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 2023 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 2023 (the "Reporting Period").

Financial Highlights

- Turnover down 12.4% to RMB8,013.3 million (2022: RMB9,150.3 million); in the case that all medicines were directly sold by the Group, turnover down 9.8% to RMB9,472.2 million (2022: RMB10,497.5 million)
- Gross profit down 13.2% to RMB6,109.2 million (2022: RMB7,035.8 million); in the case that all medicines were directly sold by the Group, gross profit down 12.4% to RMB6,053.7 million (2022: RMB6,910.5 million)
- Profit for the year down 27.2% to RMB2,384.4 million (2022: RMB3,276.2 million); normalized profit for the year* down 18.8% to RMB2,709.3 million (2022: RMB3,338.3 million)
- Basic earnings per share down 26.3% to RMB0.9792 (2022: RMB1.3281)
- As at 31 December 2023, the Group's bank balances and cash amounted to RMB4,311.1 million while readily realizable bank acceptance bills amounted to RMB181.0 million
- Proposed final dividend of RMB0.0783 per share, bringing the total dividend for the year ended 31 December 2023 to RMB0.3917 per share, representing a decrease of 26.7% over last year (2022: final dividend of RMB0.2414 and total dividend of RMB0.5344 per share)

* Normalized profit for the year represents profit for the year excluding provisions of impairment losses on related assets.

Business Highlights

During the Reporting Period, the chemical names of the Group's three products have been successively included in the National Volume Based Procurement (the "National VBP"), and with the implementation of the relevant National VBPs, bringing a negative impact on financial performance. However, the Group's exclusive products with differentiated advantages continued to maintain sustained growth. The Group's three innovative drugs have been successfully approved for marketing in China and all included in the National Reimbursement Drug List (NRDL), solidifying the foundation for rapid commercialization and adding growth momentum to the Group's development. In addition, the independent operational structures of its dermatology/medical aesthetics business, ophthalmology and international business have been progressively improved, further injecting impetus into the Group's long-term sustainable development, and ushering the Group into a "New CMS, New Rise".

Three Innovative Products Approved for Marketing in China and All Been Included in the NRDL

- Diazepam Nasal Spray (VALTOCO) - was approved by NMPA for marketing in China in June 2023, becoming the first drug approved for the treatment of seizure clusters. The product can be administered at anytime and anywhere, meeting clinical needs for accessible and convenient treatment option of epilepsy patients with seizure clusters.
- Tildrakizumab Injection (ILUMETRI) - a monoclonal antibody that specifically targets IL-23 (innovative biological agent), was approved by NMPA for marketing in China in May 2023. The product provides a new treatment option for psoriasis patients with lower dosing frequency.
- Methotrexate Injection for the treatment of psoriasis (METOJECT) – the first MTX pre-filled injection for subcutaneous administration in China, was approved for marketing by NMPA in March 2023.

Clinical Development of Four Innovative Drugs Progressed Steadily in China

- The NDA for an additional indication of Methotrexate Injection for the treatment of active rheumatoid arthritis (RA) in adults patients was accepted in China in December 2023.
- The NDA for Methylthioninium Chloride Enteric-coated Sustained-release Tablets was accepted in China in February 2023. The product is an oral methylene blue sustained release formulation that enhances diagnosis sensitivity in detecting lesions during colonoscopy.
- Desidustat Tablets is a novel oral HIF-PHI. The phase III clinical trial for the product was progressing steadily, and completed the enrollment of all subjects in August 2023.
- Ruxolitinib cream, the first and only topical JAK inhibitor approved by the U.S. FDA and the European EMA for repigmentation in vitiligo, in December 2023, it received a drug clinical trial approval notice issued by China NMPA.

Innovation Pipeline Continued to Expand

- In August 2023, obtained the permanent exclusive promotion rights of Y-3 injection, a Class 1 innovative drug for anti-ischemic stroke brain cytoprotectant in mainland China, Hong Kong and Macau. In January 2024, NeuroDawn Pharmaceutical announced the successful completion of Phase II clinical trial for Y-3 Injection, advancing towards Phase III clinical trial in China. The product is expected to become the first novel type of brain cytoprotectant that treats both stroke and post-stroke depression.
- In February 2024, obtained the exclusive license of the first-line phosphorus-lowering innovative drug sucroferric oxyhydroxide chewable tablets (VELPHORO) in mainland China, Hong Kong, Macau and Taiwan. The product has been approved for marketing in China in February 2023, and was newly included in the China's NRDL.

Dermatology and Medical Aesthetic Business "CMS Skinhealth"

Dermatology prescription products achieved breakthroughs:

- The innovative drug Tildrakizumab Injection has entered large-scale clinical application.
- The innovative drug ruxolitinib cream has been approved by Hainan Medical Products Administration for Urgent Clinical Import, and become available to applicable patients in the Boao Super Hospital in Hainan Lecheng for the topical treatment of non-segmental vitiligo in adolescents and adults aged 12 and above with facial involvement.

Light medical aesthetic products continued to expand:

- In May 2023, obtained the exclusive license for a regenerative medical aesthetic product, Poly-L-lactic Acid Microparticle Filler Injection, in Mainland China, Hong Kong, Macau and Taiwan.
- In January 2024, obtained the exclusive license for regenerative medical aesthetic products, Polycaprolactone Microsphere Gel for Injection and Calcium Hydroxylapatite Microsphere Gel for Injection in Mainland China, Hong Kong, Macau and Taiwan.

Ophthalmology Business "CMS Vision"

- Innovative medical device, EyeOP1 Glaucoma Treatment Device, has completed market access in many provinces and cities, and synergized with the exclusive marketed product Augentropfen Stulln Mono Eye Drops in marketing and promotion.
- VEGFA/ANG2 Tetravalent Bispecific Antibody, a class I innovative biological agent, has obtained drug clinical trials approval, and been in the Phase I clinical trial stage in China.

Southeast Asia Business

- Continue to enrich product portfolio: in March 2023, Rxilient Health entered into a collaboration agreement with Junshi Biosciences to promote the commercialization of toripalimab in Southeast Asia via a joint venture, providing quality China innovative drug for local cancer patients.
- In December 2023, CMS and Rxilient Health joined forces with Pharmaron and Legend Fund to jointly complete the acquisition of a manufacture plant in Singapore and accelerate the process of CDMO business in Southeast Asia, expected to improve the accessibility of quality drugs with unmet clinical needs in Southeast Asian markets. Besides, the acquisition of Singapore manufacture plant will optimize the Group's overseas supply chain and manufacturing capabilities, ensuring the safety of the international supply chain and enhancing supply stability.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTES	2023 RMB'000	2022 RMB'000
Revenue	3	8,013,285	9,150,347
Cost of goods sold		(1,904,119)	(2,114,500)
Gross profit		6,109,166	7,035,847
Other income	4	232,091	198,578
Other gains and losses	5	(335,997)	(4,195)
Selling expenses		(2,511,341)	(2,721,312)
Administrative expenses		(656,628)	(636,612)
Finance costs	6	(46,251)	(49,086)
Research and development expenses		(195,134)	(125,431)
Share of results of associates		274,977	65,061
Share of result of a joint venture		2,888	-
Profit before tax		2,873,771	3,762,850
Income tax expense	7	(489,341)	(486,655)
Profit for the year	8	2,384,430	3,276,195
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		(133,155)	(196,197)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		5,507	35,357
Exchange differences arising on translation of foreign operations		1,074	16,092
Exchange differences arising on translation of Interests in associates		14,589	18,315
Change in fair value on cash flow hedges			
- fair value (loss) gain		(8,902)	10,861
- deferred tax relating to change in fair value		652	(892)
Other comprehensive expense for the year, net of income tax		(120,235)	(116,464)
Total comprehensive income for the year		2,264,195	3,159,731
Profit (loss) for the year attributable to:			
Owners of the Company		2,400,940	3,258,992
Non-controlling interests		(16,510)	17,203
		2,384,430	3,276,195
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		2,280,705	3,142,528
Non-controlling interests		(16,510)	17,203
		2,264,195	3,159,731
		RMB	RMB
Earnings per share	10		
Basic		0.9792	1.3281

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2023

	NOTES	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment		397,616	425,480
Right-of-use assets		76,124	69,979
Interests in associates		3,271,934	3,044,818
Interest in a joint venture		179,049	-
Intangible assets		2,216,092	2,066,423
Goodwill		1,547,903	1,665,993
Equity instruments at fair value through other comprehensive income		163,893	297,048
Deposits paid for acquisition of intangible assets		1,013,395	1,285,415
Amounts due from associates		30,000	30,000
Deferred tax assets	15	40,396	39,007
		8,936,402	8,924,163
Current assets			
Inventories		637,636	477,206
Financial assets at fair value through profit or loss		1,832,258	1,491,336
Trade and other receivables and prepayments	11	1,568,587	2,043,944
Loan receivable		35,945	70,168
Tax recoverable		784	253
Derivative financial instruments		-	42,021
Amounts due from associates		408,167	328,072
Bank balances and cash	12	4,311,058	4,376,376
		8,794,435	8,829,376
Current liabilities			
Trade and other payables	13	436,976	563,194
Lease liabilities		15,416	15,804
Contract liabilities		12,733	21,614
Bank borrowings	14	1,269,650	1,783,337
Derivative financial instrument		17,227	562
Deferred consideration payables		1,000	1,000
Tax liabilities		295,784	327,819
Obligation arising from put options		-	163,773
		2,048,786	2,877,103
Net current assets		6,745,649	5,952,273
Total assets less current liabilities		15,682,051	14,876,436

	NOTES	2023 RMB'000	2022 RMB'000
Capital and reserves			
Share capital	16	83,991	83,991
Reserves		15,436,217	14,505,076
Equity attributable to owners of the Company		15,520,208	14,589,067
Non-controlling interests		36,199	148,010
		15,556,407	14,737,077
Non-current liabilities			
Deferred tax liabilities	15	108,973	124,959
Lease liabilities		16,671	13,491
Deferred consideration payables		-	909
		125,644	139,359
		15,682,051	14,876,436

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 research and development, production, promotion and sale of medicines.

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")

New and amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to IFRSs for the first time, which are mandatorily effective for the annual periods beginning on 1 January 2023 for the preparation of the consolidated financial statements:

IFRS 17	Insurance Contracts (including the relevant amendments)
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two model Rules
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and 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 IAS 8 Definition of Accounting Estimates

The Group has applied the amendments for the first time in the current year. 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. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

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

Impacts on application of Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments for the first time in the current year. IAS 1 *Presentation of Financial Statements* 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 has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in Note 3 to the consolidated financial statements.

