) Antibody, Fully Human Anti-SARS-CoV-2 (COVID-19) Antibody and Fully Human

Anti-rabies Virus Antibody, all of which were injected into the joint venture. In the future, both parties will continue to negotiate to promote the prioritized collaboration on other specific products.

2. Initiating the Customization of Innovative Products

The Group owns an operation system and professional team that manage and control key R&D processes that cover from target selection, structure-activity relationship study, process development, preclinical research to clinical development. Meanwhile, the Group has maintained long-term close collaborations with first-class medical colleges in China and leveraged on their academic resources and scientific research facilities to jointly overcome innovation difficulties, further enhancing the Group's innovation capability in fundamental research through the in-depth industry-academy-research cooperation. In order to enhance its R&D efficiency, the Group entrusts CROs for customized drug development with a focus on novel or popular targets of its advantageous therapeutic fields, and takes initiatives to manage and control full lifecycle of innovative medicines, aiming to make breakthroughs in domestic innovative technologies and products and empower the innovative technology development in China.

In December, 2021, the Group entrusted a CRO for the customized development of 4 innovative drugs mainly related to the treatment of diseases in autoimmune system, gynecology, cardio-cerebrovascular and central nervous system. According to the collaboration agreement, the Group owns the global intellectual property rights and related interests of the customized innovative products, and the CRO is responsible for pre-clinical studies of the products until the products are granted approvals for clinical trials from the National Medical Products Administration (NMPA) in China.

3. Equity Investment in Overseas Biotech and Strategic Collaboration with Global Biopharma

Based on patients' clinical needs, the Group has been deploying overseas innovative products in relatively mature stages through equity investment in Overseas Biotech and strategic collaboration with Global Biopharma since the second half of 2017, aiming to improve the accessibility of Chinese patients to overseas innovative medicines. As at 31 December 2021, through these methods, the Group has acquired the clinical development and commercialization rights mainly regarding Chinese market of a number of innovative products that are in the mid- and late-phase of clinical development or have been approved for marketing in the United States (the U.S.) and/or Europe. Among them, the Group has made equity investment in 7 Overseas Biotech and acquired related innovative products.

II. Innovative Pipeline

The Group adopts various methods to enrich and develop the innovative pipeline with products at different development phases and risk levels that truly meet patients' clinical needs. Meanwhile, the Group fully utilizes its resource advantages of experts, networks and talents in the industry, to accelerate the clinical development progress of innovative products in China.

As at 31 December 2021, the Group has acquired nearly 30 innovative products with relatively high innovation level, promising market potential and competitive differentiation advantages from all over the world. Among them, 9 products had been approved for marketing in the U.S. and/or Europe. During the Reporting Period, the new drug

applications of 3 innovative products were accepted by NMPA; 2 innovative products obtained positive results from their China bridging trials; 3 innovative products obtained clinical trial approvals from NMPA.

1. Continuously Expanding the Innovative Pipeline

Fully Human Anti-SA Hlα Antibody - a natural fully human anti-SA antibody drug with Hlα neutralizing activity

Fully Human Anti-SA Hlα Antibody can neutralize the Hlα released by SA to avoid immune downregulation to B cells and to improve immune response. The product is developed to prevent disease progression in high-risk groups for SA colonization and treat pneumonia, bacteremia, and toxic shock caused by SA, especially Methicillin-resistant SA (MRSA), and it is in the preclinical stage currently. Hlα toxin is the most widely expressed one among toxins SA produced, while there is no Hlα antibody drug launched in the world currently. The product has good safety and its preclinical studies have shown good Hlα toxin neutralizing activity. It is expected to solve the problems of high mortality, resistance to treatment and side effects from SA infection.

Fully Human Anti-HCMV Antibody - a natural fully human antibody drug with HCMV neutralizing activity

Fully Human Anti-HCMV Antibody can neutralize free viruses in blood and has the capacity for neutralization within cells twice. The product is developed for the prevention of HCMV infection, and it is in the preclinical stage currently. There is no HCMV vaccine launched in the world so far. The product has a precise mechanism of action and excellent safety, and can be produced on a large scale under strict quality control due to its non-blood-derived production process. It is expected to fill the gap of HCMV monoclonal antibodies in the world.

Fully Human Anti-COVID-19 Antibody - a natural fully human antibody effective against major current strains with low immunogenicity

Fully Human Anti-COVID-19 Antibody, a neutralizing antibody cocktail, can provide broad neutralizing activities and cover a wider population. The product is developed for the prevention and treatment of COVID-19 infection, and it is in the preclinical stage currently. The product has the advantages of good safety, specificity and high affinity, and its preclinical data shows that it is effective against major current strains, including the South African and Indian variants. Facing the potential pandemic caused by these variants, the product is expected to further meet the global needs for prevention and treatment of COVID-19 infection.

Fully Human Anti-rabies Virus Antibody - an accessible natural fully human antibody with low immunogenicity and high affinity

Fully Human Anti-rabies Virus Antibody can confer passive immune response to rabies virus through providing required neutralizing antibodies at the site of exposure within 0-7 days after exposure, when the body is not able to generate its own antibodies induced by active immunization with vaccine. The product is in the preclinical stage currently. The marketed passive immunization agents in China are subject to production capacity limitation due to the blood plasma-derived production process, and their market penetration rate is relatively low. As a non-blood plasma-derived product, Fully Human Anti-rabies Virus Antibody may become a passive immunization medicine for rabies virus that is not limited by related production capacity issues, while having high safety and strong affinity.

2. Accelerating the Clinical Development of Innovative Products in China

Diazepam Nasal Spray - an innovative medicine targeting acute repetitive seizures that is convenient to use outside the medical setting with a very rapid onset of action (approved for marketing in the U.S.)

In July 2021, the new drug application of Diazepam Nasal Spray was accepted by NMPA.

In March 2021, the Group completed the product's bridging trial in China, which is a comparative pharmacokinetics (PK) study. The result showed the absorption of a single intranasal dose of Diazepam Nasal Spray was fast and complete, while the PK parameters of diazepam and its active metabolite desmethyl diazepam were similar to those observed in relevant study in the U.S., achieving the expected targets. It was also shown to be safe and well tolerated in healthy Chinese subjects. The product is an intranasally administered, proprietary formulation of diazepam with relatively high absolute bioavailability, developed for the treatment of intermittent, stereotypic episodes of frequent seizure activity (i.e., seizure clusters, acute repetitive seizures) in patients with epilepsy 6 years of age and older. Its formulation incorporates the unique combination of a vitamin E-based solvent and Intravail® absorption enhancement, which helps it to obtain unparalleled absorption, tolerability, and reliability.

