A member of CK Hutchison Holdings

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

2015 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, FRSB

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

Contents

Our Business

Chi-Med is a globally-focused innovative biopharmaceutical company based in China

Innovation Platform

small molecule targeted therapies in oncology & immunology

- ✓ 7 clinical drug candidates in 19 studies worldwide.
- ✓ Many with global first-in-class or best-in-class as well as Breakthrough Therapy potential.
- ✓ First drug candidates targeted for possible NDA submissions late 2016.
- ✓ ›290-person R&D team.

Commercial Platform

an extensive commercial network in China pharma

- ✓ Over 3,200-person China sales team - clear focus on Prescription Drugs business (~1,900 medical reps).
- ✓ Ready to rapidly commercialize Innovation Platform drugs once approved in China.
- ✓ Cash flow positive w/ net income attributable to Chi-Med equity holders of ›$25m in 2015.

Highlights

Group Results

- Revenue up 104% to $178.2 million (2014: $87.3m).
- Net profit from operations attributable to Chi-Med of $8.0 million (2014: net loss -$7.3m), including our booking of $3.1 million in one-time preparation costs for our proposed Nasdaq listing.
- Stable cash position: Available cash of over $90 million as of February 29, 2016, at the Chi-Med Group level, including cash and cash equivalents and unutilized banking facilities.
    1. $31.9 million in cash and cash equivalents at Chi-Med Group level as at December 31, 2015;
    2. $6.9 million in unutilized bank facilities at Chi-Med Group level as at December 31, 2015;
    3. $60.0 million additional unsecured bank facilities established in February 2016;
    4. $76.9 million in further cash and cash equivalents held at 50/50 Joint Venture ("JV") level and not consolidated at Chi-Med Group level. Shanghai property compensation of approximately $73.9 million expected at JV level in 2016, which is in addition to the $31.1 million that we already received in late 2015.
- Continued focus on proposed Nasdaq dual listing.

Innovation Platform

- Revenue up 156% to $52.0 million (2014: $20.3m) primarily as a result of payments from our partners AstraZeneca AB (publ) ("AstraZeneca"), Eli Lilly and Company ("Lilly"), Nutrition Science Partners Limited ("NSP") (our JV with Nestlé Health Science S.A.) and Janssen Pharmaceuticals, Inc. (part of the Johnson & Johnson group of companies).
- Net loss attributable to Chi-Med down 83% to $3.8 million (2014: net loss -$22.2m).
- Major increased investment in clinical programs by Chi-Med and its partners – estimated up 41% to $64.1 million (2014: $45.5m). Total of 677 new patients, 249 outside China and 428 inside China, were enrolled during 2015 into our 19 active studies.

Commercial Platform

- Total sales of subsidiaries and JVs from continuing operations up 11% to $518.9 million (2014: $465.4m) driven by 40% increase in prescription drugs sales, namely Seroquel® (quetiapine tablets) and She Xiang Bao Xin pill ("SXBXP"), partly offset by an 11% decline in sales, mainly supply driven, in our consumer health business.
- Net profit attributable to Chi-Med from continuing operations up 10% to $25.2 million (2014: $22.8m) due to strong growth in sales of prescription drugs partly offset by $1.7 million in non-recurring one-time costs from factory relocations and the take-back of commercial rights of certain products.

All figures are reported in US dollars unless otherwise stated.

Highlights

2015 / Q1 2016 Highlights

Group:

- **Announced plan to dual list Chi-Med on Nasdaq**

  Q4-15 - The planned Nasdaq listing, when completed, will open up a new and deep universe of biopharmaceutical investors and analysts that are well positioned to understand our science and support the late-stage development of our pipeline.

- **Secured 99.8% ownership of Innovation Platform**

  Q3-15 - Completed a transaction (the "Roll-up") that converted the 12.24% shareholding of Mitsui & Co., Ltd. ("Mitsui") in our Innovation Platform, Hutchison MediPharma Holdings Limited ("HMHL"), into a 5.69% shareholding in Chi-Med. The Roll-up eradicated the two downsides of Mitsui's HMHL preference shares – the risk of the cash drain of a redemption; and the distortion of Chi-Med Group earnings per share caused by the non-cash accretions required under US generally accepted accounting principles ("US GAAP").

Innovation Platform: Reported positive data in five Phase Ib/II proof-of-concept studies – currently enrolling 19 clinical trials on 7 drug candidates including 3 Phase III registration trials

- **Savolitinib: Potential global first-in-class Mesenchymal Epithelial Transition Factor ("c-Met") inhibitor – in 9 clinical studies worldwide**

  Q2-15 - Reported clear and durable tumor response of savolitinib/Tagrisso® combination in T790M negative c-Met gene amplified non-small cell lung cancer ("NSCLC") patients at 2015 meeting of the American Society of Clinical Oncology ("ASCO");

  Q4-15 - Received Phase II/III clinical trial clearance from the China Food and Drug Administration ("FDA");

  Q4-15 - Completed enrollment of global Phase II study of first-line papillary renal cell carcinoma ("PRCC") with 109 patients – the largest study in PRCC ever conducted globally.

- **HMPL-523: Potential global first-in-class Spleen Tyrosine Kinase ("Syk") inhibitor – emerging as a very high value asset**

  Q3-15 - Successfully completed Australia Phase I clinical study showing no material toxicities in healthy volunteers; linear dose dependent human drug exposures well above expected efficacious dose; and clear dose dependent inhibition in B-cell activation in human plasma pharmacodynamic models;

  Q1-16 - Initiated Australia Phase I dose escalation study in hematological cancer (lymphoma and leukemia patients).

Innovation Platform: Reported positive data in five Phase Ib/II proof-of-concept studies - currently enrolling 19 clinical trials on 7 drug candidates including 3 Phase III registration trials (Continued)

- **Fruquintinib: Potential global best-in-class small molecule Vascular Endothelial Growth Factor Receptor ("VEGFR") inhibitor in Phase III development**

  Q2-15 - Clearly met Phase II study primary endpoint, in colorectal cancer (third-line), with median Progression Free Survival ("PFS" - the time to disease progression or death) of 4.7 months compared to 1.0 month for the placebo (hazard ratio = 0.30 ($p<0.001$)), with no major unexpected safety issues;

  Q3-15 - Clearly met Phase II study median PFS primary endpoint, in NSCLC (third-line), with no unexpected safety issues - full data publication in 2016;

  Q4-15 - Initiated pivotal Phase III registration study, named FALUCA, in NSCLC (third-line) in China;

  2015 - Received success-based proof-of-concept cash payments totaling $33.1 million from Lilly in 2015.

