A Hutchison Whampoa Company

CHI-MED

HUTCHISON CHINA MEDITECH LIMITED
和黄中国医药科技有限公司
(Incorporated in the Cayman Islands with limited liability)

2014 Annual Report

Corporate Information

BOARD OF DIRECTORS

Chairman
Simon TO, BSc, ACGI, MBA

Executive Directors
Christian HOGG, BSc, MBA
Chief Executive Officer
Johnny CHENG, BEc, CA
Chief Financial Officer

Non-executive Directors
Shigeru ENDO, BA
Christian SALBAING, BA, LLL, JD
Edith SHIH, BSE, MA, MA, EdM, Solicitor, FCIS, FCS(PE)

Independent Non-executive Directors
Christopher NASH, BSc, MBA, ACGI
Senior Independent Director
Michael HOWELL, MA, MBA, HonFCGI
Christopher HUANG, BA, BMBCh, PhD, DM, DSc, FSB

AUDIT COMMITTEE
Michael HOWELL *(Chairman)*
Christopher HUANG
Christopher NASH

REMUNERATION COMMITTEE
Simon TO *(Chairman)*
Michael HOWELL
Christopher NASH

TECHNICAL COMMITTEE
Christopher HUANG *(Chairman)*
Simon TO
Christian HOGG

COMPANY SECRETARY
Edith SHIH

NOMINATED ADVISER
Panmure Gordon (UK) Limited

CORPORATE BROKERS
Panmure Gordon (UK) Limited
UBS Limited

AUDITOR
PricewaterhouseCoopers

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* This Annual Report is in English and Chinese. In case of any inconsistency, the English version shall prevail.

Our Business

Our two main divisions are rapidly converging towards our medium-term objective.

Drug R&D Division
the leading innovator in oncology & immunology in China

China Healthcare Division
a powerful commercial platform in China

A large-scale China-based pharmaceutical company
a leader in China oncology

Highlights

Consolidated Group Results

- Revenue up 100% to $91.8 million (2013: $46.0m).
- Net profit attributable to Chi-Med equity holder of $5.4 million (2013: $5.9m) as Chi-Med continues to balance a dramatic increase in clinical trial activity on seven new drug candidates with rapidly increasing profit in the China Healthcare Division.
- Cash positive overall during 2014 with Group level cash and bank balances of $51.1 million (31 December 2013: $46.9m). In addition, cash and bank balances held at the joint venture ("JV") level of $77.0 million (31 December 2013: $99.0m) which is being used to fund construction of two new large-scale factories.

Drug R&D Division – Innovation platform with potential to yield multiple new drug approvals

- Revenue $24.8 million (2013: $29.5m) resulting mainly from milestone and service income from partners AstraZeneca AB (Publ) ("AstraZeneca"), Eli Lilly and Company ("Lilly"), Janssen Pharmaceuticals, Inc., the pharmaceutical division of Johnson & Johnson ("Janssen"), and Nestlé Health Science SA ("Nestlé Health Science").
- Net loss attributable to Chi-Med equity holders of $9.7 million (2013: -$2.4m) due primarily to the rapid expansion of clinical trial activity on the seven clinical-stage drug candidates of Hutchison MediPharma Limited ("HMP"). A total of 16 clinical trials are underway, compared to 7 twelve months ago, with total clinical trial spending in 2014 of $44.8 million (2013: $30.1m).
- AZD6094 began eight Phase Ib/II studies in 2014 and early 2015 all in stratified c-Met aberrant patient populations in possible Breakthrough Therapy indications. AZD6094 has already achieved partial response in several indications, thereby increasing its chances of becoming the global first-in-class c-Met inhibitor.
- Fruquintinib completed Phase Ib colorectal cancer study, with highly encouraging efficacy and safety profile. Also in colorectal cancer in China we completed enrolment in a Phase II study, which we now judge is highly probable to meet required success criteria, and began a Phase III registration study in late 2014. Gastric and lung cancer Phase Ib/II studies also began in 2014 with rapid progress.
- Sulfatinib completed Phase I study with a 32% objective response rate ("ORR") among neuroendocrine tumour ("NET") patients; by far the highest ever ORR observed globally to-date in NET patients on a tolerable therapy. Consequently, a Phase Ib NET study started in late 2014 and a Phase II/III clinical trial application in China has been submitted. Sulfatinib will be the first un-partnered targeted therapy that Chi-Med will develop in the United States ("US") and as such an Investigational New Drug ("IND") application has recently been submitted in the US. A short pharmacokinetics bridging study in non-Asian patients on sulfatinib will start in early 2015 followed by a Phase II study in NET patients by mid-year.
- HMPL-523, our novel, potential first-in-class, Syk inhibitor for inflammation and oncology, began Phase I trial in Australia in mid-2014 and will complete in 2015. Phase I success will make HMPL-523 a candidate for licensing – several potential global partners await this critical data.

All figures are reported in US dollars unless otherwise stated.

Highlights

Drug R&D Division – Innovation platform with potential to yield multiple new drug approvals (Continued)

- Interim analysis on HMPL-004 NATRUL-3 Phase III study showed, despite a solid safety profile, no overall efficacy benefit was observed, so the study was terminated. Subsequent sub-group analysis shows a strong trend to efficacy in remission in the high-dose 2,400mg/day treatment arm among 5-ASA refractory patients. Nestlé Health Science and Chi-Med are currently reviewing data. Decision on next steps to be made in 2015.
- On-track and on budget to start fruquintinib production at new Suzhou factory in mid-2015, a requirement for Phase III registration studies. This facility could also produce AZD6094 and sulfatinib in due course.
- Advanced both differentiated epidermal growth factor receptor ("EGFR") compounds in clinical trials, epitinib into Phase Ib and theliatinib into late Phase I.
- Progressed two late stage preclinical candidates, a PI3Kδ inhibitor (HMPL-689) and a selective fibroblast growth factor receptor ("FGFR") inhibitor (HMPL-453), into regulatory toxicity study. Both compounds expected to start Phase I human trials in late 2015 or early 2016.

China Healthcare Division – Record revenue and profit performance

- Sales in the China Healthcare Division's subsidiaries and JVs were up 29% to $509.4 million (2013: $394.6m). Third party drug distribution and commercialisation businesses were up 93% to $99.9 million due to the commencement of operations of Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Company Limited ("Hutchison Sinopharm"). Growth in own, non-third party, business was up 19% to $409.5 million with cardiovascular and secondary over-the-counter ("OTC") drug products performing well. New revenue streams also emerged in 2014 from deeper operational integration and synergy with Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. ("Guangzhou Pharmaceutical").
- Net profit attributable to Chi-Med equity holders was up 21% to $22.6 million (2013: $18.6m) resulting from normalisation of certain raw material costs as well as volume scale efficiencies.
- Established a wholly-owned Good Supply Practice ("GSP") distribution company under Shanghai Hutchison Pharmaceuticals Limited ("SHPL") and then completed an exclusive marketing deal for SHPL to take over six Shanghai Pharmaceuticals Holding Co., Ltd. ("Shanghai Pharmaceuticals") drug products in China.
- Hutchison Sinopharm signed exclusive deals to commercialise Merck Serono's Concor® (beta-blocker) in several provinces in China; and AstraZeneca's Seroquel® (bi-polar disorder/schizophrenia) in all China.
- On-track and on budget to complete new factories for both SHPL and Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited ("HBYS") during 2015 which will increase production capacity by three-fold and allow for release of significant value from the property of our existing sites, which are close to the city centres of Shanghai and Guangzhou.

Consumer Products Division – Focused on profitable activities

- Sales up 6% to $13.2 million (2013: $12.5m) driven by progress on the expansion of the range of Hutchison Hain Organic Holdings Limited ("HHO") products in Asia.
- Net profit attributable to Chi-Med equity holders of $1.3 million (2013: net loss of $1.9m).
- HHO won an arbitration award of $2.5 million against Swiss supplier of infant formula, $1.0 million of which is attributable to Chi-Med equity holders. To re-launch Earth's Best® organic formula in China in mid-2015 using The Hain Celestial Group, Inc.'s (NASDAQ: HAIN) ("Hain Celestial") reliable US-based supplier.

Chairman's Statement

Simon To
Chairman

Each year Chi-Med takes on greater challenges in the field of innovation and commercial execution and succeeds in the vast majority of its endeavours through hard work and commitment.

Each year Chi-Med takes on greater challenges in the field of innovation and commercial execution and succeeds in the vast majority of its endeavours through hard work and commitment. This was certainly the case in 2014, a year in which we generated record revenues and profit in China and made tremendous strides across all our Divisions.

Group Strategy

Our over-riding objective is to create a large-scale, fully integrated and highly profitable pharmaceutical company based in China providing innovations and products to the China and the global markets. We believe that this is an objective we are now on-track to achieve during the next five years.

For many years we have been clear that this means focusing on two, now rapidly converging, priorities: (1) sustained and un-interrupted investment in drug innovation through the Drug R&D Division; and (2) establishment of deep commercial know-how and pharmaceutical sales and marketing infrastructure in China through our China Healthcare Division.

Our early decision to collaborate with powerful industry partners to help accelerate and improve execution in our selected areas of strategic focus has proven very successful.

In our Drug R&D Division, AstraZeneca, Janssen, Lilly and Nestlé Health Science have brought not just considerable financial resource to our collaborations, but also invaluable technical expertise and organisational resources.

In the China Healthcare Division, our three Division partners – Shanghai Pharmaceuticals, Guangzhou Pharmaceutical, and Sinopharm Group Co. Ltd. ("Sinopharm") – are among the largest local pharmaceutical companies in China. These partnerships have given us industry recognition and a portfolio of brands and products upon which our commercial and manufacturing network are built.

In our Consumer Products Division, the partnership with Hain Celestial has brought us a massive range of relevant and unique health-related consumer products.

Chairman's Statement

Revenue
(% change 2014 vs. 2013)
+100%

Net Profit Attributable to Equity Holders
(US$ million)
5.4

We have also adopted a common sense approach to financing to provide continuity and stability throughout the past 15 years.

We set out to build a profitable and cash generative China Healthcare Division that could help fund our long-term investments in HMP's innovation and, in this, we have succeeded.

We have also shared risks on some of our clinical drug candidates and since 2010 have received about $138.2 million, including $32.8 million in 2014, in external cash from our global partners. These partners have also enabled us to progress with them a portfolio of clinical trials costing an estimated $44.8 million in 2014.

And, from time to time, we have accessed low-cost borrowing, sometimes with guarantees from Hutchison Whampoa Limited ("Hutchison Whampoa"), to bridge between clinical milestones and external collaboration payments.

We will continue to apply this practical approach to financing until material milestone, royalty or operating profit streams emerge from our approved HMP drugs. We will look at alternative forms of finance which might assist in the achievement of our objectives.

Drug R&D Division

We have built our Drug R&D Division, HMP, into China's leading end-to-end oncology and immunology drug R&D operation. Stability in its purpose and funding has enabled HMP to build and maintain a unique and highly productive discovery team, which has built a broad and diversified pipeline of new drug candidates.

Our strong belief is that the way to achieve long-term success in the pharmaceutical industry is focus on addressing unmet medical and patient needs through breakthrough innovation. The focus of our Drug R&D Division for over a decade has been on creating truly innovative, first-in-class or best-in-class, drug candidates in the selected therapeutic areas of oncology and immunology which have major China and global potential. We are currently progressing a portfolio of six small molecule targeted therapies in 16 clinical studies in China and around the world, and in addition, one botanical drug candidate.

The approval and market launch of these innovations is beginning to become a near term reality. Subject to success in our current trials, we can expect New Drug Application ("NDA") submissions for AZD6094 and fruquintinib to the US and China Food and Drug Administration ("FDA") respectively to begin as early as 2016.

Equally important as our exciting clinical drug candidates to our long-term success is the strength of our drug discovery platform. Our team of about 250 full time scientists and staff is focused on discovering the next innovations that HMP will bring to the clinic over the coming years. The discovery effort is very active and we continue to expect it to yield one to two high potential new candidates each year.

The market for targeted therapies has grown dramatically worldwide over the past decade reaching $41.8 billion, or 46% of the total market for cancer therapies. China represents a highly attractive opportunity in the area of targeted therapies with enormous unmet medical need driven by the almost 3.5 million new cancer patients per year. We believe our position as the leading innovator in oncology in China could lift Chi-Med to become a market leader in this field over the next decade.

China Healthcare Division

Our China Healthcare Division is now a well-established, stable and diversified China pharmaceuticals operation with increasingly exciting growth prospects.

It competes in the domestic China pharmaceutical market, which recorded a compound annual growth rate of approximately 20% from 2005 to 2013 behind reforms that have increased Central Government healthcare spending ten-fold from approximately $14.1 billion in 2005 to approximately $147.2 billion in 2013. Looking forward, this rapid growth is set to continue as China continues to widen and deepen its State Medical Insurance Schemes and catches up with the developed world, which spends 20 to 30 times more in terms of per capita healthcare spending.

The own-brand products in our China Healthcare Division have major operational scale. They

manufacture and sell about 4.2 billion doses of medicines a year through our well-established Good Manufacturing Practice ("GMP") manufacturing base. This has enabled us, over the past decade, to build a world-class commercial organisation of nearly 3,000 people covering over 600 cities and towns, detailing drugs to over 80,000 physicians in about 13,500 hospitals, in both the China prescription and the OTC drug markets.

We expect our existing own-brand products to continue to grow sales and profit in line with the broader pharmaceutical market in China.

In addition, over the past two years, we have restructured our China Healthcare Division to add a new and very exciting source of incremental revenue and profit. By establishing both Hutchison Sinopharm and our new entity, Shanghai Shangyao Hutchison Whampoa GSP Company Limited ("SHPL GSP"), in 2014, we have now unlocked Chi-Med's commercial infrastructure in China. For the first time, we can commercialise third party products, the margins on which can be almost as attractive as manufacturing.

Our commercial capability is well recognised in the pharmaceutical industry in China and it is attractive to third parties as evidenced by our recent commercial deals with Merck Serono on Concor®, AstraZeneca on Seroquel®, and Shanghai Pharmaceuticals on six new, mainly prescription, drug products.

We believe that these macro trends in the China pharmaceutical industry, combined with our competitive advantages and the realisation of significant value in our property portfolio, will provide an increasingly significant source of profit and cash flows.

Consumer Products Division

Our Consumer Products Division enables Chi-Med to capture part of the growing consumer trend towards healthy living and to capitalise on the considerable synergies with the broader Hutchison Whampoa group in consumer products. We are focused on accelerating the future growth of our partnership with Hain Celestial and our access to the over 11,400 retail store and distribution network of Hutchison Whampoa. Last year, our Consumer Products Division achieved net profitability and in 2015, we will re-enter the Chinese infant formula market, a market which we continue to believe represents a great opportunity.

Cash and Finance

We continue to maintain a solid cash position. At Chi-Med group-level, we ended 2014 with cash and bank balances of $51.1 million (2013: $46.9m) and unutilised bank loan facilities of $8.5 million (2013: $10.3m). Chi-Med group-level bank loans totalled $53.2 million from: (1) a $26.3 million 3-year revolving loan facility from HSBC (2013-2015); and (2) a $26.9 million 4-year term loan from Scotiabank (Hong Kong) Limited, guaranteed by Hutchison Whampoa, and expiring in June 2018. Consequently, the group-level net cash position at end 2014 was -$2.1 million (end 2013: -$4.6m).

Not included in our group-level numbers is the cash held in our JVs – SHPL, HBYS, and Nutrition Science Partners Limited ("NSP"), our JV with Nestlé Health Science. In aggregate, these held $77.0 million in cash and bank balances (2013: $99.0m) at the end of 2014. The JVs carry $22.6 million bank debt (2013: $0.8m). The aggregate $43.8 million use of cash at the JV-level during 2014 was driven in large part by the new factory construction projects at SHPL and HBYS, which are in full swing. Upon completion, these new factories are designed to increase production capacity in both JVs by approximately three-fold. This will also allow us to release substantial value from compensation resulting from vacating our existing sites as well as benefit from a reduction in contract manufacturing on our OTC drug business.

Dividend

The Chi-Med Board (the "Board") continues to believe we can create greater shareholder value by investing in the growth opportunities we see and has therefore decided not to recommend a dividend for the year ended 31 December 2014.

The Board

The Board continues to exercise good corporate governance and our Independent Non-executive Directors bring a wealth of expertise and experience. They have made, and continue to make, a valuable contribution to the evolution of Chi-Med. I very much appreciate their involvement and I thank them all for their efforts.

Our People

All that Chi-Med has achieved and will achieve is due to the dedication and expertise of its employees and, on behalf of the Board, I thank all of them. Chi-Med's potential is considerable, and we shall continue to work hard to realise this.

Simon To
Chairman

25 February 2015

Operations Review

Christian Hogg
Chief Executive Officer

In 2014, $44.8 million was invested in clinical studies on our seven novel drug candidates.

Group Results

In 2014, Chi-Med delivered high revenue growth, with consolidated Group revenue up 100% to $91.8 million (2013: $46.0m). This growth was driven primarily by the establishment of the new Hutchison Sinopharm business which recorded $50.2 million in sales (2013: nil). Group revenues are reported under IFRS11 which do not include the sales of our two major 50/50 China JVs which achieved $455.5 million in sales in 2014 (2013: $390.6m).

The Group's full year operating profit was $10.2 million (2013: $9.6m) as a result of improved operating profitability in the China Healthcare (up 21% to $24.8m) and Consumer Products Divisions (up 209% to $2.8m), but offset by increased clinical trial expenditures in the Drug R&D Division.

The Group's corporate operating loss increased to $6.4 million (2013: $6.2m) as a result of our continuing efforts to control group-level costs tightly.

Finance costs were flat at $1.5 million (2013: $1.5m) primarily reflecting the continued minor borrowing at Hutchison Healthcare Limited ("HHL") in the China Healthcare Division, and interest on a partial drawdown of Chi-Med's credit facility.

Profits attributable to minority interests were $1.9 million (2013: $1.1m) as growth in minority interest profits on the Hain Celestial and HBYS businesses more than offset the share of losses in the Drug R&D Division assigned to Mitsui & Co., Ltd. ("Mitsui").

Chi-Med's tax charge was $1.4 million (2013: $1.1m) due to a provision for the 5% withholding tax on future dividends resulting from the 2014 profits of our China Healthcare Division businesses as well as a tax on the profits of the Consumer Products Division.

In total, the Group's net profit attributable to Chi-Med equity holders was $5.4 million compared to $5.9 million in 2013 with profit per share of 10.2 US cents compared to a profit of 11.4 US cents per share in 2013.

7 clinical candidates - 10 possible Breakthrough Therapy ("BT") indications

Program	Target	Partner	Indication	Target Population / Study Details	Preclin	Phase I	Ph Ib	Phase II	Phase III
HMPL-004	Anti-TNFα	Nestlé Health Science	Ulcerative colitis (Mild-Mod.)	8 wk induction -- US/EU -- on hold			n/a		
			Ulcerative colitis (Mild-Mod.)	52 wk maintenance -- US/EU -- on hold			n/a		
			Crohn's disease	8 wk induction -- US -- on hold			n/a		
Fruquintinib	VEGF 1/2/3	Lilly	Colorectal cancer	3rd line all comers (2 studies) -- China					
			Non-small cell lung cancer	3rd line all comers -- China			n/a		
			Gastric cancer	2nd line combo w/ paclitaxel -- China					
Sulfatinib	VEGFR/FGFR		Neuroendocrine tumours	Pancreatic, lung, gastric -- China	BT				
Epitinib	EGFRm+		Non-small cell lung cancer	EGFRm +ve w/ brain mets. -- China	BT				
Theliatinib	EGFR WT		Oesophageal, solid tumours	China					
AZD6094 (savolitinib / volitinib)	c-Met	AstraZeneca	Papillary renal cell carcinoma	1st line -- US/Canada/EU	BT		n/a		
			Non-small cell lung cancer	EGFRm +ve combo. w/ AZD9291 -- Global	BT				
			Non-small cell lung cancer	EGFRm +ve combo. w/ gefitinib -- China	BT				
			Non-small cell lung cancer	EGFRwt + c-Met O/E monotherapy -- China	BT				
			Gastric cancer	c-Met +ve monotherapy -- China	BT				
			Gastric cancer	c-Met O/E monotherapy -- China	BT				
			Gastric cancer	c-Met +ve combo. w/ docetaxel -- China	BT				
			Gastric cancer	c-Met O/E combo. w/ docetaxel -- China	BT				
HMPL-523	Syk		RA, MS, lupus	Australia					
			Hematological cancers	Australia					
HMPL-689	PI3Kδ		Hematological cancers	Lymphoma, leukaemia					
HMPL-453	FGFR		Solid tumours	Global					Oncology
Collaboration	Novel	janssen	Inflammation	Global					Immunology

Notes: combo = in combination with; brain mets. = brain metastasis; EGFRm = epidermal growth factor receptor mutant; EGFRwt = epidermal growth factor receptor wild type; +ve = tested positive; O/E = over expression; MS = Multiple Sclerosis; RA = Rheumatoid Arthritis.

Drug Research & Development

Drug R&D Division

We established our drug R&D operation, HMP, 14 years ago and, together with finance provided by our partners and other sources, we have to-date invested approximately $255 million in its activities. In HMP, we have what is now China's leading end-to-end oncology and immunology drug R&D operation focused on creating highly innovative therapies for launch in the fast growth China market and the global market.

We assembled the HMP team over time comprising a group of the best and brightest drug research and development personnel in China who have been given a stable and supportive environment to create their innovations over a prolonged period of time. The result is a pipeline of seven clinical-stage drug candidates currently being tested in parallel in 16 different clinical studies in oncology and immunology indications, 13 of which are Phase Ib/II proof-of-concept ("PoC") studies with 10 being in potential Breakthrough Therapy indications.

This innovative new drug pipeline, in our view, has the potential over the mid-term to make Chi-Med into a large-scale pharmaceutical company and a leader in oncology in China.

Market Dynamics in Oncology:

The annual global number of new cancer cases reached 14.1 million with 8.2 million deaths recorded in 2012. The rapid expansion of the global oncology drug market which totalled $91 billion in 2013 has been driven in large part by the expansion of the targeted therapy market, including both small molecule and biologic treatments. In 2013, these represented approximately 46% ($41.8 billion) of the total oncology drug market up from 11% a decade ago.

The first targeted therapy for HER2 positive breast cancer, trastuzumab (Roche), was approved by the US FDA in 1998 and over the next 12 years from 1999 to 2010, a further 12 more targeted therapies were approved. The pace of approvals of these targeted therapies has since increased, in line with industry research and development investment, with 13 further approvals in the three years from 2011 to 2013. Approximately half of the current global targeted therapy market is vascular endothelial growth factor receptor ("VEGF"/"VEGFR") and EGFR inhibitors with bevacizumab (Roche), a humanised anti-VEGF monoclonal antibody, being the largest individual drug with sales of $7.1 billion in 2014.

Despite the increase in approved targeted therapies most of the kinome, the spectrum of over 500 human protein kinases involved in cell signalling and function, has yet to be drugged. Interestingly, 16 of the 23 approved small molecule tyrosine kinase inhibitors ("TKIs") fall into just 3 of the over 19 kinase classes (VEGFR, EGFR and Abl) classified as validated targets, leaving a very broad range of novel targets, such as c-Met, PI3K, Syk, FGFR, to be explored. Furthermore, even in cases in which TKI products exist against validated targets, there remains major opportunity to improve efficacy and tolerability through enhanced kinase selectivity (reduction of off target toxicity), dose selection, and gain approval in either new additional indications or in combinations with other agents in approved indications.

China represents a major unmet medical need in the field of oncology and consequently one of the greatest opportunities for growth and development. China alone recorded 3.5 million new cases of cancer and 2.5 million cancer deaths during 2012, representing 24.8% and 30.5% of all new cases and deaths globally, both disproportionately high as compared to the 19.7% of the world's population that China represents. Despite this major patient need, the overall Chinese oncology market, which was estimated at $7.4 billion in 2013, remains dramatically underdeveloped at just 8% of the global market. Furthermore, targeted therapies represent only 23% ($1.7 billion) of the China market, equivalent to just 4% of the global targeted therapy market.

Despite being far less developed in China than globally, targeted therapies are still the largest single sub-segment of the oncology drug market in China. The cost of targeted therapies has been the major limitation on growth. The 10 main approved targeted therapies in China, all proprietary global drugs, range in price from $2,730 per month for gefitinib (AstraZeneca) an EGFR inhibitor for non-small cell lung cancer ("NSCLC") to $16,580 per month for rituximab a targeted antibody therapy for Non-Hodgkin's lymphoma. Given that almost all targeted therapies are global drugs, they are to a great extent restricted to global pricing policy thereby pricing themselves beyond the reach of the broad patient population in China.

Beyond targeted therapies, the vast majority of cancer patients in China are limited to traditional generic chemotherapy agents, manufactured by many Chinese pharmaceutical companies and available at generally accessible cost. These agents fall into a few key categories such as anti-metabolites (pemextred, capecitabine, gemcitabine, etc.) which represent 20% of the oncology market; plant alkaloids (paclitaxel, docetaxel etc.) also 20% of the market; DNA-damaging agents (oxaplatin, temozolomide, nedaplatin etc.) at 11% of the market; and finally hormones (letrozole, bicalutamide, anastrozole etc.) making up 6% of the market.

Drug Research & Development

HMP Research and Development Strategy:

HMP is set up to support and fund research and development of our drug candidates against targets, generally tyrosine kinases (proteins or enzymes), associated with the pathogenesis of cancer or inflammation. We employ a diversified, risk-balanced, portfolio approach focusing on three main categories: (1) synthetic compounds against novel targets with global first-in-class potential, which includes AZD6094 (c-Met), HMPL-523 (Syk), HMPL-453 (FGFR), and our collaboration compound with Janssen in inflammation; (2) synthetic compounds against validated targets with clear differentiation to potentially be a best-in-class/next generation therapy in their respective categories, including fruquintinib/sulfatinib (VEGFR), epitinib/theliatinib (EGFR) and HMPL-689 (PI3Kδ); and (3) botanical drugs against multiple targets, including HMPL-004 (TNFα, IL1-β, etc.) and the research currently being conducted within the NSP JV.

For all our drug candidates, we conduct all pre-clinical work in China, leveraging both our deep talent pool and efficient cost structure. Our strategy is to rapidly move them through early clinical development in China to completion of Phase Ib/II PoC. The large patient population in China makes it feasible to explore multiple indications in parallel thereby significantly improving the probability of success. Once positive PoC has been demonstrated, we can move into registration studies in these proven indications at speed in China.

If our candidates are only able to establish non-inferiority versus existing approved global products, our fallback is to bring them to market in China at pricing that will be accessible to the broad patient population. If however, the drug candidate exhibits global potential, resulting from superior PoC data, we will move it into global trials either by ourselves or in partnership in order to maximise value, particularly in indications that have Breakthrough Therapy potential.

In 2012 the US Congress passed the Food and Drug Administration Safety and Innovation Act, which incorporated the Advancing Breakthrough Therapies for Patients Act ("ABTPA"). ABTPA is intended to expedite clinical development of new, potential "breakthrough" drugs or treatments that show dramatic responses in early-phase studies. Using this regulatory pathway, once a promising new drug candidate is designated as a Breakthrough Therapy, the US FDA and the sponsor company would collaborate to determine the best path forward to abbreviate the traditional three-phase approach to drug development. The main criteria for a new drug candidate to qualify for Breakthrough Therapy designation are: (1) a rare disease indication which is life threatening and currently untreatable or has limited treatment options; (2) clear understanding of the molecular pathways of the disease thereby allowing for effective patient selection/stratification; and (3) unprecedented efficacy, the substantial treatment effect in large enough patient pool in early clinical development.

The impact of Breakthrough Therapy designation can be transformational in terms of time to launch for a new drug candidate that is either highly effective against a novel target (first-in-class); or highly differentiated and superior against a validated target (best-in-class). The US FDA is showing strong commitment to implement the ABTPA as evidenced by the increasing amount of novel drug candidates that have been granted Breakthrough Therapy designation and subsequently approved, with three in 2013 and ten in 2014.

All clinical candidates of HMP have been designed to be either first-in-class or best-in-class, and several of them are showing high potential to meet the Breakthrough Therapy qualification criteria. HMP is currently conducting Phase Ib/II PoC studies primarily on AZD6094, epitinib and sulfatinib in 10 different potential Breakthrough Therapy indications.

In order to allow HMP to progress such a broad portfolio of clinical drug candidates, at speed and across multiple indications, we have partnered with leading global pharmaceutical companies. These partnerships cover three clinical drug candidates (AZD6094, fruquintinib and HMPL-004) and one late-stage preclinical drug candidate (the Janssen inflammation compound). We retain a significant part of the upside on these four high potential candidates while dramatically reducing the financial risk to HMP.

In aggregate, we had received $77 million in upfront payments, milestones, equity injections, and shareholder loans received as at 31 December 2014. And subject to clinical success, HMP and NSP (our 50% held JV with Nestlé Health Science) will receive: up to a further $471 million is scheduled in future development and regulatory approval milestones; up to $145 million in further option payments and up to $560 million in commercial milestones. Beyond this, royalties on net sales will be at a customary level.

Based on the clinical trial plans agreed for the three development-stage collaborations, the total aggregate global investment in AZD6094, fruquintinib and HMPL-004 is estimated at well over $500 million with our partners funding the vast majority of these costs.

2014 Drug R&D Division Financial Performance:

HMP revenues were $24.8 million in 2014 (2013: $29.5m) reflecting income from collaboration and licensing deals in the form of milestone payments, and service revenue from Janssen, AstraZeneca, Lilly and NSP. Net loss attributable to Chi-Med equity holders was $9.7 million (2013: -$2.4m), reflecting the considerably broadened range of clinical activities at HMP. Clinical trial spending during the period by HMP, NSP and its partners on our seven drug candidates totalled approximately $44.8 million (2013: $30.1m).

2014 Primary Drug R&D Division Transactions and Payments:

In May 2014, under the terms of the December 2011 AZD6094 collaboration and license agreement, AstraZeneca paid HMP a $5.0 million milestone payment linked to the start of global Phase II clinical study in the secondary indication, papillary renal cell carcinoma ("PRCC"). Also in May 2014, Mitsui made an equity injection of $3.1 million, their pro rata share of a total equity injection by Chi-Med of $21.9 million. Mitsui retains a 12.2% share in Hutchison MediPharma Holdings Limited ("HMHL"), the holding company of the Drug R&D Division. In June 2014, Nestlé Health Science injected a $5.0 million shareholder's loan into NSP, matching a shareholder's loan of the same amount made by HMHL to NSP JV.