Amendments to IFRSs in issue but not yet effective

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

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to IAS 1	Non-current Liabilities with Covenants[2]
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements[2]
Amendments to IAS 21	Lack of Exchangeability[3]

1 Effective for annual periods beginning on or after a date to be determined
2 Effective for annual periods beginning on or after 1 January 2024
3 Effective for annual periods beginning on or after 1 January 2025

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 (the "2020 Amendments") 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 2023, the application of the 2020 and 2022 Amendments will not result in reclassification of the Group's liabilities.

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	2023 RMB'000	2022 RMB'000
Sales of pharmaceutical products	5,936,515	7,055,729
Promotion income	2,076,770	2,094,618
Total revenue	8,013,285	9,150,347

(ii) Performance obligations for contracts with customers and revenue recognition policies

The Group mainly sells pharmaceutical products to distributors which would then further be sold to hospitals and medical institutions throughout the PRC and provides promotion services to certain pharmaceutical manufacturers.

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. 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.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Variable consideration

For contracts that contain variable consideration (e.g. sales returns or volume rebates), the Group estimates the amount of consideration to which it will be entitled using the expected value method, which better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

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.

(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 research and development, 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 research and development, production, promotion and sale of medicines are primarily in the PRC. Almost all revenue from external customers is attributed to the PRC, 86% and 14% (2022: 79% and 21%) of non-current assets excluding amounts due from

associates, derivative financial instruments and deferred tax assets of the Group are located in the PRC and Dubai, respectively.

Sales to the largest customer of the Group account for 20.2% (2022: 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 2023.

4. OTHER INCOME

	2023 RMB'000	2022 RMB'000
Interest income	146,475	105,515
Government subsidies (Note)	85,616	93,063
	232,091	198,578

Note: 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

	2023 RMB'000	2022 RMB'000
Impairment loss on goodwill	-	(60,000)
Impairment loss on interest in a joint venture	(44,000)	-
Impairment loss on deposit paid for acquisition of intangible assets	(163,462)	(2,003)
Impairment loss on intangible assets	(8,025)	-
Impairment loss on prepayment	(23,450)	-
Impairment loss on inventory	(33,215)	-
Impairment losses under ECL model, net of reversal	(52,723)	(110)
Loss on disposal of property, plant and equipment	(265)	(403)
Net foreign exchange gain (loss)	31,540	(126,214)
Change in fair value of derivative financial instruments	(49,785)	41,889
Change in fair value of financial assets at FVTPL	(16,750)	150,009
Dividends from financial assets at FVTPL	30,620	-
Others	(6,482)	(7,363)
	(335,997)	(4,195)

6. FINANCE COSTS

	2023 RMB'000	2022 RMB'000
Interest on bank borrowings	42,997	35,455
Interest on lease liabilities	2,216	2,098
Interest on obligation arising from put options	947	11,360
Imputed interest on deferred consideration payables	91	173
	46,251	49,086

7. INCOME TAX EXPENSE

	2023 RMB'000	2022 RMB'000
Current tax:		
The PRC Enterprise Income Tax ("EIT")	265,088	330,406
Hong Kong Profits Tax	63,744	2,317
Macau Complementary Income Tax	69,287	143,409
Withholding tax	83,198	-
	481,317	476,132
Under provision in prior years:		
The PRC EIT	8,590	14,450
Hong Kong Profits Tax	579	-
	9,169	14,450
Deferred taxation (note 15):		
- Current year	(1,145)	(3,927)
	489,341	486,655

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.

天津康哲維盛醫藥科技發展有限公司 (Formerly known as 天津康哲醫藥科技發展有限公司) (Tianjin Kangzhe Vision Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% (2022: 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% (2022: 15%) granted by local tax authority until 2025. 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% (2022: 9%) granted by local tax authority until 2025. 海南康哲美麗科技有限公司(Hainan Kangzhe Aesthetics Technology Co., Ltd) is entitled to a reduced tax rate of 15% (2022: 15%) granted by local tax authority until 2024.

(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 2023 and 2022.

(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:

	2023 RMB'000	2022 RMB'000
Profit before tax	2,873,771	3,762,850
Tax at PRC EIT rate of 25%	718,443	940,713
Tax effect of share of results of associates	(68,744)	(16,265)
Tax effect of share of result of a joint venture	(722)	-
Tax effect of expenses that are not deductible in determining taxable profit	138,053	100,862
Tax effect of income that is not taxable in determining taxable profit	(14,783)	(870)
Tax effect of offshore income that is not taxable in determining taxable profit	-	(94,400)
Tax effect of tax losses not recognised	22,251	23,247
Tax effect of deductible temporary differences not recognised	(2,717)	6,838
Tax effect of tax concession	(231,162)	(203,779)
Effect on different applicable tax rates of subsidiaries	(90,031)	(135,332)

Effect of taxable profit that is not taxable in Dubai	(75,770)	(143,256)
Under provision in prior years	9,169	14,450
Withholding tax	83,198	-
Others	2,156	(5,553)
Income tax expense for the year	489,341	486,655

8. PROFIT FOR THE YEAR

	2023 RMB'000	2022 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	1,938	1,848
Salaries and other benefits	13,770	12,723
Contribution to retirement benefits schemes	171	164
	15,879	14,735
Other staff costs	1,252,100	1,189,251
Equity-settled share-based expense, net of reversal upon cancellation	(35,872)	18,716
Contribution to retirement benefits schemes	279,850	217,691
Employee benefits expense (note 17)	5,160	5,760
Total staff costs	1,517,117	1,446,153
Auditor's remuneration	4,211	4,246
Depreciation of property, plant and equipment	45,797	43,310
Depreciation of right-of-use assets	20,264	18,147
Amortisation of intangible assets (included in cost of goods sold)	163,504	165,769
Cost of inventories recognised as an expense	1,732,806	1,941,753

9. DIVIDENDS

	2023 RMB'000	2022 RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2023 Interim - RMB0.3134 (2022: 2022 Interim dividend RMB0.2930) per share	768,453	718,645
2022 Final - RMB0.2414 (2022: 2021 final dividend RMB0.2269) per share	591,910	557,594
	1,360,363	1,276,239
Dividends proposed		
Dividends proposed during the year:		
2023 final - RMB0.0783 (2022: 2022 final - RMB0.2414) per share	191,991	591,910

Subsequent to the end of the reporting period, the Board of Directors have declared a final dividend of RMB0.0783 per ordinary share for the year ended 31 December 2023 (2022: RMB0.2414 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:

	2023 RMB'000	2022 RMB'000
Earnings for the purposes of basic earnings per share (profit for the year attributable to owners of the Company)	2,400,940	3,258,992

	Number of ordinary shares as at 31 December	
	2023	2022
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,451,988,512	2,453,940,224

The computation of diluted earnings per share 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 the year ended 31 December 2022.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2023 RMB'000	2022 RMB'000
Trade receivables	1,156,770	1,451,678
Less: Allowance for credit losses	(10,032)	(9,643)
	1,146,738	1,442,035
Bills receivables	180,960	269,579
Purchase prepayments	148,939	211,746
Other receivables and deposits	91,950	120,584
	1,568,587	2,043,944

As at 1 January 2022, trade receivables from contracts with customers amounted to RMB1,395,789,000.

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:

	2023 RMB'000	2022 RMB'000
Trade receivables		
0 - 90 days	1,127,469	1,363,828
91 - 365 days	19,269	57,802
Over 365 days	-	20,405

	1,146,738	1,442,035
Bill receivables		
0 - 90 days	105,719	185,133
91 - 120 days	19,380	31,241
121 - 180 days	55,861	53,205
	180,960	269,579

As at 31 December 2023, total bills receivables amounting to RMB180,960,000 (2022: RMB269,579,000) 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 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB18,039,000 (2022: RMB95,554,000) which are past due at the reporting date. RMB4,588,000 (2022: RMB30,622,000) 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 0.25% to 5.45% (2022: 0.30% to 3.40%). Included in bank balances mainly are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2023 RMB'000	2022 RMB'000
Euro ("EUR")	516,647	26,132
Hong Kong Dollar ("HK$")	18,833	47,505
United States Dollar ("US$")	1,473,920	194,890

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:

	2023 RMB'000	2022 RMB'000
0 - 90 days	136,568	164,837
91 - 365 days	4,171	11,715
Over 365 days	925	1,457
Trade payables	141,664	178,009
Payroll and welfare payables	178,074	200,360
Other tax payables	21,222	61,318
Accrued promotion expenses	39,177	71,273

Accruals	42,609	34,743
Other payables	14,230	17,491
	436,976	563,194

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

14. BANK BORROWINGS

	2023 RMB'000	2022 RMB'000
Bank loans	1,269,650	1,783,337
Analysed as:		
Unsecured	1,269,650	1,783,337

	2023 RMB'000	2022 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	1,269,650	1,783,337
	1,269,650	1,783,337
Less: Amounts due within one year shown under current liabilities	(1,269,650)	(1,783,337)
Amounts shown under non-current liabilities	-	-

* 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:

	2023 RMB'000	2022 RMB'000
Variable-rate borrowings		
Denominated in HK$ range from 5.27% to 5.87% per annum as at 31 December 2023 (2022: 4.87% to 5.30%) (Notes a & c)	679,650	1,281,886
Denominated in US$ (ranged from 5.29% to 6.17%) (Notes b & c)	-	501,451
Fixed-rate borrowings		
Denominated in RMB at fixed rate of 2.65% per annum as at 31 December 2023	590,000	-
Total	1,269,650	1,783,337

Notes:

(a) Variable rates range from Hong Kong Interbank Offered Rate ("HIBOR") plus 0.60% as at 31 December 2023 (2022: HIBOR plus 0.52% to HIBOR plus 0.95%).

(b) Variable rates range from London Interbank Offered Rate ("LIBOR") plus 0.70% to LIBOR plus 1.25% as at 31 December 2022.

(c) As at 31 December 2023, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB679,650,000 (2022: RMB1,113,362,000). The principal amount of the variable-rate bank borrowings will be repayable on 13 September 2024 (2022: 24 March 2023, 27 March 2023 and 25 April 2023).

As at 31 December 2023, the Group had unutilised banking facilities of approximately RMB2,550,000 (2022: RMB2,027,858,000).

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 RMB'000	Fair value adjustments to assets acquired in business combinations RMB'000	Unrealised profit of equity instruments at FVTOCI RMB'000	Fair value change on cash flow hedges RMB'000	Unrealised profit of equity instruments at FVTPL RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2022	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)
Credit (charge) to profit or loss for the year (note 7)	1,966	3,055	-	-	(4,498)	622	-	1,145
Credit to other comprehensive income	-	-	-	652	-	-	-	652
Deemed disposal of a subsidiary	-	16,777	-	-	-	(1,199)	-	15,578
At 31 December 2023	25,044	(10,205)	(63,964)	-	(34,804)	14,151	1,201	(68,577)

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

	2023 RMB'000	2022 RMB'000
Deferred tax assets	40,396	39,007
Deferred tax liabilities	(108,973)	(124,959)
	(68,577)	(85,952)

At 31 December 2023, the Group had unused tax losses of approximately RMB310,006,000 (2022: RMB230,012,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB89,682,000 (2022: RMB91,990,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB220,324,000 (2022: RMB138,022,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2023 are tax losses of approximately RMB60,196,000 (2022: RMB44,937,000) 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 2023, tax losses of approximately RMB4,795,000 (2022: RMB907,000) was expired.