Tildrakizumab Solution for Injection - a monoclonal antibody specifically targeting IL-23 (approved for marketing in the U.S., Europe, Australia, Japan and Canada)

In October 2021, the new drug application of Tildrakizumab Solution for Injection was accepted by NMPA.

In March 2021, the Group completed the enrollment of all the 220 subjects in its Phases III bridging trial in China, which only took around 2.5 months (including the Chinese Spring Festival) and strongly proved the Group's efficient clinical execution capability by leveraging its extensive sales and promotion networks and expert resources. In July, the Group announced the trial obtained positive results, and the preliminary data demonstrated that comparing with placebo, the treatment of the product for 12 weeks significantly increased the proportion of subjects who have achieved at least 75% of improvement in psoriasis area and severity index (PASI 75). The product 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. It is developed for the treatment of patients with moderate-to-severe plaque psoriasis, and is expected to be a safe, effective and most cost-effective novel monoclonal antibody targeting IL-23.

Methotrexate Injection, Pre-filled Syringe

- expected to be the first MTX pre-filled injection for subcutaneous administration for the treatment of psoriasis in China (approved for marketing in Europe)

In December 2021, the new drug application of Methotrexate Injection, Pre-filled Syringe for the treatment of severe recalcitrant disabling psoriasis and other autoimmune diseases was accepted by NMPA. In January 2022, the product's NDA was granted priority review designation by the Center for Drug Evaluation (CDE) of NMPA, which is expected to accelerate its registration process in China. The product is a methotrexate (MTX) injection with multiple strengths in a small volume, expected to meet the basic treatment needs of psoriasis patients.

- expected to be the first MTX pre-filled injection for subcutaneous administration for the treatment of RA in China (approved for marketing in Europe)

In August 2021, the clinical trial application of Methotrexate Injection, Pre-filled Syringe for the treatment of adult rheumatoid arthritis (RA) was approved by NMPA. MTX is internationally well accepted as the first-line gold standard medicine and anchored agent for the systemic treatment for RA, however, no MTX pre-filled injection for the treatment of RA has been approved for marketing in China. The product shows lower adverse effect profile (compared with oral application of MTX), good bioavailability and clinical efficacious response, and convenience of dosage management and administration, achieving a great balance of efficacy, safety, tolerability and compliance.

Cyclosporine Eye Drops 0.09% - a preservative-free, innovative ophthalmic formulation using globally patented nanotechnology (approved for marketing in the U.S., Australia and Canada)

In May 2021, the Group completed the enrollment of all the 384 subjects in the Phases III bridging trial of Cyclosporine Eye Drops 0.09% in China, which only took around 4 months (including the Chinese Spring Festival) and again convincingly demonstrated the Group's efficient clinical execution. In May, the Group was informed by its partner, Sun Pharmaceutical Industries Ltd. ("Sun Pharma"), that Sun Pharma would voluntarily recall a batch of Cyclosporine Eye Drops 0.09% in the U.S. due to anomalies in the particulate matter and content. As the same batch of the product was used in the bridging trial in China, the Group decided to voluntarily suspend the Phase III bridging trial in China. The new Phase III bridging trial in China will be conducted immediately when the new product batch for the clinical trial that meets our quality requirement is received. The product is a nanotechnology-enabled formulation in clear solution, developed for increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye). It uses a unique tiny structure called "micelle" as the vehicle to allow for greater tissue penetration and gentle side effect profile in a high concentration.

Desidustat Tablets - an oral hypoxia-inducible factor-prolyl hydroxylase inhibitor (HIF-PHI) (approved for marketing in India)

In January 2021, the clinical trial application of Desidustat Tablets was approved by NMPA. Afterwards, the Group completed the Phase I PK study in June, and completed the first subject dosing of China Phase III bridging trial of the product in January 2022. The product is a novel oral HIF-PHI, developed to treat anemia in chronic kidney disease patients (including hemodialysis and non-dialysis patients).

Methylthioninium Chloride Enteric-coated Sustained-release Tablets - an oral methylene blue sustained-release formulation that enhances diagnosis sensitivity in detecting cancerous/precancerous lesions during colonoscopy (approved for marketing in Europe)

In August 2021, the application of Phase III clinical trial for bridging in China of Methylthioninium Chloride Enteric-coated Sustained-release Tablets was approved by NMPA, and then the first subject was dosed in January 2022. The product is a novel oral sustained-release formulation for diagnosis, which can help to improve the detection rate of colorectal cancer/precancerous lesions by enhancing visualization of the colorectal lesions in adult patients undergoing screening or surveillance colonoscopy.

3. Innovative Pipeline

Launched Overseas or Under Marketing Application Review

Product	Rights Authorized Region	Indication	Clinical Trial Approval	Clinical Trial for Registration	Marketing Application	Marketed	Major Marketed Regions			
							CN	US	EU	JP
Diazepam Nasal Spray		Intermittent, stereotypic episodes of frequent seizure activity (i.e., seizure clusters, acute repetitive seizures) in patients with epilepsy six years of age and older						✓		
Tildrakizumab Solution for Injection (Biological Agent)		Moderate-to-severe plaque psoriasis						✓	✓	✓
Methotrexate Injection, Pre-filled Syringe		Severe recalcitrant disabling psoriasis and other autoimmune diseases							✓	
		Adult rheumatoid arthritis							✓	
Cyclosporine Eye Drops 0.09%		Increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye)						✓		
Methylthioninium Chloride Enteric-coated Sustained-release Tablets		An diagnostic agent to enhance visualisation of colorectal lesions in adult patients undergoing screening or surveillance colonoscopy							✓	
Desidustat Tablets		Anemia in patients with chronic kidney disease								
Latanoprost Eye Drops		Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension						✓		
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						✓		
Levetiracetam XR Tablet		Adjunctive therapy for the treatment of partial-onset seizures						✓		
BCG for Intravesical Instillation (Biological Agent)	*	Non-invasive urothelial bladder carcinoma, including curative treatment of carcinoma in situ and prophylactic treatment of recurrence							✓	
PoNS		Chronic balance deficit due to mild-to-moderate traumatic brain injury								
Paclitaxel Injection Concentrate for Suspension		Metastatic breast cancer, locally advanced/ metastatic non-small cell lung cancer, metastatic adenocarcinoma of the pancreas								