- **Sulfatinib: Potential Breakthrough Therapy in neuroendocrine tumors in Phase III development**

  Q3-15 - Reported 44.4% Objective Response Rate ("ORR" - the proportion of patients with tumor shrinkage of more than 30%), in a broad range of neuroendocrine tumors ("NET") in an expanded Phase I study in China - significantly superior to <10% ORR for Sutent® (sunitinib) and Afinitor® (everolimus) reported for pancreatic NET (only ~6.4% of all NET according to Frost & Sullivan);

  Q3-15 - Initiated US Phase I dose confirmation study in Caucasians - sulfatinib is the first wholly-owned cancer drug candidate being developed by Chi-Med in the US;

  Q4-15 - Completed enrollment of an 81 patient Phase Ib/II NET study in China;

  Q4-15 - Initiated pivotal Phase III registration study, named SANET-ep, in extra-pancreatic (i.e. non-pancreatic) NET patients in China.

- **Epitinib: Potential global best-in-class small molecule Epidermal Growth Factor Receptor ("EGFR") inhibitor**

  Q3-15 - Reported highly encouraging early human efficacy data in Phase Ib study of NSCLC patients with brain metastasis - clear responses in both primary lung and metastasized brain lesions.

Highlights

Commercial Platform: Focus on broadening scope and capacity of higher margin Prescription Drugs business

- **Rapid expansion in our Prescription Drugs business:** Shanghai Hutchison Pharmaceuticals Limited ("SHPL") and Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Company Limited ("Hutchison Sinopharm") – the Commercial Platform's core prescription drug operations – grew sales of subsidiaries and JVs by 40% to $286.6 million (2014: $204.9m) with net profit attributable to Chi-Med up 20% to $15.9 million (2014: $13.2m).

- **Important 20-year invention patent granted:** A new patent covering formulation was granted in July 2015 on SHPL's largest prescription drug product, SXBXP (cardiovascular), which will extend proprietary protection in China through 2029. SXBXP sales grew by 15% to $159.3 million in 2015, representing 56% of the total sales of our Prescription Drugs business.

- **Substantial progress on Seroquel®:** In the third party Prescription Drugs business, SHPL has now established an over 100-person psychiatric disorder medical sales team to market and sell Seroquel® on behalf of AstraZeneca. Sales of Seroquel® from April to December 2015 were $21.1 million – evidence of the adaptability of our Commercial Platform in China to enter new therapeutic areas.

- **New factories and property compensation on-track:** The new Shanghai and Anhui province factories, which are already about 90% paid for, come on-line in 2016 and will triple production capacity for own-brand products. We expect considerable compensation to our JVs from our Shanghai and Guangzhou old factory site returns. We received $31.1 million in cash from the Shanghai government in late 2015, as the first installment payment, for the return of our old Shanghai factory site. The balance of the total Shanghai compensation of about $105 million is expected in 2016.

2016 Innovation Platform Catalysts

- **Savolitinib: Clarity on US FDA filing strategy – potential to submit for US FDA approval in late 2016**

  Q1-16 – Expect to initiate Phase Ib dose finding study in renal cell carcinoma combining savolitinib with immunotherapy agents;

  H2-16 – Plan to report PRCC Phase II results, subject to maturity of median PFS, at a scientific conference in 2016;

  H2-16 – Thereafter, subject to positive Phase II data and US FDA guidance, possible initiation of global Phase III in PRCC; potential Breakthrough Therapy application and possible US FDA New Drug Application ("NDA") submission;

  H2-16 – Expect to report full results of Phase Ib/II proof-of-concept studies in c-Met gene amplified NSCLC patients in combination with EGFR inhibitors, Tagrisso® and Iressa® and, subject to the strength of the data, we could then potentially move directly into registration studies.

Catalysts

2016 Innovation Platform Catalysts (Continued)

- **HMPL-523: Consolidate position as one of the leading global Syk inhibitor candidates**

  H2-16 - Expect to initiate global Phase II proof-of-concept study in rheumatoid arthritis;

  H2-16 - Expect to complete Australia Phase I study in lymphoma/leukemia patients with potentially compelling proof-of-concept efficacy signal;

  H2-16 - Plan to initiate clinical development in China.

- **Fruquintinib: Clarity on China FDA filing strategy and timing - potential to submit for China FDA approval in late 2016 or early 2017**

  Q2-16 - Expect to complete enrollment of pivotal Phase III registration study, named FRESCO, in colorectal cancer (third-line) in China;

  Q2-16 - Plan to initiate Phase Ib dose finding on exploratory combination studies of fruquintinib/other agents such as targeted therapies, immunotherapies and/or chemotherapies;

  H2-16 - Expect to report full China NSCLC (third-line) Phase II data at a scientific conference;

  H2-16 - Plan to initiate Phase II study in gastric cancer (second-line) in combination with Taxol® in China.

- **Sulfatinib: Global proof-of-concept study planned to initiate in 2016**

  Q1-16 - Plan to initiate Phase II proof-of-concept study in thyroid cancer (second-line medullary/non-medullary) in China;

  Q1-16 - Plan to initiate pivotal Phase III registration study, named SANET-p, in pancreatic NET patients in China;

  H2-16 - Expect to report full China Phase II data in broad spectrum NET (first-line);

  H2-16 - Plan to initiate US Phase II NET study.

- **Epitinib: Targeting to start both China Phase III and US clinical development in 2016**

  H1-16 - Expect to complete Phase Ib study of NSCLC patients with brain metastasis in China;

  H2-16 - Plan to initiate pivotal Phase III registration study in China;

  H2-16 - Plan to initiate US Phase I dose confirmation study.