As at 31 December 2023, the Group had deductible temporary differences of RMB820,023,000 (2022: RMB823,027,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB100,176,000 (2022: RMB92,312,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB719,847,000 (2022: RMB730,715,000) 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 RMB8,125,080,000 (2022: RMB8,190,285,000) 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 2022, 31 December 2022 and 31 December 2023	20,000,000	765,218
Issued and fully paid		
At 1 January 2022	2,457,444	84,177
Shares repurchased and cancelled (Note)	(5,455)	(186)
At 31 December 2022 and 2023	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$0.005 each	Price per share		Aggregated consideration paid
		Highest HK$	Lowest 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

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 2023 and 2022.

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, except for the ratio of contribution, which was determined by the audited consolidated financial performance.
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 2023, the Company recognised an expense of RMB5,160,000 (2022: RMB5,760,000) on the Master Scheme based on the Group's financial performance, in which such amount was recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

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 medical needs.

Leveraging core advantages, including proven clinical development and commercialization capabilities, clinical demand-oriented project management capabilities and substantial cash flow, the Group has formed an innovation strategy centered on "collaborative R&D and investment". The Group has collaborated extensively with global innovation forces through its innovation product incubation platform, to continuously deploy global first-in-class (FIC) and best-in-class (BIC) innovative products, and efficiently promote their clinical development and commercialization process, empowering the continuous transformation of scientific research outcomes into clinical practices. As of the end of the Reporting Period, the Group has deployed approximately 30 innovative products with differentiated competitive advantages, and at various developmental stages, among which three have been successfully approved for marketing in China in the first half of 2023, steadily entering the phase of scaled clinical application.

Deeply rooted in the China's pharmaceutical market for thirty-one years, the Group has gained leading academic and market positions for its major marketed products, leveraging on the extensive channel coverage and expert resources generated from its successful commercialization capabilities. Focused on the specialty areas while expanding its business boundaries, the Group continues to strengthen the competitiveness of its cardio-cerebrovascular/ gastroenterology business, and simultaneously promotes the steady development of its independently operated dermatology/medical aesthetics business and ophthalmology business, aiming to gain leading positions in specialty therapeutic markets. Meanwhile, the Group has expanded its business footprint to Southeast Asia, precisely empowering global quality pharmaceutical products to develop in Southeast Asian market.

Business Review

In 2023, the reform of the pharmaceutical industry continued to deepen, the growth rate of the pharmaceutical industry continued to adjust, and the restructuring of the industrial ecology also constantly evolved. However, the positive prospect of the pharmaceutical industry remains unchanged. Driven by increasing market demands, the pharmaceutical industry is poised for quality development through structural adjustment and efficiency improvement.

In 2023, Deanxit has been affected by implementation of the seventh batch of National Volume Based Procurement ("National VBP"), and Plendil and Ursofalk have been affected by implementation of the eighth batch of National VBP, which had a negative impact on the Group's sales performance. However, the Group's exclusive products with differentiated advantages continued to maintain sustained growth. The Group has entered the harvest cycle of innovation development, with three innovative drugs have been successfully approved for marketing and all included in China's National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2023 Version)"

("NRDL"). All three drugs have begun to enter large-scale clinical applications, adding growth momentum for the business development and solidifying the most important foundation for the year of 2024.

During the Reporting Period, the Group recorded a turnover of RMB8,013.3 million (2022: RMB9,150.3 million), representing a year-on-year decrease of 12.4%; in the case that all medicines were directly sold by the Group, the turnover would be RMB 9,472.2 million (2022: RMB10,497.5 million), a year-on-year decrease of 9.8%. Profit for the year was RMB2,384.4 million (2022: RMB3,276.2 million), representing a decrease of 27.2% year on year; normalized profit for the year* down 18.8% to RMB2,709.3 million (2022: RMB3,338.3 million)

* Normalized profit for the year represents profit for the year excluding provisions of impairment losses on related assets.

I. Innovative R&D

The Group relies on advantageous resources in specialty therapeutic fields to fully explore unmet clinical needs. Based on an innovative product incubation platform, it broadly links innovation sources with a global perspective, to proactively build an innovation pipeline with differentiated advantages, and efficiently promotes the entire process of innovative products from R&D to commercialization in an orderly manner, to produce innovative products with both societal value and clinical significance.

The Group continues to improve its R&D system covering the full lifecycle management of innovative products, and introduces external consultants to provide professional advice and improve management efficiency. Simultaneously, the Group focuses on building a more agile and modern organization, and promotes a comprehensive digital and institutional transformation of the product center, to improve execution capabilities in product assessment, medical development, clinical operations and registration management, and systematically incubates products that can meet the urgent needs of patients and with commercial potential, providing sustained growth momentum for the Group.

1. Efficient and quality R&D investment unleashing innovative value

After six years of innovative strategic transformation, the Group's innovative achievements have begun to materialize. During the Reporting Period, three innovative products with differentiated advantages have been approved for marketing in China, all of which were included in the National Reimbursement Drug List (NRDL) and have steadily entered the commercialization stage. These products, including Diazepam Nasal Spray (VALTOCO), Tildrakizumab Injection (ILUMETRI), and Methotrexate Injection for psoriasis indication (METOJECT), further enrich the existing commercialized product matrix in advantageous specialty areas, and develop synergistically with the existing marketed products, thereby accelerating the continuous transformation of old and new kinetic energy of its business.

The Group has also been steadily advancing the clinical development of innovative pipelines. During the Reporting Period, two products, Methylthioninium Chloride Enteric-coated Sustained-release Tablets and Methotrexate Injection - rheumatoid arthritis (METOJECT), have been under review for their New Drug

Application (NDA) in China; In addition, a total of about ten projects have been prepared/launched for their clinical trials of registration, mainly randomized controlled trials (RCT), forming a good echelon effect.

1.1 Three Innovative Products Approved, and Included in the NRDL in China

- **In June 2023, the first Diazepam Nasal Spray (VALTOCO) was approved for marketing in China. The product can be administered at anytime and anywhere, and meets clinical needs for accessible and convenient treatment option for seizure clusters of patients with epilepsy. In December 2023, the product was newly included in the Category B of the NRDL, and the first prescription in China was issued.**

Diazepam Nasal Spray is the first drug approved by the China National Medical Products Administration (NMPA) for the treatment of cluster seizures. It is indicated for the acute treatment of intermittent, stereotypic episodes of frequent seizure activity (i.e. seizure clusters, acute repetitive seizures) that are distinct from a patient's usual seizure pattern in patients with epilepsy of age 6 years and above. VALTOCO is a proprietary formulation of diazepam administered through the nasal mucosa, with high bioavailability, outstanding absorbability, tolerability and reliability. VALTOCO's product formulation incorporates a combination of Vitamin E-based solvents and Intravail® absorption enhancer. Intravail® transmucosal absorption enhancement technology enables the non-invasive delivery of a broad range of proteins, peptides and small-molecule drugs. Under the prescription and guidance of doctors and medical staffs, VALTOCO can be administered intranasally at any time and any place with rapid onset of action. It has the differentiated advantages in seizure rescue and convenient administration, meeting the current clinical needs of acute treatment of domestic epilepsy patients with cluster seizures in China.

During the Reporting Period, Diazepam Nasal Spray was included in the "2023 Chinese Expert Consensus on Diagnosis and Treatment of Dravet Syndrome" published in the "Journal of Epilepsy" and the "Clinical Diagnosis and Treatment Strategy of Dravet Syndrome" published in the "Chinese Journal of Pediatrics".

- **In May 2023, Tildrakizumab Injection (ILUMETRI), a monoclonal antibody that specifically targets IL-23, was approved for marketing in China. It can provide a new treatment option for psoriasis patients, with lower dosing frequency. In December 2023, the product was newly included in the Category B of the NRDL, and the first prescription in China was issued.**

ILUMETRI is a humanized lgG1/κ monoclonal antibody designed to selectively bind to the p19 subunit of interleukin-23 (IL-23) and inhibit its interaction with the IL-23 receptor, thereby suppressing the release of pro-inflammatory cytokines and chemokines. The product is approved by China NMPA for the treatment of adult patients with moderate-to-severe plaque psoriasis who are candidates for systemic therapy or phototherapy.

Results from a randomized, double-blind, placebo-controlled, multi-center Phase III clinical trial in China for the basic and extended study of Tildrakizumab Injection demonstrated that, the primary efficacy assessment indicator PASI 75 response rate continued to increase over treatment time. The PASI 75 response rate reached a high level after 28 weeks of treatment with ILUMETRI and maintained at 91.3% at week 52, and the product showed good long-term safety and tolerance. This study results were included in the academic journal "Chinese Medical Journal" in June 2023 and officially published in January 2024.

ILUMETRI requires only 4 administrations per year during its maintenance period, which may lead to higher patient compliance.

Tildrakizumab Injection has been unanimously recommended by authoritative psoriasis diagnosis and treatment guidelines in China, the United States, Europe, the United Kingdom, Germany and other countries and regions around the world, and was recommended by the "Chinese Psoriasis Diagnosis and Treatment Guidelines (2023 Edition)" issued by the Dermatology and Venereology Branch of the Chinese Medical Association during the Reporting Period.

- **In March 2023, Methotrexate Injection (METOJECT) was approved for marketing in China, becoming China's first pre-filled Methotrexate (MTX) Injection for subcutaneous administration for the treatment of psoriasis. During the Reporting Period, the product was directly included in Category A of the NRDL due to its generic name, and its first prescription in China was issued in October.**

Methotrexate Injection is China's first subcutaneously administered MTX pre-filled injection. It has been approved by China NMPA for the treatment of severe recalcitrant disabling psoriasis, which is not adequately responsive to other forms of therapy such as phototherapy, PUVA, and retinoids.

MTX has anti-inflammatory, anti-proliferative and immunomodulatory effects, and is currently one of the most effective traditional drugs for the treatment of psoriasis. However, oral MTX has poor patient compliance due to relatively large gastrointestinal side effects. The product is administered subcutaneously (this form of administration was recommended by domestic and foreign guidelines), which can increase bioavailability, and has lower side effects than oral MTX, in particular less adverse reactions in the gastrointestinal tract, and can improve patient treatment compliance and achieve a greater balance among efficacy, good safety tolerance and compliance. The product is available in a variety of small-capacity strengths, which are easy to use, allowing patients to self-administer medication at home under the judgment and guidance of a doctor to facilitate long-term disease management.