China — Designated Asian Regions

Overseas — Mainland China, HK SAR, Macao SAR and Taiwan

*TWN is not included in the rights authorized region of BCG for Intravesical Instillation

Under R&D Stages

Product	Rights Authorized Region	Indication	Pre-clinical	Clinical Trial Approval	Phase I	Phase II	Phase III	Marketing Application
SDN-037		Eye pain and inflammation after cataract surgery						
PDP-716		Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension						
CF101		Psoriasis						
ACT017 (Biological Agent)		Acute phase of ischemic stroke						
CF102		Hepatocellular carcinoma						
		Non-alcoholic fatty liver disease / non-alcoholic steatohepatitis						
XF-73		Prevention of post-surgical staphylococcal infections						
		Infectious diseases						
BB2603		Onychomycosis and tinea pedis						
VXM01 (Biological Agent)		Recurrent glioblastoma						
Fully Human Anti-SA Hlα Antibody (Biological Agent)		Intended to be used to prevent disease progression in high-risk groups for SA colonization and treat pneumonia, bacteremia, and toxic shock caused by SA, especially MRSA						
Fully Human Anti-HCMV Antibody (Biological Agent)		Intended to be used for prophylaxis of HCMV infection						
Fully Human Anti-COVID-19 Antibody (Biological Agent)		Intended to be used for prevention and treatment of COVID-19 infection						
Fully Human Anti-rabies Virus Antibody (Biological Agent)		Intended to be used for rapid passive immunization of patients bitten and scratched by rabies infected dogs or other animals susceptible to rabies infection						
CMS-D001		Autoimmune diseases						
CMS-D002		Gynecological diseases						
CMS-D003		Cardio-cerebrovascular diseases						
CMS-D004		Central nervous system diseases						

China
Overseas
Global
Designated Asian Regions
Mainland China, HK SAR, Macao SAR and Taiwan

III. Competitive Generics

The Group selectively deployed generics with promising market potential and good competitive landscape, expecting to contribute additional growth to the Group's performance via participating in the centralized procurement.

The main competitive generics of the Group are as follows:

Category	Product	Indication	Registration Progress in China	2021 IQVIA Data of Products with the Same Active Pharmaceutical Ingredients (API)	Number of the Same API Products Passing Consistency Evaluation*
Complex Generic	Doxorubicin Hydrochloride Liposome Injection	Anti-tumor	Under ANDA Review	About RMB3.4 billion	1
Competitive Generics	Paliperidone Extended-release Tablets#	Schizophrenia	Obtained Marketing Approval	About RMB0.4 billion	1
	Tacrolimus Capsules	Liver or renal transplant rejection	Under ANDA Review	About RMB4.2 billion	0
	Lansoprazole Enteric Capsules	Anti-gastrointestinal ulcer	Under ANDA Review	About RMB1.6 billion	0
	Calcitriol Soft Capsules	Postmenopausal osteoporosis; chronic renal failure; hypoparathyroidism; vitamin-D resistant rickets	Under ANDA Review	About RMB2.1 billion	2
	Mycophenolate Sodium Enteric-coated Tablets	Immune rejection in renal transplant	Under ANDA Review	About RMB0.6 billion	1
	Oxcarbazepine Tablets	Epilepsy	Under ANDA Review	About RMB0.6 billion	0
	Tetrabenazine Tablets	Huntington's disease	Under ANDA Review	No relevant data	0

* As at 31 December 2021

In March 2022, Paliperidone Extended-release Tablets obtained the marketing approval in China.

IV. Dermatology and Medical Aesthetic Business

Basing on years of resource accumulation in the dermatology field, including the dermatologists, channel networks and promotional teams, the Group split the dermatology specialty business and successfully incubated the independent dermatology and medical aesthetic operation business, the "CMS Aesthetics". With multiple mergers and acquisitions of professional medical aesthetic companies and multi-dimensional introduction of dermatology and medical aesthetic products, "CMS Aesthetics" has established an operation system consisting of the dermatology prescription medicine business unit and the medical aesthetic business unit, and has become a professional dermatology and medical aesthetic company with a focus on dermatology prescription medicine, light medical aesthetic products, energy-based medical aesthetic devices and dermatology grade skincare products, to meet the increasingly diversified and personalized beauty demands of Chinese consumers.

During the Reporting Period, the business infrastructure of "CMS Aesthetics" was well established, and its product matrix and channel coverage were rapidly expanded. A core management team has been constructed through internal promotions and recruitment of high-level professionals, and the staff size has reached around 600 people, while an efficient and flexible incentive scheme has been set up, to accelerate its vision of becoming "the largest and most professional company in the dermatology, medical aesthetic health management in China".

1. Acquiring Luqa, a Dermatology and Medical Aesthetic Specialty Company, to Enrich the Dermatological Portfolio and Enter the Medical Aesthetic Field

In February 2021, the Group acquired all the shares of Luqa Ventures Co., Limited ("Luqa"), a dermatology and medical aesthetic specialty company, to enrich the dermatological portfolio and enter the medical aesthetic field. Luqa has a diversified product portfolio including prescription medical aesthetic products, medical aesthetic products and dermatology grade skincare products that can provide clients/consumers with safe and effective solutions for skin problems. After the acquisition, the Group rapidly integrated businesses and teams of both parties, which has laid the foundation for the rapid development of the dermatology and medical aesthetic business.

2. Acquiring Carnation, a R&D and Manufacturing Platform of Medical Aesthetic Devices with Focused Ultrasound Technology

In May 2021, the Group entered into an equity transfer agreement and a capital increase agreement with Shanghai A&S Science Technology Development Co., Ltd. and Shanghai Carnation Medical Technology Co., Ltd. ("Carnation"). As at 31 December 2021, the Group held approximately 64.81% of the equity interests of Carnation. Carnation's focused ultrasound technology is one of the innovative non-invasive body shaping technologies and has the advantages of being penetrable, focusing, non-invasive, non-destructive channels, and acting on targets at different depths, etc. Based on this technology, Carnation independently developed products including the FUBA5200 Focused Ultrasound Body Contouring System. In addition to body shaping, this technology could also be applied to the development of products in facial shaping, facial wrinkle removal, skin tightening, freckles removal, scar removal, transdermal absorption and other fields. As the Group's R&D platform for energy-based medical aesthetic devices, Carnation will continue to provide cutting-edge medical aesthetic devices using focused ultrasound technology for the Group.