- **Other clinical/near clinical drug candidates:**

  H1-16 - Expect to complete theliatinib Phase I dose escalation study in China;

  H2-16 - Plan to initiate theliatinib Phase Ib studies in esophageal and head & neck cancers in China;

  H1-16 - Plan to initiate Australia Phase I dose escalation study on HMPL-689, our potentially best-in-class Phosphoinositide 3-kinase delta ("PI3Kδ") inhibitor;

  H2-16 - Plan to initiate China and/or Australia Phase I dose escalation study on HMPL-453, our potentially first-in-class Fibroblast Growth Factor Receptor ("FGFR") inhibitor.

Chairman's Statement

Simon To
Chairman

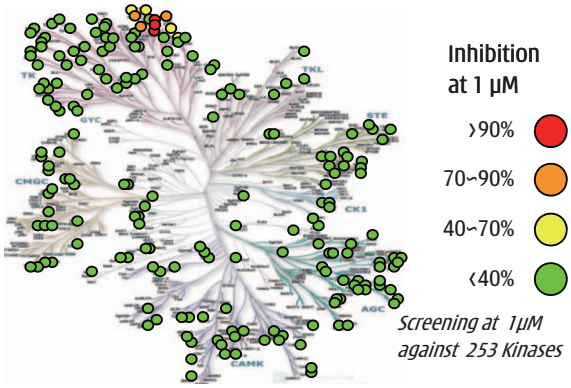
We believe Chi-Med is uniquely positioned to contribute to healthcare both in China and globally and to generate significant shareholder value this year and beyond.

The vision of Chi-Med is to become a leading global biopharmaceutical company based in China. We intend to achieve this by leveraging our Innovation Platform to provide differentiated products in the global targeted therapy arena in oncology and immunology. Chi-Med has set out to build a broad portfolio of highly selective drug candidates against multiple novel and validated molecular targets. It is intended that the use of these drug candidates as monotherapies, or in combinations or rotations of treatment with other therapies, have the potential to greatly improve patient outcomes and therefore build shareholder value. Our key areas of strategic focus include:

Designing drug candidates against novel but well-characterized targets with global first-in-class potential – The largest market opportunity is to develop innovative drug therapies that have global first-in-class potential in areas of high unmet needs. Chi-Med focuses on identifying novel but well-characterized kinase targets (proteins or enzymes) associated with the pathogenesis of cancer or inflammation, such as c-Met and Syk. A chemistry-focused approach is then used to engineer innovative, highly selective drug candidates against these targets. These innovative drugs have the chance to be the first drug approved worldwide against the specific novel molecular target.

Focusing research and development efforts on kinase selectivity to generate global best-in-class product – Risk is balanced in research and development activities by also focusing on drug candidates against validated targets, including VEGFR and EGFR, for which competitive drugs have already been approved. The objective of this research is to develop next generation compounds, characterized by both high selectivity and superior pharmacokinetic properties. This provides us with a chance to become the best-in-class drug candidate, against its specific already validated target, clinically superior in terms of safety and/or efficacy to the first-in-class standard of care.

Highly selective drug candidates
E.g. fruquintinib: designed to only inhibit VEGFR 1/2/3



Source: Sun et al., Cancer Biology & Therapy 15:12, 1635--1645; December 2014.

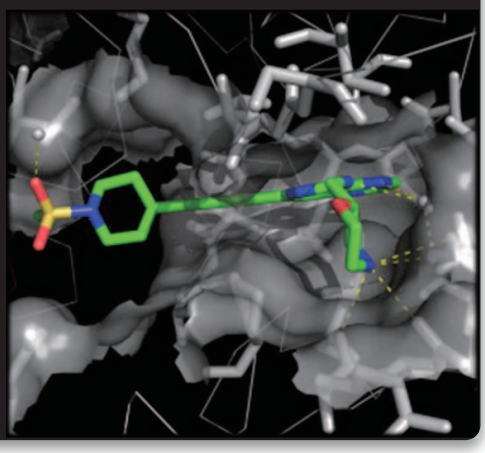
Continuing to invest in the fully integrated Innovation Platform – The creation of high quality drug candidates takes time, a stable and high quality discovery organization and significant financial resources. Chi-Med has built its position as a leading China-based innovator in oncology and immunology through continuous efforts and investments over the last 14 years, and has led to the creation of our seven clinical and two late-stage pre-clinical drug candidates, HMPL-453 targeting FGFR and HMPL-689 targeting PI3Kδ.

Pursuing a practical and efficient clinical and regulatory strategy – The China FDA is highly supportive of clinical trials for drug candidates that can address large unmet medical needs. China's large patient population, combined with relatively lower clinical trial costs as compared to the US and Europe, allows for rapid enrollment of patients in clinical trials in a cost-effective manner, resulting in more efficient proof-of-concept. Subject to achieving proof-of-concept in our China studies, Chi-Med can then move to initiate the higher cost, mid-to late-stage global studies both independently as well as with partners.

Chemistry is our edge
e.g. use of co-crystal structures

Focus on small molecules interactions with kinases

- ✓ Optimize binding to on-target protein, for potency.
- ✓ Minimize binding to off-target proteins for selectivity.



Maximizing economic interest in our drug candidates through in-house chemistry development and later-stage strategic partnerships – Our existing strategic partnerships with global pharmaceutical companies have brought Chi-Med significant technical expertise and global clinical, regulatory and commercial reach, as well as a necessary source of funding during the early-stage development of the company. Now, looking forward to potential collaborations on our un-partnered drug candidates, Chi-Med will either go-it-alone or structure future deals in a more risk-sharing manner in order to retain a higher proportion of the economic benefits.

Leveraging and expanding our Commercial Platform – While the majority of the resources and available capital of Chi-Med are focused on our Innovation Platform, the Commercial Platform and its sales and marketing infrastructure will continue to expand. We also intend to build an oncology focused sales team under the Prescription Drugs business to commercialize drugs successfully developed by our Innovation Platform in China. Outside of China, products will be commercialized, if approved, in the US, Europe and other major markets by Chi-Med and/or through partnerships with leading biopharmaceutical companies.

Chairman's Statement

Financial Review

Chi-Med Group revenues from continuing operations in 2015 were up 104% to $178.2 million (2014: $87.3m), driven mainly by a full period of consolidation of Hutchison Sinopharm, which began operations in Q2 2014. It should be noted that Group revenues do not include the revenues of our two main large-scale 50/50 JVs in China, SHPL and Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited ("HBYS"), which are accounted for using the equity method.

