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 2022 AND PROPOSED AMENDMENTS TO THE EXISTING MEMORANDUM AND ARTICLES OF ASSOCIATION AND ADOPTION OF THE NEW MEMORANDUM AND ARTICLES OF ASSOCIATION

The board of Directors (the "Board") of China Medical System Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group" or "CMS") for the year ended 31 December 2022 (the "Reporting Period").

Financial Highlights

- Turnover up 9.8% to RMB9,150.3 million (2021: RMB8,337.2 million); in the case that all medicines were directly sold by the Group, turnover up 13.7% to RMB10,497.5 million (2021: RMB9,230.2 million)
- Gross profit up 12.6% to RMB7,035.8 million (2021: RMB6,246.9 million); in the case that all medicines were directly sold by the Group, gross profit up 14.4% to RMB6,910.5 million (2021: RMB6,039.2 million)
- Profit for the year up 8.3% to RMB3,276.2 million (2021: RMB3,025.3 million)
- Basic earnings per share up 8.6% to RMB1.3281 (2021: RMB1.2228)
- As at 31 December 2022, the Group's bank balances and cash amounted to RMB4,376.4 million while readily realizable bank acceptance bills amounted to RMB269.6 million
- Proposed final dividend of RMB0.2414 per share, bringing the total dividend for the year ended 31 December 2022 to RMB0.5344 per share, representing an increase of 8.8% over last year (2021: final dividend of RMB0.2269 and total dividend of RMB0.4910 per share)

**For identification purpose only*

Business Highlights

During the Reporting Period, the Group maintained a steady growth, which was driven by its strong product competitiveness and commercialization capability. The Group continued to invest in innovation pipelines with differentiated advantages and accelerated the clinical development and registration of innovative products in China, 3 of which are soon to be approved for marketing. The independently operated dermatology and medical aesthetic business, ophthalmology business, and Southeast Asia business have made steady progress, where product layout and system construction have been continuously strengthened, bringing a broader growth potential for the Group.

Innovative Pipeline Continually Expanded

By joining hands with global innovation forces to continuously expand innovative pipeline that meet clinical needs, the Group has deployed 30 innovative products, mainly FIC and BIC, with differentiated advantages

- In December, collaborated with Incyte, a U.S.-based global biopharmaceutical company, and gained an exclusive license in China and 11 Southeast Asian countries for the development and commercialization of ruxolitinib cream, the first and only topical JAK inhibitor approved by the U.S. FDA, and the first and only FDA-approved product for repigmentation in vitiligo
- In August, made equity investment in ETC, France, and gained an exclusive license in China and 11 Southeast Asian countries of EyeOP1® Glaucoma Treatment Device, an innovative ophthalmic medical device (including consumables) that has already been approved for marketing in China and some Southeast Asian countries
- In July, acquired the global assets of a class I innovative biological product VEGF/ANG2 tetravalent bispecific antibody, which is developed for ocular fundus neovascular diseases, from YZY Biopharma
- In March, entrusted a CRO for the customized development of CMS-D005, a class I innovative drug developed for the treatment of metabolic system related disease

Innovative Products R&D Proceeded Steadily in China

Relying on a scientific and efficient mechanism to manage the key stages of the entire life-cycle of innovative products, accelerated clinical development and registration related works

- Diazepam Nasal Spray, Tildrakizumab Solution for Injection, and Methotrexate Injection (psoriasis) were under NDA review, and the NDA of Methotrexate Injection was granted the priority review designation in January
- In April, Tildrakizumab Solution for Injection was approved for marketing in Hong Kong, China
- In December, Methylthioninium Chloride Enteric-coated Sustained-release Tablets has obtained positive results for its Phase III clinical trial, and its NDA was accepted in February 2023
- The Phase III clinical trials of Methotrexate Injection (RA) and Desidustat Tablets have completed their first subject dosing and progressed steadily

"CMS Aesthetics", Dermatology and Medical Aesthetic Business Has Taken Shape

The operation system and the talent team have been constructed gradually, and the product layout has taken shape with a key strategy to develop a product matrix consisting of full coverage of medicines for all dermatological diseases, dermatology-grade skincare products, and light medical aesthetic products

- The blockbusters in dermatological diseases: ruxolitinib cream, the first and only topical JAK inhibitor approved by the U.S. FDA, and the first and only FDA-approved product for repigmentation in vitiligo; Tildrakizumab Solution for Injection targeting IL-23 is about to be approved for marketing soon; Both products will synergize with the marketed exclusive products, Hirudoid and Aethoxysklerol
- Dermatology-grade Skincare Products: acquired 60% equity interest of Heling, a R&D platform of dermatology-grade skincare products, and obtained Heling soothing product series that is a combination of cleansing and moisturizing, and suitable for sensitive skin; Heling will accelerate the product portfolio expansion and iteration
- Mainstream products in the field of light medical aesthetics: gained an exclusive license of the Korean type A botulinum toxin, which has a comparable efficacy and safety to Botox®, in Mainland China, Hong Kong, and Macao, and it will synergize with the marketed Korean hyaluronic acid product, Vmonalisa
- Focused ultrasound technology R&D platform: FUBA 5200 Focused Ultrasound Body Contouring System has obtained several patents authorization in China, and the subject enrollment of its clinical trial has kicked off

"CMS Vision", Ophthalmology Business Achieved Major Progress

The independent operation system has been improved, and the product portfolio has been broadened into ophthalmic medical devices and consumables from ophthalmic prescription medicines, while gradually strengthening commercialization capability for medicines and devices

- Obtained an exclusive license of the innovative medical devices (including consumables) EyeOP1® Glaucoma Treatment Device, which has already been approved for marketing in China and some Southeast Asian countries; It will synergize with the exclusive marketed product Augentropfen Stulln Mono Eye Drops
- Acquired the asset of the Class I innovative biological product VEGF+ANG2 tetravalent bispecific antibody drug that was developed for the ocular fundus neovascular diseases

"Rxilient Health", Southeast Asia Business Advanced Progressively

- Actively promoted the development of products that could meet the clinical needs in the Southeast Asian market with the aid of a competent and experienced local team, and progressively built a platform-based business structure that integrated product development, manufacturing, preparation CDMO, marketing and promotion
- Several innovative products of the Group have the Southeast Asian market rights: ruxolitinib cream, EyeOP1® Glaucoma Treatment Device; VEGF+ANG2 tetravalent bispecific antibody, CMS-D005; among them, EyeOP1® has already been approved for marketing in some Southeast Asian countries, it will synergize with Combizym, the marketed product of the Southeast Asia business
- Entered into an exclusive license of a wide range of quality and affordable insulin products with Tianmai Biotechnology, which is an initiative for insulin products of Mainland China to enter the Southeast Asian market

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	2022 RMB'000	2021 RMB'000
Revenue	3	9,150,347	8,337,221
Cost of goods sold		(2,114,500)	(2,090,283)
Gross profit		7,035,847	6,246,938
Other income	4	198,578	146,947
Other gains and losses	5	(4,195)	111,525
Selling expenses		(2,721,312)	(2,540,147)
Administrative expenses		(636,612)	(440,995)
Finance costs	6	(49,086)	(28,270)
Research and development expenses		(125,431)	(114,761)
Share of results of associates		65,061	75,352
Profit before tax		3,762,850	3,456,589
Income tax expense	7	(486,655)	(431,325)
Profit for the year	8	3,276,195	3,025,264
Other comprehensive (expenses) income			
Item that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		(196,197)	(25,315)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income (expense) of associates		35,357	(10,541)
Exchange differences arising on translation of foreign operations		16,092	991
Exchange differences arising on translation of Interest in associate		18,315	-
Change in fair value on cash flow hedges			
- fair value gain		10,861	3,929
- deferred tax relating to change in fair value		(892)	(731)
Other comprehensive expense for the year, net of income tax		(116,464)	(31,667)
Total comprehensive income for the year		3,159,731	2,993,597
Profit for the year attributable to:			
Owners of the Company		3,258,992	3,017,402
Non-controlling interests		17,203	7,862
		3,276,195	3,025,264
Total comprehensive income for the year attributable to:			
Owners of the Company		3,142,528	2,985,735
Non-controlling interests		17,203	7,862
		3,159,731	2,993,597
		RMB	RMB
Earnings per share	10		
Basic		1.3281	1.2228

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2022

	NOTES	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment		425,480	453,154
Right-of-use assets		69,979	76,713
Interests in associates		3,044,818	2,687,286
Intangible assets		2,066,423	2,215,697
Goodwill		1,665,993	1,691,179
Equity instruments at fair value through other comprehensive income		297,048	400,471
Deposits paid for acquisition of intangible assets		1,285,415	790,483
Amount due from an associate		30,000	30,000
Loan receivable		-	31,879
Deposit paid for acquisition of a subsidiary		-	15,000
Deferred tax assets	15	39,007	36,299
		8,924,163	8,428,161
Current assets			
Inventories		477,206	472,598
Financial assets at fair value through profit or loss		1,491,336	977,874
Trade and other receivables and prepayments	11	2,043,944	2,204,002
Loan receivable		70,168	-
Tax recoverable		253	19,469
Derivative financial instruments		42,021	-
Amount due from an associate		328,072	320,036
Bank balances and cash	12	4,376,376	3,385,739
		8,829,376	7,379,718
Current liabilities			
Trade and other payables	13	563,194	629,547
Lease liabilities		15,804	16,922
Contract liabilities		21,614	23,715
Bank borrowings	14	1,783,337	1,103,760
Derivative financial instrument		562	-
Deferred consideration payables		1,000	2,000
Tax liabilities		327,819	305,310
Obligation arising from put options		163,773	-
		2,877,103	2,081,254
Net current assets		5,952,273	5,298,464
Total assets less current liabilities		14,876,436	13,726,625

	NOTES	2022 RMB'000	2021 RMB'000
Capital and reserves			
Share capital	16	83,991	84,177
Reserves		14,505,076	12,668,267
Equity attributable to owners of the Company		14,589,067	12,752,444
Non-controlling interests		148,010	94,543
		14,737,077	12,846,987
Non-current liabilities			
Deferred tax liabilities	15	124,959	123,575
Lease liabilities		13,491	17,810
Deferred consideration payables		909	736
Bank borrowings	14	-	573,813
Derivative financial instruments		-	11,291
Obligation arising from put options		-	152,413
		139,359	879,638
		14,876,436	13,726,625

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 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment - Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018 - 2020

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 3 Reference to the Conceptual Framework

The Group has applied the amendments to business combinations for which the acquisition date was on or after 1 January 2022. 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 events within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, an acquirer applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination and add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

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

Impacts on application of Amendments to IFRSs Annual Improvements to IFRSs 2018-2020

The Group has applied the amendments for the first time in the current year. 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.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged as at the date of initial application, 1 January 2022.