Methotrexate Injection has been unanimously recommended by many authoritative diagnosis and treatment guidelines for psoriasis indications, and was included in the "Chinese Psoriasis Diagnosis and Treatment Guidelines (2023 Edition)" published by the “Chinese Journal of Dermatology”, and "Expert Guidance on Subcutaneous Injection of Methotrexate for the Treatment of Psoriasis" published by the “Chinese Journal of Dermatology and Venereology” during the Reporting Period.

1.2 Clinical development in China advanced in an orderly manner

Methotrexate Injection - for the treatment of rheumatoid arthritis (RA) – It is expected to become the first pre-filled MTX injection to treat RA by subcutaneous administration in China (approved in Europe, Australia, Japan)

In December 2023, the NDA for an additional indication of Methotrexate Injection for the treatment of active RA in adults patients was accepted in China.

The bridge clinical trial of the product in China aims to compare the changes of DAS28-ESR score of patients with RA treated by methotrexate injection and methotrexate tablets compared with the baseline, and to judge whether the non-inferiority is established. The study reached the preset main endpoint, and the experimental group (given the product) was not inferior to the control group (given methotrexate tablets). In addition, the results of secondary efficacy indicators suggest that the efficacy of the product is significantly better than that of methotrexate tablets or there is a trend of better. The results also show that some of the curative effects that can be observed in the early stage of the product are more obvious than those of methotrexate tablets, suggesting that the curative effect of the product appears earlier. The product has some advantages over methotrexate tablets in gastrointestinal safety, and no new safety risks have been found in the Study.

Methotrexate is recognized internationally as the first choice first-line and anchor drug for the treatment of RA.

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

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

The NDA is supported by a phase III clinical trial in China, which is a randomized, double-blind, placebo controlled, multi-centered bridging trial, involving 1,802 subjects 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, and the trial obtained positive results. The result of primary study endpoint of this clinical trial, the detection rate of nonpolypoid colorectal lesions (the proportion of subjects with at least one histologically confirmed non-polypoid colorectal lesion), showed 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 ($P<0.0001$), indicated that the product could significantly increase the detection rate of non-polypoid colorectal lesions.

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 lesions by enhancing visualization of the colorectal lesions in adult patients undergoing screening or surveillance colonoscopy.

Desidustat Tablets – a novel oral HIF-PHI (approved in India)

During the Reporting Period, the China Phase III bridging trial of Desidustat Tablets progressed steadily. In August, the trial completed the enrollment of all the 152 subjects. It is a randomized, double-blind, placebo controlled, and multi-centered bridging 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. Led by Peking Union Medical College Hospital, Chinese Academy of Medical Sciences, the study had been conducted in 28 centers 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 in the field of CKD-caused anemia (including hemodialysis and non-dialysis patients).

Ruxolitinib cream – As of the end of the Reporting Period, the product is the first and only topical JAK inhibitor approved by the U.S. Food and Drug Administration (FDA) and the European Medicines Agency (EMA) for repigmentation in vitiligo

In December 2023, ruxolitinib cream received the drug clinical trial approval notice issued by China NMPA, agreeing to conduct a clinical trial evaluating the safety and efficacy of ruxolitinib cream for the treatment of non-segmental vitiligo.

Benefiting from the Early and Pilot Implementation Policy granted by the state to Hainan Boao Lecheng International Medical Tourism Pilot Zone in Hainan Free Trade Port (the "Pilot Zone"), in August 2023, the product has been approved by Hainan Medical Products Administration for Urgent Clinical Import, and officially became available to applicable patients in the Pilot Zone, for the topical treatment of non-segmental vitiligo in adolescents and adults aged 12 and above with facial involvement, although the product is not approved by the NMPA for any indication in China. Patients with vitiligo in China can apply for the product at Boao Super Hospital first and receive treatment from the expert team. As of the end of the Reporting Period, the product had been prescribed more than 2,000 times in Boao Super Hospital, benefiting more than 1,200 patients. The Group will also cooperate with Boao Super Hospital to conduct the Real World Study (RWS) for the product, which could support the product's registration and launching process in China.

Ruxolitinib cream, a novel cream formulation of Incyte's selective JAK1/JAK2 inhibitor ruxolitinib. As of the end of the Reporting Period, the product is the first and only topical JAK inhibitor approved for use in the United States, indicated for the topical treatment of nonsegmental vitiligo in adult and pediatric patients 12 years of age and older and for the topical short-term and non-continuous chronic treatment of

mild to moderate atopic dermatitis (AD) in non-immunocompromised patients 12 years of age and older whose disease is not adequately controlled with topical prescription therapies, or when those therapies are not advisable.

The product is also approved in Europe for the treatment of adolescents and adults (age >12 years) with non-segmental vitiligo with facial involvement.

2. Scientific exploration and replenishment of quality pipeline creating high potentials

2.1 Y-3 Injection – is expected to become the first novel brain cytoprotectant that treats both stroke and post-stroke depression

In August 2023, the Group entered into a Collaboration Agreement with Nanjing NeuroDawn Pharmaceutical Co. Ltd. ("NeuroDawn Pharmaceutical") for anti-ischemic stroke brain cytoprotectant the class 1 innovative drug Y-3 injection, and gained an exclusive promotion right of the product in Mainland China, Hong Kong Special Administrative Region ("Hong Kong") and Macao Special Administrative Region ("Macao"). The term of the Agreement is permanent.

Y-3 Injection is a Class 1 innovative drug - small molecule compound, which is used to alleviate neurological symptoms and dysfunction of daily activities caused by acute ischemic stroke. The mechanism of action of the product is to dissociate PSD-95 and nNOS coupling and activate α2-GABAA receptors. With dual-target intervention at the same time and its clear mechanism of action, the product is conducive to exerting brain cytoprotection effects. Meanwhile, the product has a rapid anti-depression and anti-anxiety function, and is expected to become the first novel brain cytoprotectant that treats both stroke and post-stroke depression. The product has compound and formulation patents in China. In January 2023, The Phase I clinical trial of the product in China has been completed and the results showed a good overall safety. During the Reporting Period, the product was in the Phase II clinical trial in China.

In January 2024, NeuroDawn Pharmaceutical announced the successful completion of Phase II clinical trial for Y-3 Injection, advancing towards Phase III clinical trial in China.

2.2 Sucroferric oxyhydroxide chewable tablets (VELPHORO) - the first iron-based, non-calcium phosphate binder (PB) approved in China, and filled the gap of phosphorus-lowering treatment for Chinese paediatric patients aged 12 to 18 years old with CKD stages 4-5 or CKD on dialysis.

In February, 2024, the Group entered into a Novation Agreement with Vifor Fresenius Medical Care Renal Pharma Ltd. and Winhealth Investment (HK) Limited and obtained an exclusive license of Sucroferric Oxyhydroxide Chewable Tablets (VELPHORO) to register, import, promote, distribute, use and sell the product in Mainland China, Hong Kong, Macao and Taiwan Region.

VELPHORO is a Class 5.1 imported innovative drug, which was approved through the priority review and approval procedure in China in February 2023 for the control of serum phosphorus (sP) levels in adults with chronic kidney disease (CKD) on hemodialysis (HD) or peritoneal dialysis (PD), and for the control of sP levels in paediatric patients 12 years of age and older with CKD stages 4-5 (defined as glomerular filtration rate <30mL/min/1.73 m^2) or CKD on dialysis. The product has been included in Category B of China's NRDL in December 2023.

VELPHORO is a new generation of iron-based, non-calcium PB, reducing sP levels of patients and increasing the sP compliance rate. It is demonstrated in multiple global clinical studies and real-world research data (as published in academic journals including International Urology and Nephrology, and Clinical Nephrology) and the Chinese instruction of the product that compared with other PBs, patients maintained on VELPHORO used about 50% fewer PB pills/day, and the proportion of patients achieving target sP increased by 95%. VELPHORO has characteristics of good safety and patient compliance without risk of calcium and heavy metal accumulation. In addition, the product holds the advantages of unaffected absorption of oral liposoluble vitamin D, maintaining stable iron parameters, improving the nutritional status in patients, reducing hospitalization rates, and alleviating patients' medical financial burdens. VELPHORO is expected to further improve the dialysis patients' quality of life and become a superior option of phosphorus-lowering treatment for CKD dialysis patients in China.

3. Innovative Pipeline

Launched Overseas/ China or Under Marketing Application Review

Product	Rights Authorized Region**	Indication	Clinical Trial Approval	Clinical Trial for Registration	Marketing Application	Marketed	Major Marketed Regions**			
							CN	US	EU	JP
Diazepam Nasal Spray		For the acute treatment of intermittent, stereotypic episodes of frequent seizure activity (i.e. seizure clusters, acute repetitive seizures) that are distinct from a patient's usual seizure pattern in patients with epilepsy 6 years of age and older					2023.6.7	✓		
Tildrakizumab Injection (Biological Agent)		Treatment of adults with moderate-to-severe plaque psoriasis who are candidates for systemic therapy or phototherapy					2023.5.26	✓	✓	✓
Methotrexate Injection		Severe recalcitrant disabling psoriasis, which is not adequately responsive to other forms of therapy such as phototherapy, PUVA, and retinoids					2023.3.24		✓	
		Adult active 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/m² 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 eczema (atopic dermatitis) 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								

Marketed in China | Under R&D in China | Overseas | Designated Asian Regions | Mainland China, Hong Kong, Macao and Taiwan

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

#In March 2024, ruxolitinib cream was approved for clinical trial evaluating the safety and efficacy of the product for the treatment of mild to moderate atopic dermatitis by China NPMA.

** Major Marketed Regions indicate where products are approved. CMS's rights are stated by Rights Authorized Region, CMS has NO development, commercialization or other product rights in unauthorized regions.

Please refer to local prescribing information for more information, including full safety information, on CMS's marketed medicines, or on medicines marketed by CMS's collaboration partners.

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						
Y-3 Injection	*	Used to alleviate neurological symptoms and dysfunction of daily activities caused by acute ischemic stroke						
BB2603		Onychomycosis and tinea pedis						
VXM01 (Biological Agent)		Recurrent glioblastoma						
VEGFA/ANG2 Tetravalent Bispecific Antibody (Biological Agent)		Intended for ocular fundus neovascular diseases						
TYK2 Inhibitor# (CMS-D001)		Intended for psoriasis						
GnRH Receptor Antagonist## (CMS-D002)		Intended for moderate to severe pain associated with endometriosis						
~10 Self-developed Innovative Drugs		Including large molecules, small molecules and siRNA products, etc.						