FUBA5200 Focused Ultrasound Body Contouring System - a non-invasive body shaping and fat reduction device using focused ultrasound technology with independent intellectual property rights

During the Reporting Period, the Group initiated the pivotal clinical trial related work of FUBA5200 Focused Ultrasound Body Contouring System in China. Developed for non-invasive ultrasonic fat reduction, the product focuses ultrasound energy on the subcutaneous fat layer, uses the mechanical and cavitation effects of ultrasound to crush the target fat cells and then dissolve them, thereby eliminating excess fat on the body surface. After multiple iterations, the product has been improved in aspects of transducers, power sources and others, which can improve the treatment effect and reduce the entire treatment time and cycle. It is expected to provide consumers with a safe, effective and convenient choice for non-invasive body shaping and fat reduction.

3. Acquiring Xuli Medical, a Medical Aesthetic Specialty Company, to Expand the Light Medical Aesthetic Products, Teams and Related Channels, Improving the Comprehensive Competitiveness

In December 2021, the Group acquired all the shares of Shanghai Xuli Medical Devices Company Limited ("Xuli Medical"), which focuses on medical aesthetic products and is well established in the middle and upper stream of the medical aesthetic industry. Xuli Medical is the sole distributor of MONALISA Lidocaine Filler (Vmonalisa), a South Korea imported modified sodium hyaluronate filler for injection, in Mainland China. The acquisition further expanded the Group's medical aesthetic product matrix, and brought it a professional medical aesthetic team with rich experience in medical aesthetic marketing and sales and excelling at innovation of marketing concept, as well as extensive medical aesthetic channel resources covering Mainland China, which has effectively improved the overall competitiveness of the Group in the medical aesthetic field.

Vmonalisa – a painless, fashionable, and accessible luxury HA filler (containing Lidocaine) from South Korea, featured with high safety, natural effect and good cost-effectiveness (approved for marketing in Europe, South Korea and other regions)

Vmonalisa, a "painless" medium-to-macro-particle HA injection filling product containing Lidocaine, is the fourth imported South Korean HA filler approved as a Class III medical device in China and the only South Korean HA filler used in Seoul National University Hospital. Adopting Hy-BRID crosslinking technology which can minimize the crosslinking agent residue, the product has the advantages of high safety, good viscoelasticity and natural effect, and its duration period can reach 6 to 12 months (it may differ among individual consumers), providing a cost-effective and accessible luxury South Korean HA product for Chinese beauty-loving people.

4. Reaching an Exclusive Collaboration Agreement with OVMEDI for the Embedding Thread Product to Meet the Diversified Needs of Chinese Beauty-loving People

In December 2021, the Group signed a collaboration agreement with OVMEDI Co., LTD. ("OVMEDI"), a medical aesthetic specialty company of South Korea, for Omega VL polydioxanone (PDO) embedding thread (the "Thread Carving Product"), and gained the exclusive rights to market, sell, distribute and commercialize the product in Mainland China, HK SAR, Macao SAR and Taiwan. The agreement is valid for thirteen years, and upon the expiration, it may be automatically renewed every year as per certain conditions agreed. The collaboration has filled the blank of embedding thread product of the Group and made its medical aesthetic product matrix more diverse and multi-dimensional.

Omega VL Thread Carving Product – one of the top three brands in South Korea with complete specifications and excellent workmanship (approved for marketing in the U.S. and South Korea)

Omega VL Thread Carving Product is made of PDO, which has high biocompatibility and is 100% degradable, and is used for facial and body thread embedding with the effects of lifting and firming. Produced by internationally renowned manufacturers, the raw materials of the product are featured with high quality. The product has been approved for marketing overseas for many years with certain awareness and good reputation. The product has excellent workmanship and complete specifications including smooth line, serrated line (small V line), anchorage line (large V line) and special specifications. It could synergize with the Group's other dermatology and medical aesthetic products to meet the diversified needs of Chinese beauty-loving people.

V. Ophthalmology Business

The Group has been deeply engaged in the ophthalmology business for years and has developed a professional ophthalmology product portfolio, including the marketed product -- Augentropfen Stulln Mono Eye Drops (used for senile macular degeneration and all forms of asthenopia), and the innovative pipeline products -- Cyclosporine Eye Drops 0.09% (developed for increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye)), Latanoprost Eye Drops (developed for reduction of elevated intraocular pressure in patients with open- angle glaucoma or ocular hypertension), SDN-037 (developed for eye pain and inflammation after cataract surgery), PDP-716 (developed for reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension). The Group has also accumulated extensive ophthalmologic experts, doctors and network resources (including hospitals and medical institutions, retail pharmacies, e-commerce channels, etc.). In order to make effective use of its advantageous resources and further improve the operation efficiency in the ophthalmology field, the Group promoted the independent operation of ophthalmology line.

VI. Healthcare Business

The "consumption upgrade" and "pandemic era" have had a profound impact on people's lifestyles and consumption behaviors. Under the new consumption normal, factors such as health, safety, convenience and brand reputation are playing a more critical role than ever before. With an insight into the new trend in the consumer market, the Group leveraged its extensive channel resources overseas, mature product evaluation system and efficient global supply chain system, to stringently select functional and quality healthcare products with unique ingredients globally according to medical concept and high standards, guarding the health of Chinese consumers through cross-border e-commerce business. As at 31 December 2021, the Group has collaborated with 17 well-known European and American brands on more than a hundred products, 112 of which have been launched in "CMS Health Overseas Flagship Store" or "CMS Overseas Flagship Store" on the three mainstream cross-border e-commerce platforms, JD Worldwide, Youzan Mall and Tmall International. The products sold have covered nine major categories including weight management, kid's nutrition, hair care & loss prevention, sexual health, home care, relaxation & sleep, beauty & personal care, fertility & pregnancy, and nutritional supplement.

During the Reporting Period, while continuously expanding the quality healthcare product matrix, the Group actively explored feasible business models, capitalized on new media in brand building, to build "trending products" that meet consumers' demands, making effort to become "the most professional healthcare brands operation company in China".