Throughout 2014, HMP provided full-time equivalent ("FTE") services to several of its partners, Janssen (multiple research projects); NSP (botanical research in gastrointestinal disease); Lilly (management of the Fruquintinib China clinical and regulatory and manufacturing programmes); AstraZeneca (management of the AZD6094 China clinical and regulatory programme). In aggregate total FTE income from these partners was $14.3 million in 2014 (2013: $7.3m).

Product Pipeline Progress:

Oncology Portfolio: HMP has a portfolio of five clinical-stage small molecule targeted cancer drugs which are currently in a total of 15 studies: Phase I (1 study), Phase Ib (10 studies), Phase II (3 studies) and Phase III (1 study) clinical studies on multiple tumour-types. All five of our oncology clinical drug candidates have received IND approval by the China FDA through the Green Channel expedited application process, highlighting their potential and relevance for the China market.

Together, these oncology clinical drug candidates cover a broad spectrum of most prevalent solid tumours with important unmet medical needs representing significant market potential. Our next wave of oncology drug candidates continues this solid tumour focus with HMPL-453 (FGFR), but now also extends into hematologic malignancies with HMPL-523 (Syk) and HMPL-689 (PI3Kδ).

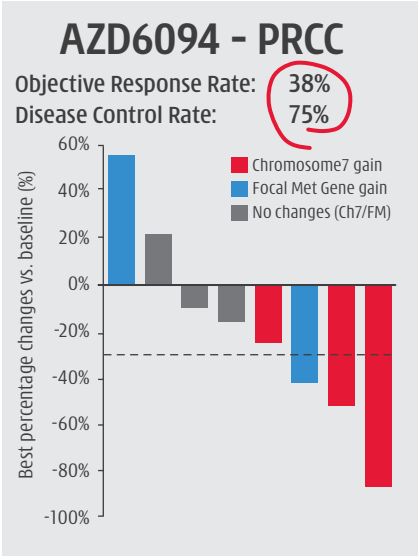
AZD6094 (HMPL-504/volitinib/savolitinib): AZD6094 is a novel targeted therapy and inhibitor of the c-Met receptor tyrosine kinase for the treatment of cancer. The c-Met, also known as hepatocyte growth factor receptor (HGFR), signalling pathway has specific roles particularly in normal mammalian growth and development; however, this pathway has been shown to function abnormally in a range of different cancers. AZD6094 was designed by HMP to minimise potential for renal toxicity, the primary issue that held back the first generation of c-Met inhibitors from gaining approval.

There are two main types of abnormal c-Met function: gene amplification; and c-Met over expression. Generally, c-Met gene amplification ("c-Met+") has been proven to be highly correlated with tumour growth in many indications including lung, stomach, colorectal, kidney (PRCC), oesophageal and brain cancer. C-Met+ however, outside of PRCC, occurs in between 1% to 20% of patients – a small, albeit important segment of the patient populations of these tumour types. In PRCC the occurrence of c-Met+ is between 40% and 75%. During the past three years, AZD6094 has achieved partial response (tumour measurement reduction of ›30%) in patients with c-Met+ in PRCC, lung, colorectal and gastric cancers thereby proving its high potential to become a global first-in-class and best-in-class c-Met inhibitor. Our view on overall market potential for AZD6094 in only c-Met+ lung, kidney (PRCC) and gastric cancer patients is estimated at $2.3 billion in annual non-risk adjusted peak sales.

C-Met over expression ("c-Met O/E") occurs in a broader patient population between 40% and 92% in the aforementioned tumour types, thereby representing a larger market opportunity if AZD6094 can inhibit tumour growth in c-Met O/E patients. No c-Met TKIs have shown clinical benefit in this c-Met O/E patient population, however, we believe due to its very high selectivity, good safety profile, and ability to dose-up to very high levels (600mg BID) and suppress c-Met activation through complete target inhibition for 24 hours a day that AZD6094 has a good, albeit challenging, chance of providing clinical benefit to c-Met O/E patients.

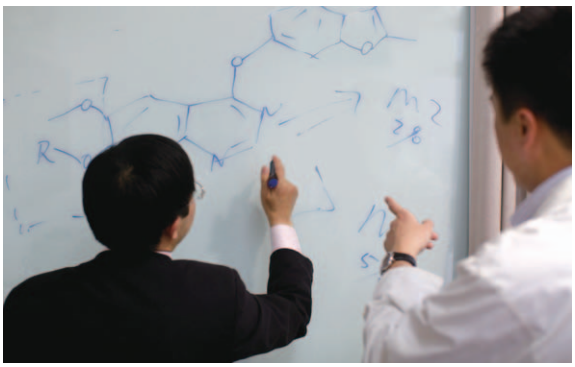
As a result, HMP, in collaboration with AstraZeneca, is progressing AZD6094 in a total of eight indications in c-Met+ and c-Met O/E patient populations.

Clinical study 1 – PRCC: PRCC represents approximately 10-15% of the 270,000 new renal cell carcinoma (kidney cancer) patients worldwide annually. Chi-Med announced in May 2014 that HMP and AstraZeneca had commenced a global Phase II study in PRCC in the US, Canada and Europe. The basis for the Phase II study in PRCC was the strong correlation in the Australian Phase I study between c-Met+ status and response to AZD6094 published in May 2014 at the American Society of Clinical Oncology ("ASCO") annual meeting. Until now, out of a total of eight PRCC patients, who have been treated with various doses of AZD6094, three have



achieved partial response (tumour measurement reduction of ›30%), one of which has been on drug for ›24 months and has tumour measurement reduction of ›85%. A further three of these eight PRCC patients achieved stable disease. This aggregate ORR of 38% is very encouraging for PRCC which currently has no effective treatments on the global market. Furthermore, since the data for these eight patients is not mature the ORR could continue to improve with time. Prior to AZD6094, the highest ORR reported for a PRCC specific Phase II study (of 74 PRCC patients) was 13.5% by foretinib (GlaxoSmithKline) in 2012.

If in the global Phase II study on PRCC we are able to deliver an ORR in-line with that seen to-date, we will look to pursue US FDA Breakthrough Therapy



designation which could lead to a submission for approval in 2016. We believe that an approval as a first-in-class treatment for PRCC could yield non-risk adjusted peak sales, in PRCC alone, of over $500 million. Interim results from this Phase II study in PRCC are expected to be reported during 2015.

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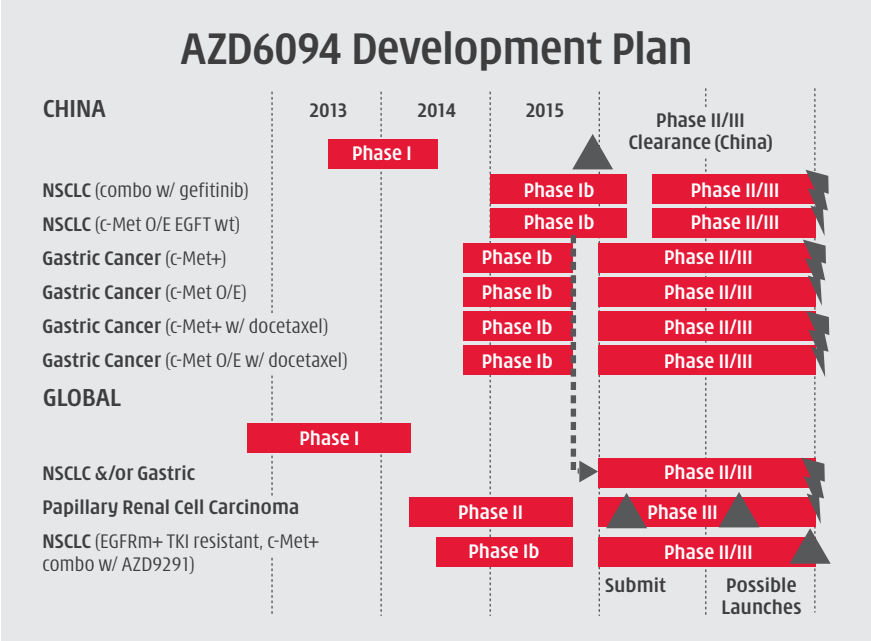
Clinical studies 2 and 3 – EGFR activating mutation ("EGFRm+") TKI resistant NSCLC c-Met+ patients. There are about 1.4 million new NSCLC patients worldwide annually of which, while varying greatly by ethnicity, up to approximately 30% have EGFRm+. NSCLC patients with EGFRm+ are treated effectively with TKIs such as gefitinib and erlotinib (Roche) with total 2014 sales of approximately $2 billion. Unfortunately, most patients build resistance to TKIs and tumour growth restarts via resistance pathways. The main resistance pathways include T790M mutation ("T790M+") accounting for approximately 45-50% of patients and c-Met+ about 15-20% of patients. This is particularly important given that both gefitinib and erlotinib will come off patent in 2017/2018. This will likely lead to cheaper and more accessible TKI treatments of EGFRm+ NSCLC which in turn will lead to an eventual increase in the prevalence resistance due to both T790M+ and c-Met+.



In 2014, AstraZeneca received US FDA Breakthrough Therapy designation on AZD9291, its drug candidate for T790M+ EGFRm+ TKI resistant patients. In this patient population AZD9291 recorded an ORR of 64% in a large-scale Phase I study and the non-risk adjusted peak year sales potential for this indication is estimated at $3 billion. In the additional 15-20% of EGFRm+ TKI resistant patients who progress because of c-Met+, a clinical study of an AZD9291 plus AZD6094 combination treatment is now underway in Japan, South Korea, Taiwan and the US. The idea is that shutting down the two main resistance pathways, representing 60-70% of all EGFRm+ TKI resistant patients, would severely limit the avenues for tumour growth. We believe that this novel combination, of two well-tolerated therapies, has potential to deliver the ORR levels needed to qualify for US FDA Breakthrough Therapy designation for this c-Met+ patient population.

The third clinical study of AZD6094 in combination with gefitinib in EGFRm+/c-Met+/T790M negative lung cancer patients will start enrolment in early 2015. It is reasonable to estimate, based on a proportional reference to the T790M+ market size, that the EGFRm+ TKI resistant NSCLC c-Met+ patient population could have incremental non-risk adjusted peak year sales potential of approximately $1 billion.

Clinical study 4 – EGFR wild-type c-Met O/E NSCLC patients. Of the 1.4 million new NSCLC patients worldwide annually, approximately 67% exhibit c-Met O/E.

Clinical studies 5 and 6 – c-Met+ and c-Met O/E gastric cancer patients. Of the approximately 1.0 million new gastric (stomach) cancer patients worldwide annually, approximately 10% are c-Met+ and approximately 40% are c-Met O/E. Furthermore, China has the largest gastric cancer population in the world accounting for approximately half of global new patients annually.

Clinical studies 7 and 8 – c-Met+ and c-Met O/E gastric cancer patients in combination with docetaxel. As a result of its good safety profile we believe there is potential to combine AZD6094 with chemotherapy in gastric cancer and thereby introduce AZD6094 to patients earlier in the treatment process.

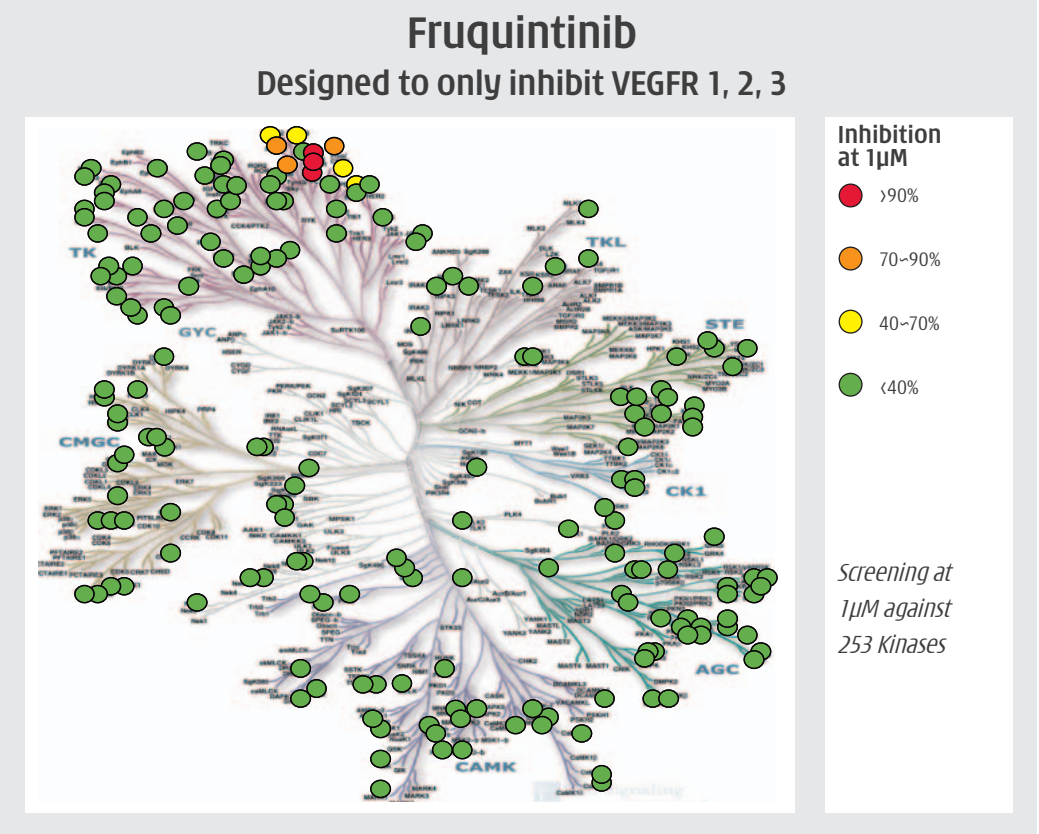
Beyond these eight clinical programmes, we are conducting multiple investigator-led exploratory studies in further tumour types in which c-Met has been shown to function abnormally.

Due to Chinese regulatory requirements, it was necessary to name HMPL-504 relatively early in the development process in 2011. The name HMP chose was volitinib a phonetic match to the mandarin translation of "504". When HMP began proceedings to register the volitinib name outside China, under the World Health Organisation's ("WHO") International Nonproprietary Name ("INN") system, it was made clear by the WHO that volitinib was too close to an existing registered name and as such the final name that we have settled on for global INN registration is savolitinib.

VEGF/VEGFR Inhibitors: At an advanced stage, tumours secrete large amounts of VEGF, a protein, to stimulate formation of excessive vasculature (angiogenesis) around the tumour, in order to provide greater blood flow, oxygen, and nutrients

to fuel the rapid growth of the tumour. VEGFR inhibitors stop the growth of the vasculature around the tumour and thereby starve the tumour of the nutrients/oxygen it needs to grow rapidly.

Several first generation VEGF/VEGFR inhibitors have been approved globally since 2005 and 2006, including both small molecule TKI drugs such as sorafenib (Bayer) and sunitinib (Pfizer) with 2014 sales of approximately $1.0 billion and $1.2 billion respectively; and monoclonal antibodies such as bevacizumab (Roche) with 2014 sales of approximately $7.1 billion. The success of these drugs validated VEGFR inhibition as a new class of therapy for the treatment of cancer.



Fruquintinib: Fruquintinib (HMPL-013) is a novel small molecule compound to treat cancer that selectively inhibits VEGFR. Fruquintinib as a result of better kinase selectivity is highly differentiated versus other small molecule VEGFR inhibitors, which can be prone to excessive off-target toxicities. Fruquintinib only inhibits VEGFR 1, 2 and 3 resulting in few off-target toxicities and thereby allowing it to dose up to much improved target coverage, both in terms of extent and duration. Furthermore, fruquintinib has no drug accumulation problems and a low risk of drug/drug interaction problems which is favourable for combination therapies (e.g. fruquintinib in combination with chemotherapy) allowing for use earlier in a patients treatment regime and thereby increasing market potential by providing clinical benefit to a larger patient population.

In October 2013, HMP entered into a license and collaboration agreement on fruquintinib with Lilly. Since then HMP, in partnership with Lilly, has quickly expanded clinical development in three main indications all of which represent major unmet medical needs in China and, in our view, aggregate non-risk adjusted peak year sales potential of over $300 million in China alone.

Indication 1 - Third-line colorectal cancer. The incidence of colorectal cancer in China is approximately 0.4 million patients per year and the third-line setting, that being patients who have failed two previous lines of treatment such as chemotherapy, represents a patient population with few if any remaining treatment options. In May 2014, HMP published encouraging China Phase Ib clinical results in third-line colorectal cancer at the ASCO annual meeting. The fruquintinib Phase Ib study reported in the 5mg 3-week on/1-week off arm (n = 42) ORR of 10.3%, Disease Control Rate ("DCR") of 82.1%, and 9-month Overall Survival ("OS") of 62%. For reference, in a recently published Asian Phase III third-line colorectal cancer study regorafenib (Bayer) administered at 160mg 3-week on/1-week off regimen (n = 136) reported ORR of 4.4%, DCR of 51.5%, and 9-month OS of approximately 46% comparing in the same study to a placebo-arm (n = 68) ORR of 0.0%, DCR of 7.4%, and 9 month OS of approximately 24%. The safety profile of fruquintinib in the Phase Ib also compared favourably to the regorafenib Asia Phase III study with for example liver function abnormalities (hepatotoxicity) for fruquintinib of 11.9% versus 48.5% for regorafenib.

A Phase II double blind placebo controlled study of fruquintinib versus placebo, randomised using a 2:1 ratio, among 71 third-line colorectal cancer patients completed enrolment, in just over four months, in August 2014 and results will be reported imminently in early 2015. During the last quarter of 2014, and in the ordinary course of safety tracking, the general outcome of this study became increasingly clear, to a high degree of probability.

Fruquintinib is a highly potent drug candidate with a unique safety profile linked to its therapeutic effect of inhibiting VEGFR. As has been previously reported in the context of the Phase Ib study, normal and manageable (mostly low grade)

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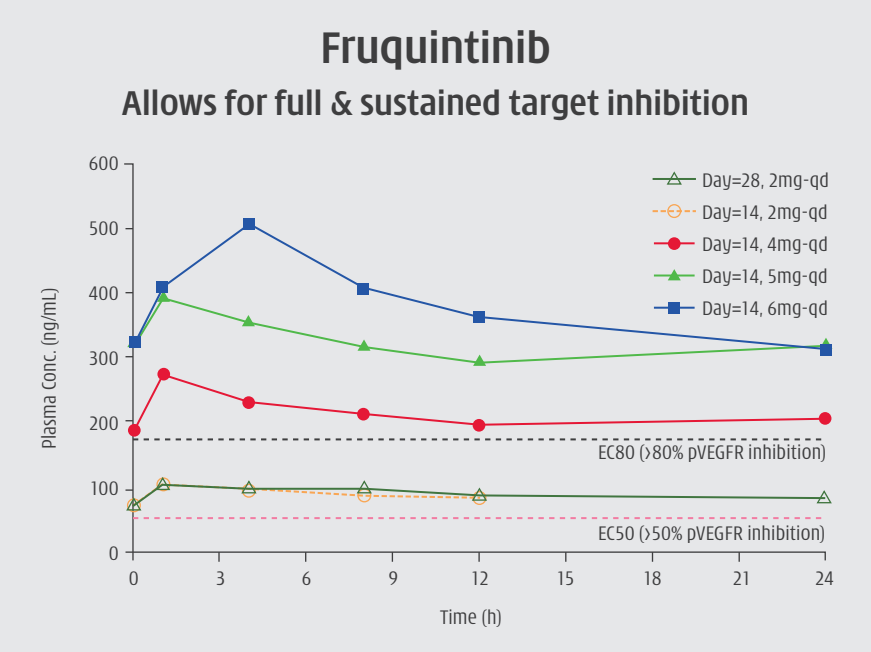


target related adverse events such as hand-foot-syndrome, dysphonia and hypertension uniquely occur in third-line colorectal cancer patients treated with fruquintinib. Furthermore, the prognosis for third-line colorectal cancer patients is so poor that a positive treatment outcome is likely attributable, again with a high degree of probability, to the drug being tested.

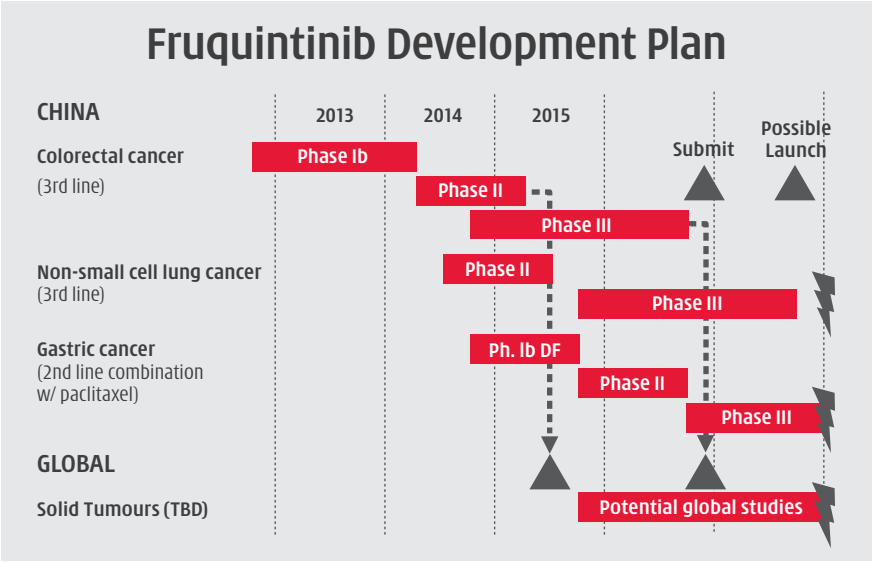
In the context of the very specific PoC success criteria ("PoC Criteria") linked to predetermined payment obligations from Lilly, laid out in the exclusive license and collaboration agreement on fruquintinib, we judge it highly probable that the economic benefits will flow to HMP. This remains subject to the final confirmations by Lilly as per such agreement.

Accordingly, under International Accounting Standard 18 (IAS18) relating to measurement and recognition of revenue arising from rendering of services, the group has, in 2014, recognised $9.8 million service revenue, the majority of which relates to the reimbursement of costs incurred by HMP during 2014, to be paid by Lilly upon achievement of the PoC Criteria.

Based on the major unmet medical need in China combined with extensive pre-clinical data, the extensive Phase Ib data on fruquintinib reported above, the high degree of probability of a positive outcome in the Phase II study and consultation with the Chinese regulatory authorities, we decided to start our third-line colorectal cancer Phase III registration study in December 2014 ahead of completion of the Phase II study. This should allow us to complete enrolment of the 420 patient Phase III registration study by early 2016.

Colorectal Cancer Phase Ib Study[1]		Regimen	Objective Response Rate	Disease Control Rate	≥16-wk Progression Free Survival	≥9-mo Overall Survival
Fruquintinib	Phase Ib (China) 3rd Line colorectal cancer	5mg 3/1 wk (N = 42)	10.3%	82.1%	66.7%	62%
Regorafenib (Bayer's Stivarga®)	Phase III (Asia) 3rd Line colorectal cancer	160mg 3/1 wk (N = 136)	4.4%	51.5%	~38%	~46%
		Placebo (N = 68)	0%	7.4%	~3%	~24%

[1] Objective Response Rate ("ORR") = % of patients with >30% tumour diameter shrinkage; Disease Control Rate ("DCR") = % of patients with <20% tumour diameter growth; Progression Free Survival ("PFS") = % of patients with <20% tumour diameter growth at 16 weeks; Overall Survival ("OS") = % of patients alive at 9 months.



Indication 2 – Third-line NSCLC. The incidence of NSCLC cancer in China is approximately 0.8 million patients per year and, as with colorectal cancer in the third-line setting, represents a patient population with few if any remaining treatment options. In May 2014, we began enrolment in a Phase II double blind placebo controlled study of fruquintinib versus placebo, randomised using a 2:1 ratio, among 90 third-line NSCLC patients. NSCLC has proven challenging for VEGFR inhibitors, other than bevacizumab, throughout the past decade; however, recent successes with ramcirumab (Lilly) and lenvantinib (Eisai) in clinical studies outside China, combined with the four out of six NSCLC patients that achieved partial response in the fruquintinib Phase Ia study, give us confidence that the high selectivity, potency and target coverage of fruquintinib may be sufficient to provide clinical benefit in this difficult patient population. We expect to complete enrolment in the Phase II study imminently and report results during 2015.

Indication 3 – Second-line gastric cancer. The incidence of gastric cancer in China is approximately 0.5 million patients per year and the potential approval in the second-line setting, in combination with paclitaxel, will represent the largest market opportunity for fruquintinib among the three current indications. For perspective, in gastric cancer the second-line patient population would be approximately five-fold larger than the third-line patient population. In November 2014, we began a Phase Ib dose finding study of an already proven efficacious dose level of fruquintinib in combination with paclitaxel, we have completed one cohort successfully and continue dose escalation. We hope to finalise the combination dose regime during the first half of 2015 and start a Phase II study of fruquintinib in second-line gastric cancer in China during the second half of 2015.

Under the terms of the license and collaboration agreement for fruquintinib with Lilly, HMP is responsible for the manufacture of fruquintinib in China. Furthermore, it is a requirement in China that Phase III registration studies use drug product manufactured in the facility that will support first commercial supply upon approval. As a result, HMP is in the final stages of establishing a GMP manufacturing facility for fruquintinib in Suzhou, Jiangsu province.

We believe that fruquintinib has the potential to become the global best-in-class small molecule VEGFR inhibitor and address major unmet medical needs in China and beyond.

Sulfatinib: Sulfatinib (HMPL-012) is a novel small molecule that selectively inhibits the tyrosine kinase activity associated with VEGFR and FGFR. Pre-clinical data shows that sulfatinib has demonstrated a narrow kinase inhibition profile affecting mainly VEGFR and FGFR and consequently has an attractive anti-tumour profile, and is a potent suppressor of angiogenesis.

HMP started Phase I study on sulfatinib in 2010 and identified issues in the pharmacokinetic properties of the drug, primarily high variability in drug absorption both inter-patient and intra-patient. In 2012, HMP made formulation adjustments to sulfatinib to improve absorption and reduce variability and restarted dose escalation in the Phase I study in early 2013. The Phase I results on the new sulfatinib formulation have been highly encouraging and were published in May 2014 at the ASCO annual meeting. Sulfatinib was proven safe and well tolerated with an improved pharmacokinetic profile, including higher drug exposure and lower variability, than the initial formulation.

Drug Research & Development

Sulfatinib: unprecedented efficacy in NET patients

	octreotide/ Placebo	everolimus/ Placebo	sunitinib/ Placebo	lanreotide/ Placebo	sulfatinib
NET Approval	Mid-gut	Pancreatic	Pancreatic	Gastrointestinal (Antigen Ki67<10%)	All NET efficacy
median PFS (months)	15.6 / 5.9	11.0 / 4.6	11.4 / 5.5	NR / 18.0	No Progression yet in 17 evaluable patients (median time on drug 7.5 mo.)
Hazard Ratio	0.33	0.35	0.42	0.47	
p-value	0.000017	<0.001	<0.001	<0.001	
Objective Response Rate	2% / 2%	5% / 2%	9% / 0%	NR	32%
Disease Control Rate	67% / 37%	73% / 51%	63% / 60%	NR	100%

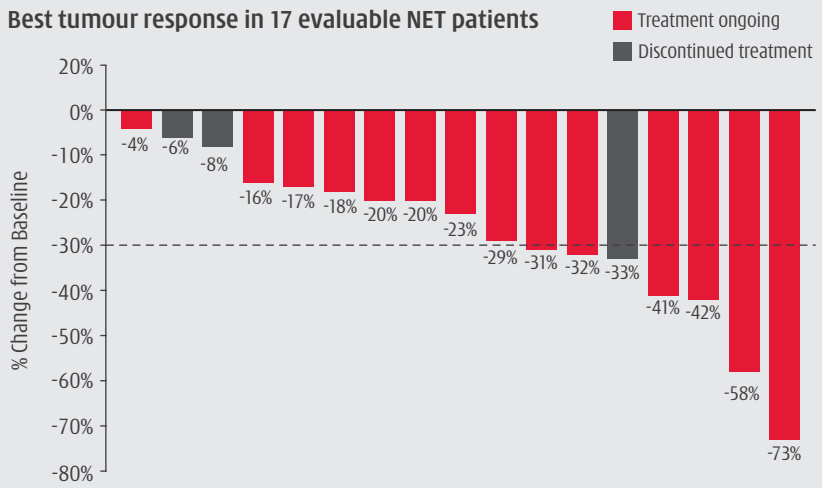
Outstanding clinical efficacy has been seen with sulfatinib in patients with NET. NET is a rare cancer of the hormone system, normally slow growth, affecting the gastrointestinal tract, pancreas, lung and several other organs. There are 12,000-15,000 new NET patients annually in the US and high prevalence of about 110,000.

The early preliminary clinical efficacy of sulfatinib compares very favourably to existing drugs approved in the NET arena. Sunitinib and everolimus (Novartis) are both approved only in pancreatic NET, a less than 5% subset of total NET, and have ORR of <10% and DCR approximately 70%. Octreotide (Novartis), a chemotherapy agent for all NET patients, has ORR of 6% and DCR around 35-45%. Lanreotide (Ipsen), a somatastatin analogue, was approved in December 2014 by the US FDA for patients in a narrow subset of early-stage gastrointestinal NET (Ki67 <10%) and pancreatic NET. While showing important progression free survival and overall survival benefit, lanreotide, similar to all other approved NET treatments, showed very low or possibly 0% ORR meaning that while tumours were stabilised, they did not shrink.

Sulfatinib, in contrast, recorded a 32% ORR, meaning it reduced tumour size by more than 30% in 7 out of the 22 NET patients treated, and 100% DCR meaning the balance 10 out of 17 evaluable patients saw no increase in tumour size.

In late 2014, we began enroling patients in a Phase Ib study of NET patients in China at the Phase II dose of 300mg once daily, we intend to enrol a total of approximately 30 further NET patients, of all types (lung, gastrointestinal and pancreatic), and complete the study in 2016. In parallel, in January 2015 HMP submitted a Phase II/III clinical trial application to the China FDA which we hope will be cleared during 2015 thereby allowing us, subject to continued strong efficacy and safety data from the Phase Ib study, to progress sulfatinib into final registration studies in NET in China. Furthermore, recently HMP submitted an IND application to the US FDA on sulfatinib and it is our intention to commence development in NET patients in the US early in 2015. We will start immediately with a short Phase Ib study to confirm pharmacokinetic profile among non-Asian patients, followed by a Phase II study in all NET patients in mid-2015.

Sulfatinib: 100% Disease Control Rate

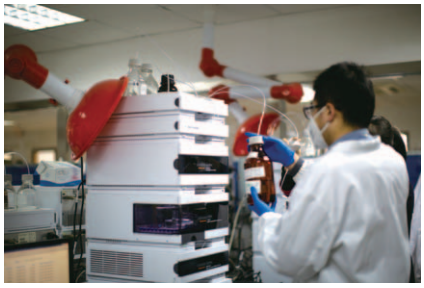


We believe that sulfatinib has the potential to revolutionise the treatment of NET and continued high levels of ORR/DCR among NET patients could also raise the possibility of considering application for US FDA Breakthrough Therapy designation.