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 in the current year has had no impact on the Group's consolidated financial statements.

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[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1	Non-current Liabilities with Covenants[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2024

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 IAS 1 Classification of Liabilities as Current or Non-current and Amendments to IAS 1 Non-current Liabilities with Covenants (the "2022 Amendments")

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 *Financial Instruments: Presentation*.

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group's outstanding liabilities as at 31 December 2022, the application of the 2020 and 2022 Amendments will not result in reclassification of the Group's liabilities.

Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies*

IAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to IAS 8 *Definition of Accounting Estimates*

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty - that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in IAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single* Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of IAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the relevant assets and liabilities separately. Temporary differences on initial recognition of the relevant assets and liabilities are not recognised due to application of the initial recognition exemption.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for the Group's annual reporting periods beginning on 1 January 2023. As at 31 December 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB27,888,000 and RMB29,295,000 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

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	2022 RMB'000	2021 RMB'000
Sales of pharmaceutical products	7,055,729	6,655,017
Promotion income	2,094,618	1,682,204
Total revenue	9,150,347	8,337,221

(ii) Performance obligations for contracts with customers

The Group mainly sells pharmaceutical products to distributors which would then further be sold to hospital and medical institutions throughout the PRC 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, 79% and 21% 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 (2021: 76% and 24%).

Sales to the largest customer of the Group account for 14.4% 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 2022.

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.

4. OTHER INCOME

	2022 RMB'000	2021 RMB'000
Interest income	105,515	81,853
Government subsidies (Note a)	93,063	65,094
	198,578	146,947

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. Such government grants were pertinent to income and aim to give immediate financial support to the Group with no future related costs. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

5. OTHER GAINS AND LOSSES

	2022 RMB'000	2021 RMB'000
Impairment loss on goodwill	(60,000)	(20,000)
Impairment loss on deposit paid for intangible asstes	(2,003)	-
Loss on disposal of property, plant and equipment	(403)	(225)
Net foreign exchange (loss) gain	(126,214)	22,622
Change in fair value of derivative financial instruments	41,889	(10,063)
Change in fair value of financial assets at fair value through profit or loss	150,009	115,656
Release on deferred difference on initial recognition of financial instruments	-	1,929
Others	(7,473)	1,606
	(4,195)	111,525

6. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on bank borrowings	35,455	15,397
Interest on lease liabilities	2,098	2,211
Interest on obligation arising from put options	11,360	10,413
Imputed interest on deferred consideration payables	173	249
	49,086	28,270

7. INCOME TAX EXPENSE

	2022 RMB'000	2021 RMB'000
Current tax:		
The PRC Enterprise Income Tax ("EIT")	330,406	273,738
Hong Kong Profits Tax	2,317	136
Macau Complementary Income Tax	143,409	151,969
	476,132	425,843
Under (over) provision in prior years:		
The PRC EIT	14,450	2,524
Macau Complementary Income Tax	-	(6,744)
	14,450	(4,220)
Deferred taxation (note 15):		
- Current year	(3,927)	9,702
	486,655	431,325

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% (2021: 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% (2021: 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% (2021: 9%) granted by local tax authority until 2025.

(b) 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.

(c) 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.

(d) 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.

(e) 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 2022 and 2021.

(f) 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:

	2022 RMB'000	2021 RMB'000
Profit before tax	3,762,850	3,456,589
Tax at PRC EIT rate of 25%	940,713	864,147
Tax effect of share of results of associates	(16,265)	(18,838)
Tax effect of expenses that are not deductible in determining taxable profit	100,862	89,572
Tax effect of income that is not taxable in determining taxable profit	(870)	(1,536)
Tax effect of offshore income that is not taxable in determining taxable profit	(94,400)	(88,583)
Tax effect of tax losses not recognised	23,247	3,400
Tax effect of deductible temporary differences not recognised	6,838	16,132
Tax effect of tax concession	(203,779)	(137,190)
Effect on different applicable tax rates of subsidiaries	(135,332)	(160,426)
Effect of taxable profit that is not taxable in Dubai	(143,256)	(132,222)
Under provision (over provision) in prior years	14,450	(4,220)
Others	(5,553)	1,089
Income tax expense for the year	486,655	431,325

8. PROFIT FOR THE YEAR

	2022 RMB'000	2021 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	1,848	1,194
Salaries and other benefits	12,723	11,149
Contribution to retirement benefits schemes	164	139
	14,735	12,482
Other staff costs	1,189,251	1,032,220
Equity-settled share-based expense	18,716	17,156
Contribution to retirement benefits schemes	217,691	136,583
Employee benefits expense (note 17)	5,760	-
Total staff costs	1,446,153	1,198,441
Auditor's remuneration	4,246	4,058
Depreciation of property, plant and equipment	43,310	41,853
Depreciation of right-of-use assets	18,147	13,771
Amortisation of intangible assets (included in cost of goods sold)	165,769	164,196
Cost of inventories recognised as an expense	1,941,753	1,919,419

9. DIVIDENDS

	2022 RMB'000	2021 RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2022 Interim - RMB0.2930 (2021: 2021 Interim dividend RMB0.2641) per share	718,645	652,528
2021 Final - RMB0.2269 (2021: 2020 final dividend RMB0.2033) per share	557,594	502,306
	1,276,239	1,154,834
Dividends proposed		
Dividends proposed during the year:		
2022 final – RMB0.2414 (2021: 2021 final - RMB0.2269) per share	591,910	557,594

Subsequent to the end of the reporting period, the Board of Directors have declared a final dividend of RMB0.2414 per ordinary share for the year ended 31 December 2022 (2021: RMB0.2269 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:

	2022 RMB'000	2021 RMB'000
Earnings for the purposes of basic earnings per share (profit for the year attributable to owners of the Company)	3,258,992	3,017,402

	Number of ordinary shares as at 31 December	
	2022	2021
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,453,940,224	2,467,696,556

The computation of diluted earnings per share for both years did 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 both years.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2022 RMB'000	2021 RMB'000
Trade receivables	1,451,678	1,405,322
Less: Allowance for credit losses	(9,643)	(9,533)
	1,442,035	1,395,789
Bills receivables	269,579	453,350
Purchase prepayments	211,746	213,125
Other receivables and deposits	120,584	141,738
	2,043,944	2,204,002

As at 1 January 2021, trade receivables from contracts with customers amounted to RMB1,047,948,000.

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:

	2022 RMB'000	2021 RMB'000
Trade receivables		
0 - 90 days	1,363,828	1,297,684
91 - 365 days	57,802	98,105
Over 365 days	20,405	-
	1,442,035	1,395,789
Bill receivables		
0 - 90 days	185,133	306,457
91 - 120 days	31,241	51,281
121 - 180 days	53,205	95,612
	269,579	453,350

As at 31 December 2022, total bills receivables amounting to RMB269,579,000 (2021: RMB453,350,000) 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 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB95,554,000 (2021: RMB56,942,000) which are past due at the reporting date. RMB30,622,000 (2021: RMB30,570,000) was more than 90 days past due 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

Cash and cash equivalents/pledged/restricted bank deposits

Cash and cash equivalents include short term deposits for the purpose of meeting the Group's short term cash commitments, which carry interest at market rates range from 0.30% to 3.40% (2021: 0.30% to 3.40%). Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2022 RMB'000	2021 RMB'000
Euro ("EUR")	26,132	9,566
Hong Kong Dollar ("HK$")	47,505	24,398
United States Dollar ("US$")	194,890	14,109
Confederation Helvetica Franc ("CHF")	1,266	2,059
Great Britain Pound ("GBP")	1,379	1,802
PhilippinesPeso ("PHP")	1,548	-
Singapore Dollar ("SGD")	2,591	-

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:

	2022 RMB'000	2021 RMB'000
0 - 90 days	164,837	142,639
91 - 365 days	11,715	2,757
Over 365 days	1,457	502
Trade payables	178,009	145,898
Payroll and welfare payables	200,360	280,000
Other tax payables	61,318	38,031
Accrued promotion expenses	71,273	61,229
Accrued sales rebates	-	50,000
Accruals	34,743	35,098
Other payables	17,491	19,291
	563,194	629,547

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

14. BANK BORROWINGS

	2022 RMB'000	2021 RMB'000
Bank loans	1,783,337	1,677,573
Analysed as:		
Unsecured	1,783,337	1,677,573

	2022 RMB'000	2021 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	1,783,337	1,103,760
Within a period of more than one year but not exceeding two years	-	573,813
	1,783,337	1,677,573
Less: Amounts due within one year shown under current liabilities	(1,783,337)	(1,103,760)
Amounts shown under non-current liabilities	-	573,813

* 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:

	2022 RMB'000	2021 RMB'000
Variable-rate borrowings		
Denominated in HK$ range from 4.87% to 5.30% per annum as at 31 December 2022 (2021: 0.77% to 0.85%) (Note a)	1,281,886	1,103,760
Denominated in US$ range from 5.29% to 6.17% per annum as at 31 December 2022 (2021: from 0.80% to 1.46%) (Notes b & c)	501,451	573,813
Total	1,783,337	1,677,573

Notes:

(a) Variable rates range from Hong Kong Interbank Offered Rate ("HIBOR") plus 0.52% to HIBOR plus 0.95% as at 31 December 2022 (2021: HIBOR plus 0.62% to HIBOR plus 0.7%).