VII. Commercialization System

As China's healthcare system reform has further catalyzed the refinement of the industrial value chain, and a large number of innovative medicines have gradually entered the commercialization cycle, the long-term value of professional, compliant commercialization platforms with scales becomes increasingly prominent for enterprise to maintain its competitive advantages and sustainable profits. With years of experience in market access, branding, academic promotion, retail management, new media marketing, government affairs, distributor cooperation, etc., the Group has established a professional, mature, compliant, and omni-channel commercialization system, and successfully created decent brand images and leading market positions for the Group's products in China, which laid a solid "monetization" foundation for the innovative products to be launched.

The Group adheres to the compliance-first principle in its commercialization system, and has constantly improved its compliance management throughout employees' behavior management, training and performance assessment. During the Reporting Period, while further refining the academic promotion based on products' core academic advantages, the Group proactively organized and participated in various levels of online and offline academic conferences, made efforts to build a multi-level expert network, and continued to increase hospital channels coverage and efficiency enhancement. Besides, leveraging diversified new media promotions as well as offline events, the Group expanded brand influences, and increased traffic and penetration in the chain-pharmacies-based retail market. Meanwhile, the Group utilized its constantly optimized digital tools to facilitate business control, and comprehensively enhanced the marketing effectiveness under a refined and compliant management framework, which continuously enhanced confidence in its sales capabilities and business models.

Since the independent operation of the dermatology and medical aesthetic business in early 2021, the Group has organically integrated internal and external advanced resources, to accelerate the establishment of a commercialization system for the dermatology and medical aesthetic business that can achieve resource sharing and complementary. The Group has extensive dermatology expert networks and academic platform resources, and excels at tailoring brand strategy and interpreting academic efficacy from a professional perspective. Its advantages of the stringent and compliant promotion and management models have been highlighted under the trend of standardization in the medical aesthetic industry. In addition, the Group has quickly consolidated its marketing teams and channel resources in the medical aesthetic field via a series of acquisitions; fully capitalized on new media promotions, training and education of doctors, to focus on creating innovative marketing concept for medical aesthetic products; and deeply participated in the multi-channel customers management, to strengthen product's brand communication and influence, thereby reinforcing the foundation for accelerating growth of products.

As at 31 December 2021, the Group had about 4,000 professional marketing and promotion related personnel (including the medical aesthetic marketing and promotion team); its commercialization network covered about 50,000 hospitals and medical institutions, and about 200 thousand drugstores.

VIII. Marketed Products

The Group's major marketed products have covered the cardio-cerebrovascular, digestion, ophthalmology and dermatology fields. The information summary of major products is as follows:

Product Line	Product	Indication/Function	Product Advantage
Cardio-cerebrovascular Line	Plendil (Felodipine Sustained Release Tablets)	Hypertension and stable angina pectoris	Calcium Channel Blocker (CCB) medicine suitable for Chinese patients, providing cardio-cerebrovascular protection and high vascular selectivity
	XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)	Acute decompensated heart failure	The only Recombinant Human Brain Natriuretic Peptide (rhBNP) medicine available in Chinese market as at 31 December 2021
	Deanxit (Flupentixol and Melitracen Tablets)	Mild-to-moderate depression, anxiety and psychosomatic affections	Ranking the first in the market share of antidepressant medicines in China according to 2021 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 Chinese cholagogue market according to 2021 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 aminosalicylic acid, a first-line treatment for inflammatory bowel disease, in China according to 2021 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 medical evidence and high-level recommendations from authoritative domestic and overseas guidelines
	Combizym (Oryz-aspergillus Enzyme	Dyspepsia caused by a decrease in digestive	Effective in both stomach and intestines, the

	and Pancreatin Tablets)	enzymes	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 macular degeneration and all forms of asthenopia	The representative medicine for the treatment of asthenopia and the only eye drops in Chinese market for the treatment of macular degeneration as at 31 December 2021
Dermatology Line	Hirudoid (Mucopolysaccharide Polysulfate Cream)	Blunt traumata with and without hematomas, and superficial phlebitis that cannot be treated by compression	Repair agent for skin barrier with multiple functions
	Aethoxysklerol (Polidocanol Injection)	Different specifications for sclerotherapy of different varicose veins, including spider veins, central veins of spider veins, and medium to large varicose veins	The international brand for the treatment of sclerotherapy of varicose veins with years of clinical application
Medical Aesthetic Product	Vmonalisa (Modified sodium hyaluronate filler for injection)	Used for mid to deep dermal implantation for the correction of moderate to severe nasolabial folds	Painless, fashionable and accessible luxury medium-to-macro-particle HA filler (containing Lidocaine) from South Korea, featured with high safety, natural effect and good cost-effectiveness
	Stratamark* (Self-drying Silicone Scar Therapy Gels)	Approved in China for prevention and treatment of hypertrophic scars; approved in the U.S., Switzerland, Australia, etc. for prevention and treatment of striae distensae (stretch marks)	Applied once daily, clinically proven topical silicone gel with efficacy and safety to prevent and treat stretch mark
	Strataderm (Self-drying Silicone Scar Therapy Gels)	Prevention and improvement of hypertrophic scars	An effective silicone gel indicated for prevention of hyperplasia and

			improvement of new and old scars for a wide population
	Mesoestetic-Mesohyal Series (including 5 products)	Skin firming, moisturizing, elasticity increasing, etc.	Matching therapies to provide customized medical aesthetic solutions
	Neauvia Hyaluronic Acid Series (including 4 products)	Superficial and deep skin filling, long-term moisturizing	Crossing with polyethylene glycol based on a unique cross linker technology SMART, the product has excellent rheology, high biocompatibility and good integrity
Dermatology Grade Skincare Product	Atopic Piel Series (including 5 products)	Skin nourishing, moisturizing and dryness reliving	A combination of washing and moisturizing to repair the damaged skin barrier, relieve itching of sensitive skin

*In July 2021, Stratamark (the Australia-approved version) has been sold on the Group's cross-border e-commerce platform.