EGFR Inhibitors: EGFR is a receptor tyrosine kinase for Epidermal Growth Factor. Activation of EGFR can lead to a series of downstream signalling activities that activate tumour cell proliferation, migration, invasion, and the suppression of cell death. Tumour cell division can happen uncontrollably when the pathway is abnormally activated through EGFRm+ (EGFR activating mutations), gene amplification or protein over expression. EGFR small molecule TKIs, such as gefitinib and erlotinib, bind to the intracellular kinase domain and inhibit the activation of the kinase leading to the blockade of pathway signalling.

In a similar fashion as described above for abnormal c-Met function, EGFR behaves abnormally in three main ways: gene amplification of wild-type EGFR ("EGFR+"); over expression of wild-type EGFR ("EGFR O/E"); and EGFRm+.

EGFRm+ has been identified in 10-30% of NSCLC patients. EGFR TKIs have demonstrated significant clinical efficacy against EGFRm+. Since 2003, several EGFR TKIs have been approved globally and in China and are used for the treatment of NSCLC patients with EGFRm+ including gefitinib and erlotinib with 2014 sales of approximately $0.6 billion and $1.4 billion respectively. Outside of NSCLC, EGFRm+ occurs rarely other than in glioblastoma, primary brain tumours, in which 27% to 54% of patients have EGFRm+. Unfortunately, current EGFRm+ targeted therapies such as gefitinib and erlotinib are unable to penetrate the blood brain barrier in sufficient concentrations to provide clinical benefit to glioblastoma patients. Therefore, there are no effective targeted therapies for EGFRm+ NSCLC with brain metastasis or EGFRm+ glioblastoma.



Unlike c-Met, where targeted therapies are yet to be approved in the c-Met O/E patient population, there is a successful example of clinical efficacy among EGFR O/E patients, in tumour types such as colorectal cancer and head and neck cancer which have 53% and 66% to 90% EGFR O/E respectively. The most successful targeted therapy in this EGFR O/E patient population is the monoclonal antibody cetuximab (indicated for head and neck cancer and colorectal cancer) (Bristol-Myers Squibb and Merck Serono) with 2014 sales of approximately $1.8 billion. Importantly

however, there remain many tumour types with high levels of EGFR O/E in which targeted therapies have not yet been approved such as NSCLC (62%), oesophageal (30-90%), gastric (44-52%), pancreatic (20-48%), glioblastoma (54-66%), ovarian (9-62%) and breast (basal) (68%) cancer. However, no small molecule EGFR TKIs have been approved for EGFR O/E cancers.

In EGFR+ (gene amplification of wild-type EGFR) patients, there are no targeted therapies approved despite high levels of EGFR+ occurring in many of the above EGFR O/E tumour types.

At HMP we set out over 10 years ago to create targeted therapies in the EGFR arena that would go beyond the already approved EGFRm+ NSCLC patient population to address certain areas of unmet medical needs that represent significant market opportunities, including: (1) brain metastasis and/or primary brain tumours with EGFRm+ (activating mutations); and (2) tumours with wild-type EGFR activation through gene amplification (EGFR+) or over-expression (EGFR O/E). HMP has two EGFR inhibitors which potentially could address these areas, epitinib, which entered Phase I trials in late 2011, and theliatinib, which entered Phase I trials in late 2012.

Epitinib: Epitinib (HMPL-813) is a highly potent EGFR inhibitor. Pre-clinical studies and orthotopic brain tumour models have shown that epitinib demonstrated excellent brain penetration and efficacy, superior to that of current globally marketed EGFRm+ inhibitors such as gefitinib and erlotinib. The first-in-human Phase I clinical trial started in late 2011 and epitinib has been well tolerated and

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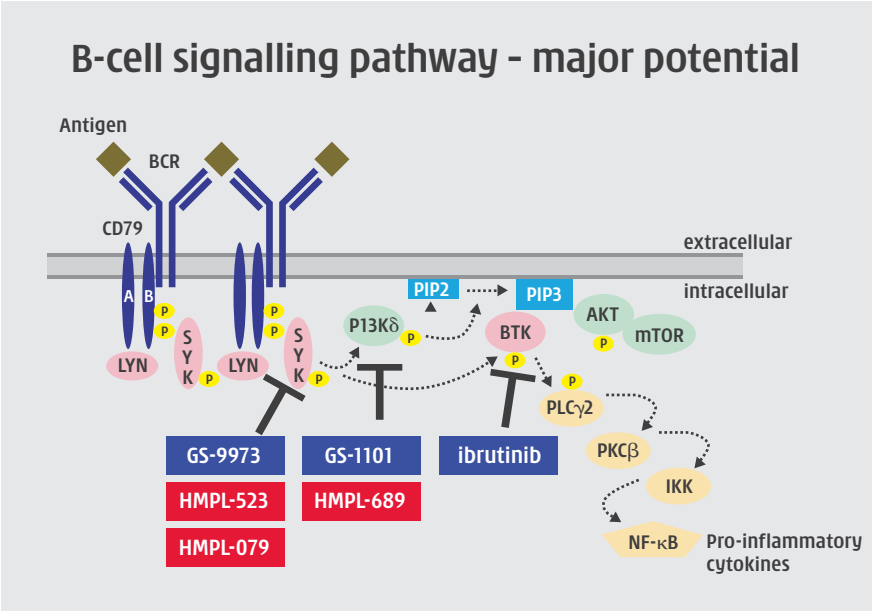
demonstrated the anti-tumour activity expected from EGFRm+ inhibitors, i.e. partial response among patients EGFRm+ NSCLC patients. We have now completed dose escalation and have established 160mg once daily as the recommended Phase II dose ("RPTD") which is well tolerated with a relatively low incidence of expected adverse events. No dose limiting toxicity was seen in any dose level.

HMP has now commenced screening on a Phase Ib study, towards establishing activity in NSCLC patients with tumours metastasised to the brain carrying EGFRm+. In China, 10% of lung cancer patients have brain metastasis at initial diagnosis and 80% after two further years. If epitinib is able to provide clinical benefit to NSCLC patients with brain metastasis in the Phase Ib study, we will address a major unmet medical need. Results of the Phase Ib study will be expected late in 2015.

Theliatinib: Theliatinib (HMPL-309) is a novel small molecule EGFR inhibitor with the highest binding affinity to the wild-type EGFR protein as compared to existing EGFR targeted therapies. Gefitinib and erlotinib reach insufficient drug concentrations to suppress wild-type EGFR effectively whereas theliatinib has shown in Phase I to be able to achieve drug concentrations at the 60mg per day dose that are effective at inhibiting wild-type EGFR almost completely for 24 hours a day. Furthermore, monoclonal antibodies, such as cetuximab, which while approved for certain EGFR O/E tumour types are less effective for EGFR+ (gene amplified) patients. Small molecule targeted therapies such as theliatinib, which work in the intra-cellular domain, are more likely to provide clinical benefit EGFR+ tumour types.

Dose escalation in the Phase I study has now gone further and completed a 90mg per day cohort which was found to be safe and well tolerated with no dose limiting toxicity and also with good pharmacokinetic properties of linear drug exposure with increased dose and no drug accumulation. We intend to continue to escalate to 120mg per day dose and once we reach RPTD we will initiate Phase Ib studies on the main tumour types with high prevalence of wild-type EGFR+ and EGFR O/E such as oesophageal, head and neck, and NSCLC.



Immunology Portfolio: HMP has two clinical stage drug candidates in the field of immunology: HMPL-523, a small molecule Syk inhibitor being developed in autoimmune diseases such as rheumatoid arthritis and lupus, in addition to its potential applications in B-cell malignancies in oncology; and HMPL-004 a botanical drug being developed in inflammatory bowel disease ("IBD").

HMPL-523: HMPL-523 is a novel, highly selective and potent small molecule inhibitor targeting the spleen tyrosine kinase, or Syk, a key component in B-cell receptor signalling. As one of the major cellular components of the immune system, B-cells play pivotal roles in autoimmune diseases as well as B-cell malignancies in oncology. Global pharmaceutical companies have been working on oral small-molecule Syk inhibitors for many years, because of the major unmet medical need and potential in diseases such as rheumatoid arthritis (a market expected to reach $38.5 billion in 2017), but without breakthrough clinical success. Oral small molecule therapies are attractive because they are more convenient to use than intravenous monoclonal antibody immune-modulators like infliximab (Janssen) and adalimumab (AbbVie). Furthermore, oral small molecules are generally cleared more quickly from the body as compared to the weeks or months for antibodies, so as a consequence, it is easier to manage serious side effects by stopping the medication.

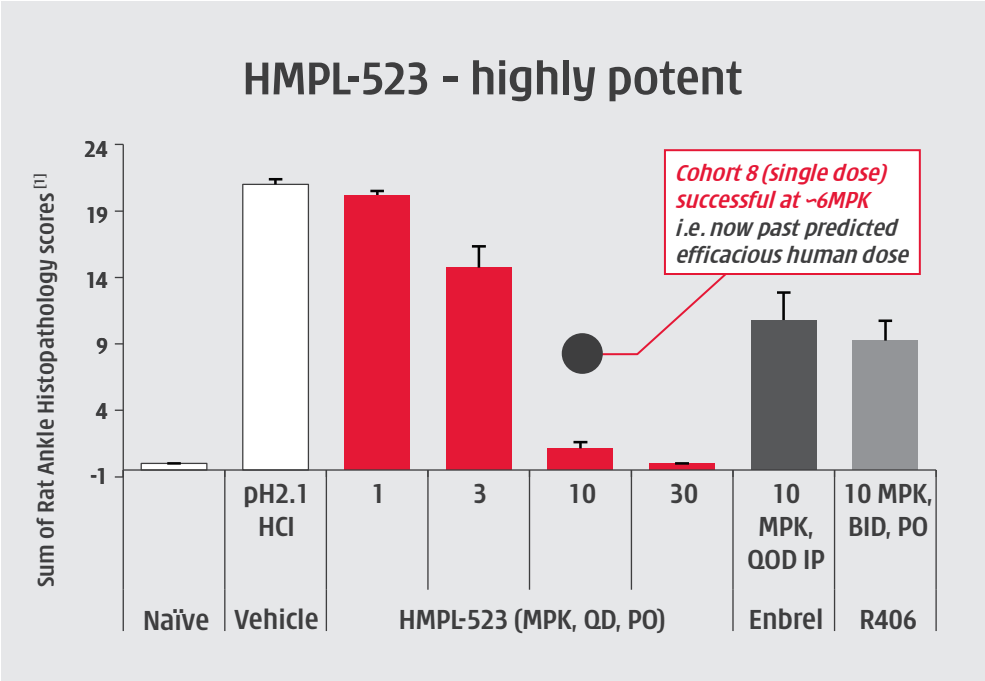
Most recently, in 2013 fostamatinib (AstraZeneca/Rigel), an oral small molecule pro-drug of the Syk inhibitor R406, failed to meet its primary endpoints in a global Phase III study in rheumatoid arthritis. Most companies with experience in the field attribute clinical failure of Syk compounds to-date to safety concerns. While it is well accepted, from both preclinical and clinical data, that effective inhibition

HMPL-523: First-in-class Syk inhibitor in immunology

Compound/ Company		*in vitro* Activity IC_{50} (nM)*	Selectivity	*in vivo* Activity Min Efficacious Dose	Phase of Development
R788, R406	Rigel/AZ	• Enzyme: 54 nM • Cell: 54 nM	Syk, FLT-3, KDR, Src, Lyn, JAK	• rCIA: 10 mg/kg BID • mSLE: 10 mg/kg BID • CLL: 80 mg/kg/day	**Phase III** for RA complete: 100 mg BID; & 150 mg QD **Phase II**: ITP
GS-9973	Gilead	• Enzyme: 55 nM*	Selective for Syk		**Phase I**: oncology (NHL, CLL)
HMPL-523	HMP	• Enzyme: 25 nM • Cell: 51 nM • HWB: 250 nM	Selective for Syk	rCIA (QD) • ED_{min} = 0.7-1 mg/kg • ED_{50} = 1.4-2 mg/kg	**Phase I** Immunology, oncology

of Syk will lead to the desired temporary down-regulation of the immune system and ameliorate inflammation, it has never been achieved by a compound with an acceptable safety profile. This is made particularly challenging in rheumatoid arthritis, which is a chronic disease requiring treatment over long periods of time in otherwise healthy individuals, so safety thresholds are extremely high.

HMP has worked in discovery for over five years on HMPL-523 and we believe that it is likely the most selective Syk inhibitor currently in development with a good chance of being first-in-class globally. Selectivity is critical in this case as, unlike failed Syk inhibitors in the past, there is no material off-target kinase inhibition with HMPL-523 expected at the efficacious dose levels. This means Syk can be suppressed effectively with reduced off-target toxicity. In June 2014, HMP began a Phase I clinical trial in Australia to study dose escalation, safety, tolerability and pharmacokinetics for single and multiple doses of HMPL-523 in healthy volunteers. This Phase I study has completed nine single dose escalation cohorts, passing through the predicted efficacious dose level in humans (6 milligrams per kilogram of body weight), with no toxicity observed. We will continue to explore higher single doses and multiple doses of HMPL-523 and will likely complete Phase I by mid-2015.

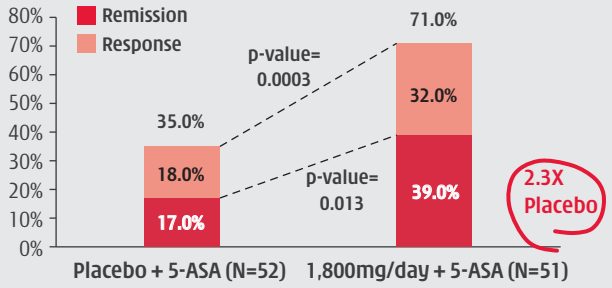


[1] Aggregate of scores for Bone resorption; Structure (cartilage damage); Cartilage cells Inflammatory cell infiltration in periarticular tissue; and Synovial inflammation & hyperplasia; MPK = milligrams per kilogram of body weight.; QD = one dose per day; BID = two doses per day; QOD = one dose every other day; PO = by mouth (i.e. orally); IP = by Intraperitoneal injection; Naïve = model score without induced arthritis; Notes: Fostamatinib is a prodrug of the Syk inhibitor R406; Enbrel (Amgen/Pfizer) monoclonal antibody anti-TNF for Rheumatoid Arthritis ("RA") - 2013 RA global sales $4.6 billion.

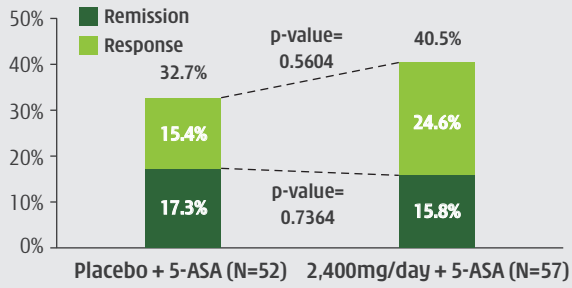
Drug Research & Development

HMPL-004

Strong Phase IIb data in UC (co-treat w/5-ASA)[1][2]



but surprised by overall NATRUL-3 IA[3] result

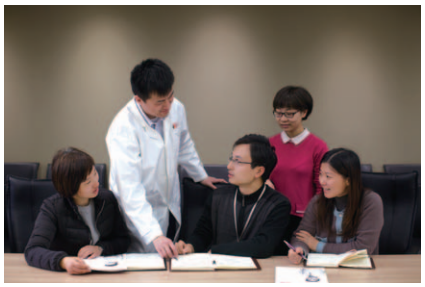


[1] UC = Ulcerative colitis; [2] 1,800mg/day HMPL-004 plus Mesalamine (5-ASA) versus Mesalamine (5-ASA) alone (Placebo-arm); [3] IA = Phase III Interim Analysis conducted at ~1/3rd patient enrolment.

HMPL-004: This is a proprietary botanical drug for the treatment of IBD, namely ulcerative colitis and Crohn's disease. Subject to the terms of the NSP JV agreement, and as part of the broader gastrointestinal disease research and development collaboration, HMPL-004 has been in global Phase III registration trials during 2014.

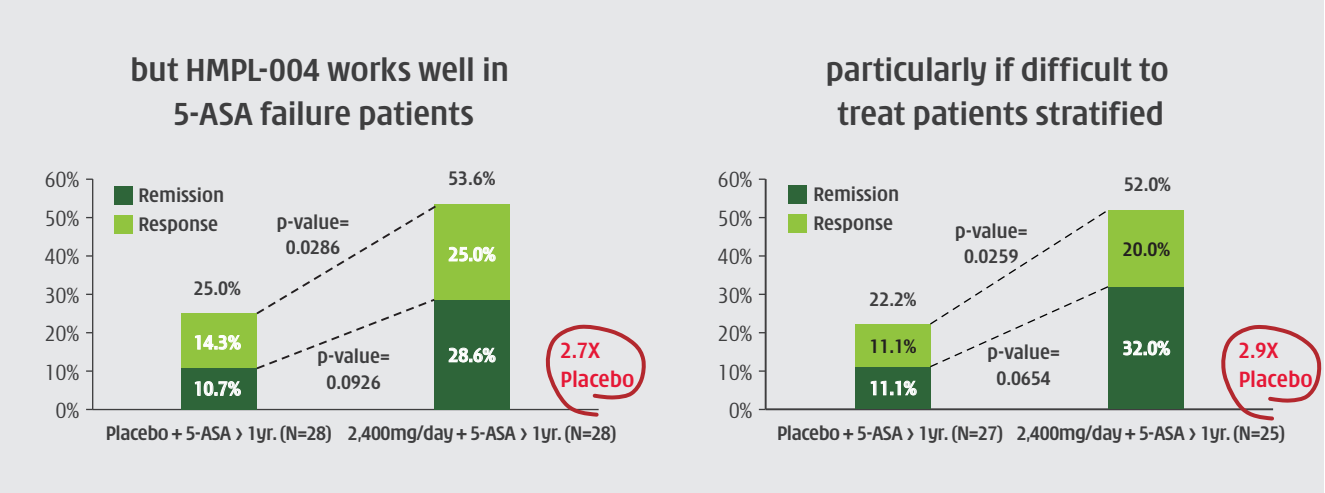
Unmet needs in IBD: With annual drug sales of approximately $8 billion across the seven major markets (US, Japan, France, Germany, Italy, Spain and the United Kingdom) IBD is a very large therapeutic area. However, there remain clear unmet medical needs in its treatment. These include the need for novel agents, which can induce and maintain remission among first-line mesalamine (5-ASA) refractory, non-responding or intolerant patients, and the need for safer agents without the side effects of corticosteroids and immune suppressants.

Pre-clinical and Clinical Performance of HMPL-004: Extensive preclinical studies indicate that HMPL-004 exhibits its anti-inflammatory effects through the inhibition of multiple cytokines (proteins), both systemically and locally, which are involved in causing digestive tract inflammation. HMPL-004's efficacy, when combined with 5-ASAs, in induction of clinical response, remission and mucosal healing as well as a favourable safety profile has been established in multiple clinical trials including a successful global Phase IIb study in mild-to-moderate ulcerative colitis patients. In the aggregate, the data has demonstrated HMPL-004's high potential to address certain unmet medical needs in IBD.



In April 2013, NSP initiated the NATRUL-3 global Phase III registration trial in mild-to-moderate ulcerative colitis patients on HMPL-004, in combination treatment with 5-ASAs, and conducted an interim analysis in mid-August 2014. The interim analysis was intended to assess both futility, in terms of efficacy and safety on approximately one-third of the 420 planned patients in NATRUL-3. The result of the interim analysis was that while no safety issues or concerns were observed, HMPL-004 showed no overall material effect over the placebo-arm patients and consequently the NATRUL-3 study was terminated and the data un-blinded.

Subsequent post-hoc analysis of the un-blinded NATRUL-3 data showed clear inconsistency with the Phase IIb study in efficacy among patients who had been on 5-ASAs for less than one year prior to NATRUL-3 (49% of the patients). In these patients we observed a high remission rate among the placebo-arm patients and a very low remission rate among HMPL-004 2,400mg-arm patients. After further analysis of the un-blinded NATRUL-3 data we hypothesise the following: On the placebo-arm patients on 5-ASAs for less than one year: The high remission rate, given the short-term usage of 5-ASAs, was likely due to a delayed/slow response to prolonged 5-ASA treatment and improved compliance during the course of NATRUL-3's 8-week induction period.



On the HMPL-004 2,400mg-arm patients on 5-ASAs for less than one year, it was observed that there was an abnormally high incidence of "difficult to treat" patients. Analysis of both Phase IIb and NATRUL-3 data across all treatment arms showed that patients never reached clinical remission for ulcerative colitis during the 8-week treatment period, if such patients at the date of enrolment actively suffered from certain concurrent medical conditions.

Unfortunately, the 2,400mg-arm patients on 5-ASAs for less than one year were heavily skewed towards those "difficult to treat" patients with 31% of 2,400mg-arm patients on 5-ASAs for less than one year being "difficult to treat" patients as compared to only 13% of placebo-arm patients on 5-ASAs for less than one year. The unbalanced patient population may have been a function of timing of the planned interim analysis which took place after only one-third of subjects had completed the induction phase of the study.

In the post-hoc analysis of the NATRUL-3 sub-group of 2,400mg-arm patients on 5-ASAs for more than one year, a sub-group that can be described as 5-ASA refractory/failure patients, we observed positive outcome. NATRUL-3 efficacy results for the 2,400mg-arm patients in this sub-group were in-line with the Phase IIb and clinical remission rates, the primary endpoint for NATRUL-3, showed a clear trend to efficacy as compared to the placebo-arm. Furthermore, when "difficult to treat" patients were excluded, the trend to efficacy was even stronger for HMPL-004.

HMP and our partner in NSP, Nestlé Health Science, continue to review and discuss both the above hypotheses as well as conduct further technical analysis in the area of formulation and biomarkers as we work towards agreeing next steps for HMPL-004 during 2015.

Discovery programmes: Our fully integrated discovery teams in oncology and immunology made substantial progress in 2014. We staff and resource our discovery team with the objective of producing one or two new internally discovered drug candidates per year. Aside from the current discovery projects listed below, all of which are less than 12 months from Phase I, HMP has active research programmes against three further novel targets that we are in the process of designing small molecule compounds to selectively target.

Drug Research & Development

HMPL-689: The targeting of PI3Kδ (delta) for B-cell malignancies is gaining an increasingly high profile with idelalisib (Gilead) gaining fast track approval in mid-2014 in multiple haematological cancer indications. Duvelisib (Infinity/AbbVie), another high profile PI3Kδ inhibitor, is also in Phase III in various haematological cancer indications. There is also increasing evidence that PI3Kδ inhibitors are effective in the ibrutinib-resistant mutant population, ibrutinib being an important BTK inhibitor for several types of B-cell malignancies.

We have designed HMPL-689 with superior PI3K isoform selectivity, in particular to spare PI3Kγ(gamma) to minimise the serious infection observed with duvelisib due to its strong immune suppression. HMPL-689 potency, particularly at the whole blood level allows for reduced daily doses to minimise compound related toxicity such as the high level of liver toxicity observed with the idelalisib 150mg twice-daily dose regime. HMPL-689's pharmacokinetic properties have been found to be favourable with expected good oral absorption, moderate tissue distribution and low clearance, suitable for once daily dosing. It is also expected that HMPL-689 will have low risk of drug accumulation and drug/drug interaction due to Cytochrome P450 (CYP) inhibition/induction.

Given the above, we believe that HMPL-689 has the potential to be a best-in-class PI3Kδ agent, superior to both idelalisib and duvelisib, and HMP intends to pursue global development on fastest possible timing. To this end, HMPL-689 started IND-enabling regulatory toxicity testing in late 2014 and, subject to success, we expect to commence Phase I clinical trials in late 2015.

HMPL-689 more potent and more selective than idelalisib & duvelisib

IC50 (μM)		HMPL-689	idelalisib	duvelisib
Enzyme	PI3Kδ	0.0008 (n = 3)	0.002	0.001
	PI3Kγ (fold vs. PI3Kδ)	0.114 **(142X)**	0.104 **(52X)**	0.002 **(2X)**
	PI3Kα (fold vs. PI3Kδ)	>1 **(>1,250X)**	0.866 **(433X)**	0.143 **(143X)**
	PI3Kβ (fold vs. PI3Kδ)	0.087 **(109X)**	0.293 **(147X)**	0.008 **(8X)**

HMPL-453: HMP's discovery programme against the novel FGFR target in oncology started final regulatory toxicity testing in 2014 and IND filing is expected in late 2015.

Syk Oncology: HMP has to-date focused development of HMP-523 on immunology, specifically rheumatoid arthritis. However, Syk is a highly relevant target in the field of B-cell malignancies such as lymphoma. To this end, once HMPL-523 has reached its expected efficacious dose for rheumatoid arthritis in Phase I, we intend to continue dose escalation into oncology patients. Furthermore, HMP has additional Syk compounds with different tissue distribution/plasma distribution profiles to HMPL-523, such as HMPL-079, that we also intend to investigate in the oncology arena.

Janssen Collaboration: In addition to our internal discovery activities, our five year collaboration with Janssen in inflammation has been successful and has yielded several compounds against a highly novel inflammation target. This important strategic collaboration will continue in 2015, with our respective teams working extremely well in partnership towards the objective of commencing clinical development.

China Healthcare

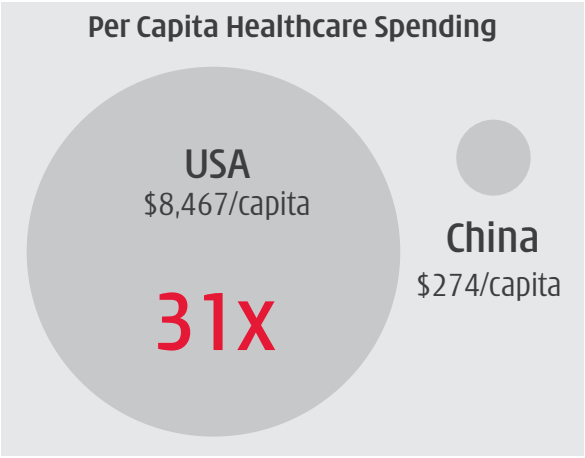
China Healthcare Division

Financial performance: Sales of Chi-Med's subsidiaries and JVs of the China Healthcare Division grew 29% to $509.4 million in 2014 (2013: $394.6m) driven by solid performance in our own, non-third party, business which grew 19% to $409.5 million (2013: $343.0m) as well as a step-change in the scale of our third party pharmaceutical distribution and commercialisation business which grew 93% to $99.9 million (2013: $51.6m) behind the establishment of Hutchison Sinopharm. The outcome of this sales progress, combined with a gradual reduction in prices of certain key raw materials through the year, led to a strong increase in net profit attributable to Chi-Med equity holders which was up 21% to $22.6 million (2013: $18.6m).

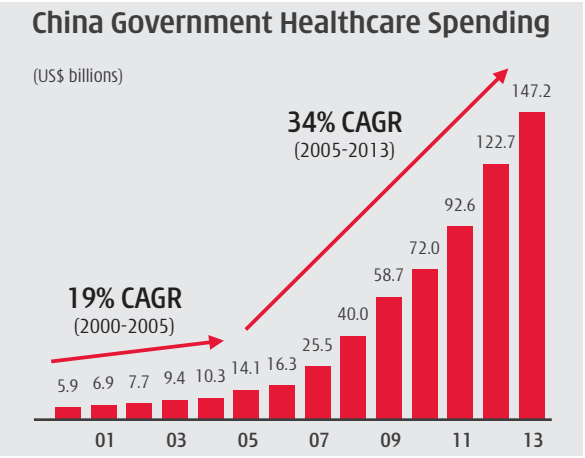
Operating entities and scope: In 2014, we operated four companies under the China Healthcare Division: (i) a prescription drug company, SHPL, which is a 50/50 JV with a wholly-owned subsidiary of Shanghai Pharmaceuticals (SEHK: 2607); (ii) an OTC drug business, HBYS, which is a 50/50 JV with Guangzhou Pharmaceutical (SEHK: 0874); (iii) a GSP pharmaceutical marketing and commercialisation company, Hutchison Sinopharm, which is a 51% owned subsidiary of Chi-Med with Sinopharm (SEHK: 1099) holding the remaining 49%; and (iv) a wholly-owned nutritional supplements company, HHL. We operate two large-scale factories in Shanghai and Guangzhou, and a national sales, marketing, and distribution operation across about 600 cities and towns in China.

The China Healthcare Division currently manufactures and sells two household name brands in the pharmaceutical industry in China, the OTC brand Bai Yun Shan (meaning "White Cloud Mountain", a famous scenic area in Guangzhou) and the Shang Yao brand (literally meaning "Shanghai Pharmaceuticals"). Our products have extensive representation on the current Medicines Catalogue for the National Basic Medical Insurance, Labour Injury Insurance and Childbirth Insurance Systems ("NMC") as well as the current National Essential Medicines List ("Essential Medicines List") which mandates distribution of drugs in China. Our product portfolio is well diversified. We own product licenses for over 200 drugs and registered health supplements in China, with over 65% of our China Healthcare Division's sales in 2014 coming from nine core products – six of them are OTC drugs, two prescription drugs, and one nutritional supplement.

China pharmaceutical market dynamics: China is the world's third largest pharmaceutical market and is widely expected to surpass Japan to become the second largest pharmaceutical market globally in 2015 or 2016. The compound annual growth rate of approximately 20% in the China pharmaceutical industry between 2005 and 2013 has been driven in large part by healthcare reforms and increased Chinese Government spending on healthcare. This spending rose to approximately $147.2 billion in 2013 from $14.1 billion in 2005, a compound average growth rate of 34%.



Source: WHO 2014 report (2011 data).



Source: Deutsche Bank, CEIC, Ministry of Health.