(b) Variable rates range from LIBOR plus 0.7% to LIBOR plus 1.25% as at 31 December 2022 (2021: LIBOR plus 0.7% to LIBOR plus 1.25%).

(c) As at 31 December 2022, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB1,113,362,000 (2021: RMB573,813,000). The principal amount of the variable-rate bank borrowings will be repayable on 24 March 2023, 27 March 2023 and 25 April 2023 (2021: 24 March 2023 and 27 March 2023).

As at 31 December 2022, the Group had unutilised banking facilities of approximately RMB2,027,858,000 (2021: RMB500,000,000).

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 2021	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)
Credit (charge) to profit or loss for the year (note 7)	3,247	3,294	-	-	(2,315)	(299)	-	3,927
Charge to other comprehensive income	-	-	-	(892)	-	-	-	(892)
Acquisitions of subsidiaries	-	(1,711)	-	-	-	-	-	(1,711)
At 31 December 2022	23,078	(30,037)	(63,964)	(652)	(30,306)	14,728	1,201	(85,952)

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

	2022	2021
	RMB'000	RMB'000
Deferred tax assets	39,007	36,299
Deferred tax liabilities	(124,959)	(123,575)
	(85,952)	(87,276)

At 31 December 2022, the Group had unused tax losses of approximately RMB230,012,000 (2021: RMB156,276,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB91,990,000 (2021: RMB93,186,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB138,022,000 (2021: RMB63,090,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2022 are tax losses of approximately RMB44,937,000 (2021: RMB29,189,000) 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 2022, tax losses of approximately RMB907,000 (2021: RMB1,063,000) was expired.

As at 31 December 2022, the Group had deductible temporary differences of RMB823,027,000 (2021: RMB782,687,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB92,312,000 (2021: RMB79,324,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB730,715,000 (2021: RMB703,363,000) 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 RMB8,190,285,000 (2021: RMB7,077,285,000) 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 2021, 31 December 2021 and 31 December 2022	20,000,000	765,218
Issued and fully paid		
At 1 January 2021	2,470,761	84,634
Shares repurchased and cancelled (Note)	(13,317)	(457)
At 31 December 2021	2,457,444	84,177
Shares repurchased and cancelled (Note)	(5,455)	(186)
At 31 December 2022	2,451,989	83,991

Note: During the year ended 31 December 2022, 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$0.005 each	Price per share		Aggregated consideration paid
		Highest	Lowest	
		HK$	HK$	HK$
March 2022	130,000	11.34	11.04	1,447,520
April 2022	3,600,000	11.90	10.46	40,227,820
May 2022	1,000,000	11.16	10.64	10,976,200
September 2022	545,000	9.84	9.22	5,147,640
October 2022	180,000	9.08	8.90	1,616,220
Total	5,455,000			59,415,400

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$0.005 each	Price per share		Aggregated consideration paid
		Highest	Lowest	
		HK$	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

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 2022 and 2021.

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. No employee benefit expenses were recognised by the Company and the Group for both years.

During the year ended 31 December 2022, the Company recognised an expense of RMB5,760,000 (2021: RMB nil) on the Master Scheme based on the Group's financial performance. RMB5,760,000 (2021: RMB nil) 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 platform company linking pharmaceutical innovation and commercialization with strong product lifecycle management capability, dedicated to providing competitive products and services to meet unmet healthcare needs.

The Group has been deeply engaged in the pharmaceutical market for 30 years with proven commercialization capabilities. Based on profound market understanding and insights, expert resources in multiple specialty fields, as well as extensive network coverage, combined with its foresight on industry trends, the Group is able to locate differentiated innovative products with academic value, competitiveness, and commercial prospects. Leveraging on the resource advantages, the Group has formed innovation strategies centered on "collaborative R&D and investment" to empower the planning of innovative projects, and efficiently promoted the clinical development and commercialization of innovative products through the scientific and effective management system covering key stages of the product lifecycle. Meanwhile, the Group has deeply engaged in industry-academy-research collaboration, with the supports of research facilities and strengthened R&D capability and overall process management of innovative research, it fully involved in target selection and research path planning to customize the development of in-house innovative products. The Group has successfully built an innovative pipeline of 30 early-, mid-, and late-phase innovative products with competitive advantages, among which 3 are about to launch in China to benefit more patients.

The Group focuses on specialty therapeutic fields, such as cardio-cerebrovascular, gastroenterology, central nervous system, dermatology and medical aesthetics, as well as ophthalmology, etc., and has established a resource-sharing commercialization system with compliance and efficiency, which has gained leading academic and market positions for its major marketed products. The Group deeply rooted in the specialty areas while expanding its business boundaries, and it has promoted the rapid growth of independently operated business divisions such as "CMS Aesthetics" and "CMS Vision", aiming to gain "leading positions in specialty markets". At the same time, the Group entered Southeast Asian market, to broaden the breadth and depth of its business, and escorted its sustainable and healthy development under an appropriately-diverse business structure with scale-effect.

Business Review

During the Reporting Period, while continuing to acquire more innovative products and accelerating products' clinical development and registration, the Group strengthened the brand influences of its marketed products and further improved operation efficiency of its commercialization platform, and has achieved steady performance growth with several professional, self-driven, and dedicated commercialization teams. During the Reporting Period, the Group recorded a turnover of RMB9,150.3 million (2021: RMB8,337.2 million), representing an increase of 9.8% over the same period last year; in the case that all medicines were directly sold by the Group, the turnover would increase by 13.7% to RMB10,497.5 million (2021: RMB9,230.2 million). Profit for the year reached RMB3,276.2 million (2021: RMB3,025.3 million), representing an increase of 8.3% year on year.

I. Innovative R&D

The Group keeps up with the development trend of the pharmaceutical industry to locate the unmet clinical needs, and joins hands with global innovation forces to continuously expand its innovative pipeline with differentiated advantages. Under such collaboration models as equity investment, strategic collaboration, and customized development, the Group is responsible for the clinical development, registration, and commercialization of innovative products in China and other authorized regions, and its partners are responsible for preclinical research or clinical trial overseas. All parties in the collaboration could make the most of respective strengths and improve the innovative R&D efficiency, thus building a pharmaceutical innovation ecosystem in a collaborative and mutually beneficial setting.

The Group has formed a scientific and systematic mechanism to manage the entire development process of innovative products. Based on its standard product development system with scale effect, the Group plans the innovation strategy with a global insight, and involves multiple departments to conduct precise product evaluation. At the same time, the Group continuously improved its in-house clinical development system that covers medical and clinical research, pharmacovigilance, and quality assurance, and paid close attention to the medical strategies planning, clinical operations, product safety risk control, etc., to fully guarantee the clinical development efficiency of innovative products. Combining with the forward-looking analysis of the registration path, the Group fully escorts the innovative technologies transformation. Under the innovation model with CMS characteristics, featuring less average investment, shorter development cycle, and lower R&D risk, the Group has continuously supplied differentiated innovative products to each business divisions of specialty fields under its commercialization platform.

1. Continued expansion of innovative products

During the Reporting Period, the Group newly added 4 innovative products, including 1 innovative medical device that has already been approved for marketing in China and some Southeast Asian countries. As of 31 December 2022, the Group owned 30 innovative products, mainly first- or best-in-class covering multiple specialty therapeutic fields, including cardio-cerebrovascular, central nervous system, gastroenterology, ophthalmology, dermatology, medical aesthetic, etc.

1.1 Ruxolitinib cream - the first and only topical JAK inhibitor approved by the U.S. FDA, and the first and only FDA-approved product for repigmentation in vitiligo

In December 2022, the Group entered into a Collaboration and License Agreement ("CLA") with Incyte ("Incyte"), a global biopharmaceutical company, for the development and commercialization of ruxolitinib cream. Under the CLA, CMS gained an exclusive license to develop and commercialize and a non-exclusive license to manufacture ruxolitinib cream, and potentially other future topical formulations of ruxolitinib, in autoimmune and inflammatory dermatologic diseases, including vitiligo and atopic dermatitis, for patients in mainland China, Hong Kong, Macau, Taiwan and certain countries in Southeast Asia. This collaboration will enrich the Group's dermatology product portfolio and leverage its in-depth development of treatments in the field of dermatologic diseases.

In July 2022, ruxolitinib cream was approved by the U.S. Food and Drug Administration (FDA) for the topical treatment of nonsegmental vitiligo in adults and pediatric patients aged 12 years of age and older. Two pivotal

clinical studies showed that after 24 weeks of treatment, compared with vehicle, the facial and total body repigmentation of patients treated with ruxolitinib cream was significantly improved, and 52-week data showed continuous improvement in repigmentation with the extension of treatment.

Previously, ruxolitinib cream was approved by the FDA in September 2021 for the topical short-term and non-continuous chronic treatment of mild to moderate atopic dermatitis (AD) in non-immunocompromised adult and pediatric patients 12 years of age and older whose disease is not adequately controlled with topical prescription therapies or when those therapies are not advisable. Two pivotal studies showed that treatment with ruxolitinib cream resulted in a significant proportion of patients who achieved the primary efficacy endpoint of clear or almost clear and a significant reduction in pruritus compared to the vehicle group.