During the Reporting Period, revenues by product lines were as follows:

- The products under cardio-cerebrovascular line recorded a revenue of RMB3,758.1 million, an increase of 19.3% compared with the same period last year. In the case that all medicines were directly sold by the Group, the revenue of products under cardio-cerebrovascular line would increase by 25.1% to RMB4,854.3 million compared with the same period last year, accounting for 52.6% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of products under digestion line increased by 24.7% to RMB3,228.7 million compared with the same period last year, accounting for 35.0% of the Group of revenue in the case that all medicines were directly sold by the Group.
- The revenue of the product under ophthalmology line increased by 28.7% to RMB385.8 million, compared with the same period last year, accounting for 4.2% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of the product under dermatology line increased by 42.5% to RMB312.8 million, compared with the same period last year, accounting for 3.4% of the Group's revenue in the case that all medicines were directly sold by the Group.
- Other products recorded revenue of RMB651.8 million, a decrease of 5.1% compared with the same period last year. In case that all medicines were directly sold out by the Group, the revenue would increase by 9.9% to RMB448.5 million compared with the same period last year, accounting for 4.9% of the Group's revenue in the case that all medicines were directly sold by the Group.

Impacts of Significant Industrial Policies

In 2021, the National Volume Based Procurement ("National VBP") remained the most influential policy for pharmaceutical companies. As at 31 December 2021, 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 January 2022, one of the Group's marketed products, Deanxit (Flupentixol and Melitracen Tablets), was included in the seventh National VBP catalog. Manufactured by H. Lundbeck A/S of Denmark for the treatment of mild-to-moderate depression, anxiety and psychosomatic affections, Deanxit is an oral, original medicine for chronic disease with relatively high patients' stickiness. Benefiting from its competitiveness including the relatively strong brand image, high market recognition and high retail sales contribution, the inclusion of the product in the seventh batch of the National VBP is not expected to produce material negative impact on the Group's future operation and profitability. The Group will continue to pay close attention to the policy trend of the National VBP and the competitive landscape in the market, enhance the products' brand building and retail coverage, continuously expand its innovative pipeline, and accelerate the clinical development and commercialization of innovative medicines in China. Meanwhile, the Group will promote its diversified development, and accelerate the incubation and development of new businesses, such as the dermatology and medical aesthetic business, ophthalmology business and healthcare business that are immune to the National VBP, so as to hedge against the potential impact of the Group's marketed products that may be included into the National VBP in the future, and further ensure the sustainable business growth of the Group.

Future Development

With the deepening healthcare system reform and the industrial structure adjustment in pharmaceutical innovation, Chinese biopharmaceutical industry is ushering in an era of quality development. Meanwhile, with continuous improvement in social economy, a new consumption normal toward health and beauty has rapidly emerged. The Group's businesses, including pharmaceutical business, dermatology and medical aesthetic business, ophthalmology business, and healthcare business, are moving forward firmly with clear development strategies to meet the challenges and opportunities.

The Group is committed to safeguarding the health of Chinese citizens with innovative medicines that are reliable, accessible and affordable. While maintaining stable cash contribution from marketed products, the Group will fully utilize its management and control capabilities in key stages of the entire life-cycle of pharmaceutical products, and continuously pay close attention to cutting-edge biotech platforms in its advantageous therapeutic fields, novel targets and innovative solutions of popular targets, with an open mind, to promote multi-dimensional innovation collaborations globally to invest and deploy differentiated innovative products extensively. At the same time, the Group will constantly optimize its commercialization system under the strong compliance management, and actively expand its multi-dimensional networks and expert resources. Capitalizing on its mature and professional teams covering each key stage of the entire product life-cycle, the Group will consistently upgrade its open incubation platform of innovation that effectively connects pharmaceutical innovation and commercialization to accelerate the clinical development and commercialization of innovative medicines in China

For its dermatology and medical aesthetic business featured with relatively strong consumption attributes, the Group will continuously enrich its product portfolio to build a three-dimensional product matrix including comprehensive dermatology medicines, light medical aesthetic products, energy-based medical aesthetic devices

and dermatology grade skincare products. At the same time, by fully leveraging its existing professional dermatology networks, as well as the mature medical aesthetic teams and sales channel resources, the Group will focus on product brand building, and strive to make "CMS Aesthetics" the largest and most professional company in dermatology and medical aesthetic health management in China.

For its ophthalmology business, while expanding the business scale with the independent operation of the specialty line, the Group will continue to strengthen its commercialization capabilities for its ophthalmic medicine and device portfolio, and enrich the urgently needed clinical solutions in the ophthalmology specialty field, so as to build "the leading ophthalmology pharmaceutical and device company in China".

For the healthcare business, the Group will concentrate on creation of trending products on e-commerce platforms, and enhance the brand and reputation building via the multimedia promotion that can precisely reach consumers in multiple scenarios, aiming to become "the most professional healthcare brands operation company in China".

Step by step, CMS is entering its 30th anniversary since its foundation. A new journey is about to begin. The Group will always adhere to its patient-centered principle, live up to its founding mission with boundless endeavors and social responsibilities, and comprehensively improve its core competencies in innovation investment and incubation, product development, commercialization, etc., to cope with the evolving industrial ecology with its quality innovation development, and develop a win-win and open collaboration with its stakeholders.

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 the Annual Report.

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 20.0% from RMB6,946.0 million for the year ended 31 December 2020 to RMB8,337.2 million for the year ended 31 December 2021. In the case that all medicines were directly sold by the Group, turnover increased by 24.8% to RMB9,230.2 million for the year ended 31 December 2021 from RMB7,395.2 million for the year ended 31 December 2020, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 21.7% from RMB5,134.2 million for the year ended 31 December 2020 to RMB6,246.9 million for the year ended 31 December 2021; in the case that all medicines were directly sold by the Group, gross profit increased by 24.7% to RMB6,039.2 million for the year ended 31 December 2021 from RMB4,842.7 million for the year ended 31 December 2020, primarily reflecting an increase in turnover. Gross profit margin increased by 1.0 percentage point to 74.9% for the year ended 31 December 2021 from 73.9% for the year ended 31 December 2020; in the case that all medicines were directly sold by the Group, gross profit margin decreased by

0.1 percentage point to 65.4% for the year ended 31 December 2021 from 65.5% for the year ended 31 December 2020, primarily reflecting a change in sales weight of products.