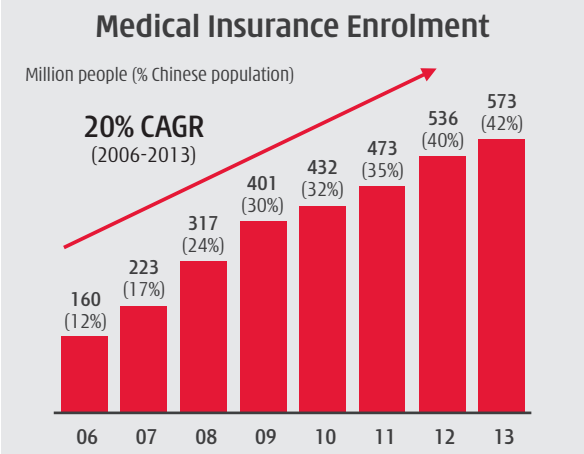
China Healthcare

In 2013, healthcare coverage for the approximately 570 million people (2012: 536m) enroled in the medical insurance scheme for urban employees and residents was reasonably comprehensive with average scheme out flow of about $175 per capita (2012: $156). The 802 million people (2012: 805m) covered by the rural cooperative medical scheme received less with average scheme outflow of about $58 per capita (2012: $48). This imbalance between urban and rural coverage is gradually being addressed through increased employment and urbanisation in China. The growth of these medical insurance schemes, is directly correlated with patient reimbursement for drugs purchased in both the hospital and retail pharmacy channels, and as a consequence drives sales growth in the pharmaceutical industry.

Looking ahead, the room for continued growth of the pharmaceutical industry remains very substantial. Total national healthcare spending in China in 2013 had increased to 5.6% of GDP compared to 4.6% of GDP in 2009, but still remains very low compared to the 17.4% of GDP in the US.

In April 2014 the China National Development and Reform Committee announced a new Low Price Drug List ("LPDL") containing 283 chemical drugs and 250 traditional Chinese medicine ("TCM") drugs. The LPDL policy is aimed at making low-price drugs more profitable for manufacturers to produce and thereby motivate the healthcare system to shift focus away from the high-priced drugs that are burdening the ever-expanding reimbursement system. The LPDL establishes criteria/caps for the daily cost at ‹RMB 3/day for LPDL chemical drugs and ‹RMB 5/day for LPDL TCM drugs. The two main benefits are that manufacturers have flexibility to increase prices within the caps and LPDL drugs are exempt from hospital tenders. HBYS' two main drugs, Banlangen granules and Fu Fang Dan Shen tablets ("FFDS"), cost RMB 1.4/day and RMB 1.2/day respectively, and SHPL's two main drugs, She Xiang Bao Xin pill ("SXBXP") and Danning tablets, cost RMB 2.7/day and RMB 3.3/day respectively, so the LDPL should now allow for material price increases, up to the cap of RMB 5/day, over the mid-term.

Our China Healthcare Division business is focused on the therapeutic areas of cardiovascular and cold/flu, the two leading common diseases diagnosed/treated and two of the top three fastest growing disease categories in rural markets. We have leadership market shares in important sub-segments of these two therapeutic areas, with SXBXP and FFDS in cardiovascular and Banlangen in cold/flu.



Source: National Bureau of Statistics.

In summary, our China Healthcare Division's competitive advantages are: (1) two nationally recognised household name brands (Bai Yun Shan and Shang Yao) underpinned by high quality products; (2) our involvement in two of the biggest and most widely distributed therapeutic areas, cardiovascular and cold/flu; (3) major commercial and manufacturing scale; (4) leadership market shares in the sub-categories and markets in which we compete; and (5) our long-term JVs with three of the top five Chinese pharmaceutical companies.

Prescription Drugs – SHPL:

SHPL grew prescription drug sales 12% to $154.7 million in 2014 (2013: $138.2m), all of which was from existing products. Since 2005, its compound annual sales growth has averaged 23%. This high level of organic growth was sustained over a prolonged period because of the effective expansion of our commercial network across China and the strong position of our main drugs on both the Essential Medicines List and the NMC. While we believe there remains solid growth potential for SHPL's main manufactured products, such as SXBXP, we have taken action in 2014 to restructure our commercial network to allow SHPL to more easily take on new products through exclusive commercialisation agreements with both related and third parties. This restructuring will allow SHPL's sales growth to accelerate over the mid-term.

SHPL holds a portfolio of 74 registered drug licenses in China. At the end of 2014, a total of 31 SHPL products (2013: 32) were included in the NMC with 17 designated as Type-A and 14 as Type-B and with 99.9% of all SHPL sales in 2014 capable of being reimbursed under the NMC. In addition, a total of 14 SHPL drugs, of which 3 are in active production, were included on the Essential Medicines List with one of these drugs being SXBXP, SHPL's proprietary cardiovascular prescription drug.

The cardiovascular drug market is the second largest therapeutic class, after antibiotics, in China with a 13.5% share of the entire pharmaceutical market in 2013 (2012: 13.4%). The market has grown at 16% compounded annually from 2010 to 2013. The development of the cardiovascular market is set to continue to increase in line with the trend in China of an aging population.

Sales of SXBXP, a vasodilator used in the treatment of heart conditions, grew 12% to $138.8 million (2013: $123.6m) making it the China Healthcare Division's single largest product. SHPL is the only manufacturer of SXBXP in China, and the intellectual property of the drug remains well protected. SXBXP is included in the Essential Medicines List and holds Type-A NMC drug status, which means it is fully reimbursed in all provinces under the NMC. The "Confidential State Secret Technology" status protection on SXBXP, as certified by China's Ministry of Science and Technology and State Secrecy Bureau, is in place until late 2016. In addition, SHPL has in the past five years redoubled efforts to patent SXBXP for the long-term and one 20-year patent, covering composition of matter, and three 10-year patents have been awarded and nine remain under review.

Given this increasing patent protection combined with the practical matter of SXBXP formulation and manufacturing process being unpublished, we remain confident that SXBXP will retain its proprietary position in China for the foreseeable future. SHPL also continued to build its second ranked product, Danning tablet with sales growth of 12% to $13.8 million (2013: $12.4m). Danning tablets are a unique Type-B NMC drug with patent protection, which was recently extended through the grant of a new patent, lasting until 2033.

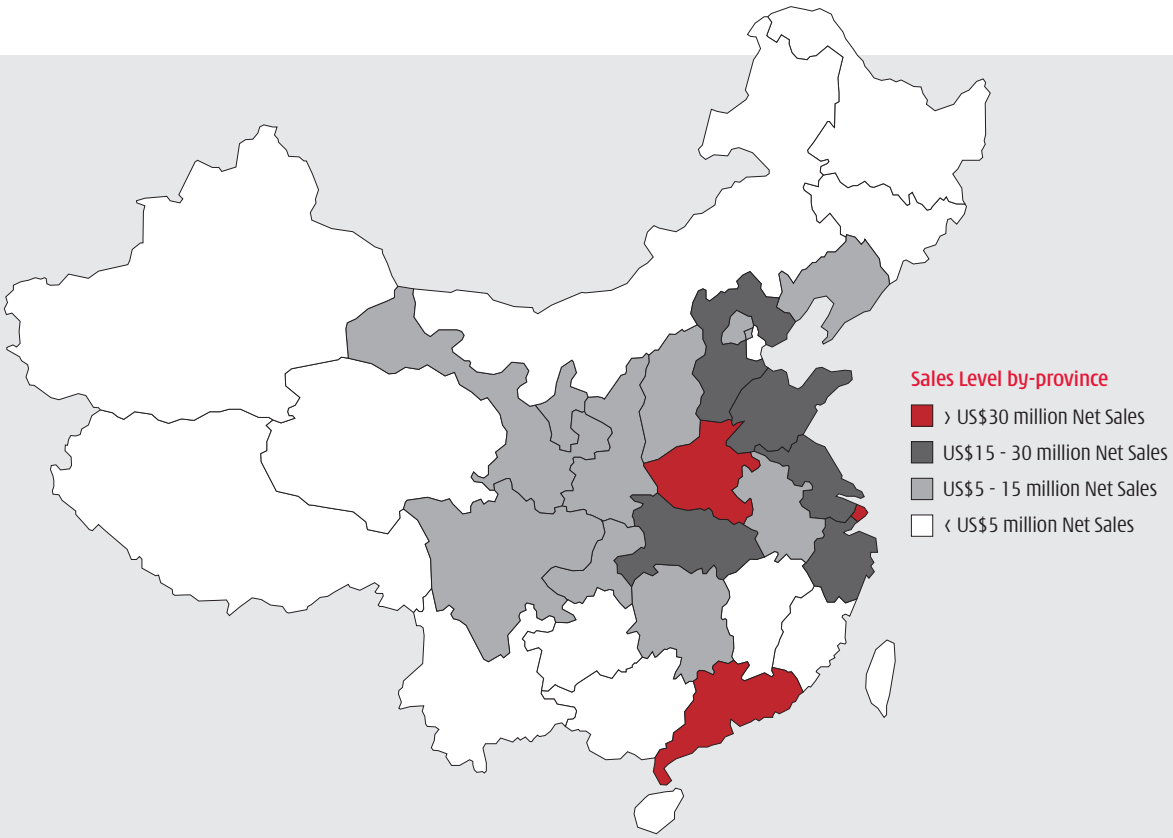
As well as its strong portfolio of reimbursed prescription drugs and its trusted Shang Yao brand, SHPL's main strength remains its powerful, regimented and scalable commercial team. At the end of 2014, SHPL had approximately 1,700 medical sales representatives and marketing staff (2013: approx. 1,600), managing distribution and sales of SXBXP in approximately 13,500 hospitals (2013: approx. 13,000) in China. In 2014 we established a new wholly-owned SHPL GSP distribution company into which we intend to transfer our commercial team.

The new SHPL GSP company will allow our medical sales representatives to sell and detail third party drugs either independently, as with the six new products granted to SHPL by Shanghai Pharmaceuticals in early 2014, or under a shared responsibilities structure with Hutchison Sinopharm, as will be the case with Merck Serono's Concor® and AstraZeneca's Seroquel®.

As previously reported, SHPL is in the process of upgrading its production facilities to new Chinese GMP standards, and expanding them over three-fold through a move to a new approximately 78,000 square metre plot of land in Feng Pu district (about 40km from Shanghai city centre) from its existing site in Pu Tuo district (about 12km from Shanghai city centre). This major undertaking is on-track to complete construction, receive GMP certification and commence production by the end of 2015.

China Healthcare

Powerful commercial platform in China



2014 Sales:

US$509.4m

up +29%

- About 3,000 sales people
- Covering over 600 cities and towns
- Detailing drugs to over 80,000 physicians
- Products distributed in over 13,500 hospitals

OTC Drugs - HBYS:

Sales in HBYS increased 19% in 2014 to $300.8 million (2013: $252.5m). Driving the increase this year was strong performance in sales of HBYS's secondary products, along with increased revenues from cooperation between HBYS and our partner Guangzhou Pharmaceutical, through our new HBYS subsidiary, Hutchison Whampoa Guangzhou Baiyunshan Health & Wellness Co. Ltd. ("HBYS H&W"). This growth was partially offset by a decline in Banlangen granules sales as well as some continued shedding of some lower margin or loss-making legacy OTC drug GSP distribution activities.

HBYS holds a portfolio of 147 registered drug licenses in China. By the end of 2014, a total of 69 HBYS products (2013: 69) were included in the China NMC with 34 designated as Type-A and 35 as Type-B and that 90% of all HBYS sales in 2014 could be reimbursed under the National Insurance Systems. In addition, a total of 28 HBYS drugs, of which 9 are in active production, were included on the Essential Medicines List.

The disease categories, in which our two main OTC products compete, are cardiovascular (FFDS) and cold/flu (Banlangen). The cardiovascular category has been discussed above in the context of SHPL's SXBXP and the growth potential also applies to FFDS tablets. The second key category in which HBYS competes, cold/flu, is also a very relevant market in China. According to a Citigroup rural hospital survey, over 80% of responders identified cold/flu as the most common disease diagnosed/treated in rural areas, and cold/flu also rated as the third fastest growing disease category. We expect this trend to lead to substantial growth in the cold/flu drug market in China and, given HBYS' leadership market share in the generic Banlangen subcategory, a subcategory which represented about 7% of the entire cold/flu market in China in 2010, we believe the outlook for Banlangen growth is positive.

Sales of FFDS tablets, HBYS' OTC treatment for angina, grew 6% in 2014 to $76.3 million (2013: $71.9m). The market price of Sanqi, the main natural raw material in FFDS, increased from about 50 RMB per kilogram in 2008 to 800 RMB per kilogram in mid-2013 prompting HBYS to raise ex-factory pricing on FFDS aggressively from 2009 to 2012. As expected, due to the major increase in cultivation from 2009 to 2013 the supply of Sanqi during 2014 out stripped demand and led to the price of Sanqi gradually dropping from 390 RMB per kilogram in the last quarter of 2013 to 300 RMB per kilogram by July 2014. With 2015 Sanqi supply forecast to exceed demand by approximately four-times, there was a complete collapse of pricing late in 2014 with the average market price dropping to 130 RMB per kilogram. HBYS, which buys about 500,000 kilograms of Sanqi per year, making it one of the largest buyers of Sanqi in China, was able to pay as low as 102 RMB per kilogram in late 2014. This should materially benefit the growth prospects and profitability of FFDS and HBYS during 2015.

Sales of HBYS' market leading generic anti-viral, Banlangen granules, was down 25% to $55.6 million in 2014, against all-time record sales of $74.2 million in 2013, which had been driven by widespread publicity and consumer anxiety around the avian influenza (H7N9) virus outbreak in China during the first half of 2013. 2014 was an abnormally quiet flu season in China, however we see that Banlangen is returning to growth given that 2015 appears to be turning into a serious flu season in the region. The most reliable source of third party information to gauge the severity of the flu season in China (particularly southern China) would be the Hong Kong Department of Health ("HK DoH") which reported 300 severe cases, requiring intensive care unit admission, of influenza (210 deaths) from 2 January through 16 February 2015, as compared to 266 severe cases (133 deaths) in the entire flu season last year (January to late April 2014). The predominant virus being influenza A (H3N2), the HK DoH has stated that overall influenza activity has continued to rise rapidly since late December 2014 and is currently at a very high level, including the admission rate of influenza among elderly aged 65 years or above, exceeding the peak levels observed in the past few years.

The sales of HBYS' secondary products were in aggregate up 36% to $41.4 million (2013: $30.5m) during 2014. Kou Yan Qing granules for periodontitis grew sales 13% to $18.3 million (2013: $16.3m); Nao Xin Qing tablets for heart disease and stroke prevention was up 45% to $14.7 million (2013: $10.1m); and sales of Xiao Yan Li Dan tablets for liver/gall bladder more than doubled sales to $8.3 million (2013: $4.1m). In recent years, significant efforts have been made to increase the marketability of HBYS' secondary products. This includes: research on Nao Xin Qing tablets which resulted in HBYS winning the China State Council Science and Technology Achievement Silver Medal Award; and formulation research to establish a new dosage form of Kou Yan Qing (throat lozenge).

New revenue streams also emerged in 2014 from deeper operational integration and synergy with our partner Guangzhou Pharmaceutical through the HBYS H&W subsidiary. HBYS H&W recorded sales of $63.4 million (2013: $10.2m) primarily from sales of various Guangzhou Pharmaceutical health and wellness drinks and health food products as well as centralised raw material purchasing, thereby enabling Guangzhou Pharmaceutical and HBYS to leverage joint scale to gain efficiencies. The operations of HBYS H&W are profitable, albeit low single digit margin, and represent an important strategic building-block for HBYS. It is the intention of both HBYS and Guangzhou Pharmaceutical to expand these activities, for example, by utilising the low-cost extraction capacity of our new Bozhou factory, detailed below, to provide extraction services to the broader Guangzhou Pharmaceutical group.

China Healthcare

HBYS has been working to upgrade to new Chinese GMP standards, and expand its production facilities approximately three-fold through migration of activities from its existing site in Bai Yun district (about 9km from Guangzhou city centre). Originally, our plan was to split future manufacturing activities into two functions, extraction (processing) in Bozhou (Anhui province) and formulation (final product/packaging) in Zhong Luo Tan (Guangdong province). During the past year we have broadened the plan for Bozhou, because of its low cost structure and logistic efficiencies due to its central China location, to include formulation on both FFDS and Banlangen.

Since breaking ground on the approximately 230,000 square metre plot of land for the Bozhou plant in 2013, HBYS has completed all major construction works on the first phase of the Bozhou plant and is on-track to receive GMP certification and begin migrating extraction and formulation to this site in late-2015. Given the increase in scope of Bozhou, our mid-term plan, to build a new formulation facility on an approximately 66,000 square metre plot of land in Zhong Luo Tan district (about 40km from Guangzhou city centre), has been scaled-down and timing pushed-back.

The resulting capacity expansion, primarily from Bozhou, will allow HBYS to scale-back the $15.5 million spent in 2014 on contract manufacturing, thereby both reducing contractor margins and increasing direct control on quality.

Prescription Drug Marketing and Commercialisation - Hutchison Sinopharm:

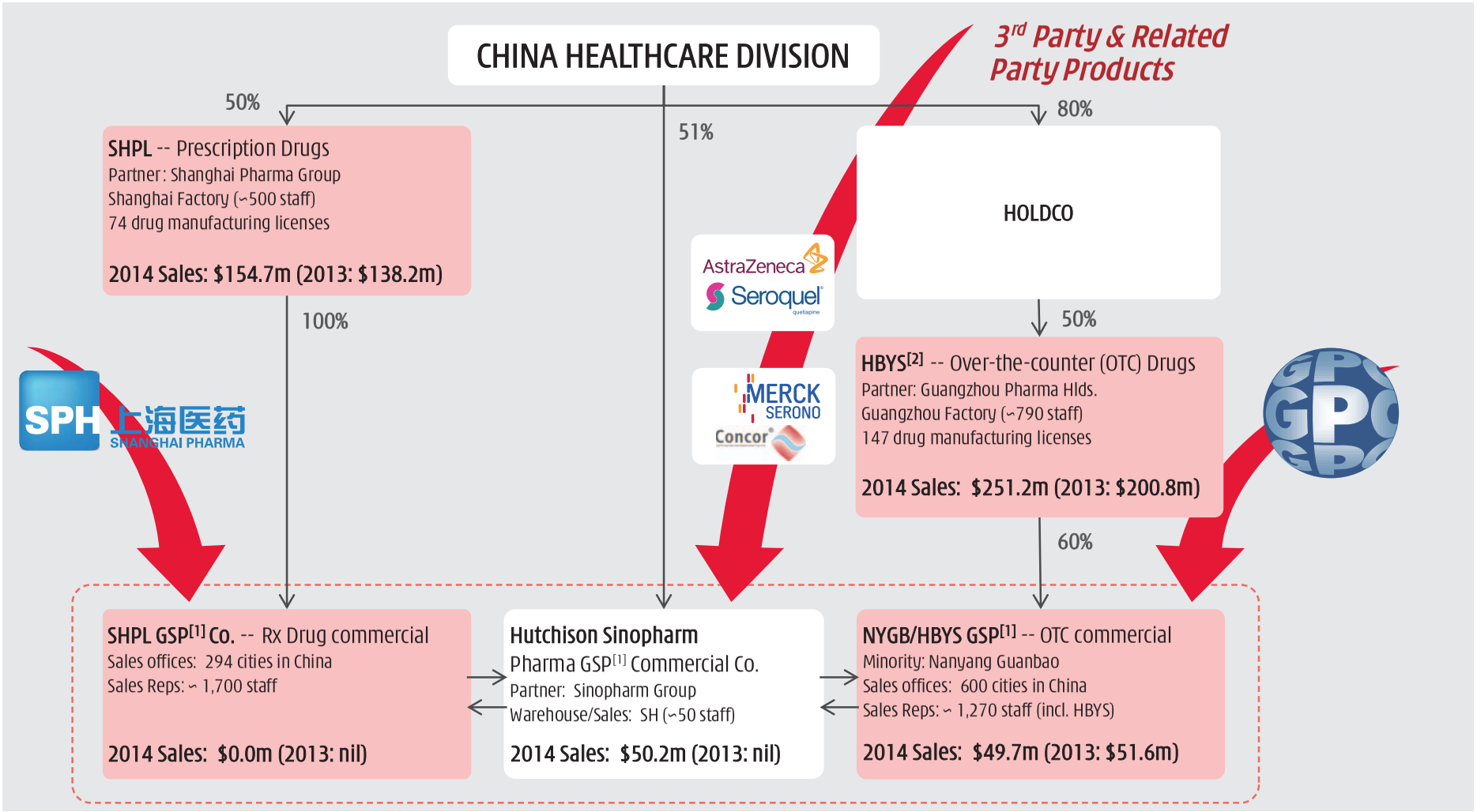
In April 2014 we commenced operation of the new Hutchison Sinopharm business, our 51% Chi-Med held drug marketing and commercialisation company in China. Sinopharm, China's largest distributor of pharmaceutical and healthcare products and a leading value added supply chain service provider, holds the balance 49% share. Hutchison Sinopharm was established by the acquisition of Sinopharm Holding HuYong Pharmaceutical (Shanghai) Co., Ltd. ("Huyong"), an existing Shanghai-based GSP company, thereby giving the company a base of operations from which to make a fast start.

During 2014 the integration of Huyong went to plan and sales of Hutchison Sinopharm totalled $50.2 million (2013: nil). Gross profit on the existing low margin legacy logistics and distribution business of Hutchison Sinopharm was 4.8% or $2.4 million, which we are now investing into building the organisation needed to transform Hutchison Sinopharm from a low margin logistics and distribution business into a higher margin, full-service prescription drug commercialisation company. While Hutchison Sinopharm builds-out its own organisation and in-house commercial capability it will work closely with the new SHPL GSP Company to leverage its existing national medical sales network in attracting new business opportunities.

During 2014 and early 2015, Hutchison Sinopharm signed several deals with both related and third party companies to begin providing drug marketing and commercialisation services including: (1) exclusive rights in several provinces to commercialise Concor®, Merck Serono's beta-blocker (hypertension) with global sales of over $530 million in 2014 and the number two market position in China; (2) exclusive rights across all China to commercialise Seroquel®, AstraZeneca's bi-polar disorder/schizophrenia drug with global sales of $1.4 billion in 2014 and the leading market position including original patent holder status in China, which allows for preferential pricing; and (3) exclusive rights in Shanghai community hospitals to commercialise Kou Yan Qing granules, HBYS' prescription periodontitis drug.

On average, the gross profit margins for full-service drug marketing and commercialisation can range from 25% to 60% depending on the product, geography and performance relative to annual sales targets thereby making it an attractive business opportunity for Chi-Med, particularly if group synergies can keep incremental costs under control.

A powerful commercial platform in China
Quickly securing quality 3rd party products - Seroquel® & Concor®



[1] GSP = Good Supply Practice Certification (license to sell and distribute third party drug products); [2] including HBYS 100% subsidiary - Hutchison Whampoa Guangzhou Baiyunshan Health & Wellness Co. Ltd.

(US$ millions)

China Healthcare

Nutritional Supplements – HHL:

In 2014, the sales of our wholly-owned subsidiary HHL declined 9% to $3.6 million (2013: $4.0m) as a result of our strategy of tightening of working capital focusing on profitability. Consequently, HHL net profit attributable to Chi-Med equity holders grew 64% to $1.0 million (2013: $0.6m). Actual retail sales of HHL's Zhi Ling Tong ("ZLT") infant and pregnant mother supplements products totalled approximately $20 million in 2014 (approximately 450,000 units at an average retail price of $45/unit). This reflects HHL's ex-factory price being only about 18% of the retail price due to our exclusive distributor commercialisation model in which the distributor pays all marketing and commercialisation cost. This contract sales and marketing system has been used in the past given that HHL has been sub-scale and could not support the cost of an in-house organisation to manage ZLT. We expect that this structure might evolve in future as Hutchison Sinopharm now gives us an alternative commercial pathway controlled directly by Chi-Med.

All HHL's sales were accounted for by its ZLT infant and pregnant mother supplements brand. Pregnancy supplementation is an important market in China in which HHL currently sells three ZLT licensed health supplement products: ZLT DHA capsules, the omega-3 product for use by pregnant and lactating women to promote brain and retinal development in babies; ZLT calcium powder for bone growth; and ZLT probiotic powder for toddler immunity.

Property Update on HBYS/SHPL Production Expansion:

HBYS' existing facilities currently occupy two plots of land, which after planning adjustments, totalled 86,100 square metres. The main HBYS factory is on a 59,400 square metre plot of land and on the second 26,700 square metre plot of land ("Plot 2") there is a disused printing facility. Our strategy has been to hand-back and receive compensation on the disused Plot 2 as soon as possible. Infrastructure is already in place, including the Tong He metro station which was opened in November 2010 and is only 800 metres from Plot 2. Precedent auction values for similar plots of land in the immediate vicinity of Plot 2 would, under current policy, result in compensation to HBYS for Plot 2 alone of approximately $66 million as compared to the current HBYS book value, as at 31 December 2014, of $1.4 million. During 2014 we encountered several hurdles at the local government level in Guangzhou that have delayed the transaction of Plot 2, and it is unclear exactly when these issues will be resolved. However, what is not in doubt is the order of magnitude of compensation, due to its formulaic calculation, nor that this compensation to HBYS should materialise at some point in the short to mid-term.

We have made progress in negotiations with local government in Shanghai regarding the return of land use rights on SHPL's existing approximately 58,000 square metre site in Pu Tuo district. Importantly, in 2014, the Shanghai Municipal Government published a detailed plan for the redevelopment of a 4.6 square kilometre zone in Tao Pu district. SHPL's existing site is located in the centre of this redevelopment zone within 300 metres of the Wu Wei road metro station and has been classified as Category 3 residential. The cost of the move to the new SHPL factory in Feng Pu, with three times the designed capacity of our existing factory, is estimated at approximately $90 million. We expect to receive compensation that should come close to offsetting this investment. The book value of the existing SHPL site in Pu Tuo district was $4.0 million as at 31 December 2014.

Consumer Products

Consumer Products Division

Our Consumer Products Division is an extension of our China Healthcare operation which enables Chi-Med to capture part of the growing consumer trend towards healthy living and to capitalise on the considerable consumer products synergies with the broader Hutchison Whampoa group. We aim to build a profitable scale business systematically over time behind a portfolio of relevant and unique health-related consumer products.

Overall, the Consumer Products Division's sales grew 6% in 2014 to $13.2 million (2013: $12.5m). This was driven primarily by solid growth in the HHO business despite a change in the commercial model we employ in China. Net profit attributable to Chi-Med equity holders was $1.3 million (2013: net loss $1.9m) resulting from: reduced HHO losses in China as well as increased scale throughout the balance of Asia; and an award resulting from a positive outcome in arbitration proceedings against a Swiss infant formula supplier.

The Consumer Products Division has two main operating entities: an organic and natural products business, HHO, which is a JV with Hain Celestial; and Hutchison Consumer Products Limited, a consumer products distribution operation. Through these entities, the Consumer Products Division distributes and markets 31 brands of primarily healthy living focused products in 48 food, beverage, baby, and beauty care categories.

Hutchison Hain Organic:

HHO has made continued progress in the distribution of the broad range of several hundred imported Hain Celestial organic and natural products. HHO sales in 2014 grew 14% to $11.5 million (2013: $10.2 million). This was driven primarily by 125% growth, to $2.3 million, in organic and natural baby food business under the Earth's Best® brand.

Sales of the broad range of HHO's products grew 13% in our established Hong Kong market to $6.7 million, and made very good in-roads in the Philippines where sales were up 46% to $1.3 million; Singapore up 29% to $1.2 million; and Taiwan up 68% to $1.3 million. Sales in China however dropped 81% to $0.1 million (2013: $0.6m) as we moved to an exclusive third party distributor model versus our previous loss making in-house commercial model. This change will not only improve the profitability of HHO significantly in 2015 but free up our organisation to focus on easier to access markets and specific initiatives tailored to the Chinese consumer.

China remains the major market that we are trying to break into with HHO and in 2015 we will renew our efforts to enter the China infant formula market with a launch of Earth's Best® organic infant formula. In late 2010 we launched Earth's Best® organic infant formula in China, but as a result of issues at our Swiss-based contract manufacturer, we were forced to discontinue the initiative in 2013. Since that time we initiated arbitration proceedings against the Swiss-based manufacturer and were subsequently awarded and received $2.5 million in damages in June 2014. Furthermore, we have worked closely with Hain Celestial and their US-based infant formula suppliers to procure Chinese organic certification on a US-produced Earth's Best® organic infant formula product which we intend to launch in 2015. We believe this initiative will be highly unique to Chinese consumers and with stable and reliable product supply has a good chance to succeed.

Operations Review

Current Trading and Outlook for the Group

We believe that 2015 should be another very good year for Chi-Med across all three divisions.

We look forward to publishing extensive clinical data across multiple drug candidates during 2015. We will publish data from fruquintinib's third line colorectal cancer and NSCLC Phase II PoC studies along with important results from the Phase Ib dose finding study in second line gastric cancer. AZD6094 is set to report interim data on the Phase II PRCC study along with results from several of our seven other Phase Ib gastric and lung cancer studies in aberrant c-Met patient populations. HMPL-523 will complete and publish its eagerly awaited Phase I data in 2015, which if positive, should lead to a major global licensing deal on this important first-in-class Syk inhibitor in inflammation. In all cases, we will outline next stage clinical plans when we report results.

We will imminently start US Phase Ib/II trials on sulfatinib in NET, the first oncology candidate that we have taken through PoC in China and expanded globally ourselves. We also intend to start Phase I studies on HMPL-689 (PI3Kδ) and HMPL-453 (FGFR) late in the year as well as, hopefully, our Janssen collaboration compound. Mid-year, we will also decide next steps for HMPL-004, a drug candidate we continue to believe has good potential, with Nestlé Health Science.

We believe that these activities will further prove the efficacy and safety of our pipeline and lead to a rapid increase in their market value as well as triggering milestone payments from existing partners and/or further licensing and collaboration activity.

Sales and profit in our China Healthcare Division have started the year well ahead of 2014 levels. The steep drop in key raw material prices late last year will help us throughout 2015, and the increasingly severe 2014/15 flu season in China looks set to continue. The new commercial structure that was established in 2014 around the Hutchison Sinopharm and SHPL GSP companies is set to get off to a very good start in 2015 behind the new commercial deals with AstraZeneca on Seroquel® and Merck Serono on Concor®. We are also continuing to work towards creating considerable value through our plans to relocate and expand our China manufacturing capabilities and hope to see compensation begin to flow through in this year.

The Consumer Products Division has started the year well and we expect to focus HHO on the successful re-launch of Earth's Best® organic infant formula in China in 2015.

We look forward to 2015 with the expectation of making continued great strides forward on all Chi-Med's businesses.

Christian Hogg
Chief Executive Officer

25 February 2015

Biographical Details Of Directors

1

Simon TO

Executive Director and Chairman

Mr To, aged 63, has been a Director since 2000 and an Executive Director and Chairman since 2006. He is also Chairman of the Remuneration Committee and a member of the Technical Committee of the Company. He is managing director of Hutchison Whampoa (China) Limited ("Hutchison China") and has been with Hutchison China for over thirty years, building its business from a small trading company to a billion dollar investment group. He has negotiated major transactions with multinationals such as Procter & Gamble ("P&G"), Lockheed, Pirelli, Beiersdorf, United Airlines and British Airways.