Revenue
(% change 2015 vs. 2014)
+104%

Net Profit Attributable to Chi-Med
(US$ million)
8.0

Our Commercial Platform, which continues to be Chi-Med's primary profit and cash source, grew operating profit from continuing operations by 11% to $28.2 million (2014: $25.5m). The Innovation Platform reduced operating losses significantly, by 83%, to $3.8 million (2014: -$22.2m) despite a major step-up of clinical activities on both our partnered and wholly-owned drug candidates as well as a major organizational expansion to support these clinical activities. We have also increased investment in our new oncology drug manufacturing operation in Suzhou, which, in the first half of 2015, successfully produced its first batches of fruquintinib for use in Phase III clinical trials.

Net administrative expenses incurred by our corporate head office, primarily Chi-Med Group overheads and running costs, increased significantly to $11.0 million (2014: $6.6m) driven primarily by $3.1 million of one-off costs associated with preparing for our proposed Nasdaq dual-listing.

Consequently, Chi-Med Group operating profit from continuing operations was $13.4 million (2014: operating loss -$3.3m).

Total interest, tax and profit attributable to non-controlling interests from continuing operations during the period were $5.4 million (2014: $5.0m).

Overall, net profit from continuing operations attributable to Chi-Med was $8.0 million (2014: net loss -$8.3m).

In 2014, the Commercial Platform received an arbitration award in relation to a contract dispute with a supplier of infant formula. This led to a one-time gain and consequent total net profit attributable to Chi-Med on discontinued operation in 2014 of $1.0 million, as compared to nil in 2015.

The resulting total Group net profit attributable to Chi-Med was therefore $8.0 million (2014: net loss -$7.3m).

Change to US GAAP from International Financial Reporting Standards ("IFRS") – As previously announced in late 2015, the Company has changed the basis of preparation of the consolidated financial statements of the Group, and the adopted financial reporting standards, from IFRS to US GAAP. Differences between IFRS and US GAAP which have had a significant impact on the historical consolidated financial statements published in prior years under IFRS include the following two main differences:

(1) Revenue recognition of upfront and milestone payments received from the license and collaboration agreements – Under IFRS, the Group applied the percentage of completion method to recognize revenue from its license and collaboration agreements in each financial period. Under US GAAP, there is prescriptive guidance on multiple element arrangements and specific guidance on accounting for arrangements with milestone payments. Under US GAAP, substantive milestone payments are recorded in their entirety when the milestone is achieved. As a result, the timing of recognition for certain upfront and milestone payments under IFRS and US GAAP are different, resulting in different allocations of such payments to different accounting periods.

(2) Accounting treatment of the redeemable convertible preferred shares – Under IFRS, the Group classified the redeemable convertible preferred shares issued by its subsidiary as non-controlling interests within equity. Under US GAAP, the Group is required to classify these redeemable convertible preferred shares as mezzanine equity and to account for the accretion to the redemption amount when it is probable that the preferred shares will be redeemed.

Mitsui accretion – In July 2015, we completed a transaction, the Roll-up, with Mitsui under which Chi-Med issued 3,214,404 new ordinary shares (5.69% of the enlarged share capital of Chi-Med) valued at $84.0 million in exchange for Mitsui's 12.24% shareholding in HMHL convertible preferred shares. This valued HMHL at $686 million, equivalent to 46.5% of Chi-Med at the time of Roll-up.

The HMHL preferred shares were redeemable (i.e. Chi-Med could be forced to buy them back) upon HMHL valuation reaching over $190 million, and as a result they were accounted for as redeemable non-controlling interests outside of permanent equity in the Chi-Med consolidated balance sheets before the completion of the Roll-up. At such time that it became probable that the preferred shares would become redeemable, under US GAAP, Chi-Med was required to record a non-cash accretion equivalent to the estimated increase in the value of the Mitsui

shareholding (i.e. effectively Chi-Med's theoretical liability). As a result, in 2015, up to the date of completion of the Roll-up, HMHL had recorded an accretion of $43.0 million (2014: $25.5m) to the preferred shares based on such preferred shareholder's share of the estimated valuation of HMHL.

These non-cash accounting entry accretions increased the carrying value of the redeemable non-controlling interests and accretions made before the completion of the Roll-up were recorded against 2015 additional paid-in capital. As a result, Group net loss attributable to ordinary shareholders of Chi-Med from continuing operations was $35.0 million, compared to $33.8 million in 2014, with loss per share in 2015 of 64.0 US cents, unchanged versus 2014.

Importantly, the Roll-up eradicated both the significant, and potentially inconveniently timed, drain on Chi-Med cash needed to buy back these HMHL shares as well as the distortion caused to Chi-Med Group earnings per share by making non-cash accounting entry accretions equivalent to the estimated increase in the value of the Mitsui shares. All in all the Roll-up eradicated the impact of these preferred shares in an efficient manner and at a price that was attractive to Chi-Med.

Cash and Financing

Since our initial public offering on the AIM market of the London Stock Exchange in 2006, Chi-Med has, in general, used the steady flow of dividends from our Commercial Platform combined with service fee and milestone payments from the four main Innovation Platform partners to fund our research and development activities. Bank borrowing has also been utilized to bridge between these cash injections.

With the acceleration and broadening of the late-stage clinical pipeline this year, the Chi-Med board now believes it is important to access the US equity capital markets. Furthermore, during 2016 detailed clinical results on many drug candidates, namely savolitinib, fruquintinib, sulfatinib, epitinib and HMPL-523 are expected to be published. Given this, Nasdaq provides the right long-term platform for Chi-Med, as it opens up a new and deep universe of biopharmaceutical investors and analysts that are well positioned to understand both the science behind our drug candidates and their clinical results and therefore support late-stage development of the pipeline.

At the Chi-Med Group level, cash and cash equivalents as at December 31, 2015 totaled $31.9 million (December 31, 2014: $38.9m), outstanding bank loans amounted to $50.0 million (December 31, 2014: $53.2m), of which $26.9 million is guaranteed by Hutchison Whampoa Limited, a wholly owned subsidiary of CK Hutchison Holdings Limited, and un-utilized bank loan facilities totaled $6.9 million (December 31, 2014: $8.5m).