Ruxolitinib cream is an innovative treatment which, if approved in China and 11 Southeast Asian countries in accordance with all relevant regulatory requirements, will offer a new treatment option to non-segmental vitiligo and mild to moderate AD patients in those areas.

1.2 EyeOP1® Ultrasound Glaucoma Treatment Device - Ultrasound Cyclo Plasty (UCP), a simple, fast, safe and non-invasive treatment method for glaucoma

In August 2022, the Group entered into a License, Collaboration and Distribution Agreement with EYE TECH CARE ("ETC"), a medical company of France, for EyeOP1® ultrasound glaucoma treatment device; and (ii) made equity investment and acquired approximately 36.17% equity interest in ETC. The Group gained an exclusive license to import, export, develop, register, manufacture (subject to the terms and conditions as set out in the License Agreement) and commercialize the product in Mainland China, Hong Kong, Macao, Taiwan Region and the eleven Southeast Asian countries. This cooperation extends the ophthalmic product matrix from prescription drugs to devices and consumables, intensifying the deployment of the Group's ophthalmic portfolio.

The EyeOP1® Glaucoma Treatment Device was approved by the China National Medical Products Administration (NMPA) in 2017 as a Class III medical device for the treatment of glaucoma patients whose intraocular pressure cannot be controlled by drugs and surgery. It also obtained market approval in certain European and Southeast Asian countries. Its core technology is high-intensity focused ultrasound (HIFU), which has the characteristics of precise targeting of the ciliary epithelial area and precise temperature control. The surgical method of the product is called UCP, and the treatment process can be controlled within 5 minutes, reducing the pain and recovery time of patients. UCP has treated more than 20,000 patients worldwide, with an average reduction in intraocular pressure of 30% to 35% within 12 months after surgery and a success rate of 70% to 80% within 12 to 18 months after surgery. After repeated treatment, the success rate increased to more than 85% with good tolerance and safety. At present, the surgical methods for reducing intraocular pressure have the disadvantages of high recurrence rate, obvious surgical side effects or complicated operation and this product is expected to become an innovative and preferred surgical treatment for patients with glaucoma.

1.3 VEGF/ANG2 Tetravalent Bispecific Antibody - for treatment of ocular fundus neovascular diseases, achieving stronger effectiveness and lower dosing frequency compared with existing anti-VEGF drugs

July 2022, the Group entered into an Asset Transfer Agreement with Wuhan YZY Biopharma Co., Ltd, ("YZY Biopharma") a biopharmaceutical company, to acquire the global assets related to VEGF/ANG2 tetravalent bispecific antibody for intravitreal injection (the "Bispecific Antibody Product"), including but not limited to (i) all necessary rights and assets to use, develop, register, manufacture, commissioned manufacture, sell, distribute, promote and commercialize the Bispecific Antibody Product in the Territory and (ii) all intellectual property and intellectual property rights relevant to the Bispecific Antibody Product owned or controlled by YZY Biopharma or its affiliates. The Bispecific Antibody Product will enrich the Group's innovative pipeline in the ocular fundus diseases treatment field, enhancing the competitiveness of the ophthalmology business.

VEGF/ANG2 Tetravalent Bispecific Antibody Product is a class I innovative biological product with a unique nanobody design for treatment of ocular fundus neovascular diseases, targeting VEGF (vascular endothelial growth factor) and ANG2 (angiopoietin 2), which effectively inhibits abnormal neovascularization and is in the preclinical stage. The Bispecific Antibody Product enjoys the advantages of high affinity, strong inhibitory activity, high preparation concentration, good stability and low dosing frequency. It can reduce the potential risks caused by frequent intravitreal injections that occur to the patients and improve medication compliance of patients, and will provide a safer and more effective treatment option for patients with ocular fundus neovascular diseases, possessing important clinical implications.

1.4 Customized development of Class I innovative drugs

In March 2022, the Group entrusted a CRO for the customized development of CMS-D005, a Class I innovative drug developed for the treatment of metabolic system related disease. According to the collaboration agreement, the Group owns the global intellectual property rights and related interests of CMS-D005, and the CRO is responsible for pre-clinical studies of the products until the product is granted approval for clinical trials from the NMPA. The Group is responsible for the clinical development and commercialization of the product.

2. Accelerated Clinical Development in China

During the Reporting Period, 3 innovative products were under marketing application technical review in China, among them, the New Drug Application (NDA) of 1 product was granted the priority review designation by the Center for Drug Evaluation (CDE). 1 innovative product obtained positive results from its bridging trials, and 2 products' bridging trials completed first subject dosing. 1 innovative product was approved for marketing in Hong Kong of 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 in the U.S.)

During the Reporting Period, the NDA of Diazepam Nasal Spray was under review by CDE in China, with the indication 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. The NDA is supported by its China bridging trial, which is a comparative pharmacokinetic (PK) study of diazepam spray and injection in healthy subjects with a total of 24 subjects enrolled. The study achieved the expected target and its result showed that the absorption of a single intranasal dose of Diazepam Nasal Spray was fast and complete, with bioavailability of diazepam and its active metabolite desmethyl diazepam reaching 77.55% and 80.13% respectively in the 15mg

dose group, and 78.69% and 86.21% in the 20mg dose group. The product was also shown to be safe and well tolerated in healthy Chinese subjects.

Diazepam Nasal Spray is an intranasally administered, proprietary formulation of diazepam with relatively high bioavailability. 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 in Hong Kong of China, the U.S., Europe, Australia, Japan, etc.)

In April 2022, Tildrakizumab Solution for Injection was approved for marketing in Hong Kong, China under the brand name of ILUMETRI, with the indication for the treatment of adults with moderate-to-severe plaque psoriasis who are candidates for systemic therapy. During the Reporting Period, the product's NDA in China was under review by CDE, which was supported by a randomized, double-blind, placebo-controlled, multi-center Phase III bridging trial in China, with 220 patients enrolled in total. The trial aims to evaluate the efficacy and safety of the product for treatment of Chinese patients with moderate-to-severe plaque psoriasis, and it has obtained positive results, with preliminary data showing 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) compared with placebo.

The results of extended research of Phase III clinical trial in China demonstrated that the product reached a plateau of efficacy at 28 weeks of treatment; At Week 52, the primary efficacy assessment indicator PASI 75 reached 91.3%, and it showed good long-term safety and tolerance.

Tildrakizumab Solution for Injection is a humanized lgG1/k monoclonal antibody designed to selectively bind to the p19 subunit of interleukin-23 (IL-23) and inhibit its interaction with the IL-23 receptor, leading to inhibition of the release of pro-inflammatory cytokines and chemokines. The product has the advantages of lower injection frequency and better patient compliance with good long-term efficacy and safety performance.

Methotrexate Injection

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

During the Reporting Period, the NDA of Methotrexate Injection for the treatment of severe recalcitrant disabling psoriasis and other autoimmune diseases in China was under review by CDE. In January 2022, its NDA was granted priority review designation by the CDE. 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 in Europe)

During the Reporting Period, the China bridging trials of Methotrexate Injection was progressing steadily after completing first subject dosing. This study is a randomized, open, active-controlled, multi-center Phase III clinical trial, aiming to compare the efficacy and safety between the product and methotrexate tablets in the treatment of adult RA

patients. With Peking Union Medical College Hospital, Chinese Academy of Medical Sciences being the leading hospital, the study is planned to enroll 140 subjects and will be conducted in around 17 sites nationwide.

MTX is internationally well accepted as the first-line gold standard and anchor medicine for the systemic treatment for RA, but there is currently no MTX pre-filled injection approved for the treatment of RA in China. The product is expected to address the gastrointestinal adverse effects of oral application of MTX and has advantages of relatively high bioavailability, improvement of clinical efficacious response, flexible dosage management and operation convenience, achieving a great balance of efficacy, safety, tolerability and compliance.

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 in Europe)

In February 2023, the NDA of Methylthioninium Chloride Enteric-coated Sustained-release Tablets was accepted by NMPA.

In December 2022, the product has obtained positive results for its Phase III clinical trial in China. The trial is a randomized, double-blind, placebo controlled, multi-center Phase III clinical trial, with 1,802 patients enrolled in total (only 6 months was taken), aiming to evaluate the efficacy of the product in improving the detection rate of histologically confirmed non-polypoid colorectal lesions in subjects undergoing colonoscopic screening or colonoscopic monitoring. The result of primary study endpoint of the clinical trial was the detection rate of non-polypoid colorectal lesions (the proportion of subjects with at least one histologically confirmed non-polypoid colorectal lesion) showed that it was 51% in the test group (the product was given) and 41.2% in the control group (placebo was given). The difference between the two groups was statistically significant ($P<0.0001$). The product significantly increased the detection rate of non-polypoid colorectal lesions, and the false positive was well controlled.

Methylthioninium Chloride Enteric-coated Sustained-release Tablets 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.

Desidustat Tablets - an oral HIF-PHI (approved in India)

During the Reporting Period, the Phase III China bridging trial of Desidustat Tablets was progressing steadily after completing the first subject dosing. The trial is randomized, double-blind, placebo controlled, multi-center clinical trial, aiming to evaluate the efficacy of Desidustat Tablets in the treatment of anemia caused by non-dialysis chronic kidney disease (CKD) based on changes in hemoglobin (Hb) level from baseline. With Peking Union Medical College Hospital, Chinese Academy of Medical Sciences being the leading hospital, the study is planned to enroll 150 subjects and will be conducted in around 28 sites nationwide.

Desidustat Tablets is a novel oral Hypoxia-inducible factor-prolyl hydroxylase inhibitor (HIF-PHI) with good compliance and is expected to meet this unmet treatment needs of CKD-caused anemia (including hemodialysis and non-dialysis patients).