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

* Taiwan is not included in the rights authorized region of Y-3 Injection.
# In January 2024, the Group's self-developed innovative drug, TYK2 inhibitor (CMS-D001), was approved for clinical trial by China NPMA.
In February 2024, the Group's self-developed innovative drug, GnRH receptor antagonist (CMS-D002), was approved for clinical trial by China NPMA.
** Major Marketed Regions indicate where products are approved. CMS's rights are stated by Rights Authorized Region, CMS has NO development, commercialization or other product rights in unauthorized regions.
Please refer to local prescribing information for more information, including full safety information, on CMS's marketed medicines, or on medicines marketed by CMS's collaboration partners.

II. Commercialization System

By continuously reinforcing and integrating the commercialization platform, the Group further consolidates its specialty therapeutic fields focused operation system with scale, compliance, branding and digitalization. During the Reporting Period, the Group's three independent specialty businesses segments: cardio-cerebrovascular/gastroenterology, dermatology/medical aesthetics, and ophthalmology, under the synergized advantageous resources from the Group, optimized brand promotion capabilities and digitalized operation capabilities based on academic evidence, striving to achieve scaled clinical

application and academic brand building of innovative products, thereby providing patients, doctors and medical institutions with high-quality products, services and solutions.

As of the end of the Reporting Period, the Group's three innovative drugs had been approved for marketing, and in February 2024, the Group acquired the fourth marketed innovative drug sucroferric oxyhydroxide chewable tablets (VELPHORO). The four newly launched innovative products cover central nervous system, dermatology, cardio-cerebrovascular and other advantageous specially fields, and are expected to synergize with the Group's existing marketed products. All four innovative drugs have been newly included in the NRDL, further improving patients' accessibility and affordability. The Group's commercialization teams actively cooperated with the implementation and access of NRDL, and carried out relevant professional academic activities, thereby enabling innovative drugs to benefit relevant Chinese patients and their families on a broader scale and at an earlier stage.

For marketed exclusive or original products, the Group implemented a promotion approach driven by products' characteristics, and formulated customized market entry and promotion plans based on each product's development stage and competitive landscape, thus creating professional, differentiated, and quality brand images. Concurrently, it actively carried out post-marketing clinical trials to strengthen the evidence-based medical foundation for the product.

The Group actively carried out patient-oriented innovative promotion model, introducing a patient management and service platform, and with the aid of disease knowledge popularization and patient assistance programs, complemented by new media channel operations, enhancing patient recognition and product accessibility as well as improving disease awareness and consultation rate. In addition, the Group has actively expanded the coverage of retail market centered on pharmacies closed-to-hospitals and chain pharmacies to better undertake prescription traffic diversion. Meanwhile it also built a retail training system empowering chain pharmacies to boost terminal sales.

The Group continued to adhere to the operation principle of "compliance first", closely aligning with national and industrial compliance trends to continuously optimize its internal policies, and has formed a comprehensive compliance control and training system at the Group level, to solidify the foundation of its operations. Meanwhile, through routine employee behavior management, business execution tracking, evaluation and assessment, complemented by monitoring methods such as unannounced inspections, special inspections, the Group achieved real-time supervision, effective early warning and comprehensive control of business compliance risks.

As of the end of the Reporting Period, the Group had approximately 4,400 professional marketing and promotion related employees, with a promotion network covering over 50,000 hospitals and medical institutions, and approximately 250 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. An information summary of major products as of the end of the Reporting Period is as follows:

Product line	Product	Indication/Function	Product Advantage
Cardio-cerebrovascular Line - Related	VALTOCO (Diazepam Nasal Spray) (innovative drug)	For the acute treatment of frequent seizure activity (i.e. seizure clusters, acute repetitive seizures) in patients with epilepsy 6 years of age and above	The first diazepam nasal spray approved by China NMPA, that can be administered at anytime and anywhere, meeting the clinical needs for accessible and convenient treatment option for epilepsy patients with seizures cluster.
	XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)	Acute decompensated heart failure	The only Recombinant Human Brain Natriuretic Peptide (rhBNP) medicine approved by China NMPA
	Plendil (Felodipine Sustained Release Tablets)	Hypertension and stable angina pectoris	The Calcium Channel Blocker (CCB) medicine suitable for Chinese patients, providing cardio-cerebrovascular protection and high vascular selectivity
	Deanxit (Flupentixol and Melitracen Tablets)	Mild-to-moderate depression, anxiety and psychosomatic affections	Original reference preparation, the preferred medicine for mild to moderate anxiety and depression
Gastroenterology Line - Related	METOJECT (Methotrexate Injection) (innovative drug)	For the treatment of severe recalcitrant disabling psoriasis, which is not adequately responsive to other forms of therapy such as phototherapy, PUVA, and retinoids	The first MTX pre-filled injection for subcutaneous administration for the treatment of psoriasis has been approved by China NMPA
	Salofalk (Mesalazine)	Ulcerative colitis, including the treatment of acute exacerbations and the maintenance treatment to	Ranking the first in the market share of aminosalicylic acid, a first-line treatment for inflammatory bowel disease in China according to 2023 IQVIA data

		prevent recurrence, as well as the treatment of acute exacerbations of Crohn's disease	
	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
	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 2023 IQVIA data
Dermatology Line - Related	ILUMETRI (Tildrakizumab Injection) (innovative drug)	For the treatment of adult patients with moderate-to-severe plaque psoriasis who are candidates for systemic therapy or phototherapy	The monoclonal antibody that specifically targets to the p19 subunit of IL-23, and only requires 4 administrations per year during its maintenance period, which may lead to higher patient compliance
	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	A German original brand for the treatment of sclerotherapy of varicose veins with years of clinical application

Dermatology Grade Skincare Product	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 (medium and macro particle); Used for the deep dermal to subcutaneous implantation for the correction of moderate to severe nasolabial folds (small particle)	Painless, fashionable and accessible luxury HA filler with multiple particle sizes from South Korea, featured with safety and natural looking
	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
Ophthalmology Line - Related	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 treatment option of senile macular degeneration
	EyeOP1 Glaucoma Treatment Device	Glaucoma with intraocular pressure that cannot be controlled by drugs and surgery	Using high-focused ultrasound technology, which is a non-invasive procedure with precise targeting and convenient operations, providing a safe and effective innovative treatment for glaucoma

* Neauvia Hyaluronic Acid Series are sold in Hong Kong, China

During the Reporting Period, Deanxit has been affected by implementation of the seventh batch of National VBP, and Ursofalk and Plendil have been affected by implementation of the eighth batch of National VBP. Although Deanxit, Plendil and Ursofalk have not been selected in the National VBP, they are all original medicines with oral administration, and patients give a high recognition of their brands. Therefore, the overall negative impact could be expected. Revenues by product lines were as follows:

- The products under cardio-cerebrovascular line recorded a revenue of RMB3,519.2 million, a decrease of 13.0% 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 decrease by 8.8% to RMB5,033.3 million compared with the same period last year, accounting for 53.1% of the Group's revenue in the case that all medicines were directly sold by the Group.

- The revenue of products under gastroenterology line decreased by 15.4% to RMB3,057.0 million compared with the same period last year, accounting for 32.3% of the Group's revenue in the case that all medicines were directly sold by the Group.

- The revenue of the products under dermatology and medical aesthetic lines increased by 20.2% to RMB569.0 million, compared with the same period last year, accounting for 6.0% of the Group's revenue in the case that all medicines were directly sold by the Group.

- The revenue of the products under ophthalmology line increased by 14.7% to RMB504.7 million, compared with the same period last year, accounting for 5.3% of the Group's revenue in the case that all medicines were directly sold by the Group.

- Other products recorded revenue of RMB363.4 million, a decrease of 37.4% compared with the same period last year. In case that all medicines were directly sold by the Group, the revenue would decrease by 32.4% to RMB308.3 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.

Ⅲ. Dermatology and Medical Aesthetic Business

With the support of the Group-wide resources, the dermatology and medical aesthetic business "CMS Skinhealth" has formed a mature business system with rich business formats after three years' diligent exploration and continuous construction, and built a tripartite business structure consisting of dermatology prescription business unit, medical aesthetic products business unit, and new retail business unit. The gradual maturation of this system marks that CMS Skinhealth has completed the initial establishment of the skin health management ecosystem. Equipped with an organizational and talent structure that aligns with business development, CMS Skinhealth has effectively improved operational compliance and efficiency, gradually moving toward becoming "the largest and most professional skin-health management company in China ".

In terms of product layout, CMS Skinhealth has followed the strategy of "one body" (dermatology prescription products) and "two wings" (dermatology-grade skincare products and light medical aesthetic products). Through both in-house development and external collaboration, CMS Skinhealth has launched differentiated products in an orderly manner, continually optimizing full lifecycle skin-health management solutions. Under continuous advancement of dermatological biotechnology along with the rapid changes in public aesthetic concepts, CMS Skinhealth continues to meet the diverse needs of various age groups and consumer segments for skin health and aesthetics.

With evidence-based medicine at its core, CMS Skinhealth has built a professional expert network platform for dermatology prescription products; it has explored a patient-oriented operating model to enhance patients' awareness of skin diseases and improve drug accessibility and information accessibility. For dermatology-grade skincare products with both medical and consumer attributes, CMS Skinhealth has actively constructed a scientific skin health concept that integrates treatment and care, conducted in-depth interpretation of product efficacy, and utilized the promotion matrix of new media platforms for direct consumer branding and reputation accumulation, to support continuous conversion of terminal sales. For injectable light medical aesthetic products, CMS Skinhealth has built a multi-dimensional promotion model involving academics, medical practices, operations, consulting and branding through item-driven strategies and institutional empowerment. During the Reporting Period, it achieved unified outputs and expanded brand influence.

As of the end of the Reporting Period, CMS Skinhealth had approximately 700 employees, covering nearly 10,000 hospitals and medical institutions in China.

1. **The dermatology prescription portfolio was continued to expand, and the commercialization process of innovative drugs was fully advanced.**

CMS Skinhealth has built a competitive products portfolio for dermatologic disease treatment, covering indications such as vitiligo, psoriasis, phlebitis, varicose veins and atopic dermatitis, etc.

During the Reporting Period, new breakthroughs has been made in the development and commercialization of innovative products. Tildrakizumab Injection (ILUMETRI), an innovative biological agent specifically targeting the p19 subunit of IL-23 for the treatment of moderate-to-severe plaque psoriasis, was successfully approved for marketing in China and included in the Category B of the NRDL. CMS Skinhealth has officially initiated the promotion of ILUMETRI, relying on the accumulated academic platform of existing marketed products including Hirudoid (the repair agent for skin barrier with multiple functions) and Aethoxysklerol (a German original brand for the treatment of sclerotherapy of varicose veins with years of clinical application), actively participated in industry seminars, and multi-dimensionally expanded the expert network to promote the academic concepts for long-term treatment of psoriasis patients.