Mr To's career in China spans more than thirty years and he is well known to many of the top Government leaders in China. Mr To is the original founder of Hutchison Whampoa Limited's ("Hutchison Whampoa") TCM business and has been instrumental in the acquisitions made to date. He received a First Class Honours Bachelor's Degree in Mechanical Engineering from Imperial College, London and an MBA from Stanford University's Graduate School of Business.

2

Christian HOGG

Executive Director and Chief Executive Officer

Mr Hogg, aged 49, has been an Executive Director and Chief Executive Officer since 2006. He is also a member of the Technical Committee of the Company. He joined Hutchison China in 2000 and has since led all aspects of the creation, implementation and management of the Company's strategy, business and listing. This includes the creation of the Company's start-up businesses and the acquisition and operational integration of assets that led to the formation of the Company's China joint ventures.

Prior to joining Hutchison China, Mr Hogg spent ten years with P&G starting in the US in Finance and then Brand Management in the Laundry and Cleaning Products Division. Mr Hogg then moved to China to manage P&G's detergent business followed by a move to Brussels to run P&G's global bleach business. Mr Hogg received a Bachelor's degree in Civil Engineering from the University of Edinburgh and an MBA from the University of Tennessee.

3

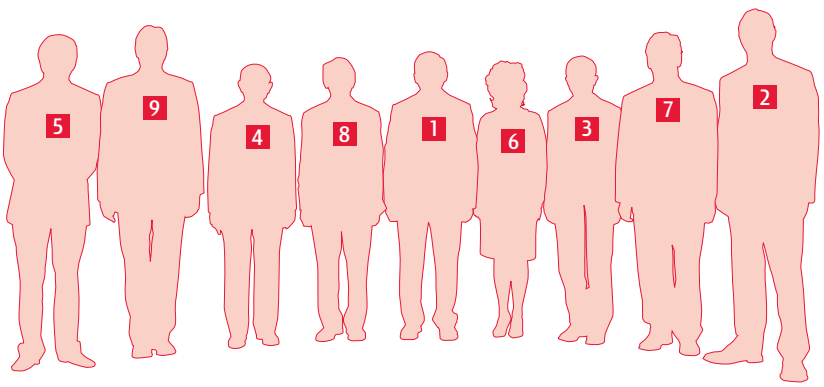
Johnny CHENG

Executive Director and Chief Financial Officer

Mr Cheng, aged 48, has been an Executive Director since 2011 and Chief Financial Officer of the Company since 2008. He is also a director of Hutchison MediPharma (Hong Kong) Limited, Sen Medicine Company Limited, Hutchison MediPharma Limited, Hutchison MediPharma (Suzhou) Limited and Hutchison MediPharma (Yulin) Limited. He was a director of Hutchison Healthcare Limited during 2009.

Prior to joining the Company, Mr Cheng was Vice President, Finance of Bristol Myers Squibb in China and was a director of Sino-American Shanghai Squibb Pharmaceuticals Ltd. and Bristol-Myers Squibb (China) Investment Co. Ltd. in Shanghai between late 2006 and 2008.

Mr Cheng started his career as an auditor with Price Waterhouse in Australia and then KPMG in Beijing before spending eight years with Nestle China where he was in charge of a number of finance and control functions in various operations. Mr Cheng received a Bachelor of Economics, Accounting Major from the University of Adelaide and is a member of the Institute of Chartered Accountants in Australia.



Biographical Details Of Directors

4

Shigeru ENDO

Non-executive Director

Mr Endo, aged 80, has been a Non-executive Director since 2008. He is chief executive officer and a director of Hutchison Whampoa Japan K.K. and a director of Sanwa Enterprises Limited. He worked for over 40 years with Mitsui & Co., Ltd ("Mitsui"), where he became senior executive managing director and a member of the main board of Mitsui.

Mr Endo received a Bachelor of Arts degree in Economics from Keio University. During his career, Mr Endo, a Japanese citizen and fluent English and Mandarin speaker, has managed large-scale business operations in Japan, China and the United States.

5

Christian SALBAING

Non-executive Director

Mr Salbaing, aged 65, has been a Non-executive Director since 2006. He is deputy chairman of Hutchison Whampoa (Europe) Limited, the European headquarters company of Hutchison Whampoa. He is also deputy chairman of Hutchison Whampoa Europe Investments S.à r.l., the principal holding company for the businesses of Hutchison Whampoa in Europe. He represents Hutchison Whampoa across its European businesses, in particular with key strategic partners of the Group, the European Commission and member governments and in relation to regulatory and public affairs matters. He is a member of the ITU Telecom Board and the GSMA Limited Board.

Mr Salbaing received an LL.L. degree in Civil Law from the University of Montreal in 1970 and a Juris Doctor degree from the University of San Francisco in 1974. He is a member of the Bars of Quebec, California (inactive status since 2006) and Paris.

6

Edith SHIH

Non-executive Director and Company Secretary

Ms Shih, aged 63, has been a Non-executive Director and Company Secretary since 2006 and company secretary of Group companies since 2000. She is also head group general counsel and company secretary of Hutchison Whampoa, a director of Hutchison International Limited, as well as director and company secretary of numerous companies in the Hutchison Whampoa group. Ms Shih has been employed by Hutchison Whampoa since 1991 and oversees all legal, regulatory, compliance and corporate secretarial affairs of the Hutchison Whampoa group. She is the Vice President of The Institute of Chartered Secretaries and Administrators and the Immediate Past President of The Hong Kong Institute of Chartered Secretaries. She is also a member and convenor of a Financial Reporting Review Panel of the Financial Reporting Council.

Ms Shih received a Bachelor of Science degree in Education and a Master of Arts degree from the University of the Philippines and a Master of Arts degree and a Master of Education degree from Columbia University, New York. Ms Shih is a qualified solicitor in England and Wales, Hong Kong and Victoria, Australia and a Fellow of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

7

Michael HOWELL

Independent Non-executive Director

Mr Howell, aged 67, has been an Independent Non-executive Director since 2006. He is also Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. From 2002 to 2006, Mr Howell was chief executive of Transport Initiatives Edinburgh Ltd., a public-sector company responsible for major transportation projects in Scotland, including a new tram system for Edinburgh. From 1998 to 2002, he was executive chairman of FPT Group Limited, a global distribution company. Mr Howell's prior career was in manufacturing, and transportation services where, after beginning his career in the UK motor industry, he went on to hold senior positions at Cummins Engine and General Electric in the USA and Europe, and Railtrack Group plc in the UK. Mr Howell holds directorships in other private and public companies in the UK and USA.

Mr Howell attended Trinity College, Cambridge receiving his Master's degree in Engineering/Economics from Cambridge University (UK), followed by MBAs from INSEAD (France) and Harvard University (USA).

8

Christopher HUANG

Independent Non-executive Director

Professor Huang, aged 63, has been an Independent Non-executive Director since 2006. He is also Chairman of the Technical Committee and a member of the Audit Committee of the Company. He is currently Professor of Cell Physiology, and Fellow and Director of Studies in Medicine at Murray Edwards College, University of Cambridge, UK. Professor Huang has spent over twenty years in academia and research in the field of cellular and systems physiology. He has authored over 300 publications in the form of monographs, books, papers and articles whilst pursuing research collaborations with major pharmaceutical companies and holding editorships of *Biological Reviews, the Journal of Physiology* and *Europace*.

Professor Huang completed his Bachelor's degrees in Physiological Sciences (BA) and Clinical Medicine (BMBCh) at The Queen's College, Oxford, and his postgraduate (PhD) degree at the University of Cambridge. He has also been awarded higher medical (DM) and scientific (DSc) degrees by both Oxford and Cambridge. He is also a Fellow of the Society of Biology (FSB), and is currently President of the Cambridge Philosophical Society.

9

Christopher NASH

Independent Non-executive Director

Mr Nash, aged 56, has been an Independent Non-executive Director since 2006 and was appointed as Senior Independent Director in September 2006. He is also a member of the Audit Committee and the Remuneration Committee of the Company. He is Chairman of Tempus Energy Limited, a non-executive director of GKN Evo eDrive Systems Ltd and Gasrec Limited and until recently, was a non-executive director of NTR plc and a Director of Current OpenGrid Limited. Mr Nash's career has spanned over thirty five years during which he was senior vice president and group head of strategy and corporate finance at Global Crossing Ltd., where he also served on the management board and several divisional boards. In the mid-1990s he was group head of corporate finance at Cable & Wireless Plc., and before that a director of North West Water International Ltd. Earlier in his career Mr Nash worked for S.G. Warburg and Co. Ltd. and also spent some time in the venture capital sector. During his career, Mr Nash has spent significant periods of time in Asia.

Mr Nash received a Bachelor's degree in Civil Engineering from Imperial College, London and an MBA from Manchester Business School.

Report Of The Directors

The Directors have pleasure in submitting to shareholders their report and statement of audited accounts for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company of a healthcare group whose main country of operation is China. It is focused on researching, developing, manufacturing and selling pharmaceuticals and health oriented consumer products.

BUSINESS REVIEW

A detailed review of the performance, business activities and future development of the Company and its subsidiaries (the "Group") is set out in the Chairman's Statement and the Operations Review.

RESULTS

The Consolidated Income Statement is set out on page 52 and shows the Group's results for the year ended 31 December 2014.

DIVIDENDS

No interim dividend for the year ended 31 December 2014 was declared and the Directors do not recommend the payment of a final dividend for the year ended 31 December 2014.

RESERVES

Movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on pages 56 to 57.

NON-CURRENT ASSETS

Particulars of the movements of non-current assets of the Group are set out in Notes 14 to 19 to the accounts.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 23 to the accounts.

DIRECTORS

The Directors of the Company as at 31 December 2014 were:

Executive Directors:

Simon To
Christian Hogg
Johnny Cheng

Report Of The Directors

Non-executive Directors:

Shigeru Endo
Christian Salbaing
Edith Shih

Independent Non-executive Directors:

Michael Howell
Christopher Huang
Christopher Nash

Mr Shigeru Endo, Mr Christian Salbaing, Ms Edith Shih, Mr Christopher Nash, Mr Michael Howell and Professor Christopher Huang will retire by rotation at the forthcoming annual general meeting under the provisions of Article 91(1) of the Articles of Association of the Company and, being eligible, will offer themselves for re-election.

The Directors' biographical details are set out on pages 35 to 36.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2014, the interests in the shares of the Company held by the Directors and their families were as follows:

Name of Director	Number of ordinary shares held
Christian Hogg	1,088,182
Johnny Cheng	192,108
Michael Howell	153,600
Simon To	41,000
Christopher Nash	30,542
Edith Shih	20,000
Christopher Huang	2,475

SHARE OPTION SCHEMES AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

(i) Share option scheme of the Company

The Company conditionally adopted a share option scheme on 4 June 2005 which was amended on 21 March 2007 (the "Share Option Scheme"). Pursuant to the Share Option Scheme, the Board of Directors of the Company may, at its discretion, offer any employees and directors (including Executive and Non-executive Directors but excluding Independent Non-executive Directors) of the Company, holding companies of the Company and any of their subsidiaries or affiliates, and subsidiaries or affiliates of the Company share options to subscribe for shares of the Company.

The following share options were outstanding under the Share Option Scheme during the year ended 31 December 2014:

Name or category of participants	Effective date of grant of share options	Number of share options held at 1 January 2014	Granted during 2014	Exercised during 2014	Expired/lapsed/ cancelled during 2014	Number of share options held at 31 December 2014	Exercise period of share options	Exercise price of share options
								£
Directors								
Christian Hogg	19.5.2006 [1]	768,182	-	(768,182)	-	-	19.5.2006 to 3.6.2015	1.090
Johnny Cheng	25.8.2008 [3]	64,038	-	-	-	64,038	25.8.2008 to 24.8.2018	1.260
Employees in aggregate	19.5.2006 [1]	76,818	-	(76,818)	-	-	19.5.2006 to 3.6.2015	1.090
	11.9.2006 [2]	26,808	-	-	-	26,808	11.9.2006 to 18.5.2016	1.715
	18.5.2007 [4]	40,857	-	-	-	40,857	18.5.2007 to 17.5.2017	1.535
	28.6.2010 [3]	102,628	-	(102,628)	-	-	28.6.2010 to 27.6.2020	3.195
	1.12.2010 [3]	177,600	-	(77,600)	-	100,000	1.12.2010 to 30.11.2020	4.967
	24.6.2011 [3]	150,000	-	-	-	150,000	24.6.2011 to 23.6.2021	4.405
	20.12.2013 [3]	896,386	-	-	(593,686) [5]	302,700	20.12.2013 to 19.12.2023	6.100
Total:		2,303,317	-	(1,025,228)	(593,686)	684,403		

Notes:

(1) The share options were granted on 4 June 2005, conditionally upon the Company's admission to AIM which took place on 19 May 2006. The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of 50% on 19 May 2007 and 25% on each of 19 May 2008 and 19 May 2009.

(2) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of one-third on each of 19 May 2007, 19 May 2008 and 19 May 2009.

(3) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of 25% on each of the first, second, third and fourth anniversaries of the effective date of grant.

(4) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of one-third on each of the first, second and third anniversaries of the effective date of grant.

(5) 593,686 share options were cancelled with the consent of the relevant eligible employees in exchange for new share options of a subsidiary.

(ii) Share option schemes for existing shares of Hutchison MediPharma Holdings Limited

Hutchison MediPharma Holdings Limited ("HMHL"), a subsidiary of the Company, adopted a share option scheme on 6 August 2008 (as amended on 15 April 2011) and another share option scheme on 17 December 2014 (together the "HMHL Share Option Schemes"). The HMHL Share Option Schemes are share-based incentive programmes for employees or directors of HMHL and any of its holding company, subsidiaries and affiliates (each an "Eligible Employee"). Each Eligible Employee is eligible to participate in the HMHL Share Option Schemes and share options may be granted to him or her to acquire existing shares in HMHL subject to the rules of the HMHL Share Option Schemes.

Report Of The Directors

The following share options were outstanding under the HMHL Share Option Schemes during the year ended 31 December 2014:

Category of participants	Effective date of grant of share options	Number of share options held at 1 January 2014	Granted during 2014	Exercised during 2014	Expired/lapsed/ cancelled during 2014	Number of share options held at 31 December 2014	Exercise period of share options	Exercise price of share options US$
Employees in aggregate	6.8.2008	57,000	-	(40,000)	(17,000)	-	6.8.2008 to 5.8.2014	1.28
	5.10.2009	50,000	-	(30,000)	(20,000)	-	5.10.2009 to 4.10.2015	1.52
	3.5.2010	300,000	-	-	(300,000)	-	3.5.2010 to 2.5.2016	2.12
	2.8.2010 [1]	25,000	-	(10,000)	(10,000)	5,000	2.8.2010 to 1.8.2016	2.24
	18.4.2011 [2]	106,420	-	(924)	(86,096)	19,400	18.4.2011 to 17.4.2017	2.36
	17.12.2014 [3]	N/A	1,187,372	-	-	1,187,372	17.12.2014 to 19.12.2023	7.82
Total:		538,420	1,187,372	(80,924)	(433,096) [4]	1,211,772		

Notes:

(1) The outstanding share options are fully vested and exercisable within a period of 6 years from the effective date of grant.

(2) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of 25% on each of the first, second, third and fourth anniversaries of the effective date of grant.

(3) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of 25% on 20 December 2014 and 25% on each of the first, second and third anniversaries of such date.

(4) Out of 433,096 share options, (a) 39,884 were cancelled with the consent of the relevant eligible employees in exchange for cash consideration payable over a period of four years and (b) 393,212 lapsed following cessation of employment of the relevant eligible employees.

SIGNIFICANT SHAREHOLDINGS

As at 17 February 2015, according to the records of the Company, the following holders held interests in 3% or more of the issued share capital of the Company:

Name	Number of ordinary shares held	Approximate % of issued share capital
Hutchison Healthcare Holdings Limited [1] ("HHHL")	36,666,667	69.08%
Computershare Company Nominees Limited [2] ("CCNL")	16,331,180	30.77%
FIL Limited [3]	2,640,514	4.97%
Slater Investments Limited [3]	2,263,000	4.26%

Notes:

(1) HHHL is a private company registered in the British Virgin Islands and carries on business as a holding company. HHHL is an indirect wholly-owned subsidiary of Hutchison Whampoa Limited which is registered in Hong Kong.

(2) CCNL is a company registered in Scotland, United Kingdom under company number SC167175 and is acting as the custodian of the depository interests register.

(3) Major interests in shares of the Company notified to the Company under the Vote Holder and Issuer Notification Rules of the Disclosure Rules and Transparency Rules.

AUDITOR

The accounts have been audited by PricewaterhouseCoopers who will retire and, being eligible, will offer themselves for re-appointment.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held on Friday, 24 April 2015 at 10:00 am at 4th Floor, Hutchison House, 5 Hester Road, Battersea, London. Details of the resolutions proposed are set out in the Notice of the AGM.

By Order of the Board

Edith Shih
Director and Company Secretary

25 February 2015

Corporate Governance Report

The Company strives to attain and maintain high standards of corporate governance best suited to the needs and interests of the Company and its subsidiaries (the "Group") as it believes that effective corporate governance practices are fundamental to safeguarding shareholder interests and enhancing shareholder value. Accordingly, the Company has adopted corporate governance principles that emphasise a quality board of Directors (the "Board"), effective internal controls, stringent disclosure practices, transparency and accountability. It is, in addition, committed to continuously improving these practices and inculcating an ethical corporate culture. The Company has applied the principles of the UK Corporate Governance Code (the "Code") notwithstanding that the Company's shares are admitted to trade on AIM, and is therefore not required to comply with the Code.

Set out below are the corporate governance practices adopted by the Company.

THE BOARD

The Board is responsible for directing the strategic objectives of the Company and overseeing the management of the business. Directors are charged with the task of promoting the success of the Company and making decisions in the best interests of the Company. The Board is satisfied that it meets the Code's requirement for effective operation.

The Board, led by the Chairman, Mr Simon To, determines and monitors the Group's long term objectives and commercial strategies, annual operating and capital expenditure budgets and business plans, evaluates the performance of the Company, and supervises the management of the Company ("Management"). Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

As at 31 December 2014, the Board comprised nine Directors, including the Chairman, Chief Executive Officer, Chief Financial Officer, three Non-executive Directors and three Independent Non-executive Directors (one of whom is Senior Independent Director). Biographical details of the Directors are set out in the "Biographical Details of Directors" section on pages 35 to 36 and on the website of the Company (www.chi-med.com).

During 2014, the Board reviewed its practices on Board diversity, formalised and adopted a policy which recognises the benefits of a Board that possesses a balance of skills, experience, expertise, independence and knowledge and diversity of perspectives appropriate to the requirements of the businesses of the Company.

Board appointment has been, and will continue to be, made based on attributes of candidates that complement and expand the skills, experience, expertise, independence and knowledge of the Board as a whole, taking into account gender, age, professional experience and qualifications, cultural and educational background, and any other factors that the Board might consider relevant and applicable from time to time towards achieving a diverse Board.

The Board diversity policy is available on the website of the Company (www.chi-med.com). The Board will review and monitor from time to time the implementation of the policy to ensure its effectiveness and application.

For a Director to be considered independent, the Board must be satisfied that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements of the Code.

The role of the Chairman is separate from that of the Chief Executive Officer. Such division of responsibilities reinforces the independence and accountability of these executives.

The Chairman is responsible for the effective conduct of the Board, ensuring that it as a whole plays an effective role in the development and determination of the Group's strategy and overall commercial objectives and acts as the guardian of the Board's decision-making processes. He is responsible for setting the agenda for each Board meeting, taking into account, where appropriate, matters proposed by Directors. He also ensures that the Board receives accurate, timely and clear information on the Group's performance, the issues, challenges and opportunities facing the Group and matters reserved to it for decision. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that the Board complies with approved procedures, including the schedule of Reserved Matters to the Board for its decision and the Terms of Reference of all Board Committees. The Board, under the leadership of the Chairman, has adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders, as outlined later in the report.

The Chief Executive Officer, Mr Christian Hogg, is responsible for managing the businesses of the Group, formulating and developing the Group's strategy and overall commercial objectives in close consultation with the Chairman and the Board. With the executive management team of each core business division, the Chief Executive Officer implements the decisions of the Board and its Committees. He maintains an ongoing dialogue with the Chairman to keep him fully informed of all major business development and issues. He is also responsible for ensuring that the development needs of senior management reporting to him are identified and met as well as leading the communication programme with shareholders.

The Board meets regularly. Between scheduled meetings, senior management of the Group provides information to Directors on a regular basis with respect to the activities and development of the Group. Throughout the year, Directors participate in the deliberation and approval of routine and operational matters of the Company by way of written resolutions with supporting explanatory materials, supplemented by additional verbal and/or written information from the Company Secretary or other executives as and when required. Whenever warranted, additional Board meetings are held. In addition, Directors have full access to information on the Group and independent professional advice at all times whenever deemed necessary by the Directors and they are at liberty to propose appropriate matters for inclusion in Board agendas.

With respect to regular meetings of the Board, Directors receive written notice of the meetings generally about a month in advance and an agenda with supporting Board papers no less than three days prior to the meeting. With respect to other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. Except for those circumstances permitted by the Articles of Association of the Company, a Director who has a material interest in any contract, transaction, arrangement or any other kind of proposal put forward to the Board for consideration abstains from voting on the relevant resolution and such Director is not counted for quorum determination purposes.

The Company held four Board meetings in 2014 with 100% attendance of its members.

Position	Name of Director	Attended/Eligible to attend
Chairman	Simon To	4/4
Executive Directors:	Christian Hogg	4/4
	Johnny Cheng	4/4
Non-executive Directors:	Shigeru Endo	4/4
	Christian Salbaing	4/4
	Edith Shih	4/4
Independent Non-executive Directors:	Michael Howell	4/4
	Christopher Huang	4/4
	Christopher Nash	4/4

In addition to Board meetings, the Chairman held two meetings with Non-executive Directors without the presence of the Executive Directors, with full attendance, to review the performance of the Executive Directors. The Senior Independent Director, Mr Christopher Nash, also held a meeting with all Non-executive Directors without the presence of the Chairman, with full attendance, for the appraisal of the Chairman's performance.

In addition, evaluation of the performance of the Board and its Committees together with the Chairman of each Committee was conducted by questionnaires. The objective of such evaluation is to ensure that the Board, its Committees and the Chairman of each Committee continued to act effectively in fulfilling the duties and responsibilities expected of them.

Corporate Governance Report

All Non-executive Directors are engaged on service contracts which are automatically renewed for successive 12-month periods unless terminated by written notice given by either party. The Chairman of the Board is of the view that the performance of each of the Non-executive Directors continues to be effective and they all demonstrate commitment to their role as a Non-executive Director. All Directors are subject to re-election by shareholders at annual general meetings and at least once every three years on a rotation basis in accordance with the Articles of Association of the Company. A retiring Director is eligible for re-election and re-election of retiring Directors at general meetings is dealt with by separate individual resolutions. Save as mentioned herein, there are no existing or proposed service contracts between any of the Directors and the Company which cannot be terminated by the Company within 12 months and without payment of compensation. Where vacancies arise at the Board, candidates are proposed and put forward to the Board for consideration and approval, with the objective of appointing to the Board individuals with expertise in the businesses of the Group and leadership qualities to complement the capabilities of the existing Directors thereby enabling the Company to retain as well as improve its competitive position.

Upon appointment to the Board, Directors receive a package of orientation materials on the Group and are provided with a comprehensive induction to the Group's businesses by senior executives. Continuing education and relevant reading materials are provided to Directors regularly to help ensure that they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its businesses.

BOARD COMMITTEES

The Company has established three permanent board committees: an Audit Committee, a Remuneration Committee and a Technical Committee, details of which are described later in this report. Other board committees are established by the Board as and when warranted to take charge of specific duties.

COMPANY SECRETARY

The Company Secretary, Ms Edith Shih, is accountable to the Board for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through adherence to proper Board processes and the timely preparation and dissemination to Directors comprehensive Board agendas and papers.

The Company Secretary is responsible for ensuring that the Board is fully apprised of the relevant legislative, regulatory and corporate governance developments of relevance to the Group and that it takes these into consideration when making decisions for the Group. From time to time, she organises seminars on specific topics of importance and interest and disseminates relevant reference materials to Directors for their information.

The Company Secretary is also directly responsible for the Group's compliance with all obligations of the AIM Rules for Companies ("AIM Rules"), including the preparation, publication and despatch of annual reports and interim reports within the time limits laid down in the AIM Rules, the timely dissemination to shareholders and the market of announcements, press releases and information relating to the Group and assisting in the notification of Directors' dealings in securities of the Group.

Furthermore, the Company Secretary advises the Directors on their obligations for disclosure of interests and dealings in the Company's securities, related party transactions and price-sensitive inside information and ensures that the standards and disclosures requirements of the AIM Rules are complied with and, where required, reported in the annual report of the Company. In relation to related party transactions, detailed analyses are performed on all potential related party transactions to ensure full compliance and for Directors' consideration.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The responsibility of Directors in relation to the financial statements is set out below. It should be read in conjunction with, but distinguished from, the Independent Auditor's Report on page 51 which acknowledges the reporting responsibility of the Group's Auditor.

Annual Report and Accounts

The Directors acknowledge their responsibility for the preparation of the annual report and financial statements of the Company, ensuring that the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy in accordance with the Code, Cayman Islands Companies Law and the applicable accounting standards.

Accounting Policies

The Directors consider that in preparing the financial statements, the Group has applied appropriate accounting policies that are consistently adopted and made judgements and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose the financial position of the Group upon which financial statements of the Group could be prepared in accordance with the Group's accounting policies.

Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities within the Group.

Going Concern

The Directors, having made appropriate enquiries, are of the view that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Audit Committee

Under the Terms of Reference of the Audit Committee, the Audit Committee is required to review the Group's interim and annual results, and interim and annual financial statements, oversee the relationship between the Company and its external auditor, monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management systems giving due consideration to laws and regulations and the provisions of the Code. The Committee is authorised to obtain, at the Company's expense, external legal or other professional advice on any matters within its Terms of Reference.

In addition, the Audit Committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control. It reviews the process by which the Group evaluates its control environment and risk assessment process, and the way in which business and control risks are managed. It receives and considers the presentations of Management in relation to the reviews on the effectiveness of the Group's internal control systems and the adequacy of resources, qualifications and experience of staff in the Group's accounting and financial reporting function, and their training programmes and budget. In addition, the Audit Committee reviews with the internal auditor of the Group's holding company the work plans for its audits for the Group together with its resource requirements and considers the reports of the internal auditor of the Group's holding company to the Audit Committee on the effectiveness of internal controls in the Group business operations. Further, it also receives the reports from the Company Secretary on the Group's material litigation proceedings and compliance status on regulatory requirements. These reviews and reports are taken into consideration by the Audit Committee when it makes its recommendation to the Board for approval of the consolidated financial statements for the year.

The Terms of Reference for the Audit Committee and the Complaints Procedures adopted by the Board are published on the website of the Company.

The Audit Committee comprises three Independent Non-executive Directors who possess the relevant business and financial management experience and skills to understand financial statements and contribute to the financial governance, internal controls and risk management of the Company. It is chaired by Mr Michael Howell with Professor Christopher Huang and Mr Nash as members. None of the Committee Members is related to the Company's external auditor.

The Audit Committee held three meetings in 2014 with 100% attendance of its members.

Name of Member	Attended/Eligible to attend
Michael Howell *(Chairman)*	3/3
Christopher Huang	3/3
Christopher Nash	3/3

Corporate Governance Report

The Audit Committee meets with the Chief Financial Officer and other senior management of the Company from time to time for the purposes of reviewing the interim and annual results, the interim report and annual report and other financial, internal control and risk management matters of the Company. It considers and discusses the reports and presentations of Management and the Group's internal and external auditors, with a view to ensuring that the Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards. It also meets with the Group's principal external auditor, PricewaterhouseCoopers ("PwC"), to consider the reports of PwC on the scope, strategy, progress and outcome of its independent review of the interim financial report and its annual audit of the consolidated financial statements. In addition, the Audit Committee holds regular private meetings with the external auditor, the Chief Financial Officer and the internal auditor of the Group's holding company separately without the presence of Management.

External Auditor

The Audit Committee reviews and monitors the external auditor's independence, objectivity and effectiveness of the audit process. It receives each year the letter from the external auditor confirming its independence and objectivity and holds meetings with representatives of the external auditor to consider the scope of its audit, approve its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditor.

The Group's policy regarding the engagement of PwC for the various services listed below is as follows:

- Audit services – include audit services provided in connection with the audit of the consolidated financial statements. All such services are to be provided by external auditor.

- Audit related services – include services that would normally be provided by an external auditor but not generally included in the audit fees, for example, audits of the Group's pension plans, due diligence and accounting advice related to mergers and acquisitions, internal control reviews of systems and/or processes, and issuance of special audit reports for tax or other purposes. The external auditor is to be invited to undertake those services that it must, or is best placed to, undertake in its capacity as auditor.

- Taxation related services – include all tax compliance and tax planning services, except for those services which are provided in connection with the audit. The Group uses the services of the external auditor where it is best suited. All other significant taxation related work is undertaken by other parties as appropriate.

- Other services – include, for example, audit or review of third parties to assess compliance with contracts, risk management diagnostics and assessments, and non-financial systems consultations. The external auditor is also permitted to assist Management and the internal auditor of the Group's holding company with internal investigations and fact-finding into alleged improprieties. These services are subject to specific approval by the Audit Committee.

- General consulting services – the external auditor is not eligible to provide services involving general consulting work.

For the year ended 31 December 2014, all the fees paid to PwC were for audit services.

INTERNAL CONTROL, LEGAL AND REGULATORY CONTROL AND GROUP RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and assessment and management of risks.

In meeting its responsibility, the Board seeks to increase risk awareness across the Group's business operations and has put in place policies and procedures, including parameters of delegated authority, which provide a framework for the identification and management of risks. It also reviews and monitors the effectiveness of the systems of internal control to ensure that the policies and procedures in place are adequate. Reporting and review activities include review by the Executive Directors and the Board and approval of detailed operational and financial reports, budgets and plans provided by management of the business operations, review by the Board of actual results against budget, review by the Audit Committee of the ongoing work of the internal audit and risk management functions of the Group's holding company, as well as regular business reviews by the Executive Directors and the executive management team of each core business division.

Whilst these procedures are designed to identify and manage risks that could adversely impact the achievement of the Group's business objectives, they do not provide absolute assurance against material mis-statement, errors, losses or fraud.

Internal Control Environment and Systems

Executive Directors are appointed to the boards of all material operating subsidiaries and associates for monitoring those companies, including attendance at board meetings, review and approval of business strategies, budgets and plans, and setting of key business performance targets. The executive management team of each core business division is accountable for the conduct and performance of each business in the division within the agreed strategies and similarly management of each business is accountable for its conduct and performance.