In February 2016, Chi-Med established additional new credit facilities with Bank of America Merrill Lynch and Deutsche Bank totaling an aggregate amount of $60.0 million. These facilities are unsecured, with a range of 12 and 18 month terms, and were established in order to give Chi-Med additional flexibility in the context of execution of the proposed Nasdaq listing. Total Chi-Med Group weighted average cost of borrowing on all loans, including all interest and guarantee fees, was 2.4% as of December 31, 2015.

At the JV level, under US GAAP, the three JVs (SHPL, HBYS and NSP), which are all 50/50 JVs, are accounted for on an equity accounting basis. The substantial JV cash and cash equivalents are therefore not separately reflected at the Chi-Med Group level. Overall, cash and cash equivalents at the JV level as at December 31, 2015 totaled $76.9 million (December 31, 2014: $53.8m), with outstanding bank loans of $26.5 million (December 31, 2014: $22.6m).

These JVs have a long track-record of paying dividends with a total of $143.4 million, out of retained profits of $287.0 million, paid to Chi-Med and its partners between 2005 and 2015. In 2015 the JVs paid out $6.4 million (2014: $15.9m) which was lower than normal, as they went through the final, and also peak, capital expenditure phase of the construction of the two new factories. Looking forward, Chi-Med expects to begin receiving extraordinary dividends, to the Group level, from SHPL and HBYS associated with the considerable compensation, at the JV level, for the surrender of the land-use rights to the sites of the old JV factories in Shanghai and Guangzhou.

In summary, as of today, Chi-Med has available cash at the Group level of over $90 million, including cash and cash equivalents and unutilized banking facilities. This does not include dividends from the JVs anticipated during the balance of 2016, which we expect to be material given extraordinary income from property compensation.

Our People

As always, I would like to express my deep appreciation for the support of our investors, directors and partners and for the commitment and dedication of all of Chi-Med's management and staff.

Outlook

With a high potential clinical pipeline, an efficient and highly productive discovery operation and a powerful, profitable, growing commercial and distribution infrastructure, we believe Chi-Med is uniquely positioned to contribute to healthcare both in China and globally and to generate significant shareholder value this year and beyond.

Simon To
Chairman

February 29, 2016

Operations Review

Christian Hogg
Chief Executive Officer

Clinical trial spending during 2015, by Chi-Med and its partners, totaling approximately $64.1 million (2014: $45.5m). We significantly advanced the oncology and immunology pipeline of clinical drug candidates, managing 19 active clinical trials

INNOVATION PLATFORM

The Chi-Med pipeline of drug candidates has been created and developed by the in-house research and development operation, known as the Innovation Platform, which was started in 2002. Since then, Chi-Med has assembled a team of over 290 scientists and staff (end 2014: 238) based in China, of which 183 had advanced technical degrees including 21 M.D.s and 48 doctorate degrees as of January 31, 2016. This fast growing team has created a large scale and fully-integrated drug discovery and development operation covering chemistry, biology, pharmacology, toxicology, chemistry and manufacturing controls for clinical and commercial supply, clinical and regulatory and other functions, which work seamlessly together.

Over the last decade, the core research and development philosophy has been to take a highly disciplined chemistry-focused approach to design uniquely selective small molecule tyrosine kinase inhibitors against 8 molecular targets, deliberately engineered to improve drug exposure and reduce known off-target toxicities. Accordingly, we believe these drug candidates, such as savolitinib (targeting c-Met), HMPL-523 (targeting Syk) and HMPL-453 (targeting FGFR1/2/3), have the potential to be global first-in-class therapies. In the cases of fruquintinib (targeting VEGFR 1/2/3), sulfatinib (targeting VEGFR/FGFR1), epitinib (targeting EGFR activating mutation with brain metastasis), theliatinib (targeting EGFR wild-type) and HMPL-689 (targeting PI3Kδ), we believe these drug candidates are sufficiently differentiated to be potential global best-in-class, next generation therapies.

In 2015, the revenue of the Innovation Platform grew significantly to $52.0 million (2014: $20.3m) and as a result, the net loss attributable to Chi-Med dropped 83% to $3.8 million (2014: -$22.2m) despite clinical trial spending during 2015, by Chi-Med and its partners, totaling approximately $64.1 million (2014: $45.5m). We significantly advanced the oncology and immunology pipeline of clinical drug candidates, managing 19 active clinical trials (2014: 16) with six more in late planning, either independently or in collaboration with our partners. A total of 677 new patients, 249 outside China and 428 inside China, were enrolled into these clinical trials in 2015, bringing the total number of patients enrolled to 2,130 since the Innovation Platform's inception.