Selling Expenses

Selling expenses increased by 23.7% from RMB2,053.2 million for the year ended 31 December 2020 to RMB2,540.1 million for the year ended 31 December 2021; selling expenses as a percentage of turnover increased by 0.9 percentage point to 30.5% for the year ended 31 December 2021 from 29.6% for the year ended 31 December 2020. In the case that all medicines were directly sold by the Group, selling expenses as a percentage of turnover increased by 1.5 percentage points to 25.3% for the year ended 31 December 2021 from 23.8% for the year ended 31 December 2020, mainly due to relatively more resources injected to new business for its development, and relatively less academic promotion activities through offline mode for last year caused by the epidemic disease.

Administrative Expenses

Administrative expenses increased by 75.6% from RMB251.2 million for the year ended 31 December 2020 to RMB441.0 million for the year ended 31 December 2021; administrative expenses as a percentage of turnover increased by 1.7 percentage points to 5.3% for the year ended 31 December 2021 from 3.6% for the year ended 31 December 2020. In the case that all medicines were directly sold by the Group, administrative expenses as a percentage of turnover increased by 1.4 percentage points to 4.8% for the year ended 31 December 2021 from 3.4% for the year ended 31 December 2020, primarily reflecting an increase in maintenance expenses required by the development of new business.

Research and Development Expenditures

The Group's research and development expenditures included investments for the continuous expansion of innovative product pipelines, expenditures on development, registration and clinical trial 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 40.2% from RMB527.3 million for the year ended 31 December 2020 to RMB739.3 million for the year ended 31 December 2021. Total research and development expenditures as a percentage of turnover for the year ended 31 December 2021 was 8.9%, representing an increase of 1.3 percentage points from 7.6% for the year ended 31 December 2020. In the case that all medicines were directly sold by the Group, total research and development expenditures as a percentage of turnover increased by 0.9 percentage point to 8.0% for the year ended 31 December 2021 from 7.1% for the year ended 31 December 2020, primarily reflecting an increase in investment in innovative product pipelines and an increase in development activities on clinical trial.

Research and development expenses increased by 72.5% from RMB66.5 million for the year ended 31 December 2020 to RMB114.8 million for the year ended 31 December 2021. Research and development expenses as a

percentage of turnover for the year ended 31 December 2021 was 1.4%, representing an increase of 0.4 percentage point from 1.0% for the year ended 31 December 2020. In the case that all medicines were directly sold by the Group, research and development expenses as a percentage of turnover increased by 0.3 percentage point to 1.2% for the year ended 31 December 2021 from 0.9% for the year ended 31 December 2020.

Capital payments (set out in the table below) increased by 35.5% from RMB460.8 million for the year ended 31 December 2020 to RMB624.5 million for the year ended 31 December 2021. Such capital payments as a percentage of turnover for the year ended 31 December 2021 was 7.5%, representing an increase of 0.9 percentage point from 6.6% for the year ended 31 December 2020. In the case that all medicines were directly sold by the Group, such capital payments as a percentage of turnover increased by 0.6 percentage point to 6.8% for the year ended 31 December 2021 from 6.2% for the year ended 31 December 2020.

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Payment for acquisition of equity investments in research and development companies	463,028	156,923
Payment for acquisition and development of product rights	161,494	303,863
	624,522	460,786

Other Income

Other income increased by 36.1% from RMB108.0 million for the year ended 31 December 2020 to RMB146.9 million for the year ended 31 December 2021, mainly due to increases in interest income and government subsidies.

Other Gains and Losses

Other gains and losses increased by 161.5% from a loss of RMB181.4 million for the year ended 31 December 2020 to a gain of RMB111.5 million for the year ended 31 December 2021, mainly due to an increase in fair value gain on equity investments for the Reporting Period and more impairment losses on goodwill and intangible assets for last year.

Share of Result of Associates

Share of result of associates decreased by 51.0% from RMB153.8 million for the year ended 31 December 2020 to RMB75.4 million for year ended 31 December 2021, mainly reflecting a decrease in profit of the associate Tibet Pharmaceutical resulting from an impairment provision for its intangible assets.

Finance Costs

Finance costs increased by 2.7% from RMB27.5 million for the year ended 31 December 2020 to RMB28.3 million for the year ended 31 December 2021, mainly due to an increase in interest-bearing liabilities.

Income Tax Expense

Income tax expense increased by 65.6% from RMB260.4 million for the year ended 31 December 2020 to RMB431.3 million for the year ended 31 December 2021, mainly reflecting an increase in profit of the Group and an impact of the reversal of income tax overprovision for last year.

Profit for the Year

Profit for the year increased by 18.4% from RMB2,555.7 million for the year ended 31 December 2020 to RMB3,025.3 million for the year ended 31 December 2021, mainly due to the continuous growth in turnover.

Inventories

Inventories increased by 24.0% from RMB381.2 million as at 31 December 2020 to RMB472.6 million as at 31 December 2021. Average inventory turnover days decreased from 79 days for the year ended 31 December 2020 to 75 days for the year ended 31 December 2021, mainly reflecting the volatility of the Group's inventories level.

Trade Receivables

Trade receivables increased by 33.2% from RMB1,047.9 million as at 31 December 2020 to RMB1,395.8 million as at 31 December 2021, primarily reflecting an increase in the Group's turnover. Average trade receivables turnover days increased to 65 days for the year ended 31 December 2021 from 64 days for the year ended 31 December 2020, mainly due to the effect of acquisition of a subsidiary.

Trade Payables

Trade payables increased by 8.2% from RMB134.8 million as at 31 December 2020 to RMB145.9 million as at 31 December 2021. Average trade payables turnover days increased to 25 days for the year ended 31 December 2021 from 18 days for the year ended 31 December 2020, mainly reflecting the difference in time points of inventory purchases.

Liquidity and Financial Resources

As at 31 December 2021, the Group's bank balances and cash amounted to RMB3,385.7 million while readily realizable bank acceptance bills amounted to RMB453.4 million. As at 31 December 2020, the 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 2021, 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	
	2021	2020
	RMB'000	RMB'000
Net cash from operating activities	2,493,852	2,692,027
Net cash used in investing activities	(1,519,524)	(353,821)

Net cash used in financing activities	(258,392)	(1,034,556)
Net increase in cash and cash equivalent	715,936	1,303,650
Cash and cash equivalent at beginning of the year	2,668,426	1,365,008
Effect of foreign exchange rate changes	1,377	(232)
Cash and cash equivalent at end of the year	3,385,739	2,668,426

Net cash from operating activities

For the year ended 31 December 2021, the Group's net cash generated from operating activities was RMB2,493.9 million compared with RMB2,692.0 million for the year ended 31 December 2020, a decrease of 7.4% mainly due to an increase in working capital occupied.