The Group's internal control procedures include a comprehensive system for reporting information to the executive management team of each core business division and the Executive Directors.

Business plans and budgets are prepared annually by management of individual businesses and subject to review and approval by both the executive management team and the Executive Directors as part of the Group's five-year corporate planning cycle. Reforecasts for the current year are prepared on a quarterly basis and reviewed for variances to the budget and for approval. When setting budgets and reforecasts, Management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks.

The Executive Directors review monthly management reports on the financial results and key operating statistics of each business and discuss with the executive management team and senior management of business operations to review these reports, business performance against budgets, forecasts, significant business risk sensitivities and strategies. In addition, financial controllers of the executive management team of each core business division discuss with the representatives of the Finance Department to review monthly performance against budget and forecast, and to address accounting and finance related matters.

The Finance Department has established guidelines and procedures for the approval and control of expenditures. Operating expenditures are subject to overall budget control and are controlled within each business with approval levels set by reference to the level of responsibility of each executive and officer. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment by the Finance Department or Executive Directors are required for unbudgeted expenditures and material expenditures within the approved budget. Quarterly reports of actual versus budgeted and approved expenditures are also reviewed.

The General Manager of the internal audit function of the Group's holding company, reporting directly to the Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations in various countries. Using risk assessment methodology and taking into account the dynamics of the Group's activities, internal audit derives its yearly audit plan which is reviewed by the Audit Committee, and reassessed during the year as needed to ensure that adequate resources are deployed and the plan's objectives are met. Internal audit function of the Group's holding company is responsible for assessing the Group's internal control systems, formulating an impartial opinion on the system, and reporting its findings to the Audit Committee, the Chief Executive Officer, the Chief Financial Officer and the senior management concerned as well as following up on all reports to ensure that all issues have been satisfactorily resolved. In addition, a regular dialogue is maintained with the external auditor so that both are aware of the significant factors which may affect their respective scope of work.

Depending on the nature of business and risk exposure of individual business units, the scope of work performed by the internal audit function includes financial and operations reviews, recurring and surprise audits, fraud investigations and productivity efficiency reviews.

Reports from the external auditor on internal controls and relevant financial reporting matters are presented to the General Manager of the internal audit function of the Group's holding company and, as appropriate, to the Chief Financial Officer. These reports are reviewed and appropriate actions are taken.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's internal control systems for the year ended 31 December 2014 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such systems are effective and adequate. In addition, it has reviewed and is satisfied with the adequacy of resources, qualifications and experience of the staff of the Group's accounting and financial reporting function, and their training programmes and budget.

Corporate Governance Report

Legal and Regulatory Control

The Group Legal Department has the responsibility of safeguarding the legal interests of the Group. The team is responsible for monitoring the day-to-day legal affairs of the Group, including preparing, reviewing and approving all legal and corporate secretarial documentation of Group companies, working in conjunction with finance, tax, treasury, corporate secretarial and business unit personnel on the review and co-ordination process, and advising Management of legal and commercial issues of concern. In addition, the Group Legal Department is also responsible for overseeing regulatory (business and AIM) compliance matters of all Group companies. It analyses and monitors the regulatory framework within which the Group operates, including reviewing applicable laws and regulations and preparing and submitting responses or filings to relevant regulatory and/or government authorities and consultations, as the case may be. The Department also determines and approves the engagement of external legal advisors, ensuring the requisite professional standards are adhered to as well as most cost effective services are rendered. Further, the Group Legal Department organises and holds continuing education seminars/conferences on legal and regulatory matters of relevance to the Group for Directors, business executives and the Group legal team.

Group Risk Management

The Chief Executive Officer and the Group Risk Management Department of the Group's holding company have the responsibility of developing and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risks. The Group Risk Management Department of the Group's holding company, working with the business operations worldwide, is responsible for arranging appropriate insurance coverage and organising Group-wide risk reporting. Directors and Officers Liability Insurance is also in place to protect Directors and officers of the Group against their potential legal liabilities.

Workplace Safety

The Group is committed to providing a healthy and safe workplace for all its employees and complying with all applicable health and safety laws and regulations. Health and safety considerations are incorporated into the design, operations and maintenance of the Group's premises. Employees are provided with appropriate job skills and safety training and are educated with regard to their responsibilities for achieving the health and safety objectives of the Group. The Group also communicates with its employees on occupational health and safety issues.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The responsibilities of the Remuneration Committee are to assist the Board in achieving its objective of attracting, retaining and motivating employees of the highest calibre and experience needed to shape and execute strategy across the Group's substantial, diverse and international business operations. It assists the Group in the administration of a fair and transparent procedure for setting remuneration policies including assessing the performance of Executive Directors and senior executives of the Group and determining their remuneration packages.

The Terms of Reference for the Remuneration Committee adopted by the Board are published on the website of the Company.

The Remuneration Committee comprises three members, chaired by the Chairman Mr To with Mr Michael Howell and Mr Nash, both Independent Non-executive Directors, as members who possess experience in human resources and personnel emoluments. Mr To has experience in the traditional Chinese medicine industry as well as expertise in human resources and personnel in China. The Remuneration Committee meets towards the end of each year to determine the remuneration package of Executive Directors and senior management of the Group and during the year to consider share options grant and other remuneration related matters. Remuneration matters are also considered and approved by way of written resolutions and additional meetings where warranted.

The Remuneration Committee held three meetings in 2014 with 100% attendance of its members. During the year, the Remuneration Committee reviewed background information on market data (including economic indicators, statistics and the Remuneration Bulletin), headcount and staff costs. It also reviewed and approved the proposed 2015 directors' fees, year end bonus and 2015 remuneration package of Executive Directors and senior executives of the Company and made recommendation to the Board on the directors' fees for Non-executive Directors. Executive Directors do not participate in the determination on their own remuneration.

Remuneration Policy

The remuneration of Mr Christian Hogg and Mr Cheng, the Executive Directors, and senior executives is determined with reference to their expertise and experience in the industry, the performance and profitability of the Group as well as remuneration benchmarks from other local and international companies and prevailing market conditions. Senior management also participates in bonus arrangements which are determined in accordance with the performance of the Group and the individual's performance. The Chairman, Mr To, does not receive performance related remuneration from the Company and is remunerated through his service agreement. All Non-executive Directors have entered into service agreements with the Company and are remunerated with fixed fees as determined by the Board.

Directors' emoluments comprise payments to Directors from the Company and its subsidiaries. The emoluments of each of the Directors exclude amounts received from the subsidiaries of the Company and paid to a subsidiary or an intermediate holding company of the Company. The amounts paid to each Director for 2014 are as below:

Name of Director	Salary and fees	Bonus	Taxable benefits	Pension contributions	Share option benefits	Total
	US$	US$	US$	US$	US$	US$
Executive Directors:						
Simon To	19,503 [(1)(4)]	-	-	-	-	19,503
Christian Hogg	348,888 [(2)(4)]	615,385	14,810	24,000	- [(5)]	1,003,083
Johnny Cheng	273,551 [(2)]	217,949	-	21,482	- [(5)]	512,982
Non-executive Directors:						
Shigeru Endo	19,503 [(3)]	-	-	-	-	19,503
Christian Salbaing	19,503 [(1)]	-	-	-	-	19,503
Edith Shih	19,503 [(3)(4)]	-	-	-	-	19,503
Independent Non-executive Directors:						
Michael Howell	51,488	-	-	-	-	51,488
Christopher Huang	51,488	-	-	-	-	51,488
Christopher Nash	51,488	-	-	-	-	51,488
Aggregate emoluments	**854,915**	**833,334**	**14,810**	**45,482**	**-**	**1,748,541**

Notes:

(1) Such Director's fees were paid to Hutchison Whampoa (China) Limited.

(2) Emoluments paid include Director's fees of US$19,503.

(3) Such Director's fees were paid to Hutchison Whampoa Limited.

(4) Director's fees received from the subsidiaries of the Company during the period he/she served as director that were paid to a subsidiary or an intermediate holding company of the Company are not included in the amounts above.

(5) The fair value of share options granted to the Executive Director had been fully recognised as expenses in the past few years and no such expenses were recognised in 2014.

TECHNICAL COMMITTEE

The Technical Committee comprises three members, chaired by Professor Huang with Mr To and Mr Christian Hogg, both Executive Directors, as members. The Technical Committee members consider from time to time matters relating to the technical aspects of the business and in research and development. It also invites such executives as it thinks fit to attend meetings as and when required.

The Terms of Reference for the Technical Committee adopted by the Board are published on the website of the Company.

The Technical Committee held one meeting in 2014 with 100% attendance of its members.

Corporate Governance Report

CODE OF ETHICS

The Group places utmost importance on employees' ethical, personal and professional standards. Every employee is provided with the Group's Code of Ethics booklet, and all employees are expected to achieve the highest standards set out in the Code of Ethics including avoiding conflict of interest, discrimination or harassment and bribery etc. Employees are required to report any non-compliance with the Code of Ethics to Management.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Group actively promotes investor relations and communication with the investment community throughout the year. Through its Chairman and Chief Executive Officer, the Group responds to requests for information and queries from the investment community including shareholders, analysts and the media through regular briefing meetings, announcements, press releases, conference calls and presentations. The other Directors, including Non-executive Directors, develop an understanding of the views of the major shareholders about the Company by periodic meetings on the subject with the Chairman and the Chief Executive Officer.

The Board is committed to providing clear and full information on the Group to shareholders through the publication of notices, announcements, press releases, interim and annual reports. An updated version of the Memorandum and Articles of Association of the Company is published on the website of the Company. Moreover, additional information on the Group is also available to shareholders through the Investor Relations page on the website of the Company.

Shareholders are encouraged to attend all general meetings of the Company, such as the annual general meeting for which at least 20 working days' notice is given and at which the Chairman and Directors are available to answer questions on the Group's businesses. All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda items for consideration by shareholders by sending the Company Secretary a written request for such general meetings together with the proposed agenda items. Regularly updated financial, business and other information on the Group is made available on the website of the Company for shareholders.

The latest shareholders' meeting of the Company was the 2014 Annual General Meeting which was held on 8 May 2014 at 4th Floor, Hutchison House, 5 Hester Road, Battersea, London attended by PwC and all the Directors including the Chairmen of the Board, the Audit Committee, the Remuneration Committee and the Technical Committee with 100% attendance. Directors are requested and encouraged to attend shareholders' meetings albeit presence overseas for the Group businesses or unforeseen circumstances might prevent Directors from so doing.

The Group values feedback from shareholders on its efforts to promote transparency and foster investor relationship. Comments and suggestions to the Board or the Company are welcome and can be addressed to the Company Secretary by mail/e-mail or to the Company by e-mail at info@chi-med.com.

By Order of the Board

Edith Shih
Director and Company Secretary

25 February 2015

Independent Auditor's Report

TO THE SHAREHOLDERS OF HUTCHISON CHINA MEDITECH LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated accounts of Hutchison China MediTech Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 52 to 113, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated accounts

The directors of the Company are responsible for the preparation and fair presentation of consolidated accounts in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 February 2015

Consolidated Income Statement

For the year ended 31 December 2014

	Note	2014 US$'000	2013 US$'000
Continuing operations			
Revenue	5	**91,813**	45,970
Cost of sales		**(72,049)**	(22,208)
Gross profit		**19,764**	23,762
Selling expenses		**(4,112)**	(3,452)
Administrative expenses		**(22,572)**	(21,295)
Other net operating (expenses)/income	6	**(182)**	1,603
Share of profits less losses after tax of joint ventures	18	**15,202**	10,937
Operating profit	7	**8,100**	11,555
Finance costs	8	**(1,516)**	(1,485)
Profit before taxation		**6,584**	10,070
Taxation charge	9	**(1,343)**	(1,050)
Profit for the year from continuing operations		**5,241**	9,020
Discontinued operations			
Profit/(loss) for the year from discontinued operations	10	**2,034**	(1,978)
Profit for the year		**7,275**	7,042
Attributable to:			
Equity holders of the Company			
– Continuing operations		**4,357**	7,323
– Discontinued operations		**1,017**	(1,408)
		5,374	5,915
Non-controlling interests	24	**1,901**	1,127
		7,275	7,042
Earnings per share for profit from continuing operations attributable to equity holders of the Company for the year (US$ per share)			
– basic	11(a)	**0.0829**	0.1407
– diluted	11(b)	**0.0824**	0.1385
Earnings per share for profit from continuing and discontinued operations attributable to equity holders of the Company for the year (US$ per share)			
– basic	11(a)	**0.1022**	0.1136
– diluted	11(b)	**0.1016**	0.1119

Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2014

	2014 US$'000	2013 US$'000
Profit for the year	**7,275**	7,042
Other comprehensive (loss)/income that has been or may be reclassified subsequently to profit or loss:		
Exchange translation differences	**(2,819)**	3,342
Total comprehensive income for the year (net of tax)	**4,456**	10,384
Attributable to:		
Equity holders of the Company		
– Continuing operations	**1,825**	10,360
– Discontinued operations	**1,017**	(1,503)
	2,842	8,857
Non-controlling interests	**1,614**	1,527
	4,456	10,384

Consolidated Statement Of Financial Position

As at 31 December 2014

	Note	31 December 2014 US$'000	31 December 2013 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**7,482**	5,028
Leasehold land	15	**1,436**	1,508
Goodwill	16	**1,953**	407
Other intangible asset	17	**666**	–
Investments in joint ventures	18	**113,014**	111,405
Deferred tax assets	19	**257**	285
		124,808	118,633
Current assets			
Inventories	20	**4,405**	1,420
Trade and other receivables	21	**34,446**	14,789
Other prepayments and deposits		**2,563**	1,977
Amounts due from related parties	31	**1,591**	1,985
Cash and bank balances	22	**51,125**	46,863
		94,130	67,034
Total assets		**218,938**	185,667
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	23	**53,076**	52,051
Reserves		**41,813**	36,819
		94,889	88,870
Non-controlling interests	24	**24,994**	15,966
Total equity		**119,883**	104,836

	Note	31 December 2014 US$'000	31 December 2013 US$'000
LIABILITIES			
Current liabilities			
Trade payables	25	**20,427**	4,163
Other payables, accruals and advance receipts	26	**13,638**	15,389
Amounts due to related parties	31	**8,716**	7,374
Bank borrowings	27	**26,282**	51,508
Current tax liabilities		**122**	–
		69,185	78,434
Non-current liabilities			
Deferred tax liabilities	19	**2,947**	2,397
Bank borrowing	27	**26,923**	–
		29,870	2,397
Total liabilities		**99,055**	80,831
Net current assets/(liabilities)		**24,945**	(11,400)
Total assets less current liabilities		**149,753**	107,233
Total equity and liabilities		**218,938**	185,667

Simon To
Director

Christian Hogg
Director

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2014

	Attributable to equity holders of the Company								
	Share capital US$'000	Share premium US$'000	Share-based compensation reserve US$'000	Exchange reserve US$'000	General reserves US$'000	Accumulated losses US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
As at 1 January 2013	52,048	93,669	4,974	9,380	496	(89,989)	70,578	11,620	82,198
Profit for the year	-	-	-	-	-	5,915	5,915	1,127	7,042
Other comprehensive income that has been or may be reclassified subsequently to profit or loss:									
Exchange translation differences arising from:									
– subsidiaries	-	-	-	662	-	-	662	62	724
– joint ventures	-	-	-	2,280	-	-	2,280	338	2,618
	-	-	-	2,942	-	-	2,942	400	3,342
Total comprehensive income for the year (net of tax)	-	-	-	2,942	-	5,915	8,857	1,527	10,384
Issue of shares (Note 23(a))	3	6	(2)	-	-	-	7	-	7
Share-based compensation expenses	-	-	332	-	-	-	332	25	357
Transfer between reserves	-	-	(168)	-	-	168	-	-	-
Dilution of interest in a subsidiary (Note 28)	-	-	(120)	(243)	-	9,459	9,096	3,371	12,467
Dividend paid to a non-controlling shareholder of a subsidiary (Note 31(a))	-	-	-	-	-	-	-	(577)	(577)
As at 31 December 2013	52,051	93,675	5,016	12,079	496	(74,447)	88,870	15,966	104,836

	Attributable to equity holders of the Company								
	Share capital US$'000	Share premium US$'000	Share-based compensation reserve US$'000	Exchange reserve US$'000	General reserves US$'000	Accumulated losses US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
As at 1 January 2014	52,051	93,675	5,016	12,079	496	(74,447)	88,870	15,966	104,836
Profit for the year	-	-	-	-	-	5,374	5,374	1,901	7,275
Other comprehensive loss that has been or may be reclassified subsequently to profit or loss:									
Exchange translation differences arising from:									
– subsidiaries	-	-	-	(933)	-	-	(933)	(11)	(944)
– joint ventures	-	-	-	(1,599)	-	-	(1,599)	(276)	(1,875)
	-	-	-	(2,532)	-	-	(2,532)	(287)	(2,819)
Total comprehensive (loss)/income for the year (net of tax)	-	-	-	(2,532)	-	5,374	2,842	1,614	4,456
Issue of shares (Note 23(a))	1,025	4,598	(2,943)	-	-	-	2,680	-	2,680
Share-based compensation expenses	-	-	773	-	-	-	773	95	868
Transfer between reserves	-	-	(182)	-	25	157	-	-	-
Acquisition of a subsidiary (Note 29(b))	-	-	-	-	-	-	-	7,526	7,526
Exercise of share options of a subsidiary (Note 23(b)(ii))	-	-	(3)	(4)	-	(35)	(42)	163	121
Dividend paid to a non-controlling shareholder of a subsidiary (Note 31(a))	-	-	-	-	-	-	-	(1,179)	(1,179)
Purchase of additional interests in a subsidiary of a joint venture	-	-	-	-	-	(234)	(234)	-	(234)
Capital contribution from a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	3,059	3,059
Repayment of loan to a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	(2,250)	(2,250)
As at 31 December 2014	53,076	98,273	2,661	9,543	521	(69,185)	94,889	24,994	119,883

Consolidated Statement Of Cash Flows

For the year ended 31 December 2014

	Note	2014 US$'000	2013 US$'000
Cash flows from operating activities			
Net cash used in operations	29(a)	**(490)**	(4,065)
Interest received		**275**	451
Finance costs paid		**(1,466)**	(1,485)
Income tax paid		**(908)**	(1,181)
Dividend received from joint ventures		**15,949**	11,308
Net cash generated from operating activities		**13,360**	5,028
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3,729)**	(2,500)
Loan to a joint venture		**(5,000)**	-
Increase in bank deposits maturing over three months		**(12,179)**	-
Acquisition of a subsidiary	29(b)	**689**	-
Net cash used in investing activities		**(20,219)**	(2,500)
Cash flows from financing activities			
Capital contribution from a non-controlling shareholder of a subsidiary		**3,059**	-
Repayment of loan to a non-controlling shareholder of a subsidiary		**(2,250)**	-
Dividend paid to a non-controlling shareholder of a subsidiary		**(1,179)**	(577)
New short-term bank loans		**8,205**	14,261
Repayment of short-term bank loans		**(11,277)**	(568)
Net proceeds from exercise of share options of a subsidiary		**121**	-
Net proceeds from issuance of ordinary shares		**2,680**	7
Net cash (used in)/generated from financing activities		**(641)**	13,123
Net (decrease)/increase in cash and cash equivalents		**(7,500)**	15,651
Cash and cash equivalents at 1 January		**46,863**	30,767
Exchange differences		**(417)**	445
Cash and cash equivalents at 31 December		**38,946**	46,863
Analysis of cash and bank balances			
- Cash and cash equivalents		**38,946**	46,863
- Bank deposits maturing over three months	22	**12,179**	-
	22	**51,125**	46,863

Notes To The Accounts

1 GENERAL INFORMATION

Hutchison China MediTech Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in researching, developing, manufacturing and selling pharmaceuticals and health-related consumer products. The Group and its joint ventures have manufacturing plants in Shanghai and Guangzhou in the People's Republic of China (the "PRC") and sell mainly in the PRC and Hong Kong. In 2013, the Group had discontinued parts of its consumer products operation in the PRC and France as detailed in Note 10.

The Company was incorporated in the Cayman Islands on 18 December 2000 as an exempted company with limited liability under the Companies Law (2000 Revision), Chapter 22 of the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company's ordinary shares were admitted to trading on AIM regulated by the London Stock Exchange. These consolidated accounts are presented in thousands of United States dollars ("US$'000"), unless otherwise stated, and were approved for issue by the Board of Directors on 25 February 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated accounts of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated accounts have been prepared under the historical cost convention.

During the year, the Group has adopted all of the new and revised standards, amendments and interpretations issued by the International Accounting Standards Board that are relevant to the Group's operations and mandatory for annual periods beginning 1 January 2014. The adoption of these new and revised standards, amendments and interpretations did not have any material effects on the Group's results of operations or financial position.

(a) Basis of consolidation

The consolidated accounts of the Group include the accounts of the Company and all its direct and indirect subsidiaries made up to 31 December and also incorporate the Group's interests in joint ventures on the basis set out in Note 2(d) below.

The accounting policies of subsidiaries and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Non-controlling interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries and subsidiaries of joint ventures.

(b) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to variable return from its involvement with the entity and has the ability to affect those returns through its power over the entity. In the consolidated accounts, subsidiaries are accounted for as described in Note 2(a) above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Notes To The Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Subsidiaries (Continued)

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests in the acquiree that are present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

(c) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in a loss of control are accounted for as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint ventures is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint ventures and its carrying value and recognises the amount adjacent to 'share of profits less losses after tax of joint ventures' in the income statement.

The Group's investment in joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Foreign currency translation

Items included in the accounts of each of the Group's companies are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and most of its principal subsidiaries and joint ventures is Renminbi ("RMB") whereas the consolidated accounts are presented in United States dollars ("US dollars"), which is the Company's presentation currency, as the Company holds investments in various countries and US dollars is considered as a common currency.

Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at end of the reporting period. Exchange differences are included in the determination of income statement.

The accounts of the Company, overseas subsidiaries and joint ventures are translated into the Company's presentation currency using the year end rates of exchange for the statement of financial position items and the average rates of exchange for the year for the income statement items. Exchange differences are recognised directly in the consolidated statement of comprehensive income.

On consolidation, exchange differences arising from the translation of the net investments in foreign operations are recognised directly in the consolidated statement of comprehensive income. When a foreign operation is disposed of, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on disposal.

Exchange differences arising from translation of inter-company loan balances among the Group's companies and joint ventures are taken to the exchange reserve when such loans form part of the Group's net investment in a foreign entity. When such loans are repaid, the related exchange gains or losses are transferred out of the exchange reserve and are recognised in the consolidated income statement.

(f) Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes the purchase price of the asset and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs less accumulated impairment losses over their estimated useful lives. The principal annual rates are as follows:

Buildings	20-30 years
Leasehold improvements	Over the unexpired period of the lease or 3-5 years, whichever is shorter
Plant and equipment	10 years
Furniture and fixtures, other equipment and motor vehicles	4-5 years

The assets' useful lives are reviewed and adjusted if appropriate, at end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(l)).

Gains and losses on disposals are determined by comparing net sales proceeds with the carrying amount of the relevant assets and are recognised in income statement.

Notes To The Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Construction in progress

Construction in progress represents plant and machinery pending installation and is stated at cost less accumulated impairment losses (if any). Cost includes the costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2(f).

(h) Leasehold land

Leasehold land is stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost mainly represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years from the date the respective right was granted. Amortisation of leasehold land is calculated on a straight-line basis over the period of the land use rights.

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of a foreign operation is treated as an asset of the foreign operation.

Goodwill arising on acquisition is retained at the carrying amount as a separate asset, and subject to impairment test annually and when there are indications that the carrying value may not be recoverable. If the cost of acquisition is less than the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, the difference is recognised directly in the consolidated income statement.

The profit or loss on disposal of a subsidiary or joint venture is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves.

(j) Other intangible asset

Other intangible asset has definite useful live and is carried at historical cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate its costs over its estimated useful live of ten years.

(k) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will generate future economic benefits by considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised (if any) are amortised on a straight-line basis over the period of expected benefit not exceeding five years. The capitalised development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount.

Where the research phase and the development phase of an internal project cannot be clearly distinguished, all expenditure incurred on the project is charged to the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Impairment of assets

Assets that have an indefinite useful life such as goodwill or intangible assets not ready to use are not subject to amortisation and are tested for impairment annually. Assets are reviewed for impairment to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in the income statement.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(n) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the asset is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(q) Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities (including trade and other payables) are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. An equity instrument is any contract that does not meet the definition of financial liability and evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Notes To The Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Convertible preference shares

A subsidiary of the Group has issued convertible preference shares that are convertible to ordinary shares of the subsidiary, the number of which varies subject to conditions, as set out in the relevant agreements, that are ultimately linked to the value of the unquoted ordinary shares of the subsidiary that issued the instruments. The convertible preference shares have no maturity date, no obligation to pay dividends nor to be redeemed for cash but can be required to be settled by the delivery of the unquoted ordinary shares of the subsidiary concerned. As the variability in the range of reasonable fair value estimates of the unquoted ordinary shares of the subsidiary is significant and the probabilities of the various estimates cannot be reasonably assessed, it is not possible to measure the fair value of the ordinary shares of the subsidiary reliably, and hence for the fair value of the convertible preference shares that are linked to that value. Consequently, these instruments had been classified as liabilities and measured at cost. If a reliable fair value becomes available for the convertible preference shares they will be measured at fair value and the difference between their carrying amount and fair value at that time, and subsequently, will be recognised in the income statement. As the conditions set out in the relevant agreements are satisfied, the convertible preference shares had been reclassified from liability to equity of the relevant subsidiary.

(s) Current and deferred income tax

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(t) Employee benefits

(i) Pension plans

The Group operates various defined contribution plans. The Group's contributions to the defined contribution plans are charged to the income statement in the year incurred.

Pension costs are charged against the income statement within employee benefit expenses.

The pension plans are generally funded by the relevant group companies and by payments from employees of the contributory plans.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Employee benefits (Continued)

(ii) Share-based payments

The Group operates certain equity-settled share-based compensation plans ("compensation plan"). The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted: i) including any market performance conditions; ii) excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets); and iii) including the impact of any non-vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on non-market vesting conditions. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share-based compensation reserve will be transferred to retained profits.

If the terms of a compensation plan are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the compensation plan, or is otherwise beneficial to the employee, as measured at the date of modification.

If a compensation plan is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised is recognised immediately. However, if a new compensation plan is substituted for the cancelled compensation plan, and designated as a replacement compensation plan on the date that it is granted, the cancelled and new compensation plans are treated as if they were a modification of the original compensation plan, as described in the previous paragraph.

(u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(v) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the leases.

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Notes To The Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Government incentives

Incentives from government are recognised at their fair values where there is a reasonable assurance that the incentives will be received and all attached conditions will be complied with. Government incentives relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

(y) Revenue and income recognition

Revenue comprises the fair value of the consideration received and receivable for the sales of goods and services in the ordinary course of the Group's activities. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Revenue is shown net of value-added tax, returns, volume rebates and discounts after eliminated sales within the Group. Revenue and income are recognised as follows:

(i) Sales of goods - wholesales

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) Income from research and development projects

Income from the provision of pharmaceutical research and development service is recognised when services are rendered.

The Group receives payment from third parties under the licensing, co-development and commercialisation agreement. Considerations for development services are recognised as revenue when it is probable that future economic benefits will flow to the entity over the period of each development phase by using the percentage of completion method, based on the percentage of costs to date compared to the total estimated development costs for each milestone that represent a separate earnings process.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(z) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

At the date of authorisation of these consolidated accounts, the following standards, amendments and interpretations were in issue but not yet effective and have not been early adopted by the Group:

IAS 1 (Amendments) [2]	Disclosure Initiative
IAS 16 and IAS 38 (Amendments) [2]	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (Amendments) [2]	Agriculture: Bearer Plants
IAS 19 (Amendments) [1]	Defined Benefit Plans: Employee Contributions
IAS 27 (Amendments) [2]	Equity Method in Separate Financial Statements
IFRS 9 [4]	Financial Instruments
IFRS 10 and IAS 28 (Amendments) [2]	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 10, IFRS 12 and IAS 28 (Amendments) [2]	Investment Entities: Applying the Consolidated Exception
IFRS 11 (Amendments) [2]	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14 [2]	Regulatory Deferral Accounts
IFRS 15 [3]	Revenue from Contracts with Customers
Annual improvements 2010-2012 cycle [1]	Improvements to IFRSs
Annual improvements 2011-2013 cycle [1]	Improvements to IFRSs
Annual improvements 2012-2014 cycle [2]	Improvements to IFRSs

(1) Effective for the Group for annual periods beginning on or after 1 January 2015.
(2) Effective for the Group for annual periods beginning on or after 1 January 2016.
(3) Effective for the Group for annual periods beginning on or after 1 January 2017.
(4) Effective for the Group for annual periods beginning on or after 1 January 2018.

The adoption of standards, amendments and interpretations listed above in future periods is not expected to have any material effect on the Group's result of operations and financial position.

Notes To The Accounts

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, cash flow interest rate risk and liquidity risk. The Group does not use any derivative financial instruments for speculative purpose.

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The Group also has retail and trading operations in various jurisdictions. The Group's assets and liabilities, and transactions arising from its operations that are exposed to foreign exchange risk are primarily with respect to the US dollars.

Management has a policy to require group companies to manage their foreign exchange risk against functional currency. It mainly includes managing the exposures arising from sales and purchases made by the relevant group companies in currencies other than their own functional currencies. The Group also manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures. The Group has not used any hedging arrangement to hedge its exposure during the year as foreign currency risk is considered relatively insignificant.

As the assets and liabilities of each company within the Group are mainly denominated in the respective company's functional currency, management considers that the Group's volatility against changes in exchange rates of foreign currencies would not be significant. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

(ii) Credit risk

The carrying amounts of cash at bank, bank deposits, trade and other receivables and amounts due from related parties included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk of the counterparty in relation to its financial assets.

Substantially all of the Group's cash at banks are deposited in major financial institutions, which management believes are of high credit quality. The Group has a policy to limit the amount of credit exposure to any financial institution.

The Group is exposed to credit risk with respect to one major customer which represents 28.5% (2013: 30.4%) of the outstanding trade and other receivables as at 31 December 2014. Management considers that the credit risk in respect of this customer is low after considering the financial position and historical experience in collection of receivables with this customer.

Management makes periodic assessment on the recoverability of trade and other receivables and amounts due from related parties. The Group's historical experience in collection of receivables falls within the recorded allowances. It is considered that adequate provision for uncollectible receivables has been made.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iii) Cash flow interest rate risk

The Group has no significant interest-bearing assets except for bank deposits and cash at bank, details of which have been disclosed in Note 22. The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings, which bear interest at floating interest rates and expose the Group to cash flow interest rate risk. Details of the Group's bank borrowings are disclosed in Note 27. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk as it is considered not cost efficient.