PLENITY® - a safe and effective orally-administered weight management product made from naturally derived materials (approved in the U.S. and Europe)

During the Reporting Period, the marketing application of PLENITY® was under review by Center for Medical Device Evaluation (CMDE) in China. PLENITY® is used in combination with diet and exercise to aid in weight management in adults with a BMI of 25-40kg/m^2.

Based on proprietary hydrogel technology and made from two naturally derived materials, cellulose and citric acid, PLENITY® is an effective and safe, orally-administered, non-systemic and non-stimulant weight management product.

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

During the Reporting Period, the Group actively communicated with its partner, Sun Pharmaceutical Industries Ltd. The product's Phase III bridging trial in China will be restarted when the new product batch for the clinical trial that meets our quality requirement is received.

Cyclosporine Eye Drops 0.09% 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.

3. **Innovative Pipeline**

Launched Overseas or Under Overseas 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					✓ (HK)	✓	✓	✓
Methotrexate Injection		Severe recalcitrant disabling psoriasis and other autoimmune diseases							✓	
		Adult rheumatoid arthritis							✓	
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								
Cyclosporine Eye Drops 0.09%		Increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye)						✓		
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						✓	✓	
Latanoprost Eye Drops		Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension						✓		
ruxolitinib cream		Topical treatment of nonsegmental vitiligo in adults and pediatric patients aged 12 years of age and older						✓		
		Topical short-term and non-continuous chronic treatment of mild to moderate AD in non-immunocompromised adult and pediatric patients 12 years of age and older whose disease is not adequately controlled with topical prescription therapies or when those therapies are not advisable						✓		
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								

China Overseas Designated Asian Regions Mainland China, Hong Kong, Macao and Taiwan

*In February 2023, the NDA of Methylthioninium Chloride Enteric-coated Sustained-release Tablets was accepted in China

**Taiwan 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						
VEGF/ANG2 Tetravalent Bispecific Antibody*** (Biological Agent)		Intended to be used for ocular fundus neovascular diseases						
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						
CMS-D005		Metabolic diseases						

China Overseas Global Designated Asian Regions Mainland China, Hong Kong, Macao and Taiwan

***In February 2023, the IND application of VEGF/ANG2 Tetravalent Bispecific Antibody was accepted in China

II. Commercialization System

As one of the core competitiveness of the Group, the commercialization capability is an important cornerstone for steady and sustainable business development, as well as a key carrier for achieving large-scale clinical application and economic return maximization of innovative products. With a focus on specialty therapeutic fields, the Group has gained proven success in market access, academic promotion, brand building, retail management, and government affairs over the past 30 years. By leveraging the highly qualified promotion team, extensive network coverage and expert resources, the Group continues to promote the scale development of its 3 major business divisions, including cardio-cerebrovascular and gastroenterology, dermatology and medical aesthetics, and ophthalmology. Through efficiently connecting and deploying innovation resources globally, the Group has continued to supply differentiated products to each business division and leveraged its commercialization platform, to achieve efficient transformation of product commercial value and continuous growth.

With academic value as the core and marketing strategy as the guide, the Group has been promoting post-marketing clinical studies for its marketed products to enrich the evidence-based medical evidence, while strengthening cross-regional and multi-level academic exchanges through resource integration, to expand hospital network and expert coverage, realizing the expansion and penetration of products' academic influence. Meanwhile, the Group customized its retail strategy based on product competition analysis, and enhanced the brand awareness to further increase traffic and penetration in the chain-pharmacies-based retail market with the support of new media promotion. At the same time, through conducting in-depth research and analysis of competition landscape, the Group actively planned the academic promotion and marketing strategies for its upcoming innovative products, thus laying a solid foundation for the rapid academic influence construction after their launches.

In addition, the Group adheres to the business operation principle of "compliance first", by utilizing continuously upgraded digital tools and information platforms to break the boundaries of time and space, it has realized refined management of all sales regions. Through conducting normalized employee behavior management, business execution tracking, evaluation and assessment, etc., coordinating with monitoring methods such as cost management, unannounced inspections, and special inspections, the Group has realized real-time supervision, effective early warning, and comprehensive control of business compliance risks. In addition, the Group upgraded its talent cultivation system with "customized training programs", and adopted diversified training models to empower management efficiency and improve team execution based on the operation needs, building several commercialization teams with high professionalism, strong self-drive and dedication.

As of 31 December 2022, the Group had over 4,300 professional marketing and promotion related personnel, and its promotion network covered over 50,000 hospitals and medical institutions, and more than 200 thousand retail pharmacies in China.

1. Marketed Products

The Group's major marketed products have covered the cardio-cerebrovascular, gastroenterology, ophthalmology, dermatology and medical aesthetic fields. A summary of major products' information 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 2022
	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 2022 IQVIA data
Gastroenterology 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 2022 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 2022 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 and Pancreatin Tablets)	Dyspepsia caused by a decrease in digestive enzymes	Effective in both stomach and intestines, the recommended digestive enzyme preparation for the replacement therapy of pancreatic exocrine insufficiency

Ophthalmology Line	Augentropfen Stulln Mono Eye Drops (Esculin and Digitalisglycosides Eye Drops)	Senile macular degeneration and all forms of asthenopia	The representative medicine for the treatment of asthenopia and the safe and convenient option for treatment of senile macular degeneration
	EyeOP1® Glaucoma Treatment Device	Glaucoma with intraocular pressure that cannot be controlled by drugs and surgery	For ultrasound Cyclo Plasty (UCP) treatment, a simple, fast, safe and non-invasive treatment method for glaucoma
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
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
	Heling Soothing Product Series (including 3 products)	Skin soothing with a combination of cleansing and moisturizing which is suitable for sensitive skin	Composed of four core ingredients that can moisturize and soothe the skin, helping to repair the skin barrier
Light 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 from South Korea, featured with high safety, natural effect and good cost-effectiveness
	Strataderm/ Stratamark* (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

* Stratamark (the Australia-approved version) is sold on the Group's cross-border e-commerce platform.

** Neauvia Hyaluronic Acid Series are sold in Hongkong, China

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

- The products under cardio-cerebrovascular line recorded a revenue of RMB4,044.6 million, an increase of 7.6% 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 13.6% to RMB5,516.4 million compared with the same period last year, accounting for 52.5% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of products under gastroenterology line increased by 11.9% to RMB3,611.6 million compared with the same period last year, accounting for 34.4% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of the product under ophthalmology line increased by 14.1% to RMB440.2 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 10.1% to RMB344.3 million, compared with the same period last year, accounting for 3.3% of the Group's revenue in the case that all medicines were directly sold by the Group.
- Other products recorded revenue of RMB709.7 million, an increase of 8.9% compared with the same period last year. In case that all medicines were directly sold by the Group, the revenue would increase by 30.4% to RMB585.0 million compared with the same period last year, accounting for 5.6% of the Group's revenue in the case that all medicines were directly sold by the Group.

III. Dermatology and Medical Aesthetic Business

After nearly two years of incubation and integration, the operating system of the Group's dermatology and medical aesthetic business, "CMS Aesthetics", has been fully established and formed a tripartite business structure consisting of dermatology prescription business unit, medical aesthetic products business unit, and new retail business unit. Through internal and external talent promotion and recruitment, and systematic empowerment training, its team has been increasingly refined. With an operation philosophy of "using medical thinking to promote in-depth study of dermatology and aesthetics", CMS Aesthetics has gained the insight into the diverse needs of customers for skin health and beauty, and adopted a scientific mindset to build the dermatology and medical aesthetic products matrix with dermatology prescriptions as the core via "in-house development and external collaboration", achieving full

lifecycle skin-health management covering dermatological treatment, skincare and medical aesthetics. During the Reporting Period, CMS Aesthetics has achieved major breakthroughs in the product deployment of dermatology prescription medicines, dermatology-grade skincare products and light medical aesthetic products (including light medical aesthetic injection products and energy-based medical aesthetic devices). As of 31 December 2022, CMS Aesthetics had 2 major commercialized and about 7 major pipeline dermatology prescription products, and 6 major commercialized and about 5 major pipeline medical aesthetic products series.

At the same time, based on differentiated evidence-based medical evidence and recommendations from academic consensus of dermatology prescription products, CMS Aesthetics actively conducted academic conferences and doctor re-educations, together with activities of disease knowledge popularization, so as to deepen market recognition. For medical aesthetic products with both medical and consumer attributes, CMS Aesthetics synergized with the rich expert coverage in the dermatology field to deepen the interpretation of product efficacy from a professional perspective, explored the application of products under the compliance framework, and promoted innovative promotional concepts to achieve marketing breakthroughs; CMS Aesthetics also actively built a professional technical exchange center with scientific training management to provide continuous academic empowerment for professional aesthetic institutions and practitioners, and applied new retail operation model to accelerate the customers sales conversion from "recognition" to "purchase" by promoting brand visibility through multi-dimensional new media channels.

As of December 31 2022, the CMS Aesthetics team has reached over 600 people, covering nearly 10,000 hospitals and medical institutions in China.

1. The deployment of dermatology prescription products has taken shape

CMS Aesthetics accelerates the deployment of product matrix, and strives to gradually deploy innovative products covering all dermatological diseases. During the Reporting Period, it newly obtained ruxolitinib cream, the first and only topical JAK inhibitor approved by the U.S. FDA, and the first and only FDA-approved product for repigmentation in vitiligo. The NDA of Tildrakizumab Solution for Injection (for treatment of moderate-to-severe plaque psoriasis), an innovative pipeline product targeting IL-23, was under marketing application review in China, and the product will be approved to launch soon. These two innovative products will synergize with existing marketed dermatology products of CMS Aesthetics, Hirudoid (the repair agent for skin barrier with multiple functions) and Aethoxysklerol (the international brand for the treatment of sclerotherapy of varicose veins with years of clinical application), to solidify its comprehensive competitiveness in the dermatology field.