Benefiting from the Early and Pilot Implementation Policy granted by the state to Hainan Free Trade Port and the Pilot Zone, in August 2023, the innovative product ruxolitinib cream was approved by Hainan Medical Products Administration for Urgent Clinical Import, and officially became available to applicable patients in the Hainan Boao Super Hospital, for the topical treatment of non-segmental vitiligo in adolescents and adults aged 12 and above with facial involvement. As of the end of the Reporting Period, more than a thousand patients have received treatment from the expert team.

2. **Injectable light medical aesthetic products portfolio was continued to expand, building a comprehensive product matrix**

CMS Skinhealth has advanced the deployment and development of light medical aesthetic products with a scientific mindset, and provided personalized solutions for various facial concerns among consumers.

During the Reporting Period, in addition to the existing marketed Korean hyaluronic acid (HA) product - Vmonalisa (the painless, fashionable and accessible luxury medium-to-macro-particle HA filler, featured with safety and natural looking), the small-particle HA product under the same brand has been approved for marketing in China. Besides, in May 2023 and January 2024, CMS Skinhealth entered into exclusive license agreements with Jiangsu Xihong Biopharma Co., Ltd., to commercialize Poly-L-lactic Acid Microparticle Filler Injection, Polycaprolactone Microsphere Gel for Injection and Calcium Hydroxylapatite Microsphere Gel for Injection in mainland China, Hong Kong, Macao and Taiwan. All three products, classified as Class III medical devices, are currently in China's registrational clinical trials, which are injectable implants developed for subcutaneous layer and deep dermis to correct moderate to severe nasolabial fold wrinkles. This product portfolio will be synergized with mainstream light medical aesthetic products such as Korean HA product - Vmonalisa sold by CMS Skinhealth, to provide a comprehensive light medical aesthetic solution for consumers.

Poly-L-lactic Acid Microparticle Filler Injection- a regenerative medical aesthetic product adopting patented microparticle preparation process to achieve plumping, firming, elasticity and natural skin rejuvenation

Poly-L-lactic Acid (PLLA), the main component of the product, is the high polymer material that is highly biocompatible and completely degradable with proven safety and efficacy. PLLA gradually degrades after injection, which can effectively stimulate human body's collagen regeneration to promote skin rejuvenation. In addition, the product adopts patented microparticle preparation process, which turns microparticles into regular shape and uniform size, and microparticles can be evenly distributed beneath the dermis, and the product could achieve relatively sound performance in the clinical application.

Polycaprolactone Microsphere Gel for Injection - an injectable anti-aging product with multi-effect of instant filling, contour shaping, and collagen regeneration through innovative gel

The product is mainly composed of polycaprolactone (PCL) microspheres and gel carrier. PCL is a completely degradable medical-grade material with wide clinical applications. Meanwhile, the less irritating gel carrier makes the product have good biocompatibility, which effectively reduces adverse reactions. Therefore, while achieving rapid filling and shaping, the product stimulates autologous collagen regeneration. In addition, this product contains lidocaine hydrochloride with local anesthetic effect, reducing injection pain and delivering patients a better user experience.

Calcium Hydroxylapatite Microsphere Gel for Injection - a regenerative medical aesthetic product adopting high-viscosity gel microsphere mixing technology to achieve facial filling and shaping, creating a three-dimensional facial appearance

The product is mainly made of calcium hydroxyphosphate (CaHA) microspheres and gel carrier. CaHA has mature clinical applications and its metabolites are calcium and phosphorus inorganic substances, similar to human bone components and can be completely absorbed by human body, ensuring the product's high biocompatibility and safety. The product uses an improved microsphere processing technique and a scientifically proportioned gel, making the microspheres distributed evenly within the skin tissue, minimizing filler displacement and gently stimulating human body's collagen regeneration, to achieve a long-lasting, natural-looking face slimming effect.

3. R&D of focused ultrasound medical aesthetic devices advanced in an orderly manner, solidifying the foundation of the R&D platform.

"Carnation", a focused ultrasound technology R&D platform of CMS Skinhealth, continuously promoted technological innovation and breakthrough in energy-based medical aesthetic devices based on the analysis of application scenarios and market demands.

FUBA 5200 Focused Ultrasound Body Contouring System, the major pipeline product in this R&D platform, is a non-invasive body shaping device with independent intellectual property right, and has been granted multiple utility model and appearance patents in China. During the Reporting Period, the China registrational clinical trial of FUBA 5200 Focused Ultrasound Body Contouring System was advancing in an orderly manner with all subjects completed and out, and the preparations for registration in China have been carried out in progress.

IV. Ophthalmology Business

The Group's ophthalmology business "CMS Vision" focuses on the identification, development and commercialization of urgently needed clinical solutions, and is committed to becoming a leading ophthalmology pharmaceutical and device company in China. CMS Vision's development is driven by both the R&D and strong commercialization capabilities of ophthalmic products. Through internal and external collaboration, it continues to enrich its product portfolio to enhance its overall layout of ophthalmic prescription drugs, devices and consumables. During the Reporting Period, the business structure was optimized, and efforts were made to improve management capabilities and professional competence, so as to build a highly professional ophthalmology team with profound understanding of products and the market.

1. Major Marketed Products

CMS Vision's major marketed products include the exclusive medicine Augentropfen Stulln Mono Eye Drops (the representative medicine for the treatment of asthenopia and the safe and convenient treatment option of senile macular degeneration) and the innovative medical device EyeOP1 Glaucoma Treatment Device (using high-focused ultrasound technology, which is a non-invasive procedure with precise targeting and convenient operations, providing a safe and effective innovative treatment for glaucoma). In

order to better realize the commercial value transformation of the innovative medical device EyeOP1 Glaucoma Treatment Device, CMS Vision has emphasized on the product advantages of "non-invasive and safe intraocular pressure reduction" to enhance the recognition and popularity of this innovative surgical procedure (Ultrasound Cyclo Plasty), promoting innovation in clinical diagnosis and treatment concepts and accelerating product brand building.

As of the end of the Reporting Period, CMS Vision had more than 350 employees, covering approximately 10,000 hospitals and medical institutions in China.

2. Progress of Pipeline Product

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

The tetravalent bispecific anti-VEGFA (vascular endothelial growth factor A) / ANG2 (angiopoietin 2) antibody for intravitreal injection (the "Tetravalent Bispecific Antibody Product") has been granted an approval for drug clinical trials issued in April 2023 by China NMPA and agreed to conduct the clinical trials in neovascular age-related macular degeneration (nAMD). During the Reporting Period, the Tetravalent Bispecific Antibody Product was in the Phase I clinical trial stage in China.

The Tetravalent Bispecific Antibody Product is a Class 1 Innovative Biological Product with a unique nano-antibody design bearing specific targeting VEGFA and ANG2, which can effectively inhibit abnormal neovascularization through two different pathways, for treatment of the ocular fundus neovascular diseases. The Tetravalent Bispecific Antibody Product enjoys the differentiation advantages of high affinity, strong inhibitory activity, high preparation concentration, good stability and a low dosing frequency, possessing important clinical implications.

V. Southeast Asia Business

As emerging markets with great potential along the line of the Belt and Road Initiative, the Southeast Asian market possesses favorable economic prospects and a sound business environment. In recent years, with an aging population and an increasing burden of non-infectious diseases, pharmaceutical consumption demands in Southeast Asian countries have continued to grow rapidly, resulting in a significant increase in local healthcare expenditures. With an insightful strategic vision, the Group has established a platform-based and systematic Southeast Asia business, "Rxilient Health", committed to building a "bridgehead" for global pharmaceutical companies to enter Southeast Asia and providing Southeast Asian patients with innovative drugs of both differentiated advantages and cost-effectiveness.

During the Reporting Period, independently operated by a local team that is well-versed in the local pharmaceutical ecosystem, Rxilient Health continuously improved its platform-based systematic operation structure, integrating product introduction, development, manufacture, formulation CDMO

(contract development and manufacturing organization), marketing and promotion, and made substantial progress.

1. **Continued to expand differentiated product pipeline based on the first-line clinical needs in the Southeast Asian market.**

Continuing to rely on the Group's product resources and focused on local clinical needs, Rxilient Health has built a portfolio of over ten products, covering various areas such as oncology, metabolism, dermatology, ophthalmology, and central nervous system. This includes the marketed innovative medical devices EyeOP1 Glaucoma Treatment Device, as well as a variety of pipelines, including ruxolitinib cream, Methylthioninium Chloride Enteric-coated Sustained-release Tablets, Diazepam Nasal Spray and other quality innovative products.

In March 2023, Rxilient Health entered into a collaboration agreement with Shanghai Junshi Biosciences Co., Ltd. ("Junshi Biosciences"). The two parties will collaborate to develop and commercialize intravenous toripalimab in nine Southeast Asia countries via a joint venture, Excellmab Pte. Ltd, providing quality China innovative drug for local cancer patients.

Toripalimab – As of the end of the Reporting Period, the first China-originated anti-PD-1 monoclonal antibody drug has been approved for marketing by China NMPA and the US FDA.

Toripalimab has won the "Chinese Patent Gold Award (中國專利金獎)", the top award in China's patent field. The product's 7 indications have been approved in mainland China. The Biologics License Application (BLA) has been approved by the U.S. FDA for toripalimab, in combination with cisplatin and gemcitabine, indicated for the first-line treatment of adults with metastatic or recurrent locally-advanced nasopharyngeal carcinoma (NPC), and for toripalimab, as a single agent, is indicated for the treatment of adults with recurrent, unresectable, or metastatic NPC with disease progression on or after platinum-containing chemotherapy. As of the end of the Reporting Period, it has become the first and only drug approved for the treatment of NPC in the United States and also the first innovative biological drug independently developed and manufactured in China approved by the FDA. Besides, the European Medicines Agency (EMA), the British Medicines and Healthcare products Regulatory Agency (MHRA), the Australia Therapeutic Goods Administration (TGA) and the Singapore Health Sciences Authority (HSA) have respectively accepted the marketing authorization applications (MAA) for several toripalimab's indications.

2. **Completed the acquisition of a manufacture plant in Singapore, accelerating the process of CDMO business in Southeast Asia**

In December 2023, the joint venture, PharmaGend Global Medical Services Pte. Ltd. ("PharmaGend"), jointly invested by the Group, Rxilient Health, Pharmaron and Legend Fund, has entered into a lease agreement for the building and property located in Tuas, Singapore and completed the purchase of certain

production machines and equipment from Strides Pharma Global Pte. Ltd. ("Singapore manufacturing plant").

The Singapore manufacturing plant has advanced manufacturing machines, equipment and first-class infrastructure. It had been approved by Health Sciences Authority of Singapore (HSA), the U.S. FDA and Therapeutic Goods Administration of Australia (TGA). It will serve as the plant and site for PharmaGend to carry out pharmaceutical formulation, finishing, and packaging business, accelerating the formulation CDMO business development in Singapore. The progress in series will promote the internationalization, quality, and sustainable healthy development of collaborative parties, and are expected to improve the accessibility of high-quality drugs with unmet clinical needs in emerging markets.