The Group has performed sensitivity analysis for the effects on the Group's profit after taxation for the year as a result of changes in interest expense on floating rate borrowings. The sensitivity to interest rate used is based on the market forecasts available at the end of the reporting period and under the economic environments in which the Group operates, with other variables held constant.

According to the analysis, the impact on the profit after taxation of a 100 basis-point shift would be a maximum increase/decrease of US$565,000 and US$509,000 for the years ended 31 December 2014 and 2013 respectively.

(iv) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and cash equivalents and the availability of funding when necessary. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient cash balances and adequate credit facilities to meet its liquidity requirements in the short and long term.

The Group's primary cash requirements have been used for additions of and upgrades on property, plant and equipment, investment in intangible assets, settlement of bank loans, settlement of payables and payment for operating expenses. The Group mainly finances its working capital requirements through a combination of internal resources and bank borrowings.

As at 31 December 2013 and 2014, the Group's current financial liabilities were due for settlement contractually within twelve months. The Group's non-current financial liabilities were disclosed in Notes 27 and 28. Interest element in connection with bank loans payable in the next twelve months calculated in accordance with the contractual undiscounted cash flows amounted to US$392,000 (2013: US$69,000).

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group regularly reviews and manages its capital structure to ensure optimal capital structure to maintain a balance between higher shareholders' return that might be possible with higher levels of borrowings and advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total bank borrowings divided by total equity attributable to the Company's equity holders as shown on the consolidated statement of financial position.

Notes To The Accounts

3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Capital risk management (Continued)

Currently, it is the Group's strategy to maintain a reasonable gearing ratio. The gearing ratios as at 31 December 2014 and 2013 were as follows:

	2014 US$'000	2013 US$'000
Total bank borrowings (Note 27)	**53,205**	51,508
Total equity attributable to the Company's equity holders	**94,889**	88,870
Gearing ratio	**56.1%**	58.0%

The decrease in the gearing ratio was primarily resulted from the increase of total equity attributable to the Company's equity holders during 2014.

(c) Fair value estimation

The Group does not have any financial assets or liabilities which are carried at fair value. The carrying amounts of the Group's current financial assets, including cash and bank balances, trade receivables, other receivables, amounts due from related parties, and current financial liabilities, including trade payables, other payables and accruals, bank borrowings, and balances with related parties, approximate their fair values due to their short-term maturities. The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 2 includes a summary of the significant accounting policies used in the preparation of the accounts. The preparation of accounts often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the accounts. The Group bases its estimates and judgements on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the accounts.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Revenue recognition

The Group accounts for licensing, co-development and commercialisation income in respect of the research and development projects using the percentage of completion method.

The percentage of completion method takes into consideration whether different milestone payments represent a separate earnings process and whether the milestone payments represent probable economic benefit that will flow to the Group. The application of the percentage of completion method requires significant judgement and places considerable importance on (1) accurate estimates of the extent of progress towards completion for each milestone, (2) total estimated development costs and remaining costs to completion, (3) corresponding effort and risks for each milestone and (4) whether the achievement of milestone was considered probable.

During the year ended 31 December 2014, the Group initiated the Phase II double-blind clinical trial of fruquintinib in colorectal cancer patients in China (the "clinical trial") pursuant to an exclusive license and collaboration agreement with Eli Lilly (the "Collaboration Agreement"). In accordance with the terms of the Collaboration Agreement, the Group is entitled to receive certain development milestone income and reimbursement of development costs from Eli Lilly if the outcome of the clinical trial fulfils the specific pre-determined development milestone criteria.

Although the clinical trial was double-blinded and still in progress as at 31 December 2014, management has exercised significant judgement in assessing the outcome of the clinical trial. The assessment has taken into account the following assumptions and factors:

- Estimation of patients' profile based on their side effects which are generally unique to patients who have taken fruquintinib;
- Previous experience of a similar clinical trial for fruquintinib;
- Results of scientific and statistical analysis performed in assessing the potential outcome of the clinical trial; and
- Result of statistical sensitivity analysis performed on the key assumption to the estimated outcome of the clinical trial.

Although the related clinical trial has not yet been completed as at 31 December 2014 and is still subject to the final confirmation from Eli Lilly, management considered that the outcome of the clinical trial could be reliably estimated and after evaluation of the above statistical and sensitivity analysis, management assessed it is highly probable that the clinical trial's result would meet the specific pre-determined milestone criteria stipulated in the Collaboration Agreement as at 31 December 2014. Accordingly, the Group recognised US$9.8 million service revenue (Note 5) as calculated using the percentage of completion method on expected total receipts (including the milestone income and reimbursement of development costs in respect of the clinical trial) for the year ended 31 December 2014.

Notes To The Accounts

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Useful lives of property, plant and equipment

The Group has made substantial investments in property, plant and equipment. Changes in technology or changes in the intended use of these assets may cause the estimated period of use or value of these assets to change.

(c) Impairment of assets

The Group tests annually whether goodwill (Note 16) and intangible assets not ready to use as included under the Group's joint ventures, has suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with the accounting policy stated in Note 2(l). The recoverable amount of an asset or a cash-generating unit is determined based on the higher of the asset's or the cash-generating unit's fair value less costs to sell and value-in-use. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the asset and a suitable discount rate in order to calculate present value, and the growth rate assumptions in the cash flow projections which has been prepared on the basis of management's assumptions and estimates.

(d) Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the relevant counterparty and the current market condition. Provisions are made where events or changes in circumstances indicate that the receivables may not be collectible. The identification of impairment in receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of receivables and impairment is recognised in the period in which such estimate has been changed.

(e) Deferred income tax

The Group has significant tax losses carried forward and has not recognised the deferred income tax assets on these losses. Deferred income tax assets in respect of tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. No deferred income tax assets are recognised when it is uncertain whether there are sufficient future taxable profits available before such tax losses expire. Where the final outcomes of these uncertainties are different from the estimation, such differences will impact the carrying amount of deferred tax assets in the period in which such determination is made.

(f) Allocation of purchase price amongst identifiable assets acquired and liabilities assumed in the business combination

The Group accounts for the business combination as detailed in Note 29(b) in accordance with IFRS 3 "Business Combinations". At the date of initial recognition, it is required to recognise separately, the Group's share of identifiable assets and liabilities that satisfy the recognition criteria regardless of whether they have been previously recognised in acquiree's financial statements. The determination of the fair value in respect of the intangible assets was referenced to the inflow of future economic benefits and the outflow of future economic resources required to settle the obligation which requires significant amount of judgement and estimate. An independent professional valuer was engaged to assist in determining the fair values of the assets acquired and liabilities assumed in the business combination.

5 REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in researching, developing, manufacturing and selling pharmaceuticals and health-related consumer products. Revenues recognised for the year are as follows:

	2014 US$'000	2013 US$'000
Continuing operations:		
Sales of goods (note (i))	**66,985**	16,470
Income from research and development projects (note (ii))	**24,828**	29,500
	91,813	45,970
Discontinued operations:		
Sales of goods	**-**	(40)
	91,813	45,930

Notes:

(i) Included in US$67.0 million sales of goods for the year ended 31 December 2014, US$50.2 million is attributable from Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Company Limited ("Hutchison Sinopharm") which was newly acquired during 2014.

(ii) Income from research and development projects include upfront income and milestone income of US$8.4 million (2013: US$22.2 million) from two (2013: three) global licensing, co-development and commercialisation agreements and income from the provision of research and development services of US$16.4 million (2013: US$7.3 million). Included in US$24.8 million income from research and development projects, US$9.8 million represents unbilled service income from a third party in relation to a clinical trial which has not yet been completed as at 31 December 2014. Details of significant accounting judgement and estimates are disclosed in Note 4(a).

The chief executive officer (the chief operating decision maker) has reviewed the Group's internal reporting in order to assess performance and allocate resources, and has determined that the Group has three reportable operating segments as follows:

- China healthcare: comprises the development, manufacture, distribution, marketing and sale of over-the-counter products, prescription products and health supplements products.
- Drug research and development ("Drug R&D"): relates mainly to drug discoveries and other pharmaceutical research and development activities, and the provision of research and development services.
- Consumer products: relates to sales of health-related consumer products.

China healthcare and Drug R&D segments are primarily located in the PRC and the locations for consumer products segment are further segregated into the PRC and Hong Kong.

The operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technological advancement and marketing approach. The performance of the reportable segments are assessed based on a measure of earnings or losses before share of profits less losses after tax of joint ventures, interest income, finance costs and tax expenses ("EBIT/(LBIT)").

The Group had discontinued parts of its consumer products operations in the PRC and France for the year ended 31 December 2013. Details of the discontinued operations are included in Note 10.

Notes To The Accounts

5 REVENUE AND SEGMENT INFORMATION (Continued)

The segment information for the reportable segments for the year is as follows:

Continuing operations

	As at and for the year ended 31 December 2014						
	China healthcare	Drug R&D	Consumer products		Reportable segment		
	PRC	PRC	PRC	Hong Kong	Total	Unallocated	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue from external customers	53,832	24,828	217	12,936	91,813	-	91,813
EBIT/(LBIT)	1,156	(2,614)	(337)	999	(796)	(6,865)	(7,661)
Interest income	72	33	8	3	116	443	559
Share of profits less losses after tax of joint ventures	23,611	(8,409)	-	-	15,202	-	15,202
Operating profit/(loss)	24,839	(10,990)	(329)	1,002	14,522	(6,422)	8,100
Finance costs	87	-	-	19	106	1,410	1,516
Additions to non-current assets (other than financial instrument and deferred tax assets)	915	3,695	-	2	4,612	6	4,618
Depreciation/amortisation	68	1,145	3	7	1,223	42	1,265
Total assets	136,767	52,606	1,173	7,050	197,596	21,342	218,938

5 REVENUE AND SEGMENT INFORMATION (Continued)

Discontinued operations

	As at and for the year ended 31 December 2014								
	China healthcare	Drug R&D	Consumer products				Reportable segment		
	PRC	PRC	PRC	UK	France	Hong Kong	Total	Unallocated	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue from external customers	-	-	-	-	-	-	-	-	-
EBIT	-	-	2,096	-	-	-	2,096	-	2,096
Operating profit	-	-	2,096	-	-	-	2,096	-	2,096
Additions to non-current assets (other than financial instrument and deferred tax assets)	-	-	-	-	-	-	-	-	-
Depreciation/amortisation	-	-	-	-	-	-	-	-	-
Total assets	-	-	-	-	-	-	-	-	-

Notes To The Accounts

5 REVENUE AND SEGMENT INFORMATION (Continued)

Continuing operations

	As at and for the year ended 31 December 2013						
	China healthcare	Drug R&D	Consumer products		Reportable segment		
	PRC	PRC	PRC	Hong Kong	Total	Unallocated	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue from external customers	3,985	29,500	923	11,562	45,970	–	45,970
EBIT/(LBIT)	806	6,495	(80)	(486)	6,735	(6,568)	167
Interest income	9	31	12	2	54	397	451
Share of profits less losses after tax of joint ventures	19,702	(8,765)	–	–	10,937	–	10,937
Operating profit/(loss)	20,517	(2,239)	(68)	(484)	17,726	(6,171)	11,555
Finance costs	186	–	–	–	186	1,299	1,485
Additions to non-current assets (other than financial instrument and deferred tax assets)	5	2,461	–	2	2,468	32	2,500
Depreciation/amortisation	16	889	3	15	923	40	963
Total assets	97,271	50,272	1,768	8,312	157,623	27,113	184,736

5 REVENUE AND SEGMENT INFORMATION (Continued)

Discontinued operations

	As at and for the year ended 31 December 2013								
	China healthcare	Drug R&D	Consumer products				Reportable segment		
	PRC	PRC	PRC	UK	France	Hong Kong	Total	Unallocated	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue from external customers	–	–	1	–	(41)	–	(40)	–	(40)
LBIT	–	–	(1,141)	–	(837)	–	(1,978)	–	(1,978)
Operating loss	–	–	(1,141)	–	(837)	–	(1,978)	–	(1,978)
Additions to non-current assets (other than financial instrument and deferred tax assets)	–	–	–	–	–	–	–	–	–
Depreciation/amortisation	–	–	–	–	–	–	–	–	–
Total assets	–	–	–	283	648	–	931	–	931

Revenue from external customers is after elimination of inter-segment sales. The amount eliminated attributable to China healthcare segment within the PRC is US$271,000 (2013: nil) and consumer products segment from Hong Kong to the PRC is US$105,000 (2013: US$628,000).

Sales between segments are carried out at mutually agreed terms.

Unallocated expenses mainly represent corporate expenses which include corporate employee benefit expenses and the relevant share-based compensation expenses. Unallocated assets mainly comprise cash at banks.

A reconciliation of (LBIT)/EBIT for reportable segments to profit before taxation and discontinued operations is provided as follows:

	2014	2013
	US$'000	US$'000
(LBIT)/EBIT for reportable segments	**(796)**	6,735
Unallocated expenses	**(6,865)**	(6,568)
Interest income	**559**	451
Share of profits less losses after tax of joint ventures	**15,202**	10,937
Finance costs	**(1,516)**	(1,485)
Profit before taxation	**6,584**	10,070

As at 31 December 2014, the total non-current assets, other than investment in joint ventures and deferred tax assets, located in the PRC and Hong Kong were US$11,458,000 (2013: US$6,823,000) and US$79,000 (2013: US$120,000) respectively.

Notes To The Accounts

6 OTHER NET OPERATING (EXPENSES)/INCOME

	2014 US$'000	2013 US$'000
Continuing operations:		
Interest income	**559**	451
Net foreign exchange (losses)/gains	**(480)**	1,217
Other operating income	**20**	4
Other operating expenses	**(281)**	(69)
	(182)	1,603

7 OPERATING PROFIT

Operating profit is stated after charging the following:

	2014 US$'000	2013 US$'000
Continuing operations:		
Auditor's remuneration	**607**	408
Amortisation of leasehold land	**37**	38
Amortisation of other intangible asset	**48**	-
Cost of inventories recognised as expense (note (i))	**62,464**	16,823
Depreciation of property, plant and equipment	**1,180**	925
Write-off of inventories (note (ii))	**143**	41
Provision for inventories (note (ii))	**-**	88
Provision for receivables	**185**	42
Loss on disposal of property, plant and equipment	**36**	17
Operating lease rentals in respect of land and buildings	**810**	672
Research and development expense	**4,574**	4,475
Employee benefit expenses (Note 13)	**21,297**	16,517

Notes:

(i) Included in US$62.5 million cost of inventories recognised as expense for the year ended 31 December 2014, US$47.8 million is attributable from Hutchison Sinopharm which was newly acquired during 2014.

(ii) Provision for inventories and write-off of inventories amounted to nil (2013: US$88,000) and US$143,000 (2013: US$41,000) respectively mainly related to obsolete or damaged inventories.

8 FINANCE COSTS

	2014	2013
	US$'000	US$'000
Continuing operations:		
Interest expense on bank borrowings	**913**	922
Interest expense on loan from a non-controlling shareholder of a subsidiary (Note 31(a))	**19**	-
Guarantee fee on bank borrowings (Note 31(a))	**471**	471
Interest expense on amount due to immediate holding company (Note 31(a))	**113**	92
	1,516	1,485

9 TAXATION CHARGE

	2014	2013
	US$'000	US$'000
Continuing operations:		
Current tax		
- HK	**14**	-
- PRC	**849**	1,186
Deferred income tax (Note 19)	**480**	(136)
Taxation charge	**1,343**	1,050

(a) Hong Kong profits tax has been provided for at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits less estimated available tax losses.

(b) Taxation in the PRC has been provided for at the applicable rate on the estimated assessable profits less estimated available tax losses.

Notes To The Accounts

9 TAXATION CHARGE (Continued)

(c) The taxation charge on the Group's profit before taxation differs from the theoretical amount that would arise using the Group's weighted average tax rate as follows:

	2014 US$'000	2013 US$'000
Continuing operations:		
Profit before taxation	**6,584**	10,070
Tax calculated at the domestic tax rates of respective companies	**4,464**	5,115
Tax effect of joint ventures' result	**(5,620)**	(4,453)
Tax losses for which no deferred tax asset was recognised	**1,469**	952
Expenses not deductible for tax purposes	**607**	770
Utilisation of previously unrecognised tax losses	**(1,062)**	(2,673)
Withholding tax on unremitted earnings	**1,161**	1,029
Others	**324**	310
Taxation charge	**1,343**	1,050

The weighted average tax rate calculated at the domestic tax rates of respective companies for the year was 67.8% (2013: 50.8%). The fluctuation in the weighted average applicable tax rate arose because of the changes in the relative profitability of the Group's operations in different tax jurisdictions.

The effective tax rate for the year was 20.4% (2013: 10.4%).

10 RESULTS AND CASH FLOWS OF DISCONTINUED OPERATIONS

In June 2013, the Group discontinued its consumer products operation in France, which represented a geographical area of the Group's business, and a major business line in the PRC consumer products operation, as their performances were below expectation in light of increased competitive activities in the consumer product market.

The results and cash flows of the discontinued operations are set out below.

	2014 US$'000	2013 US$'000
Revenue and income (note (i))	2,096	(31)
Expenses (note (ii))	-	(1,947)
Profit/(loss) before taxation from discontinued operations	2,096	(1,978)
Taxation charge	(62)	-
Profit/(loss) for the year from discontinued operations	2,034	(1,978)
Cash flow from discontinued operations		
Net cash generated from/(used in) operating activities	2,515	(1,239)
Net increase/(decrease) in cash and cash equivalents	2,515	(1,239)

Notes:

(i) Revenue and income include:

	2014 US$'000	2013 US$'000
Sales of goods	-	(40)
Other income	2,096	9
	2,096	(31)

The income from the discontinued operations for the year ended 31 December 2014 represented the compensation income from the arbitration proceedings against a supplier, being the excess of US$2.5 million compensation proceeds received over the carrying amount of US$0.4 million receivables recorded in prior years.

(ii) Expenses include:

	2014 US$'000	2013 US$'000
Cost of inventories recognised as expense	-	7
Employee benefit expenses	-	239
Loss on disposal of property, plant and equipment	-	1
Operating lease rentals in respect of land and building	-	198
Write-off of inventories	-	96
Selling expenses	-	840

Notes To The Accounts

11 EARNINGS PER SHARE

(a) Basic earnings/(losses) per share

Basic earnings/(losses) per share are calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2014	2013
Weighted average number of outstanding ordinary shares in issue	**52,563,387**	52,050,988
Profit/(loss) for the year attributable to equity holders of the Company		
- Continuing operations (US$'000)	**4,357**	7,323
- Discontinued operations (US$'000)	**1,017**	(1,408)
	5,374	5,915
Earnings/(losses) per share attributable to equity holders of the Company		
- Continuing operations (US$ per share)	**0.0829**	0.1407
- Discontinued operations (US$ per share)	**0.0193**	(0.0271)
	0.1022	0.1136

(b) Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the share options that have been granted under the Company's share option scheme to reflect the dilutive potential ordinary shares of the Company. A calculation is prepared to determine the number of shares that could have been acquired at fair value (determines as the average market share price of the Company's shares over the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of share options.

11 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share (Continued)

	2014	2013
Weighted average number of outstanding ordinary shares in issue	**52,563,387**	52,050,988
Adjustment for share options	**337,758**	827,438
	52,901,145	52,878,426
Profit/(loss) for the year attributable to equity holders of the Company		
- Continuing operations (US$'000)	**4,357**	7,323
- Discontinued operations (US$'000)	**1,017**	(1,408)
	5,374	5,915
Diluted earnings per share for profit from continuing operations attributable to equity holders of the Company (US$ per share)	**0.0824**	0.1385
Diluted earnings per share for profit from continuing and discontinued operations attributable to equity holders of the Company (US$ per share)	**0.1016**	0.1119

Diluted earnings per share from discontinued operations for the year ended 31 December 2014 are US$0.0192 (2013: the diluted loss per share are the same as the basic loss per share from discontinued operations since the share options had anti-dilutive effect).

12 DIRECTORS' EMOLUMENTS

	2014 US$'000	2013 US$'000
Fees	**271**	280
Basic salaries, housing allowances, other allowances and benefits in kind	**1,432**	1,381
Contributions to pension schemes	**45**	43
	1,748	1,704

13 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2014 US$'000	2013 US$'000
Wages, salaries and bonuses	**15,864**	12,953
Pension costs - defined contribution plans	**1,370**	1,096
Staff welfare	**3,195**	2,111
Share-based compensation expenses	**868**	357
	21,297	16,517

Approximately US$9,442,000 (2013: US$5,256,000) is included in cost of sales.

Notes To The Accounts

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings situated in the PRC US$'000	Leasehold improvements US$'000	Plant and equipment US$'000	Furniture and fixtures, other equipment and motor vehicles US$'000	Construction in progress US$'000	Total US$'000
Cost						
As at 1 January 2014	2,551	2,583	85	10,421	1,248	16,888
Exchange differences	(60)	(68)	(2)	(248)	(28)	(406)
Acquisition of a subsidiary (Note 29(b))	-	-	-	181	-	181
Additions	-	126	8	1,215	2,380	3,729
Disposals	-	(21)	-	(388)	-	(409)
Transfers	-	1,671	-	1,097	(2,768)	-
As at 31 December 2014	2,491	4,291	91	12,278	832	19,983
Accumulated depreciation						
As at 1 January 2014	761	2,377	75	8,647	-	11,860
Exchange differences	(19)	(56)	(2)	(201)	-	(278)
Acquisition of a subsidiary (Note 29(b))	-	-	-	112	-	112
Charge for the year	210	380	2	588	-	1,180
Disposals	-	(19)	-	(354)	-	(373)
As at 31 December 2014	952	2,682	75	8,792	-	12,501
Net book value						
As at 31 December 2014	1,539	1,609	16	3,486	832	7,482

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings situated in the PRC US$'000	Leasehold improvements US$'000	Plant and equipment US$'000	Furniture and fixtures, other equipment and motor vehicles US$'000	Construction in progress US$'000	Total US$'000
Cost						
As at 1 January 2013	2,472	2,467	78	9,059	-	14,076
Exchange differences	79	79	3	299	18	478
Additions	-	55	4	1,211	1,230	2,500
Disposals	-	(18)	-	(148)	-	(166)
As at 31 December 2013	2,551	2,583	85	10,421	1,248	16,888
Accumulated depreciation						
As at 1 January 2013	625	2,302	60	7,745	-	10,732
Exchange differences	21	73	2	255	-	351
Charge for the year	115	19	13	778	-	925
Disposals	-	(17)	-	(131)	-	(148)
As at 31 December 2013	761	2,377	75	8,647	-	11,860
Net book value						
As at 31 December 2013	1,790	206	10	1,774	1,248	5,028

Notes To The Accounts

15 LEASEHOLD LAND

The Group's interests in leasehold land represent prepaid operating lease payments and are located in the PRC.

	2014 US$'000	2013 US$'000
Cost		
As at 1 January	1,761	1,706
Exchange differences	(41)	55
As at 31 December	1,720	1,761
Accumulated amortisation		
As at 1 January	253	208
Exchange differences	(6)	7
Amortisation charge	37	38
As at 31 December	284	253
Net book value		
As at 31 December	1,436	1,508

16 GOODWILL

	2014 US$'000	2013 US$'000
Cost		
As at 1 January	407	407
Acquisition of a subsidiary (Note 29(b))	1,546	-
As at 31 December	1,953	407

Goodwill is allocated to Hutchison Healthcare Limited ("HHL") and Hutchision Sinopharm, subsidiaries of the Group, to the extent of US$407,000 (2013: US$407,000) and US$1,546,000 (2013: nil), respectively.

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Projections in excess of five years are used to take into account increasing market share and growth momentum.

16 GOODWILL (Continued)

There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget. Key assumptions are set out below:

	HHL		Hutchison Sinopharm	
	2014	2013	**2014**	2013
Expected growth in revenue	**5%**	5%	**20%**	–
Pre-tax discount rate	**11.0%**	11.0%	**11.6%**	–
Long-term growth rate	**5%**	5%	**5%**	–

Management prepared the financial budgets taking into account actual and prior year performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

17 OTHER INTANGIBLE ASSET

	2014	2013
	US$'000	US$'000
Cost		
As at 1 January	**–**	–
Exchange differences	**6**	–
Acquisition of a subsidiary (Note 29(b))	**708**	–
As at 31 December	**714**	–
Accumulated amortisation		
As at 1 January	**–**	–
Amortisation charge	**48**	–
As at 31 December	**48**	–
Net book value		
As at 31 December	**666**	–

Other intangible asset represents the Good Supply Practice license ("GSP license").

Notes To The Accounts

18 INVESTMENTS IN JOINT VENTURES

	31 December 2014 US$'000	31 December 2013 US$'000
Unlisted shares	**61,883**	61,883
Share of undistributed post acquisition reserves	**46,131**	49,522
Loan to a joint venture (Note 31(b))	**5,000**	–
	113,014	111,405

Particulars regarding the principal joint ventures are set below:

Name	Principal place of business	Equity interest attributable to the Group	Nature of relationship	Measurement method
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited ("HBYS")	The PRC	40% (note (i))	Manufacture and distribution of Traditional Chinese Medicine ("TCM") products	Equity
Shanghai Hutchison Pharmaceuticals Limited ("SHPL")	The PRC	50%	Manufacture and distribution of TCM products	Equity
Nutrition Science Partners Limited ("NSP")	Hong Kong	43.79% (note (ii))	Provide research and development of pharmaceutical products	Equity

All of the above joint ventures are private companies and there is no quoted market price available for its shares.

Notes:

(i) There is 20% non-controlling interest in the intermediate holding company which holds 50% equity interest in HBYS.

(ii) There is 12.42% (2013: 12.24%) non-controlling interest in the intermediate holding company which holds 50% equity interest in NSP.

18 INVESTMENTS IN JOINT VENTURES (Continued)

Summarised financial information for joint ventures

Set out below are the summarised financial information for the joint ventures which are included under the China healthcare operating segment ("China healthcare JVs") and Drug R&D operating segment ("Drug R&D JV") and accounted for using the equity method.

(i) Summarised statement of financial position

	China healthcare JVs				R&D JV	
	HBYS 31 December		SHPL 31 December		NSP 31 December	
	2014	2013	**2014**	2013	**2014**	2013
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Cash and bank balances	**51,837**	51,587	**18,874**	30,331	**6,249**	17,031
Other current assets (excluding cash and bank balances)	**92,734**	94,110	**56,569**	44,828	**2,299**	30
Total current assets	**144,571**	145,697	**75,443**	75,159	**8,548**	17,061
Non-current assets	**73,552**	59,446	**67,731**	35,646	**30,000**	30,000
Current financial liabilities (excluding trade and other payables)	**(625)**	-	**(7,476)**	(820)	**(10,000)**	-
Other current liabilities (including trade and other payables)	**(98,260)**	(91,760)	**(44,576)**	(38,484)	**(2,902)**	(4,604)
Total current liabilities	**(98,885)**	(91,760)	**(52,052)**	(39,304)	**(12,902)**	(4,604)
Non-current liabilities	**(3,858)**	(3,180)	**(19,216)**	(5,025)	**-**	-
Net assets	**115,380**	110,203	**71,906**	66,476	**25,646**	42,457

Notes To The Accounts

18 INVESTMENTS IN JOINT VENTURES (Continued)

Summarised financial information for joint ventures (Continued)

(ii) Summarised statement of comprehensive income

	China healthcare JVs				R&D JV	
	HBYS		SHPL		NSP	
	2014	2013	**2014**	2013	**2014**	2013
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Revenue	**300,842**	252,465	**154,703**	138,160	**-**	-
Depreciation and amortisation	**(3,645)**	(3,598)	**(2,651)**	(2,612)	**-**	-
Interest income	**1,317**	1,103	**257**	197	**-**	-
Finance cost	**91**	(44)	**-**	-	**-**	-
Profit/(loss) before taxation	**24,553**	20,386	**31,505**	26,620	**(16,811)**	(17,543)
Taxation charge	**(3,735)**	(3,408)	**(5,103)**	(4,196)	**-**	-
Post-tax profit/(loss)	**20,818**	16,978	**26,402**	22,424	**(16,811)**	(17,543)
Other comprehensive income	**(2,352)**	3,879	**(1,895)**	848	**-**	-
Total comprehensive income	**18,466**	20,857	**24,507**	23,272	**(16,811)**	(17,543)
Dividends declared	**12,820**	6,462	**19,077**	16,154	**-**	-

Note:

The post-tax loss and total comprehensive loss for other individual immaterial joint venture for the year ended 31 December 2014 are approximately US$5,000 (2013: profit US$15,000) and US$20,000 (2013: total comprehensive income US$24,000) respectively.

18 INVESTMENTS IN JOINT VENTURES (Continued)

Summarised financial information for joint ventures (Continued)

(iii) Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of investment in the joint ventures.

	China healthcare JVs				R&D JV	
	HBYS		SHPL		NSP	
	As at 31 December		As at 31 December		As at 31 December	
	2014	2013	**2014**	2013	**2014**	2013
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Opening net assets at 1 January	**110,203**	95,808	**66,476**	59,358	**42,457**	60,000
Purchase of additional interests in a subsidiary of a joint venture	**(469)**	-	**-**	-	**-**	-
Profit/(loss) for the year	**20,818**	16,978	**26,402**	22,424	**(16,811)**	(17,543)
Dividend declared	**(12,820)**	(6,462)	**(19,077)**	(16,154)	**-**	-
Other comprehensive income	**(2,352)**	3,879	**(1,895)**	848	**-**	-
Closing net assets at 31 December	**115,380**	110,203	**71,906**	66,476	**25,646**	42,457
Group's share of net assets in joint ventures @50%	**57,690**	55,102	**35,953**	33,238	**12,823**	21,229
Goodwill	**-**	-	**3,205**	3,282	**-**	-
Loan to a joint venture	**-**	-	**-**	-	**5,000**	-
Non-controlling interests	**(1,901)**	(1,700)	**-**	-	**-**	-
Carrying value	**55,789**	53,402	**39,158**	36,520	**17,823**	21,229

Note:

The carrying value for other individual immaterial joint venture as at 31 December 2014 is approximately US$244,000 (2013: US$254,000).

The joint ventures had the following operating lease commitments and capital commitments:

	31 December 2014	31 December 2013
	US$'000	US$'000
Operating lease commitments	**1,656**	1,329
Capital commitments	**61,170**	8,379

Notes To The Accounts

19 DEFERRED INCOME TAX

	31 December 2014 US$'000	31 December 2013 US$'000
Deferred tax assets	257	285
Deferred tax liabilities	(2,947)	(2,397)
Net deferred tax liabilities	(2,690)	(2,112)

The movements in net deferred income tax liabilities are as follows:

	2014 US$'000	2013 US$'000
At 1 January	(2,112)	(2,248)
Acquisition of a subsidiary (Note 29(b))	(98)	-
(Charged)/credited to the consolidated income statement		
- withholding tax on unremitted earnings	(363)	136
- deferred tax on amortisation of intangible assets	11	-
- utilisation of previously recognised tax losses	(128)	-
At 31 December	(2,690)	(2,112)

The deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes related to the same fiscal authority.