2. The product portfolio expansion and iteration of dermatology-grade skincare product

CMS Aesthetics has rich dermatologist resources, laying a solid academic foundation for the promotion and sales of dermatology grade skincare products. Through the promotion and sales of the marketed products Atopic Piel Series (a combination of washing and moisturizing to repair the damaged skin barrier, relieve itching of sensitive skin), the Group accumulated relevant experiences in the operation of dermatology grade skincare products. In August 2022, the Group made equity investment in Heling Medical (Guangzhou) Company Limited (禾零醫藥(廣州)有限公司) ("Heling") and obtained 60% equity interest of Heling, which became a subsidiary of the Company; The Group also entered into an Exclusive License Agreement with Heling for Heling soothing moisturizing repair cream, Heling soothing repair lotion and Heling soothing moisturizing bath oil (the "Heling Soothing

Dermatology-grade Skincare Product Series"), the product series could synergize with the Group's current dermatological products, providing consumers with skincare solutions combining excellent efficacy and safety. At the same time, as a dermatology-grade skincare products R&D platform, Heling will accelerate in product portfolio expansion and iteration for CMS Aesthetics.

Heling Soothing Dermatology-grade Skincare Product Series - Composed of four core ingredients that can moisturize and soothe the skin, helping to repair the skin barrier

Heling Soothing Dermatology-grade Skincare Product Series are composed of a variety of mild ingredients with Level-1 safety risk, without preservatives, mineral oil or alcohol, which are mild, non-irritating and suitable for sensitive skin. The cosmetic efficacy tests of the products were completed in cooperation with Guangdong Provincial Dermatology Hospital. The four preferred core ingredients of the products are 4-tert-butylcyclohexanol, butyrospermum parkii (shea butter) extract, saccharide isomerate and glycyrrhiza inflata root extract. The four ingredients play a synergistic role through reasonable combination, which can quickly moisturize and soothe the skin, helping to repair the skin barrier. With the advantage of the combination of cleansing and moisturizing, it could provide a variety of skincare options for consumers with different skin conditions.

3. Solidifying the deployment of mainstream products in the field of light medical aesthetics

The deployment of CMS Aesthetics' light medical aesthetic injection products has been gradually enriched. In addition to the existing marketed Korean hyaluronic acid product- Vmonalisa (the painless, fashionable and accessible luxury medium-to-macro-particle HA filler, featured with high safety, natural effect and good cost-effectiveness), in October 2022, the Group entered into an agreement with BMI KOREA CO., LTD. ("BMI"), a South Korean company, for the type A botulinum toxin 100 units vacuum dried powder for solution for injection (the "BMI Botulinum Toxin Product"), and gained an exclusive license to develop, register, import and commercialize the product in Mainland China, Hong Kong and Macao. The product will synergize with hyaluronic acid and other medical aesthetic products, providing comprehensive solutions to satisfy the needs of youth and beauty of the Chinese customers.

The BMI Botulinum Toxin Product - a South Korean type A botulinum toxin with comparable efficacy and safety to Botox®

The BMI Botulinum Toxin Product is developed to temporarily improve moderate to severe glabellar lines associated with corrugator and/or procerus muscle activity in adults aged 19 to 65. The Phase III clinical trial conducted in South Korea demonstrated that it has comparable efficacy and safety to Botox®. The Biologics License Application (BLA) for the Marketing Approval of the product has been submitted to the Ministry of Food and Drug Safety (MFDS) of South Korea in July 2022. The botulinum toxin product is a mainstream and core product in light medical aesthetic (non-surgery medical aesthetic) field and has become one of the most popular light medical aesthetics products among consumers in China.

4. "Carnation", a focused ultrasound technology R&D platform, continuously expanding the portfolio of cutting-edge energy-based medical aesthetic devices

During the Reporting Period, based on the market demands, "Carnation", a focused ultrasound technology R&D platform under CMS Aesthetics, continued to explore and upgrade the application of focused ultrasound technology, and expanded the portfolio of cutting-edge energy-based medical aesthetic devices. 3 major product series were developing,

including: FUBA Focused Ultrasound Fat Reduction Device Series, LITU Focused Ultrasound Skin Treatment Series, MEBA Ultrasonic Transdermal Delivery Series. Among which, the major pipeline product FUBA 5200 Focused Ultrasound Body Contouring System, a non-invasive body shaping device with independent intellectual property right obtained 1 utility model patent and 2 appearance patent authorizations in China, and the subject enrollment of the product's clinical trial has kicked off and is advancing in an orderly manner during the Reporting Period.

5. Development of new retail business unit

During the Reporting Period, the Group continued to explore effective operating models to meet everchanging business needs. In order to accelerate the development of medicines, devices, and functional skincare products of CMS Aesthetics, the consumer healthcare business and the new retail business of CMS Aesthetics were merged into the new retail business unit, which is operated by CMS Aesthetics. Based on consumer demands, the new retail business unit rapidly promoted and developed the brand and retail channels construction of the products, and it has formed operation plans for multiple strategic brands, such as Hirudoid and Heling.

IV. Ophthalmology Business

The Group's ophthalmology business, "CMS Vision", relies on the sharing of Group's resources and services support, to constantly improve its organizational structure and operation system. Through extensive expert networks and channel resources in the field, it actively promotes the identification, development, and commercialization of urgently needed solutions to ophthalmic clinical practices. During the Reporting Period, "CMS Vision" newly added a series of ophthalmic products: (1) obtained the exclusive license of the innovative medical device EyeOP1® Glaucoma Treatment Device; (2) acquired the asset related to the Class I innovative biological product VEGF+ANG2 tetravalent bispecific antibody drug (intended for ocular fundus neovascular diseases), which will synergize with its existing products —— the marketed product Augentropfen Stulln Mono Eye Drops (the professional representative medicine for the treatment of asthenopia and the safe and convenient option for treatment of senile macular degeneration), as well as the main pipeline product Cyclosporine Eye Drops 0.09% (a preservative-free, innovative ophthalmic formulation using globally patented nanotechnology), to enhance the scale and the efficiency of ophthalmology business development.

During the Reporting Period, CMS Vision leveraged on years of network resource accumulated in the ophthalmology field, to continuously enhance academic platform for ophthalmic medicines and devices. It promoted hospital network expansion and introduced the sales traffic to the retail market by further exploring the academic competitive advantages of medicines. For the innovative medical device, CMS Vision proactively analyzed the products' market positioning and operation planning to explore the optimal market access strategy, and conducted various academic activities to deliver differentiated clinical advantages, focusing on rapidly establishing doctor recognition in the core markets and efficiently promoting the clinical application of innovative medical device. For the promotional needs of ophthalmic device and consumables, CMS Vision actively expanded its promotional team with professional backgrounds, and improved the teams' expertise and skills to strengthen its commercialization capability on medicines and devices.

As of December 31 2022, the CMS Vision team has reached over 300 people, covering nearly 9,000 hospitals and medical institutions in China.

V. Southeast Asia Business

As an emerging economy with promising potential, the Southeast Asian market has a relatively rapid economic development, considerable demographic dividend, sound business atmosphere, and a series of favorable policies supporting the industry, thus the development of its healthcare industry has shown vigorous vitality.

Focusing on unmet clinical needs in the Southeast Asian market, the Group's Southeast Asia business, "Rxilient Health", is independently operated by a professional and experienced local team. Capitalizing on the large-scale global product resources of the Group, Rxilient Health is able to quickly deploy quality products from Europe, America, Japan and China, and has gradually established a competitive product portfolio. During the Reporting Period, all 4 newly added innovative products of the Group have obtained the Southeast Asian market rights: (1) ruxolitinib cream (the first and only topical JAK inhibitor approved by the U.S. FDA, and the first and only FDA-approved product for repigmentation in vitiligo); (2) innovative medical device EyeOP1® Glaucoma Treatment Device; (3) class I innovative biological product VEGF+ANG2 tetravalent bispecific antibody (intended for ocular fundus neovascular diseases); (4) CMS-D005, a class I innovative drug developed for the treatment of metabolic system related disease. Among them, the EyeOP1® Glaucoma Treatment Device has already been approved for marketing in some Southeast Asian countries. Previously, for existing products that have Southeast Asian rights—Combizym (effective in both stomach and intestines, the recommended digestive enzyme preparation for the replacement therapy of pancreatic exocrine insufficiency), PLENITY® (a safe and effective orally-administered weight management product made from naturally derived materials) and 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), etc., their related Southeast Asian rights have been authorized to Rxilient Health, among which Combizym has already been approved for marketing in some Southeast Asian countries.

In addition, in August 2022, the Group entered into a License, Collaboration and Supply Agreement with Hefei Tianmai Biotechnology Development Co., Ltd. ("HTBT"), a biopharmaceutical company for the second-generation insulin series products and the third-generation insulin analogue glargine insulin injection (the "Insulin Products"), and gained an exclusive license to register, market, sell and distribute the products in the eleven Southeast Asian countries. This collaboration is an initiative for insulin products of Mainland China to enter the Southeast Asian market and is expected to satisfy the huge clinical demand for the cost-effective insulin product in the Southeast Asian market.

The Insulin Products - a wide range of quality and affordable insulin treatment options

Insulin products are clinically used to treat diabetes. The products are derived from Israeli platform technology, produced by genetic engineering technology, and adopted to an efficient, environmental-friendly, and energy-saving active pharmaceutical ingredients production process, which can effectively control the quality and the costs. The second-generation insulin series products include mixed protamine human insulin injection (30R), human insulin injection, and isophane protamine human insulin injection, all of which have been approved by the NMPA and commercialized for years. The third-generation insulin analogue glargine insulin injection was under China marketing application review. Its process is stable, the expression level is high, and the pharmaceutical and clinical

research shows that it's quality is in consistent with the original product. A wide range of quality and affordable Insulin Products can provide patients in Southeast Asia with personalized and differentiated choices.