The acquisition of Singapore manufacturing plant will optimize the Group's overseas supply chain and manufacturing capabilities, and enhance the safety and stability of its international supply chain. In addition, it will help CMS to carry out product collaborations with its global partners in the future and promote more collaborations opportunities.

Subsequent Events

Gaining Exclusive License of an Innovative Product– First-line Phosphate-lowering Drug VELPHORO

Following the Reporting Period, on 2 February 2024, the Group through a wholly-owned subsidiary of the Company entered into a Novation Agreement (the "Novation Agreement") with Vifor Fresenius Medical Care Renal Pharma Ltd. ("VFMCRP") and Winhealth Investment (HK) Limited ("Winhealth Investment") for sucroferric oxyhydroxide chewable tablets VELPHORO ("VELPHORO"). Winhealth Investment and VFMCRP entered into a License Agreement ("VELPHORO License Agreement") for VELPHORO on 28 June 2023. In accordance with VELPHORO License Agreement, Winhealth Investment gained an exclusive license to register, import, promote, distribute, use and sell VELPHORO in Mainland China, Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Region (the "Territory"). VELPHORO License Agreement commenced on its effective date and continues to be valid until the fifteenth anniversary of the date of VELPHORO's first commercial sale in the Territory. Upon the expiration of the aforementioned term, VELPHORO License Agreement may automatically be renewed for ten years as per certain conditions defined in VELPHORO License Agreement. Thereafter, unless the parties reach a new agreement, VELPHORO License Agreement will terminate upon expiration. In accordance with the Novation Agreement, Winhealth Investment novated its above-mentioned rights and obligations for VELPHORO to a wholly-owned subsidiary of the Company.

Approvals of Drug Clinical Trials for Innovative Drugs Highly Selective TYK2 Inhibitor CMS-D001 and GnRH Receptor Antagonist CMS-D002

CMS-D001 tablets ("CMS-D001") and CMS-D002 capsules ("CMS-D002") self-developed by the Group have been granted approvals for drug clinical trials recently by NMPA. NMPA agrees to conduct (i) a randomized, double-blind, placebo-controlled phase I clinical study of single or multiple dose escalation

and food effects (open) to evaluate the safety, tolerability, pharmacokinetics and efficacy of CMS-D001 in healthy subjects and patients with plaque psoriasis; and (ii) a randomized, double-blind, placebo-controlled phase I clinical study of single or multiple dose escalation to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of CMS-D002 in healthy adult premenopausal female subjects.

Approval to Conduct a Phase 3 Clinical Trial Investigating Ruxolitinib Cream in Atopic Dermatitis in China

NMPA has approved the application to conduct a clinical trial evaluating the safety and efficacy of ruxolitinib cream for the treatment of mild to moderate atopic dermatitis (AD) on 18 March 2024.

Impacts of Significant Industrial Policies

In 2023, the adjustment of the NRDL and the National VBP has continued to be carried out on a normalized and standardized basis.

Regarding the adjustment of the NRDL, during the Reporting Period, the Group's four products approved for marketing in China were all included in the NRDL, among which the innovative drugs Diazepam Nasal Spray (VALTOCO) and Tildrakizumab Injection (ILUMETRI), and tetrabenazine tablets, a rare disease drug, have been newly included in Category B of China's "2023 NRDL"; the innovative drug Methotrexate Injection-Psoriasis (METOJECT) has been directly included in Category A of the NRDL due to its generic name. With the official implementation of the 2023 NRDL on January 1, 2024, it is expected to enhance patient accessibility and affordability to innovative drugs, so that innovative products can benefit more patients. At the same time, it helps to promote product market coverage and professional brand building, and accelerates the large-scale clinical application of innovative products, which will have a positive effect on the Group's development.

Regarding the National VBP, as of the end of the Reporting Period, the chemical names of the Group's three major marketed products were included in the National VBP, among which, Deanxit's chemical name Flupentixol and Melitracen Tablets Immediate-release Oral Dosage Forms was included in the seventh batch of National VBP catalog. While Plendil's chemical name Felodipine Sustained-release and Controlled-release Tablets Dosage Forms, and Ursofalk's chemical name Ursodeoxycholic Acid Immediate-release Oral Dosage Forms were included in the eighth batch of National VBP catalog. The seventh and eighth batches of National VBP were implemented successively in each province and city in November 2022 and July 2023 respectively, and Deanxit, Plendil and Ursofalk were not selected. However, all of the three drugs are original medicines with oral administration, with characteristics of well-recognized brand, so that the overall negative impact on sales could be expected.

During the Reporting Period, the Group continued to improve its sales strategies for national VBP products and strengthen its OTC markets deployment, so that to reduce the negative impact of national VBP on business performances. At the same time, the Group focused on brand building and market expansion of marketed innovative drugs, exclusive drugs, and products with both medical and consumer attributes. It also actively promoted the clinical development and registration of innovative products,

accelerating the adjustment of product portfolio toward a more competitive, longer life-cycle and healthier structure.

Future Development

Looking ahead, the potential and vitality of China's pharmaceutical industry will continue to be unleashed, forming strong supports with various advantages, and the long-term optimistic trend of the industry will not be changed. Adapting to the everchanging environment, CMS adheres to doing the “difficult yet right” things, assuming a new mission in innovation and enhancing its development resilience. The Group strives to make breakthroughs in each business, and strengthens its advantages in the specialty therapeutic field.

In the future, the Group will continue to focus on differentiated innovation driven by clinical needs, actively explore opportunities for industrial collaboration, independent R&D and advantages integrations. While mutually benefiting from its global innovation partners, the Group will continually expand innovative portfolio that meets clinical needs and with academic value and strong commercial competitiveness. Through effective management of the entire lifecycle of innovative products, the Group will accelerate the clinical development and registration process, to facilitate the continue approvals and launches of innovative products.

The Group will actively explore innovative promotion models and improve professional competence of its employees, to vigorously promote the in-depth development of its three advantageous specialty business divisions: cardio-cerebrovascular/gastroenterology, dermatology/medical aesthetics, and ophthalmology. Meanwhile, the Group will continue to invest in digital and intelligent transformation, iteratively upgrade the refined operating systems with compliance, and build a more agile operating organization through streamlining and reshaping of business processes.

Simultaneously, CMS will continue to focus on its emerging markets international development strategy, starting with Southeast Asia. Focusing on the unmet clinical medication needs in Southeast Asia and other emerging markets, it will continue to explore and seize the industrial collaboration opportunities with a holistic perspective, constantly solidifying the one-stop platform integrating “R&D, Manufacturing and Marketing”. Meanwhile, the Group will continue to expand its international business to developing countries including the Middle East and North Africa, gradually establishing a commercialization network accessible to emerging markets worldwide, empowering Chinese and global pharmaceutical companies to realize their emerging markets focused globalization strategy and continuously building a collaborative, mutually beneficial pharmaceutical innovation ecosystem.

With thorough preparations, the Group will meet the higher requirements posed by the complex and ever-changing external environment for its business development. Looking ahead, the Group is ready to unleash its potential and will fully embrace a brighter future full of opportunities. By leveraging the in-depth development of differentiated innovative products, the specialty-focused and efficient commercialization platform, and the international business development in Southeast Asia and other

emerging markets, the Group will maintain its high quality and sustained development. The Group will firmly seize the strategic policy opportunity brought by building the "Healthy China", closely follow the industry trends and move forward to enhance the quality of life through innovative biotechnology to further safeguard human health.

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 decreased by 12.4% from RMB9,150.3 million for the year ended 31 December 2022 to RMB8,013.3 million for the year ended 31 December 2023. In the case that all medicines were directly sold by the Group, turnover decreased by 9.8% to RMB9,472.2 million for the year ended 31 December 2023 from RMB10,497.5 million for the year ended 31 December 2022, mainly due to a decrease of RMB1,708.7 million in sales of three pharmaceutical products resulted from the impact of implementation of the National Volume Based Procurement ("National VBP"), and the sales of these three pharmaceutical products for the second half of the year declined approximately 50% compared with the second half of last year.

Gross Profit and Gross Profit Margin

Gross profit decreased by 13.2% from RMB7,035.8 million for the year ended 31 December 2022 to RMB6,109.2 million for the year ended 31 December 2023; in the case that all medicines were directly sold by the Group, gross profit decreased by 12.4% to RMB6,053.7 million for the year ended 31 December 2023 from RMB6,910.5 million for the year ended 31 December 2022, primarily reflecting a decrease in turnover. Gross profit margin decreased by 0.7 percentage point to 76.2% for the year ended 31 December 2023 from 76.9% for the year ended 31 December 2022; in the case that all medicines were directly sold by the Group, gross profit margin decreased by 1.9 percentage points to 63.9% for the year ended 31 December 2023 from 65.8% for the year ended 31 December 2022, primarily reflecting a decrease in selling prices of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Selling Expenses

Selling expenses decreased by 7.7% from RMB2,721.3 million for the year ended 31 December 2022 to RMB2,511.3 million for the year ended 31 December 2023; selling expenses as a percentage of turnover increased by 1.6 percentage points to 31.3% for the year ended 31 December 2023 from 29.7% for the year ended 31 December 2022. In the case that all medicines were directly sold by the Group, selling expenses as a percentage of turnover increased by 1.2 percentage points to 25.9% for the year ended 31 December 2023 from 24.7% for the year ended 31 December 2022, mainly due to an increase in resources injected to develop new businesses, and a decrease in sales of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Administrative Expenses

Administrative expenses increased by 3.1% from RMB636.6 million for the year ended 31 December 2022 to RMB656.6 million for the year ended 31 December 2023; administrative expenses as a percentage of turnover increased by 1.2 percentage points to 8.2% for the year ended 31 December 2023 from 7.0% for the year ended 31 December 2022. In the case that all medicines were directly sold by the Group, administrative expenses as a percentage of turnover increased by 0.8 percentage point to 6.9% for the year ended 31 December 2023 from 6.1% for the year ended 31 December 2022, primarily reflecting an increase in administrative maintenance expenses required by the development of new businesses, and a decrease in sales of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Research and Development Expenditures

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

Total research and development expenditures increased by 11.7% from RMB730.6 million for the year ended 31 December 2022 to RMB815.9 million for the year ended 31 December 2023. Total research and development expenditures as a percentage of turnover for the year ended 31 December 2023 was 10.2%, representing an increase of 2.2 percentage points from 8.0% for the year ended 31 December 2022. In the case that all medicines were directly sold by the Group, total research and development expenditures as a percentage of turnover increased by 1.6 percentage points to 8.6% for the year ended 31 December 2023 from 7.0% for the year ended 31 December 2022, primarily reflecting increases in research and development activities, and acquisition of equities in research and development companies.