25 clinical trials by mid-2016

15 possible Breakthrough Therapy indications and 8 combination studies

Program	Target	Partner	Study number/Indication	Status	Line	Target patient	Combo therapy	Site	Preclin.	Ph.I	Proof-of-concept	Ph.III
Savolitinib (AZD6094 / volitinib)	c-Met	AstraZeneca	1. Papillary renal cell carcinoma (A)	report interim data Q2 2016	1st	All		Global				*
			2. Papillary renal cell carcinoma (P)	start Ph. Ib Q1 2016	-	All	immunotherapy	UK				*
			3. Clear cell renal cell carcinoma (P)	start Ph. Ib Q1 2016	2nd	VEGF TKI ref.		UK				*
			4. Clear cell renal cell carcinoma (P)	start Ph. Ib Q1 2016	2nd	VEGF TKI ref.	immunotherapy	UK				*
			5. Non-small cell lung cancer (A)	enrolling	2nd	EGFR TKI ref.	Tagrisso® (T790M)	Global				*
			6. Non-small cell lung cancer (A)	enrolling	3rd	EGFR/T790M TKI	Tagrisso® (T790M)	Global				*
			7. Non-small cell lung cancer (A)	enrolling	2nd	EGFR TKI ref.	Iressa® (EGFR)	China				*
			8. Non-small cell lung cancer (A)	enrolling	1st	c-Met O/E		China				*
			9. Gastric cancer (A)	enrolling	-	c-Met+		China				*
			10. Gastric cancer (A)	enrolling	-	c-Met O/E		China				*
			11. Gastric cancer (A)	enrolling	-	c-Met+	docetaxel (chemo)	China				*
			12. Gastric cancer (A)	enrolling	-	c-Met O/E	docetaxel (chemo)	China				*
Fruquintinib[1]	VEGFR 1/2/3	Lilly	14. Colorectal cancer (A)	enrolling	3rd	All		China				*
			15. Non-small cell lung cancer (A)	enrolling	3rd	All		China			n/a	*
			16. Gastric cancer (A)	enrolling	2nd	All	paclitaxel (chemo)	China				*
Sulfatinib	VEGFR/ FGFR1		17. Neuroendocrine tumors (A)	Ph. Ib/II enrol. complete	1st	All		China				*
			17a. Pancreatic NET (P)	start Ph. III Q1 2016	1st	All		China				*
			17b. Non-pancreatic NET (A)	enrolling	1st	All		China				*
			18. Neuroendocrine tumors (A)	enrolling	2nd	All		US				*
			19. Thyroid cancer (P)	start Ph. II Q1 2016	2nd	Radiotherapy ref.		China				*
HMPL-523	Syk		20. RA, MS, lupus (A)	Ph. I complete	-	All		Aus				*
			21. Hematological cancers (A)	enrolling	2nd/3rd	All		Aus				*
Epitinib	EGFRm+		22. Non-small cell lung cancer (A)	enrolling	1st	EGFRm+ brain mets		China				*
Theliatinib	EGFR WT		23. Esophageal, solid tumors (A)	enrolling	1st	EGFR wild-type		China				*
HMPL-689	PI3Kδ		24. Hematological cancers (P)	start Ph. I Q1 2016	2nd/3rd	All		Aus				*
HMPL-004	NF-κB (TNFα, etc)	Nestlé Health Science	Ulcerative colitis (Mild-mod. induction)	under internal review	2nd	5ASA ref.	5ASA	Global			n/a	*
			Ulcerative colitis (Mild-mod. mainten.)	under internal review	2nd	5ASA ref.	5ASA	Global			n/a	*
			Crohn's disease	under internal review	1st	All		Global			n/a	*
HMPL-453	FGFR1/2/3		Solid tumors	IND submitted	1st	All		-				*
Research	Novel		Inflammation	ongoing	1st	All		-				*

Oncology | Immunology

Notes: (A) = active clinical trial; (P) = planned clinical trial; * = when an NDA submission is possible based on the receipt of favorable clinical data; Proof-of-concept = Phase Ib/II study (the dashed lines delineate the start and end of Phase Ib); Combo = in combination with; brain mets = brain metastasis; VEGF = vascular endothelial growth factor; TKI = tyrosine kinase inhibitor; EGFR = epidermal growth factor receptor; NET = neuroendocrine tumors; ref = refractory, which means resistant to prior treatment; T90M = EGFR resistance mutation; EGFRm+ = epidermal growth factor receptor activating mutations; EGFR wild-type = epidermal growth factor receptor wild-type; 5ASA = 5-aminosalicylic acids; chemo = chemotherapy; c-Met+ = c-Met gene amplification; c-Met O/E = c-Met over-expression; MS = Multiple Sclerosis; RA = Rheumatoid Arthritis; US = United States; EU = Europe; Global = >1 country; Aus = Australia.
[1] Clinical study #13 is omitted because it has been recently completed.

Innovation Platform

Product Pipeline Progress

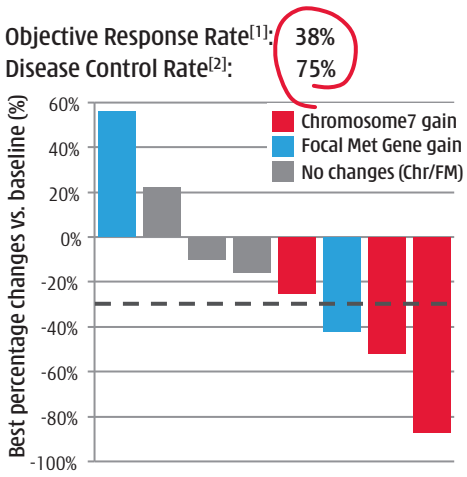
Important definitions: Most of the drug candidates have been designed for either global first-in-class or best-in-class potential and many have Breakthrough Therapy designation potential. In this context, first-in-class potential means that a drug candidate has the chance to be the first drug approved worldwide against its specific novel molecular (kinase) target. The benefits of being first-in-class are significant, and include first mover advantage and becoming the established standard of care over which all future drug candidates, targeting the same target and indication, must prove clinical superiority. Best-in-class means that a drug candidate, against its specific already validated target, is clinically superior in terms of safety and/or efficacy to the first-in-class standard of care.

Breakthrough Therapy designation, established by the US Congress in 2012, is assigned by the US FDA to novel drug candidates which, in simple terms, meet the following three criteria: (1) treat rare, untreatable, life-threatening disease; (2) clear understanding of molecular pathways (e.g. kinase target) of the disease; and (3) unprecedented efficacy. Breakthrough Therapy designation can lead to expedited NDA approval and market launch based on Phase II data, with Phase III studies being confirmatory.

Savolitinib (AZD6094): Savolitinib is a potential global first-in-class inhibitor of c-Met, an enzyme which has been shown to function abnormally in many types of solid tumors. We developed savolitinib as a potent and highly selective oral inhibitor that was designed to address renal (kidney) toxicity, the primary issue that has prevented all other selective c-Met inhibitors from gaining regulatory approval. In Phase I/II clinical studies, savolitinib has shown promising signs of clinical efficacy, causing tumor size reduction in patients with c-Met gene amplification in PRCC, NSCLC, colorectal cancer and gastric cancer.

Active savolitinib clinical studies – We are currently testing savolitinib in partnership with AstraZeneca in nine parallel proof-of-concept studies, both as a monotherapy and in combination with other targeted therapies, such as Iressa® and Tagrisso® (both EGFR inhibitors developed by AstraZeneca), and chemotherapy (Taxotere®). We and AstraZeneca plan to start three further proof-of-concept studies in savolitinib in the first quarter of 2016, two of which are combinations with immunotherapies.