During the Reporting Period, with the development goal of establishing a systematic platform, Rxilient Health aimed to build a business structure progressively that integrated product development, manufacturing, preparation CDMO (Contract Development and Manufacturing Organization), marketing and promotion. By extensively linking industry resources and developing forward-looking marketing strategy based on product characteristics, Rxilient Health rapidly developed its marketing and promotion segments and intended to gradually establish the brand image of the products and Rxilient Health itself.

At the same time, Rxilient Health actively explored potential industrial collaboration opportunities to accelerate its business development. As at December 31, 2022, Rxilient Health held 5.31% equity interest in Etana Biotechnologies, an Indonesian biopharmaceutical company. Etana Biotechnologies possess the quality local production capability of innovative products, covering the fields of metabolic, autoimmune, and other major life-threatening diseases (including cancer), and has rich experience in product registration and commercialization. It has established extensive connection and collaboration with local medical institutions, doctors' associations, regulators, etc.

Impacts of Significant Industrial Policies

In 2022, the National Volume Based Procurement ("National VBP") remains the most influential industry policy for the Group, and the policy has been conducted in a normalized and standardized manner. The chemical name of the Group's major marketed product Deanxit, Flupentixol and Melitracen Tablets Immediate-release Oral Dosage Forms, was included in the seventh National VBP catalog. In July, the tender of the seventh batch of National VBP officially kicked off and Deanxit was not selected; in November, the seventh batch began to be implemented successively in each province. In January 2023, the chemical names of the Group's major marketed products Plendil and Ursofalk, Felodipine Sustained-release and Controlled-release Tablets Dosage Forms and Ursodeoxycholic Acid Immediate-release Oral Dosage Forms, were included in the eighth National VBP catalog, and it is expected to be implemented in the second half of 2023.

Deanxit, Plendil and Ursofalk are original medicines with oral application for the treatment of relatively chronic diseases, with characteristics such as well-recognized brand, high academic recognition, and high retail market contribution. The Group will continue to strengthen the academic branding of the product, while deepening the development of the retail market, to mitigate the negative impact on the Group's performance after the National VBP's implementation. In addition, the Group will continue to deploy innovation pipelines with differentiated advantages globally, and make full efforts to promote their clinical development and commercialization in authorized territories such as China and Southeast Asia, and several innovative products will be marketed in China soon. Meanwhile, the Group will promote the healthy development of dermatology and medical aesthetic business and ophthalmology business that are featured with both consumer and medical attributes, and immunized to the National VBP, and promote the product deployment and financial contribution of the Southeast Asian business, to further empower the sustainable and steady growth of the Group.

Future Development

The Group firmly believes that innovation is the cornerstone of sustainable development. Over the past 30 years, we have accumulated and formed a highly distinctive business operation system and innovative R&D model with "CMS characteristics", as well as an innovative pipeline with competitive advantages.

The Group will continue to upgrade the capacity and efficiency of its commercialization platform, and actively explore innovative marketing models while promoting the professionalism and skill building of its team, to establish a foundation for maximizing the clinical and commercial value of innovative products. Meanwhile, the Group will optimize its organizational structure with refined management, upgrade the all-round management system leveraging digital tools, to escort the in-depth development of 3 major business divisions, cardio-cerebrovascular and gastroenterology, dermatology and medical aesthetics, and ophthalmology with dedicated commercialization teams, to empower the development and breakthrough of clinical practices in the industry.

The Group will focus on the differentiated innovative products driven by clinical needs, continue to deepen the multi-dimensional collaborations with global innovative forces supported by its innovative products incubation platform, and build an "empowerment, collaboration, and win-win" R&D ecosystem. At the same time, leveraging the effective management covering all stages of the innovative products development, the Group will make all efforts to promote the clinical development, registration, and commercialization of the product, steadily stepping into the harvesting period of innovation products.

Meanwhile, the Group will fully leverage its resources to accelerate its internationalization development strategy starting from Southeast Asian market. With the mindset of openness and collaboration, the Group will continue to deploy quality products that match local clinical needs, and customize operation strategies according to characteristics of different countries, while building a cross-regional sales network and localized production capability to promote business penetration and development, helping to open up a broader growth potential for the Group.

Only with dedication and perseverance can we achieve success. Persistent innovation and reform have created the "New CMS". We will continue to adhere to the principles of innovation, and chart a course for future high-speed growth with practicality and enterprising spirit.

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

Turnover

Turnover increased by 9.8% from RMB8,337.2 million for the year ended 31 December 2021 to RMB9,150.3 million for the year ended 31 December 2022. In the case that all medicines were directly sold by the Group,

turnover increased by 13.7% to RMB10,497.5 million for the year ended 31 December 2022 from RMB9,230.2 million for the year ended 31 December 2021, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 12.6% from RMB6,246.9 million for the year ended 31 December 2021 to RMB7,035.8 million for the year ended 31 December 2022; in the case that all medicines were directly sold by the Group, gross profit increased by 14.4% to RMB6,910.5 million for the year ended 31 December 2022 from RMB6,039.2 million for the year ended 31 December 2021, primarily reflecting an increase in turnover. Gross profit margin increased by 2.0 percentage points to 76.9% for the year ended 31 December 2022 from 74.9% for the year ended 31 December 2021; in the case that all medicines were directly sold by the Group, gross profit margin increased by 0.4 percentage point to 65.8% for the year ended 31 December 2022 from 65.4% for the year ended 31 December 2021, primarily reflecting a change in sales structure of products.

Selling Expenses

Selling expenses increased by 7.1% from RMB2,540.1 million for the year ended 31 December 2021 to RMB2,721.3 million for the year ended 31 December 2022; selling expenses as a percentage of turnover decreased by 0.8 percentage point to 29.7% for the year ended 31 December 2022 from 30.5% for the year ended 31 December 2021. In the case that all medicines were directly sold by the Group, selling expenses as a percentage of turnover decreased by 0.6 percentage point to 24.7% for the year ended 31 December 2022 from 25.3% for the year ended 31 December 2021, mainly due to an increase in efficiency of resources injected to develop business.

Administrative Expenses

Administrative expenses increased by 44.4% from RMB441.0 million for the year ended 31 December 2021 to RMB636.6 million for the year ended 31 December 2022; administrative expenses as a percentage of turnover increased by 1.7 percentage points to 7.0% for the year ended 31 December 2022 from 5.3% for the year ended 31 December 2021. In the case that all medicines were directly sold by the Group, administrative expenses as a percentage of turnover increased by 1.3 percentage points to 6.1% for the year ended 31 December 2022 from 4.8% for the year ended 31 December 2021, primarily reflecting an increase in human cost.

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 decreased by 1.2% from RMB739.3 million for the year ended 31 December 2021 to RMB730.6 million for the year ended 31 December 2022. Total research and development expenditures as a percentage of turnover for the year ended 31 December 2022 was 8.0%, representing a decrease of 0.9 percentage point from 8.9% for the year ended 31 December 2021. In the case that all medicines were

directly sold by the Group, total research and development expenditures as a percentage of turnover decreased by 1.0 percentage point to 7.0% for the year ended 31 December 2022 from 8.0% for the year ended 31 December 2021, primarily reflecting a decrease in acquisition of equity in research and development companies.

Research and development expenses increased by 9.3% from RMB114.8 million for the year ended 31 December 2021 to RMB125.4 million for the year ended 31 December 2022. Research and development expenses as a percentage of turnover for the year ended 31 December 2022 was 1.4%, same as 1.4% for the year ended 31 December 2021. In the case that all medicines were directly sold by the Group, research and development expenses as a percentage of turnover for the year ended 31 December 2022 was 1.2%, same as 1.2% for the year ended 31 December 2021.

Capital payments (set out in the table below) decreased by 3.1% from RMB624.5 million for the year ended 31 December 2021 to RMB605.2 million for the year ended 31 December 2022. Such capital payments as a percentage of turnover for the year ended 31 December 2022 was 6.6%, representing a decrease of 0.9 percentage point from 7.5% for the year ended 31 December 2021. In the case that all medicines were directly sold by the Group, such capital payments as a percentage of turnover decreased by 1.0 percentage point to 5.8% for the year ended 31 December 2022 from 6.8% for the year ended 31 December 2021.

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Payment for acquisition of equity investments in research and development companies	98,577	463,028
Payment for acquisition and development of product rights	506,585	161,494
	605,162	624,522

Other Income

Other income increased by 35.1% from RMB146.9 million for the year ended 31 December 2021 to RMB198.6 million for the year ended 31 December 2022, mainly due to increases in interest income and government subsidies.

Other Gains and Losses

Other gains and losses decreased by 103.8% from a gain of RMB111.5 million for the year ended 31 December 2021 to a loss of RMB4.2 million for the year ended 31 December 2022, mainly due to increases in exchange loss and goodwill impairment loss.

Share of Result of Associates

Share of result of associates decreased by 13.7% from RMB75.4 million for the year ended 31 December 2021 to RMB65.1 million for year ended 31 December 2022, mainly reflecting an increase in research and development expenses and an impairment loss provided for intangible assets of an associate.

Finance Costs

Finance costs increased by 73.6% from RMB28.3 million for the year ended 31 December 2021 to RMB49.1 million for the year ended 31 December 2022, mainly due to increases in both the used bank borrowing and its interest rate.

Income Tax Expense

Income tax expense increased by 12.8% from RMB431.3 million for the year ended 31 December 2021 to RMB486.7 million for the year ended 31 December 2022, mainly reflecting an increase in profit of the Group.