The Group's deferred tax assets are mainly related to depreciation allowances and tax losses, and deferred tax liabilities are mainly related to unremitted earnings from joint ventures.

The potential deferred tax assets in respect of tax losses which have not been recognised in the consolidated accounts amounted to approximately US$7,877,000 as at 31 December 2014 (2013: US$9,036,000).

These unrecognised tax losses can be carried forward against future taxable income and will expire in the following years:

	2014 US$'000	2013 US$'000
No expiry date	23,531	14,855
2014	-	8,647
2015	10,098	10,341
2016	-	336
2017	4,097	5,672
2018	1,148	1,347
2019	633	-
	39,507	41,198

20 INVENTORIES

	31 December 2014 US$'000	31 December 2013 US$'000
Raw materials	291	483
Finished goods	4,114	937
	4,405	1,420

Included in the US$4.4 million inventories as at 31 December 2014, US$3.4 million is attributable from Hutchison Sinopharm which was newly acquired during 2014.

21 TRADE AND OTHER RECEIVABLES

	31 December 2014 US$'000	31 December 2013 US$'000
Trade and other receivables from third parties	32,524	11,803
Trade receivables from related parties ((Note 31(b))	1,922	2,986
	34,446	14,789

Substantially all the trade and other receivables are denominated in RMB and HK$ and are due within one year from the end of the reporting period. Included in the US$32.5 million trade and other receivables from third parties as at 31 December 2014, US$16.4 million is attributable from Hutchison Sinopharm which was newly acquired during 2014 and US$9.8 million (2013: nil) represents an unbilled service income from a customer.

The carrying value of trade and other receivables approximates their fair values.

Movements on the provision for trade receivables are as follows:

	2014 US$'000	2013 US$'000
At 1 January	1,670	1,554
Provision	185	42
Exchange difference	(62)	74
At 31 December	1,793	1,670

The impaired and provided receivables of US$1,793,000 (2013: US$1,670,000) are aged over 6 months.

Notes To The Accounts

21 TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2014, trade receivables of approximately US$2,130,000 (2013: US$3,703,000) were past due but not impaired. These related to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	2014 US$'000	2013 US$'000
Up to 3 months	-	1,136
4 to 6 months	24	959
6 to 12 months	2,106	1,608
	2,130	3,703

The credit quality of trade receivables neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

22 CASH AND BANK BALANCES

	31 December 2014 US$'000	31 December 2013 US$'000
Cash at bank and in hand	32,019	20,946
Short-term bank deposits (note (a))	6,927	25,917
Bank deposits maturing over three months (note (a))	12,179	-
	51,125	46,863

	2014 US$'000	2013 US$'000
Denominated in:		
US dollars	8,104	12,203
RMB (note (b))	40,213	32,139
UK Pound Sterling	247	212
HK$	2,543	1,651
Euro	18	658
	51,125	46,863

Notes:

(a) The weighted average effective interest rate on bank deposits, with maturity ranging from 7 to 185 days (2013: 7 to 90 days), was 2.2% (2013: 2.1%) per annum. Cash at bank earns interest at floating rates based on daily bank deposit rates.

(b) Certain cash and bank balances denominated in RMB were deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

23 SHARE CAPITAL

(a) Authorised and issued share capital

	Number of shares of US$1 each	Nominal amount US$'000
Authorised:		
As at 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	75,000,000	75,000

	Number of Shares	US$'000
Issued and fully paid:		
As at 1 January 2013	52,048,448	52,048
Issue of shares under share option scheme (note)	3,000	3
As at 31 December 2013	52,051,448	52,051
As at 1 January 2014	52,051,448	52,051
Issue of shares under share option scheme (note)	1,025,228	1,025
As at 31 December 2014	53,076,676	53,076

Note:

Issue date	26 February 2013	3 June 2014	23 June 2014	24 October 2014	4 December 2014
Number of ordinary shares of US$1 each allotted and issued by the Company	3,000	768,182	76,818	102,628	77,600
Issue price	£1.535	£1.090	£1.090	£3.195	£4.967
Aggregate cash consideration (US$'000)	7	1,415	141	523	601
Weighted average share price at the exercise date	£4.40	£8.35	£8.35	£11.55	£14.58

All the above new shares rank pari passu in all respects with the then existing shares.

Notes To The Accounts

23 SHARE CAPITAL (Continued)

(b) Share option schemes

(i) Share option scheme of the Company

The Company conditionally adopted a share option scheme (the "HCML Share Option Scheme") on 4 June 2005 which was amended on 21 March 2007. Pursuant to the HCML Share Option Scheme, the Board of Directors of the Company may, at its discretion, offer any employees and directors (including Executive and Non-executive Directors but excluding Independent Non-executive Directors) of the Company, holding companies of the Company and any of their subsidiaries or affiliates, and subsidiaries or affiliates of the Company share options to subscribe for shares of the Company.

The following share options were outstanding under the HCML Share Option Scheme as at 31 December 2014:

Name or category of participants	Effective date of grant of share options	Exercise period of share options	Exercise price of share options	Number of shares subject to the options
Director				
Johnny Cheng	25 August 2008 (note (A))	From 25 August 2008 to 24 August 2018	£1.260	64,038
Employees in aggregate	11 September 2006 (note (B))	From 11 September 2006 to 18 May 2016	£1.715	26,808
	18 May 2007 (note (C))	From 18 May 2007 to 17 May 2017	£1.535	40,857
	1 December 2010 (note (A))	From 1 December 2010 to 30 November 2020	£4.967	100,000
	24 June 2011 (note (A))	From 24 June 2011 to 23 June 2021	£4.405	150,000
	20 December 2013 (note (A))	From 20 December 2013 to 19 December 2023	£6.100	302,700
				684,403

23 SHARE CAPITAL (Continued)

(b) Share option schemes (Continued)

(i) Share option scheme of the Company (Continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2014		2013	
	Weighted average exercise price in £ per share	**Number of options**	Weighted average exercise price in £ per share	Number of options
As at 1 January	**3.67**	**2,303,317**	2.22	1,459,931
Granted	**-**	**-**	6.10	896,386
Exercised	**1.59**	**(1,025,228)**	1.54	(3,000)
Lapsed	**-**	**-**	4.97	(50,000)
Cancelled (note (D))	**6.10**	**(593,686)**	-	-
As at 31 December	**4.67**	**684,403**	3.67	2,303,317

The Company has no legal or constructive obligation to repurchase or settle the share options in cash. Save as mentioned above, no other share options under the HCML Share Option Scheme were granted, exercised, lapsed or cancelled during the year ended 31 December 2014.

Notes:

(A) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of 25% on each of the first, second, third and fourth anniversaries of the effective date of grant.

(B) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of one-third on each of 19 May 2007, 19 May 2008 and 19 May 2009.

(C) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of one-third on each of the first, second and third anniversaries of the effective date of grant.

(D) 593,686 share options were cancelled with the consent of the relevant eligible employees in exchange for new share options of a subsidiary (Note 23(b)(ii)(D)). This was accounted for as the modification of the original share options granted which did not result in any incremental fair value to the Group.

(E) As at 31 December 2014, the fair value of share options in connection with the 684,403 share options outstanding but remaining unvested amounted to £144,000 (equivalent to US$224,000). The amount is to be recognised as an expense of the Group over the remaining vesting periods of the relevant share options as mentioned in note (A) above. The amount recognised as an expense for the year ended 31 December 2014 amounted to US$808,000 (31 December 2013: US$206,000).

Notes To The Accounts

23 SHARE CAPITAL (Continued)

(b) Share option schemes (Continued)

(i) Share option scheme of the Company (Continued)

The fair value of share options granted under the HCML Share Option Scheme determined by the Binomial Model is as follows:

	Effective date of grant of share options					
	11 September 2006	18 May 2007	25 August 2008	1 December 2010	24 June 2011	20 December 2013
Value of each share option	£0.553	£0.533	£0.569	£1.995	£1.841	£3.154
Significant inputs into the valuation model:						
Exercise price	£1.715	£1.535	£1.260	£4.967	£4.405	£6.100
Share price at effective date of grant	£1.7325	£1.5400	£1.2600	£4.6000	£4.3250	£6.100
Expected volatility (notes (i) to (v))	38.8%	40.0%	35.0%	48.4%	46.6%	36.0%
Risk-free interest rate	4.766%	5.098%	4.700%	3.360%	3.130%	3.160%
Expected life of share options	3.4 to 5.3 years	3.9 to 5.7 years	7.1 to 8.0 years	6.25 years	6.25 years	6.25 years
Expected dividend yield	0%	0%	0%	0%	0%	0%

Notes:

(i) For share options granted on or before 18 May 2007, the volatility of the underlying stock during the life of the share options is estimated with reference to the historical volatility of the comparable companies for the past one to two years as of the valuation date, since there was no or only a relatively short period of trading record of the Company's shares at the respective effective dates of grant.

(ii) For share options granted on 25 August 2008, the volatility of the underlying stock during the life of the share options is estimated with reference to the volatility of the Company two years prior to the issuance of share options.

(iii) For share options granted on 1 December 2010, the volatility of the underlying stock during the life of the share options is estimated with reference to the volatility of the Company four years prior to the issuance of share options.

(iv) For share options granted on 24 June 2011, the volatility of the underlying stock during the life of the share options is estimated with reference to the volatility of the Company five years prior to the issuance of share options.

(v) For share options granted on 20 December 2013, the volatility of the underlying stock during the life of the share options is estimated with reference to the volatility of Company seven years prior to the issuance of share options.

23 SHARE CAPITAL (Continued)

(b) Share option schemes (Continued)

(ii) Share option schemes of a subsidiary

Hutchison MediPharma Holdings Limited ("HMHL"), a subsidiary of the Company, adopted a share option scheme on 6 August 2008 (as amended on 15 April 2011) and another share option scheme on 17 December 2014 (together the "HMHL Share Option Schemes"). Pursuant to the HMHL Share Option Schemes, any employee or director of HMHL and any of its holding company, subsidiaries and affiliates is eligible to participate in the HMHL Share Option Schemes subject to the discretion of the board of directors of HMHL.

The following share options were outstanding under the HMHL Share Option Schemes as at 31 December 2014:

Category of participants	Effective date of grant of share options	Exercise period of share options	Exercise Price of share options	Number of shares subject to the options
Employees in aggregate	2 August 2010 (note (A))	From 2 August 2010 to 1 August 2016	US$2.24	5,000
	18 April 2011 (note (B))	From 18 April 2011 to 17 April 2017	US$2.36	19,400
	17 December 2014 (note (C))	From 17 December 2014 to 19 December 2023	US$7.82	1,187,372
				1,211,772

Notes To The Accounts

23 SHARE CAPITAL (Continued)

(b) Share option schemes (Continued)

(ii) Share option schemes of a subsidiary (Continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2014		2013	
	Weighted average exercise price in US$ per share	**Number of options**	Weighted average exercise price in US$ per share	Number of options
As at 1 January	**2.03**	**538,420**	1.87	3,144,505
Granted (note (D))	**7.82**	**1,187,372**	–	–
Exercised (note (E))	**1.50**	**(80,924)**	–	–
Lapsed	**2.15**	**(393,212)**	2.03	(120,896)
Cancelled (note (F))	**1.70**	**(39,884)**	1.79	(2,485,189)
As at 31 December	**7.71**	**1,211,772**	2.03	538,420

Notes:

(A) The outstanding share options are fully vested and exercisable within a period of 6 years from the effective date of grant.

(B) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of 25% on each of the first, second, third and fourth anniversaries of the effective date of grant.

(C) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of 25% on 20 December 2014 and 25% on each of the first, second, and third anniversaries of such date.

(D) 1,187,372 share options were issued as a replacement award for share options of the Company cancelled under Note 23(b)(i)(D).

(E) The weighted average share price as at the date of exercise is US$4.55.

(F) The share options were cancelled with the consent of the relevant eligible employees in exchange for new share options of the Company vesting over a period of four years and/or cash consideration payable over a period of four years.

(G) As at 31 December 2014, the fair value of share options in connection with the 1,211,772 share options outstanding but remaining unvested amounted to US$400,000. The amount is to be recognised as an expense of the Group over the remaining vesting periods of the relevant share options. The amount recognised as an expense for the year ended 31 December 2014 amounted to US$60,000 (2013: US$151,000).

23 SHARE CAPITAL (Continued)

(b) Share option schemes (Continued)

(ii) Share option schemes of a subsidiary (Continued)

The fair value of options granted under the HMHL Share Option Schemes determined using the Binomial Model is as follows:

	Effective date of grant of share options		
	2 August 2010	**18 April 2011**	**17 December 2014**
Value of each share option	US$0.258	US$0.923	US$3.490
Significant inputs into the valuation model:			
Exercise price	US$2.240	US$2.360	US$7.820
Share price at effective date of grant	US$1.030	US$2.048	US$7.820
Expected volatility (note)	49%	55%	48.4%
Risk-free interest rate	2.007%	2.439%	1.660%
Expected life of share options	6 years	6 years	5.26 years
Expected dividend yield	0%	0%	0%

Note:

The volatility of the underlying stock during the life of the share options is estimated with reference to the historical volatility of the comparable companies for the past five to six years as of the valuation date.

Notes To The Accounts

24 NON-CONTROLLING INTERESTS

The total non-controlling interest as at 31 December 2014 is approximately US$24,994,000 (2013: US$15,966,000) of which US$11,068,000 (2013: US$10,587,000) is attributable to Hutchison BYS (Guangzhou) Holding Limited ("HGHL") and its subsidiaries (together the "HGHL Group"), US$5,598,000 (2013: US$3,626,000) is attributable to HMHL and its subsidiaries (together the "HMHL Group"), US$776,000 (2013: US$1,753,000) is attributable to Hutchison Hain Organic Holdings Limited ("HHOH") and its subsidiaries (together the "HHOH Group") and US$7,552,000 (2013: Nil) is attributable to Hutchison Sinopharm.

Set out below are the particulars and summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Name	Principle place of business	Equity interest attributable to the non-controlling interest
HGHL	British Virgin Islands	20%
HMHL (note (i))	Cayman Islands	12.42%
HHOH (note (ii))	British Virgin Islands	50%
Hutchison Sinopharm (note (iii))	The PRC	49%

Notes:

(i) The Group has 4 voting rights out of total of 5 voting rights.

(ii) The portion of equity interest is in proportion to the portion of voting rights. The Group has one additional casting vote in the event of deadlock.

(iii) The Group has 3 voting rights out of total of 5 voting rights.

(i) Summarised consolidated statement of financial position

	HGHL Group 31 December		HMHL Group 31 December		HHOH Group 31 December		Hutchison Sinopharm 31 December	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Current assets	**207**	172	**27,965**	21,215	**5,884**	8,230	**33,251**	-
Non-current assets	**55,722**	53,335	**27,026**	28,104	**9**	45	**819**	-
Current liabilities	**(897)**	(1,060)	**(11,456)**	(19,928)	**(4,253)**	(4,734)	**(18,346)**	-
Non-current liabilities	**(3,434)**	(3,265)	**-**	-	**(5,100)**	(9,600)	**(186)**	-
Net assets/(liabilities)	**51,598**	49,182	**43,535**	29,391	**(3,460)**	(6,059)	**15,538**	-

24 NON-CONTROLLING INTERESTS (Continued)

(ii) Summarised consolidated statement of comprehensive income

	HGHL Group		HMHL Group		HHOH Group		Hutchison Sinopharm	
	2014 US$'000	2013 US$'000	**2014 US$'000**	2013 US$'000	**2014 US$'000**	2013 US$'000	**2014 US$'000**	2013 US$'000
Revenue	**-**	-	**24,828**	29,500	**11,531**	10,157	**50,202**	-
Profit/(loss)before taxation	**10,272**	8,286	**(11,219)**	(2,238)	**2,721**	(1,215)	**106**	-
Taxation charge	**(489)**	(446)	**-**	(21)	**(193)**	-	**(51)**	-
Post-tax profit/(loss)	**9,783**	7,840	**(11,219)**	(2,259)	**2,528**	(1,215)	**55**	-
Other comprehensive income/(loss)	**(1,470)**	1,352	**(408)**	295	**71**	48	**124**	-
Total comprehensive income/(loss)	**8,313**	9,192	**(11,627)**	(1,964)	**2,599**	(1,167)	**179**	-
Dividends paid to non-controlling interests (Note 31(a))	**1,179**	577	**-**	-	**-**	-	**-**	-

Notes To The Accounts

24 NON-CONTROLLING INTERESTS (Continued)

(iii) Summarised consolidated statement of cash flows

	HGHL Group		HMHL Group		HHOH Group		Hutchison Sinopharm	
	2014 US$'000	2013 US$'000	**2014 US$'000**	2013 US$'000	**2014 US$'000**	2013 US$'000	**2014 US$'000**	2013 US$'000
Net cash generated from/(used in) operating activities	**36**	163	**(17,521)**	2,903	**3,516**	(136)	**6,858**	-
Net cash (used in)/generated from investing activities	**-**	-	**(3,734)**	(2,457)	**-**	-	**10,274**	-
Net cash generated from/(used in) financing activities	**-**	-	**20,000**	3,982	**(4,500)**	-	**(4,769)**	-
Net increase/(decrease) in cash and cash equivalents	**36**	163	**(1,255)**	4,428	**(984)**	(136)	**12,363**	-
Cash and cash equivalents at beginning of year	**171**	8	**12,969**	8,227	**4,525**	4,609	**-**	-
Exchange differences on cash and cash equivalents	**-**	-	**(265)**	314	**(38)**	52	**-**	-
Cash and cash equivalents at end of year	**207**	171	**11,449**	12,969	**3,503**	4,525	**12,363**	-

The information above is the amount before inter-company eliminations.

Transactions with non-controlling interests are set out in Note 31.

25 TRADE PAYABLES

	31 December 2014 US$'000	31 December 2013 US$'000
Trade payables due to third parties	**18,237**	1,811
Trade payable due to a related party (Note 31(b))	**2,190**	2,352
	20,427	4,163

Substantially all the trade payables due to third parties are denominated in US dollars, HK$ and RMB and due within one year from the end of the reporting period. Included in US$18.2 million trade payables due to third parties as at 31 December 2014, US$16.9 million is attributable from Hutchison Sinopharm which was newly acquired during 2014.

Trade payable due to a related party is denominated in US dollars and due within one year from the end of the reporting period.

The carrying value of trade payables approximates their fair values due to their short-term maturities.

26 OTHER PAYABLES, ACCRUALS AND ADVANCE RECEIPTS

	31 December 2014 US$'000	31 December 2013 US$'000
Other payables and accruals		
Accrued operating expenses	**3,988**	5,327
Accrued salaries	**3,178**	3,047
Other payables	**5,908**	3,895
	13,074	12,269
Advance receipts		
Payments in advance from customers	**564**	248
Deferred government incentives	**-**	2,872
	564	3,120
	13,638	15,389

Notes To The Accounts

27 BANK BORROWINGS

	31 December 2014 US$'000	31 December 2013 US$'000
Bank borrowings		
Non-current (note (i))	**26,923**	-
Current (notes (i) and (ii))	**26,282**	51,508
Total borrowings	**53,205**	51,508
Weighted average effective interest rate	**1.60%**	1.80%

Notes:

(i) As at 31 December 2014, the long-term bank borrowing of US$26,923,000 is unsecured, interest bearing, guaranteed by Hutchison Whampoa Limited and will mature in 2018. It was classified as a short-term bank borrowing as at 31 December 2013. The carrying amount of the bank borrowings approximates its fair values.

(ii) All short-term bank borrowings are unsecured and interest bearing and the carrying amount of these bank borrowings approximates their fair values.

(a) The Group's bank borrowings are repayable as follows:

	2014 US$'000	2013 US$'000
Within 1 year	**26,282**	51,508
Between 2 and 5 years	**26,923**	-
	53,205	51,508

(b) The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	2014 US$'000	2013 US$'000
HK$	**53,205**	48,718
RMB	**-**	2,790
	53,205	51,508

28 CONVERTIBLE PREFERENCE SHARES

In March 2013, as a result of the satisfaction of the terms and conditions as set out in the relevant agreements, the remaining 4,574,780 convertible preference shares amounting to US$12.47 million was reclassified from financial liabilities to equity of HMHL. The Group's interest in HMHL has been diluted from 100% to 87.76%, and the difference between the Group's proportionate share of the carrying amount of the net assets of HMHL diluted and the consideration received has been credited to equity in 2013 accordingly.

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit for the year to net cash used in operations:

	2014 US$'000	2013 US$'000
Profit for the year	7,275	7,042
Adjustments for:		
Taxation charge	1,405	1,050
Share-based compensation expenses	868	357
Amortisation of leasehold land	37	38
Amortisation of other intangible asset	48	-
Write-off of inventories	143	137
Provision for inventories	-	88
Provision for receivables	185	42
Depreciation on property, plant and equipment	1,180	925
Loss on disposal of property, plant and equipment	36	18
Interest income	(559)	(451)
Share of profits less losses after tax of joint ventures	(15,202)	(10,937)
Finance costs	1,516	1,485
Exchange differences	165	493
Operating (loss)/profit before working capital changes	(2,903)	287
Changes in working capital:		
- decrease/(increase) in inventories	80	(55)
- increase in trade and other receivables	(451)	(5,323)
- decrease/(increase) in other prepayments and deposits	1,412	(394)
- decrease/(increase) in amount due from a fellow subsidiary	89	(89)
- decrease/(increase) in amount due from joint ventures	324	(614)
- increase in amount due from the ultimate holding company	(19)	(88)
- increase in trade payables	2,170	980
- (decrease)/increase in other payables, accruals and advance receipts	(2,534)	160
- increase in amount due to immediate holding company	1,320	1,157
- increase/(decrease) in amount due to a fellow subsidiary	22	(86)
Net cash used in operations	(490)	(4,065)
Attributable to:		
- Continuing operations	(3,005)	(2,826)
- Discontinued operations (Note 10)	2,515	(1,239)
	(490)	(4,065)

Notes To The Accounts

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Acquisition of a subsidiary

In April 2014, the Group invested approximately US$9,597,000 in cash for the subscription of 51% equity interests in the enlarged share capital of Hutchison Sinopharm. The purpose of Hutchison Sinopharm is to provide sales, distribution, and marketing services to major domestic and multi-national third party pharmaceutical manufacturers. It will also provide a broadened sales and marketing platform for synergy across the Group.

The following table summarises the amount invested in Hutchison Sinopharm and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date:

	US$'000
Capital injection	9,597
Fair value	
Cash and bank balances	10,286
Property, plant and equipment	69
Other intangible asset (note (i))	708
Deferred tax assets	100
Inventories	3,208
Trade and other receivables	21,105
Trade and other payables	(14,827)
Current tax liabilities	(105)
Deferred tax liabilities	(198)
Bank borrowing	(4,769)
Non-controlling interest (note (ii))	(7,526)
Total identifiable net assets	8,051
Goodwill arising on acquisition (Note 16 and note (iii))	1,546
	9,597
Net cash inflow arising from acquisition	
Cash and cash equivalents acquired	10,286
Less: cash injected	(9,597)
	689

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Acquisition of a subsidiary (Continued)

Notes:

(i) Other intangible asset represents the GSP license.

(ii) The non-controlling interest is measured as the proportion of net assets acquired shared by the non-controlling interest.

(iii) Goodwill of US$1,546,000 arising from this acquisition is from the premium attributable to a pre-existing, well positioned business in a competitive market. This goodwill is recorded at the consolidation level and is not expected to be deductible for tax purposes.

(iv) Hutchison Sinopharm contributed revenue of US$50,202,000 and net profit of US$55,000 to the Group for the period from 25 April 2014 to 31 December 2014. If the acquisition had occurred on 1 January 2014, the revenue and net profit attributed by Hutchison Sinopharm for the year ended 31 December 2014 would have been US$71,344,000 and US$125,000 respectively.

(v) Acquisition related costs of approximately US$23,000 have been charged to income statement during the year.

30 COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments:

	31 December 2014 US$'000	31 December 2013 US$'000
Property, plant and equipment contracted but not provided for	**719**	459

(b) Operating lease commitments

The Group leases various factories and offices under non-cancellable operating lease agreements. The future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases were as follows:

	2014 US$'000	2013 US$'000
Not later than one year	**980**	748
Later than one year and not later than five years	**1,425**	1,654
Later than five years	**329**	486
	2,734	2,888

Notes To The Accounts

31 SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed above, the Group has the following significant transactions during the year with related parties which were carried out in the normal course of business at terms determined and agreed by the relevant parties:

		2014 US$'000	2013 US$'000
(a)	Transactions with related parties:		
	Sales of goods to		
	- Fellow subsidiaries	**7,823**	7,803
	Provision of research and development services		
	- A joint venture	**4,191**	3,612
	Purchase of goods from		
	- A non-controlling shareholder of a subsidiary	**6,727**	6,304
	- Joint ventures	**2,480**	-
		9,207	6,304
	Rendering of marketing services from		
	- Fellow subsidiaries	**480**	569
	Management service fee to		
	- An intermediate holding company	**989**	914
	Interest paid to		
	- An immediate holding company (Note 8)	**113**	92
	- A non-controlling shareholder of a subsidiary (Note 8)	**19**	-
		132	92
	Guarantee fee on bank borrowing to		
	- The ultimate holding company (Note 8)	**471**	471
	Dividend paid to		
	- A non-controlling shareholder of a subsidiary	**1,179**	577

No transactions have been entered into with the directors of the Company (being the key management personnel) during the years ended 31 December 2013 and 2014 other than the emoluments paid to them (being the key management personnel compensation) as disclosed in Note 12.

Details of guarantee provided by the ultimate holding company for bank borrowing are disclosed in Note 27.

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

		31 December 2014 US$'000	31 December 2013 US$'000
(b)	Balances with related parties included in:		
	Trade receivables from related parties:		
	- Fellow subsidiaries (Note 21 and note (i))	**1,922**	2,986
	Trade payable due to a related party:		
	- A non-controlling shareholder of a subsidiary (Note 25 and note (i))	**2,190**	2,352
	Amounts due from related parties:		
	- The ultimate holding company (note (i))	**107**	88
	- A fellow subsidiary (note (i))	**-**	89
	- Joint ventures (note (i))	**1,484**	1,808
		1,591	1,985
	Joint venture:		
	- Loan to a joint venture (note (ii))	**5,000**	-
	Amounts due to related parties:		
	- Immediate holding company (note (iii))	**8,694**	7,374
	- A fellow subsidiary (note (i))	**22**	-
		8,716	7,374
	Non-controlling shareholders:		
	- Loan from a non-controlling shareholder of a subsidiary (note (iv))	**579**	579
	- Loan from a non-controlling shareholder of a subsidiary (note (v))	**2,550**	4,800
		3,129	5,379

Notes:

(i) Other balances with related parties are unsecured, interest-free and repayable on demand. The carrying values of balances with related parties approximate their fair values due to their short-term maturities.

(ii) Loan to a joint venture is unsecured, interest-free and is recorded in investments in joint ventures.

(iii) Amount due to immediate holding company is unsecured, interest-bearing and repayable on demand. The carrying values of balances with related parties approximate their fair values due to their short-term maturities.

(iv) Loan from a non-controlling shareholder of a subsidiary is unsecured, interest-free and recorded in non-controlling interests.

(v) Loan from a non-controlling shareholder of a subsidiary is unsecured, interest-bearing (2013: interest-free) and recorded in non-controlling interests.

Notes To The Accounts

32 HOLDING COMPANIES

The immediate holding company is Hutchison Healthcare Holdings Limited, a company incorporated in the British Virgin Islands. The Company's directors regard Hutchison Whampoa Limited, a company incorporated and listed in Hong Kong, as the ultimate holding company and also ultimate controlling party of the Company.

33 APPROVAL OF ACCOUNTS

The consolidated accounts set out on pages 52 to 113 were approved by the Board of Directors on 25 February 2015.

34 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Name	Place of establishment and operation	Nominal value of issued ordinary share capital/ registered capital	Equity interest attributable to the Group		Type of legal entity	Principal activities
			As at 31 December			
			2014	2013		
Subsidiaries						
Hutchison MediPharma Limited	The PRC	US$37,500,000	**87.58%**	87.76%	Limited liability company	Research and development of pharmaceutical products
Hutchison Healthcare Limited	The PRC	RMB207,460,000	**100%**	100%	Limited liability company	Manufacture and distribution of healthcare products
Hutchison Hain Organic (Hong Kong) Limited ("HHOL") (note)	Hong Kong	HK$1,000,000	**50%**	50%	Limited liability company	Wholesale and trading of healthcare and consumer products
Hutchison Hain Organic (Guangzhou) Limited ("HHOGZL") (note)	The PRC	US$3,000,000	**50%**	50%	Limited liability company	Wholesale and trading of healthcare and consumer products
Hutchison Consumer Products Limited	Hong Kong	HK$1	**100%**	100%	Limited liability company	Wholesale and trading of healthcare and consumer products
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Company Limited	The PRC	RMB63,570,000	**51%**	–	Limited liability company	Provision of sales, distribution and marketing services to pharmaceutical manufacturers

34 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINT VENTURES (Continued)

Name	Place of establishment and operation	Nominal value of issued ordinary share capital/ registered capital	Equity interest attributable to the Group		Type of legal entity	Principal activities
			As at 31 December			
			2014	2013		
Joint ventures						
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited	The PRC	RMB200,000,000	**40%**	40%	Limited liability company	Manufacture and distribution of TCM products
Shanghai Hutchison Pharmaceuticals Limited	The PRC	RMB229,000,000	**50%**	50%	Limited liability company	Manufacture and distribution of TCM products
Nutrition Science Partners Limited	Hong Kong	HK$20,000	**43.79%**	43.88%	Limited liability company	Research and development of pharmaceutical products

Note:

HHOL and HHOGZL are regarded as subsidiaries of the Group as the Group has the control over their financial and operating policies of HHOL and HHOGZL.

Information For Shareholders

Listing
The Company's ordinary shares are listed on AIM regulated by the London Stock Exchange

Code
HCM

Financial Calendar
Closure of Register of Members	23 April 2015 to 24 April 2015
Annual General Meeting	24 April 2015
Interim Results Announcement	July 2015

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Past Performance and Forward Looking Statements
The performance and the results of operations of the Group contained within this Annual Report are historical in nature, and past performance is no guarantee of the future results of the Group. Any forward-looking statements and opinions contained within this Annual Report are based on current plans, estimates and projections, and therefore involve risks and uncertainties. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The Group, the Directors, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this Annual Report; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.