Savolitinib: Papillary Renal Cell Carcinoma Phase I Data



[1] ORR = percent of patients with ›30% tumor diameter shrinkage; [2] DCR = percent of patients with tumor diameter growth ‹20%

Savolitinib - Kidney Cancer: Our strategy is to use PRCC, which currently has no approved targeted treatments on the global market, as the first indication to submit savolitinib for approval. PRCC is a sub-type of kidney cancer which accounted for approximately 14% (Frost & Sullivan) of all new cases of kidney cancer globally in 2014. We hope that if results from our current Phase II study (Study 1) are consistent with our Phase I data, we could consider applying for Breakthrough Therapy designation.

Study 1 - Phase II PRCC (first-line) savolitinib monotherapy - in the US, Canada and Europe. A Phase II study is underway to study savolitinib monotherapy (600mg once daily) in first-line PRCC. The global Phase II study, which completed enrollment of 109 patients in October 2015, is an open label study with ORR and PFS as the primary endpoints and Disease Control Rate ("DCR" - percentage of patients with tumor growth of ‹20% versus baseline) and Overall Survival as secondary end points. In addition, molecular analysis of patient tissue samples is being carried out in parallel with treatment to determine the c-Met gene amplification status of each PRCC patient. In our extended Australia Phase I study of savolitinib, in 8 PRCC patients, we reported 38% ORR (3/8) and 75% DCR (6/8) with PRCC patients with c-Met gene amplification (40-75% of PRCC patients) showing the greatest response (Frost & Sullivan).

We have observed to date in the Phase II study, as we did in the Australia Phase I study, clear efficacy of savolitinib among patients with high levels of c-Met gene amplification. We expect to publish the results of the Phase II study, subject to the maturity of median PFS data, at a scientific conference in 2016. In the first half of 2016, we plan to meet with the US FDA to discuss and seek guidance on registration strategy.

Study 2 - Phase Ib PRCC savolitinib (600mg daily) combined with immunotherapy - in UK. A Phase Ib study is now in final planning to evaluate the safety and efficacy in PRCC. This study is premised on the hypothesis that a savolitinib/immunotherapy combination, if tolerable, could benefit all PRCC patients, not only those patients with c-Met gene amplification. Enrollment for this study is targeted to start in the first quarter of 2016.

Study 3 - Phase Ib clear cell renal cell carcinoma ("CCRCC") (second-line), VEGFR tyrosine kinase inhibitor-refractory, savolitinib (600mg daily) monotherapy - in UK. A Phase Ib study is now in final planning to evaluate efficacy among Sutent® refractory CCRCC patients, being those patients

that have not responded, or stopped responding, to treatment with Sutent®. A majority of these patients are known to have high levels of c-Met over-expression and may benefit from exposure to a highly selective c-Met inhibitor. Enrollment for this study is targeted to start the first quarter of 2016.

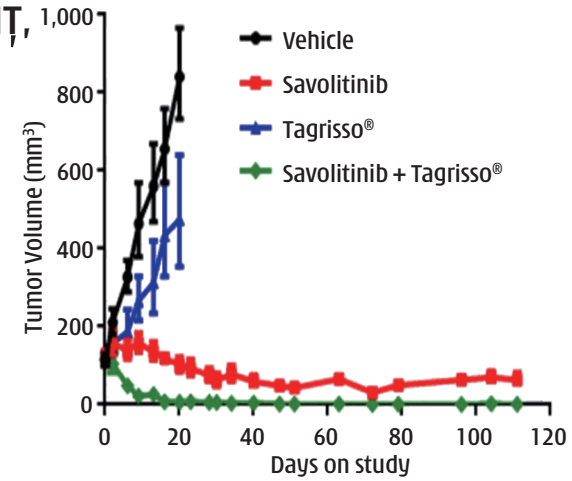
Innovation Platform

Study 4 – Phase Ib CCRCC (second-line), VEGFR tyrosine kinase inhibitor-refractory, savolitinib (600 mg daily) combined with immunotherapy – in UK. A Phase Ib study is now in final planning to evaluate the safety and efficacy of savolitinib in combination with immunotherapy with the hypothesis being that the tyrosine kinase inhibitor/immunotherapy combination, if tolerable, will be more effective in treating CCRCC by targeting the disease from multiple angles. Enrollment for this study is targeted to start in the first quarter of 2016.

Savolitinib – Non-small Cell Lung Cancer ("NSCLC"): In November 2015, AstraZeneca received US FDA approval for Tagrisso®, a therapy for the treatment of patients with metastatic EGFR T790M mutation-positive NSCLC who have progressed on or after EGFR tyrosine kinase inhibitor ("TKI") therapy, namely Iressa® or Tarceva® (erlotinib). Tagrisso® was granted Breakthrough Therapy designation and expedited approval by the US FDA and was one of fastest development programs ever recorded – from start of Phase I clinical trials to approval in just over two and a half years. Speed of development and approval of Tagrisso® was driven by the clearly defined molecular pathways (T790M), major unmet medical need (TKI resistant NSCLC), and high degree of efficacy (59% ORR). In NSCLC, beyond T790M, c-Met gene amplification is clearly one of the major molecular drivers of cancer cell proliferation and as such, in our view, represents an obvious area of Breakthrough Therapy potential in NSCLC. We, and our partner AstraZeneca, are conducting four clinical studies in NSCLC, all of which we believe will generate important proof-of-concept data in 2016:

EGFR TKI RESISTANT, T790M+, C-MET+

- Prolonged and total tumor growth suppression via combining savolitinib & Tagrisso®.

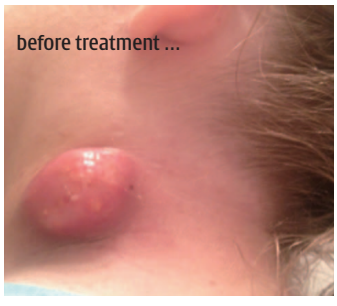


Study 5 – Phase Ib/II NSCLC (second-line), EGFR TKI-refractory, savolitinib (600 mg daily) combined with Tagrisso® – Global. As a result of the encouraging Phase I dose finding study, named TATTON, published at ASCO in 2015, which showed 55% ORR (6/11) and 100% DCR (11/11) among Iressa® and Tarceva® refractory T790M+/– (which means the patient's T790M status is known) patients, we have initiated a global Phase Ib/II expansion study. The Phase Ib/II study aims to recruit an additional approximately 25 c-Met gene amplified, T790M negative patients in any line of treatment. This is a patient population represents approximately 10% of all Iressa® and Tarceva® refractory patients (Frost & Sullivan).