Profit for the Year

Profit for the year increased by 8.3% from RMB3,025.3 million for the year ended 31 December 2021 to RMB3,276.2 million for the year ended 31 December 2022, mainly due to the continuous growth in turnover.

Inventories

Inventories increased by 1.0% from RMB472.6 million as at 31 December 2021 to RMB477.2 million as at 31 December 2022. Average inventory turnover days increased from 75 days for the year ended 31 December 2021 to 82 days for the year ended 31 December 2022, mainly reflecting a volatility of the safe inventories level of the Group.

Trade Receivables

Trade receivables increased by 3.3% from RMB1,395.8 million as at 31 December 2021 to RMB1,442.0 million as at 31 December 2022, primarily reflecting an increase in the Group's turnover. Average trade receivables turnover days increased to 70 days for the year ended 31 December 2022 from 65 days for the year ended 31 December 2021, mainly due to a relatively slow collection from some customers.

Trade Payables

Trade payables increased by 22.0% from RMB145.9 million as at 31 December 2021 to RMB178.0 million as at 31 December 2022. Average trade payables turnover days increased to 28 days for the year ended 31 December 2022 from 25 days for the year ended 31 December 2021, mainly reflecting the difference in time points of inventory purchases.

Liquidity and Financial Resources

As at 31 December 2022, the Group's bank balances and cash amounted to RMB4,376.4 million while readily realizable bank acceptance bills amounted to RMB269.6 million. As at 31 December 2021, the 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 2022, 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	
	2022	2021
	RMB'000	RMB'000
Net cash from operating activities	3,553,243	2,493,852
Net cash used in investing activities	(1,178,202)	(1,519,525)
Net cash used in financing activities	(1,399,914)	(258,392)
Net increase in cash and cash equivalent	975,127	715,935
Cash and cash equivalent at beginning of the year	3,385,739	2,668,426
Effect of foreign exchange rate changes	15,510	1,378
Cash and cash equivalent at end of the year	4,376,376	3,385,739

Net cash from operating activities

For the year ended 31 December 2022, the Group's net cash generated from operating activities was RMB3,553.2 million compared with RMB2,493.9 million for the year ended 31 December 2021, an increase of 42.5% mainly due to a decrease in the occupancy of working capital.

Net cash used in investing activities

For the year ended 31 December 2022, the Group's net cash used in investing activities was RMB1,178.2 million compared with RMB1,519.5 million for the year ended 31 December 2021, a decrease of 22.5% mainly due to a decrease in the acquisition of equity investments.

Net cash used in financing activities

For the year ended 31 December 2022, the Group's net cash used in financing activities was RMB1,399.9 million compared with RMB258.4 million for the year ended 31 December 2021, an increase of 441.8% mainly due to an increase in the repayment of bank borrowings.

Net Current Assets

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Current Assets		
Inventories	477,206	472,598
Financial assets at fair value through profit or loss	1,491,336	977,874
Trade receivables	1,442,035	1,395,789
Other receivables and prepayments	601,909	808,213
Loan receivable	70,168	-
Tax recoverable	253	19,469
Derivative financial instruments	42,021	-
Amount due from an associate	328,072	320,036
Bank balances and cash	4,376,376	3,385,739

	8,829,376	7,379,718
Current Liabilities		
Trade payables	178,009	145,898
Other payables	385,185	483,649
Lease liabilities	15,804	16,922
Contract liabilities	21,614	23,715
Bank borrowings	1,783,337	1,103,760
Derivative financial instruments	562	-
Deferred consideration payables	1,000	2,000
Obligation arising from put options	163,773	-
Tax liabilities	327,819	305,310
	2,877,103	2,081,254
Net current assets	5,952,273	5,298,464

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	
	2022	2021
	RMB'000	RMB'000
Deposits for acquisition of intangible assets	506,585	161,494
Purchase of property, plant and equipment	18,336	23,347
	524,921	184,841

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	
	2022	2021
	RMB'000	RMB'000
Interest bearing bank borrowings	1,783,337	1,677,573

The Group had bank borrowings of RMB1,783.3 million as at 31 December 2022 (31 December 2021: RMB1,677.6 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, decreased by 0.6 percentage point to 10.0% as at 31 December 2022 from 10.6% as at 31 December 2021.

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 2022, 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 2022, the Group had no pledge of assets.

Contingent Liabilities

As at 31 December 2022, the Group had no material contingent liabilities.

Acquisition of Subsidiaries

During the Reporting Period, in order to enrich the Group's existing product portfolio, the Group acquired two subsidiaries Shanghai Xuli Medical Devices Company Limited and Heling Medical (Guangzhou) Company Limited.

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

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 "SC Facility Agreement") with Standard Chartered Bank (Hong Kong) Limited (as lender) in respect of a US$40,000,000 term loan facility (the "SC Facility") made available to the Borrower for a term of 36 months from the first utilization date under the SC 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 "DBS Facility Agreement") with DBS Bank (Hong Kong) Limited (as lender) in respect of a US$50,000,000 term loan facility (the "DBS Facility") made available to the Borrower for a term of 22 months from the first utilization date under the DBS Facility Agreement.

Pursuant to the SC Facility Agreement and DBS Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder (as defined in the 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 SC Facility and DBS Facility, respectively, and declare that all outstanding loans together with accrued interest and all other amounts accrued under the SC Facility and DBS Facility, respectively, will become immediately due and payable. As at 31 December 2022, Mr. Lam Kong (directly and indirectly) held approximately 46.39% of the total issued ordinary share capital of the Company.

Dividend

For the year ended 31 December 2022, the Group paid an interim dividend for 2022 and a final dividend for 2021 of RMB718.6 million and RMB557.6 million, respectively. 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.

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

For the year ended 31 December 2022, the Company repurchased an aggregate of 5,455,000 ordinary shares with a nominal value of US$0.005 each on the SEHK at an aggregate consideration of HK$59,415,400. All of the purchased shares were cancelled before 31 December 2022. 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	
March 2022	130,000	11.34	11.04	1,447,520
April 2022	3,600,000	11.90	10.46	40,227,820
May 2022	1,000,000	11.16	10.64	10,976,200
September 2022	545,000	9.84	9.22	5,147,640
October 2022	180,000	9.08	8.90	1,616,220
Total	5,455,000	-	-	59,415,400

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 Corporate Governance Code as set out in Appendix 14 to the Listing Rules from 1 January 2022 to 31 December 2022, except for a deviation

from the 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 established and 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.

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 2022 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 SEHK's website (www.hkexnews.hk) and the Company's website (www.cms.net.cn).

For the year ended 31 December 2022, the Audit Committee held three meetings. At the meetings, the Audit Committee reviewed the annual results for 2021, the interim results for 2022, the activities of the Group's risk management and 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 2022**
Mr. Fung Ching Simon (Chairman)	3/3
Mr. Leung Chong Shun	3/3
Ms. Luo Laura Ying	3/3

The annual results announcement and annual report for the year ended 31 December 2022 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 RMB0.2930 (equivalent to HK$0.337) per ordinary share of the Company (the "Share") for the six months ended 30 June 2022. The Board is pleased to recommend a final dividend of RMB0.2414 (equivalent to HK$0.274) per Share for the year ended 31 December 2022 to shareholders whose names appear on the register of members of the Company after market closes on Thursday, 4 May 2023. The register of members of the Company will be closed on Friday, 5 May 2023. The final dividend will be paid to shareholders in Hong Kong dollars on about Friday, 12 May 2023 after the shareholders' approval at the annual general meeting of the Company scheduled on Friday, 28 April 2023 (the "AGM").

Closure of Register of Members

The register of members of the Company will be closed from Monday, 24 April 2023 to Friday, 28 April 2023 (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, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 21 April 2023.

The register of members of the Company will be closed on Friday, 5 May 2023, 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 Tuesday, 2 May 2023. 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, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 4 May 2023.

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 Directors, 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 2022. 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 with 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 2022 Annual Report of the Company. The 2022 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).

Proposed Amendments to the Existing Memorandum and Articles of Association and Adoption of the New Memorandum and Articles of Association

The following announcement is made by the Company pursuant to Rule 13.51(1) of the Listing Rules in relation to (i) the proposed amendments (the "Proposed Amendments") to the second amended and restated memorandum and articles of association of the Company (the "Existing Memorandum and Articles of Association") and (ii) the proposed adoption of the third amended and restated memorandum and articles of association of the Company incorporating the Proposed Amendments (the "New Memorandum and Articles of Association").

The Listing Rules were amended by, among others, adopting a uniform set of 14 core standards for shareholder protections for issuers regardless of their place of incorporation set out in Appendix 3 to the Listing Rules, which took effect on 1 January 2022. The Board proposes to make the Proposed Amendments to the Existing Memorandum and Articles of Association to, inter alia, (i) conform to the said core standards for shareholder protections and the relevant requirements of the applicable laws of the Cayman Islands; (ii) provide flexibility to the Company in relation to the conduct of general meetings; and (iii) incorporate certain housekeeping changes. The Board also proposes to adopt the New Memorandum and Articles of Association in substitution for, and to the exclusion of, the Existing Memorandum and Articles of Association.

The Proposed Amendments and the adoption of the New Memorandum and Articles of Association shall be subject to the passing of a special resolution by the shareholders of the Company at the forthcoming AGM of the Company to be held on 28 April 2023. The New Memorandum and Articles of Association will take effect on the date on which the Proposed Amendments and the adoption of the New Memorandum and Articles of Association are approved by the shareholders of the Company at the AGM.

A circular containing, among others, details of the Proposed Amendments and a notice convening the AGM will be despatched to the shareholders of the Company as soon as practicable.

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

Hong Kong, 16 March 2023

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