Net cash used in investing activities

For the year ended 31 December 2021, the Group's net cash used in investing activities was RMB1,519.5 million compared with RMB353.8 million for the year ended 31 December 2020, an increase of 329.5% mainly due to an increase in investments concerned with innovative products and acquisition of subsidiaries.

Net cash used in financing activities

For the year ended 31 December 2021, the Group's net cash used in financing activities was RMB258.4 million compared with RMB1,034.6 million for the year ended 31 December 2020, a decrease of 75.0% mainly due to an increase in bank borrowings.

Net Current Assets

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Current Assets		
Inventories	472,598	381,215
Financial assets at fair value through profit or loss	977,874	3,884
Trade receivables	1,395,789	1,047,948
Other receivables and prepayments	808,213	657,658
Tax recoverable	19,469	12,082
Derivative financial instruments	-	49
Amount due from an associate	320,036	207,271
Bank balances and cash	3,385,739	2,668,426
	7,379,718	4,978,533
Current Liabilities		
Trade payables	145,898	134,808
Other payables	483,649	484,476
Lease liabilities	16,922	7,266
Contract liabilities	23,715	14,406

Bank borrowings	1,103,760	10
Deferred consideration payables	2,000	2,929
Tax payable	305,310	268,068
	2,081,254	911,963
Net current assets	5,298,464	4,066,570

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	
	2021	2020
	RMB'000	RMB'000
Deposits for acquisition of intangible assets	161,494	303,863
Purchase of property, plant and equipment	23,347	37,558
	184,841	341,421

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	
	2021	2020
	RMB'000	RMB'000
Interest bearing bank borrowings	1,677,573	587,251

The Group had bank borrowings of RMB1,677.6 million as at 31 December 2021 (31 December 2020: RMB587.3 million).

As said above, along with an increase in the Group's bank borrowings, the Group's gearing ratio, calculated as bank borrowings divided by total assets, increased by 6.0 percentage points to 10.6% as at 31 December 2021 from 4.6% as at 31 December 2020.

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 2021, 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 2021, the Group had no pledge of assets.

Contingent Liabilities

As at 31 December 2021, the Group had no material contingent liabilities.

Acquisition of Subsidiaries

During the Reporting Period, in order to enrich the Group's existing product portfolio and enter into new business fields, the Group acquired two subsidiaries Luqa Ventures Co., Limited and Shanghai Carnation Medical Technology Co., Ltd.

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

(i)

On 26 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 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.

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the board of directors (the "Board"), an executive director and a controlling shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "SEHK") (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 2021, Mr. Lam Kong (directly and indirectly) held approximately 46.29% of the total issued ordinary share capital of the Company.

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

(ii)

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. On 26 May 2021, CMS International Development and Management 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 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 22 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 of directors (the "Board"), an executive director and a controlling shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "SEHK") (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 2021, Mr. Lam Kong (directly and indirectly) held approximately 46.29% of the total issued ordinary share capital of the Company.

Dividend

For the year ended 31 December 2021, the Group paid an interim dividend for 2021 and a final dividend for 2020 of RMB652.5 million and RMB502.3 million, respectively. 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.

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

For the year ended 31 December 2021, the Company repurchased an aggregate of 13,317,000 ordinary shares with a nominal value of US$0.005 each on the SEHK at an aggregate consideration of HK$183,598,660. All of the purchased shares were cancelled before 31 December 2021. 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	
August 2021	2,190,000	15.62	14.60	32,748,420
September 2021	4,435,000	15.10	14.04	65,378,180
November 2021	6,692,000	13.18	12.48	85,472,060
Total	13,317,000	-	-	183,598,660

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 2021 to 31 December 2021, except for a deviation from the Code Provision A.2.1 (now renumbered as Code Provision C.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. Fung Ching Simon, with Mr. Leung Chong Shun and Ms. Luo Laura Ying as the committee members. During the Reporting Period, Mr. Wu Chi Keung resigned as an independent non-executive Director of the Company on 6 October 2021, he also resigned as the chairman of the Audit Committee of the Company. Mr. Fung Ching Simon was appointed as an independent non-executive Director and the chairman of the Audit Committee of the Company on 6 October 2021.

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, and 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 2021 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 websites of the SEHK (www.hkexnews.hk) and the Company (www.cms.net.cn).

For the year ended 31 December 2021, the Audit Committee held three meetings. At the meetings, the Audit Committee reviewed the annual results for 2020 with the external auditors, the interim results for 2021, 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 2021**
Mr. Wu Chi Keung (Chairman)*	2/2
Mr. Fung Ching Simon (Chairman)*	1/1
Mr. Leung Chong Shun	3/3
Ms. Luo Laura Ying	3/3

*Note：

1. Mr. Wu Chi Keung resigned on 6 October 2021.
2. Mr. Fung Ching Simon was appointed on 6 October 2021.

The annual results announcement and annual report for the year ended 31 December 2021 of the Company have been reviewed by the Audit Committee, and with recommendation to the Board for approval.

Cash Dividend

The Company has paid an interim dividend of RMB 0.2641 (equivalent to HK$0.317) per ordinary share of the Company (the "Share") for the six months ended 30 June 2021. The Board of Directors is pleased to recommend a final dividend of RMB0.2269 (equivalent to HK$0.279) per Share for the year ended 31 December 2021 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 28 April 2022. The register of members of the Company will be closed on Thursday, 28 April 2022. The final dividend will be paid to shareholders in Hong Kong dollars about Friday, 6 May 2022 after the shareholders' approval at the Annual General Meeting (the "AGM") of the Company dated on Friday, 22 April 2022.

Closure of Register of Members

The Register will be closed from Thursday, 14 April 2022 to Friday, 22 April 2022 (both days inclusive), during which the registration of transfer of Shares will be suspended. In order to qualify for attending and voting at the AGM, 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 Wednesday, 13 April 2022.

The Register will be closed on Thursday, 28 April 2022, 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 Monday, 25 April 2022. 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 Wednesday, 27 April 2022.

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 2021. 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 the 2021 Annual Report of the Company. The 2021 Annual Report will be dispatched to shareholders of the Company and published on the websites of the SEHK (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, 15 March 2022

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