Research and development expenses increased by 55.6% from RMB125.4 million for the year ended 31 December 2022 to RMB195.1 million for the year ended 31 December 2023. Research and development expenses as a percentage of turnover for the year ended 31 December 2023 was 2.4%, representing an increase of 1.0 percentage point from 1.4% for the year ended 31 December 2022. 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 2023 was 2.1%, representing an increase of 0.9 percentage point from 1.2% for the year ended 31 December 2022.

Capital payments (set out in the table below) increased by 2.6% from RMB605.2 million for the year ended 31 December 2022 to RMB620.7 million for the year ended 31 December 2023. Such capital payments as a percentage of turnover for the year ended 31 December 2023 was 7.7%, representing an increase of 1.1 percentage points from 6.6% for the year ended 31 December 2022. In the case that all medicines were directly sold by the Group, such capital payments as a percentage of turnover increased by 0.8 percentage point to 6.6% for the year ended 31 December 2023 from 5.8% for the year ended 31 December 2022.

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Payment for acquisition of equity investments in research and development companies	344,975	98,577
Payment for acquisition and development of product rights	275,769	506,585
	620,744	605,162

Other Income

Other income increased by 16.9% from RMB198.6 million for the year ended 31 December 2022 to RMB232.1 million for the year ended 31 December 2023, mainly due to an increase in interest income.

Other Gains and Losses

Other gains and losses decreased by 7,909.5% from a loss of RMB4.2 million for the year ended 31 December 2022 to a loss of RMB336.0 million for the year ended 31 December 2023, mainly due to an increase in provisions of impairment losses on related assets.

Share of Result of Associates

Share of result of associates increased by 322.6% from RMB65.1 million for the year ended 31 December 2022 to RMB275.0 million for year ended 31 December 2023, mainly reflecting an increase in net profit of associates.

Finance Costs

Finance costs decreased by 5.8% from RMB49.1 million for the year ended 31 December 2022 to RMB46.3 million for the year ended 31 December 2023, mainly due to a decrease in bank borrowings used.

Income Tax Expense

Income tax expense increased by 0.6% from RMB486.7 million for the year ended 31 December 2022 to RMB489.3 million for the year ended 31 December 2023, mainly due to an increase in withholding tax arising on intercompany dividend distribution.

Profit for the Year

Profit for the year decreased by 27.2% from RMB3,276.2 million for the year ended 31 December 2022 to RMB2,384.4 million for the year ended 31 December 2023; normalized profit for the year decreased by 18.8% from RMB3,338.3 million for the year ended 31 December 2022 to RMB2,709.3 million for the year ended 31 December 2023, mainly due to a decrease in turnover and an increase in expenses.

Inventories

Inventories increased by 33.6% from RMB477.2 million as at 31 December 2022 to RMB637.6 million as at 31 December 2023. Average inventory turnover days increased from 82 days for the year ended 31 December 2022 to 107 days for the year ended 31 December 2023, mainly reflecting a higher stock level and a decrease in sales volume of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Trade Receivables

Trade receivables decreased by 20.5% from RMB1,442.0 million as at 31 December 2022 to RMB1,146.7 million as at 31 December 2023. Average trade receivables turnover days increased to 76 days for the year ended 31 December 2023 from 70 days for the year ended 31 December 2022, mainly due to a decrease in sales of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Trade Payables

Trade payables decreased by 20.4% from RMB178.0 million as at 31 December 2022 to RMB141.7 million as at 31 December 2023. Average trade payables turnover days increased to 31 days for the year ended 31 December 2023 from 28 days for the year ended 31 December 2022, mainly reflecting a decrease in sales volume of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Liquidity and Financial Resources

As at 31 December 2023, the Group's bank balances and cash amounted to RMB4,311.1 million while readily realizable bank acceptance bills amounted to RMB181.0 million. As at 31 December 2022, the 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 2023, the cash and cash equivalents of the Group were mainly denominated in RMB, United States Dollar ("US$"), Euro ("EUR") and Hong Kong Dollars ("HK$").

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

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Net cash from operating activities	2,502,853	3,553,243
Net cash used in investing activities	(442,276)	(1,178,202)
Net cash used in financing activities	(2,125,024)	(1,399,914)
Net (decrease) increase in cash and cash equivalent	(64,447)	975,127
Cash and cash equivalent at beginning of the year	4,376,376	3,385,739
Effect of foreign exchange rate changes	(871)	15,510
Cash and cash equivalent at end of the year	4,311,058	4,376,376

Net cash from operating activities

For the year ended 31 December 2023, the Group's net cash generated from operating activities was RMB2,502.9 million compared with RMB3,553.2 million for the year ended 31 December 2022, a decrease of 29.6% mainly due to a decrease in operating profit of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Net cash used in investing activities

For the year ended 31 December 2023, the Group's net cash used in investing activities was RMB442.3 million compared with RMB1,178.2 million for the year ended 31 December 2022, a decrease of 62.5% mainly due to a decrease in purchase of product rights, and an increase in dividend received from associates.

Net cash used in financing activities

For the year ended 31 December 2023, the Group's net cash used in financing activities was RMB2,125.0 million compared with RMB1,399.9 million for the year ended 31 December 2022, an increase of 51.8% mainly due to an increase in repayment of bank borrowings.

Net Current Assets

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current Assets		
Inventories	637,636	477,206
Financial assets at fair value through profit or loss	1,832,258	1,491,336
Trade receivables	1,146,738	1,442,035
Other receivables and prepayments	421,849	601,909
Loan receivable	35,945	70,168
Tax recoverable	784	253
Derivative financial instruments	-	42,021
Amount due from an associate	408,167	328,072
Bank balances and cash	4,311,058	4,376,376
	8,794,435	8,829,376
Current Liabilities		
Trade payables	141,664	178,009
Other payables	295,312	385,185
Lease liabilities	15,416	15,804
Contract liabilities	12,733	21,614
Bank borrowings	1,269,650	1,783,337
Derivative financial instruments	17,227	562
Deferred consideration payables	1,000	1,000
Obligation arising from put options	-	163,773
Tax liabilities	295,784	327,819
	2,048,786	2,877,103
Net current assets	6,745,649	5,952,273

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	
	2023	2022
	RMB'000	RMB'000
Deposits for acquisition of intangible assets	275,769	506,585
Purchase of land use right	14,701	-
Purchase of property, plant and equipment	27,490	18,336
	317,960	524,921

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	
	2023	2022
	RMB'000	RMB'000
Interest bearing bank borrowings	1,269,650	1,783,337

The Group had bank borrowings of RMB1,269.7 million as at 31 December 2023 (31 December 2022: RMB1,783.3 million).

As said above, along with an increase in the Group's bank borrowings, the Group's gearing ratio, calculated as bank borrowings divided by total assets, decreased by 2.8 percentage points to 7.2% as at 31 December 2023 from 10.0% as at 31 December 2022.

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$, EUR and HK$. 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 2023, 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 2023, the Group had no pledge of assets.

Contingent Liabilities

As at 31 December 2023, the Group had no material contingent liabilities.

Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

In February 2023, in order to focus more on its core business, the Group was deemed to dispose of its subsidiary Hebei Xinglong Xili Pharmaceutical Co., Ltd., which was transferred to a joint venture of the Group at the same date.

Save as disclosed above, there has been no acquisition or disposal of subsidiaries, associates or joint ventures by the Group during the year ended 31 December 2023.

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 of directors (the "Board"), an executive director and a controlling shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "SEHK") (the "Listing Rules")) of the Company: (i) ceases to directly or indirectly own more than 30% of the total issued shares (of each class) in the Company; or (ii)ceases to directly or indirectly be the single largest shareholder in the issued shares (of each class) in the Company, the lender may, by not less than 30 days' notice in advance to the Borrower, cancel all commitments under the 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 2023, Mr. Lam Kong (directly and indirectly) held approximately 46.39% of the total issued ordinary share capital of the Company.

The SC Facility and the DBS Facility were paid off during the year ended 31 December 2023.

Dividend

For the year ended 31 December 2023, the Group paid an interim dividend for 2023 and a final dividend for 2022 of RMB768.5 million and RMB591.9 million, respectively. 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.

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

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 C1 to the Listing Rules from 1 January 2023 to 31 December 2023, 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 Group's management 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 2023 of the Company have been reviewed by the Audit Committee and approved by the Board with recommendation of the Audit Committee. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2023, the Audit Committee held three meetings. At the meetings, the Audit Committee reviewed the annual results for 2022, the interim results for 2023, the activities of the Group's risk management and internal control functions and also discussed 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 2023
Mr. Fung Ching Simon (Chairman)	3/3
Mr. Leung Chong Shun	2/3
Ms. Luo Laura Ying	3/3

The annual results announcement and annual report for the year ended 31 December 2023 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 RMB0.3134 (equivalent to HK$0.342) per ordinary share of the Company (the "Share") for the six months ended 30 June 2023. The Board is pleased to recommend a final dividend of RMB0.0783 (equivalent to HK$0.086) per Share for the year ended 31 December 2023 to shareholders whose names appear on the register of members of the Company after market closes on Tuesday, 14 May 2024. The register of members of the Company will be closed on Thursday, 16 May 2024. The final dividend will be paid to shareholders in Hong Kong dollars on about Thursday, 23 May 2024 after the shareholders' approval at the annual general meeting of the Company scheduled on Thursday, 9 May 2024 (the "AGM").

Closure of Register of Members

The register of members of the Company will be closed from Friday, 3 May 2024 to Thursday, 9 May 2024 (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 Thursday, 2 May 2024.

The register of members of the Company will be closed on Thursday, 16 May 2024, 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 Friday, 10 May 2024. 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 Tuesday, 14 May 2024.

Directors' Securities Transactions

The Company adopted the Written Guidelines for Securities Transactions by Directors and Relevant Employees (the "Written Guidelines") on no less exacting terms than the Model Code for Securities

Transactions by Directors of Listed Issuers as set out in Appendix C3 of the Listing Rules as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Written Guidelines 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 Written Guidelines for the year ended 31 December 2023. The Written Guidelines also apply 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 the Written Guidelines. No incident of non-compliance with the Written 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 2023 Annual Report of the Company. The 2023 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 third 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 fourth 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 to mandate the electronic dissemination of corporate communications by listed issuers to their securities holders, which took effect on 31 December 2023. The Board proposes to make the Proposed Amendments to the Existing Memorandum and Articles of Association to, inter alia, (i) bring the Existing Memorandum and Articles of Association up to date and better apply the latest regulatory requirements in relation to the expanded paperless listing regime and the electronic dissemination of corporate communications by listed issuers and the relevant amendments made to the Listing Rules which took effect on 31 December 2023; and (ii) 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 9 May 2024. 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 dispatched 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, 27 March 2024

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.