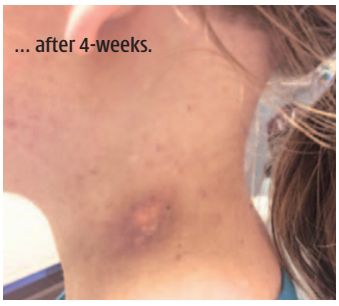
Study 6 – Phase Ib/II NSCLC (third-line), EGFR/T790M TKI-refractory, savolitinib (600 mg daily) combined with Tagrisso® (T790M inhibitor) – Global. A second arm of the global Phase Ib/II study will evaluate the use of savolitinib in combination with Tagrisso® in about 20 c-Met gene amplified patients who have progressed following treatment with Tagrisso®. NSCLC tumors are shown to develop resistance to third generation EGFR tyrosine kinase inhibitors (Tagrisso®) and c-Met gene amplification is one of the major resistance mechanisms. No firm data exists on what proportion of these Tagrisso® resistant patients are c-Met gene amplified, but it is believed to be material, and now that Tagrisso® is approved and expected to be used broadly, the proportion and resulting market potential for savolitinib, as a combination therapy with Tagrisso® in this third-line setting, should soon emerge.

Study 7 – Phase Ib/II NSCLC (second-line), EGFR TKI-refractory, savolitinib (600 mg daily) combined with Iressa® (EGFR inhibitor) – China. A Phase Ib/II study is now underway in China to evaluate efficacy among about 30 Iressa® refractory NSCLC patients. According to Frost & Sullivan, between 15% and 20% of these patients are known to be c-Met gene amplified and could benefit from exposure to a highly selective c-Met inhibitor such as savolitinib.

32 year old female NSCLC patient w/ c-Met+ & T790M



visible solid tumor...treated w/ 800mg savolitinib & 80mg Tagrisso® daily



Study 8 - Phase Ib NSCLC (first-line), EGFR wild-type, c-Met over-expression - China. A Phase Ib study of savolitinib (500mg twice daily) in China has been underway since late 2014 in wild-type EGFR, c-Met over-expression, NSCLC patients. According to Frost & Sullivan, approximately 67% of first-line NSCLC patients have some level of c-Met over-expression. For this study, we are only selecting patients with a high degree of c-Met over-expression based on the hypothesis that patients may benefit if we are able to heavily inhibit c-Met with high doses of savolitinib. This study is ongoing.

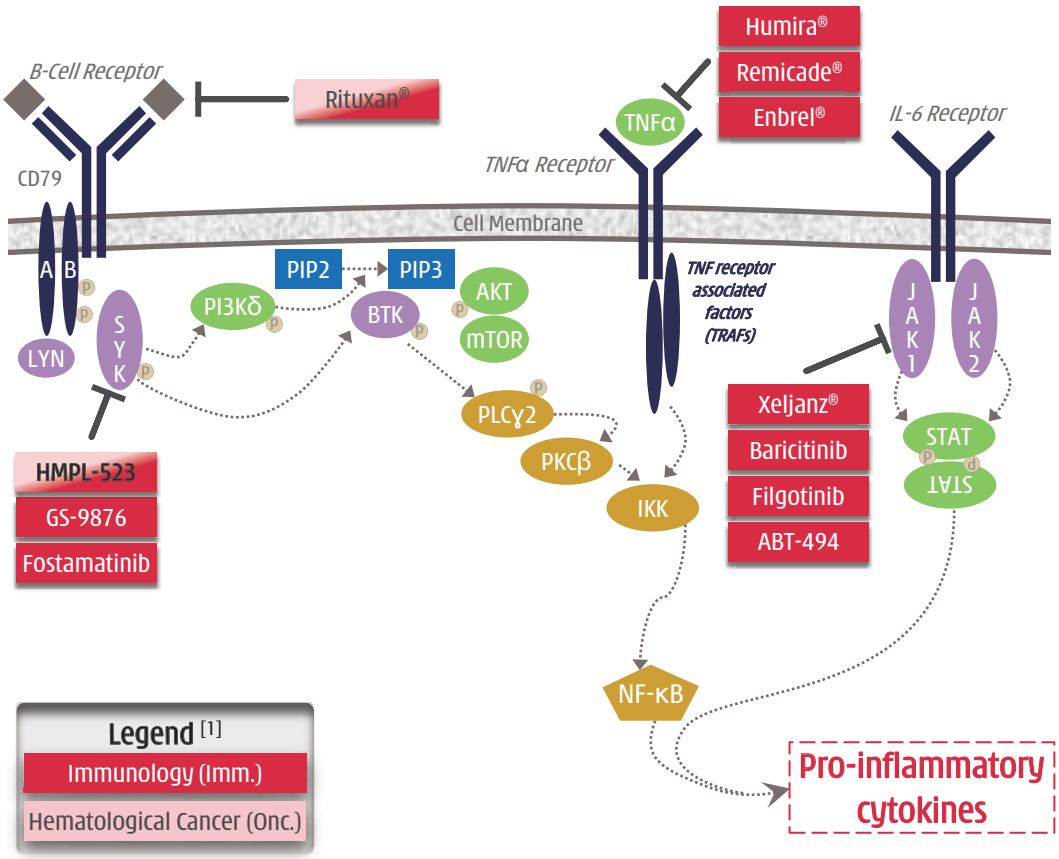
Savolitinib - Gastric Cancer: Patient screening and enrollment for the following four gastric cancer studies has been underway in China since 2014.

Study 9 - Phase Ib gastric cancer, savolitinib monotherapy, patients with c-Met gene amplification - China. A Phase Ib study of savolitinib (500mg twice daily) in China is ongoing and to date we have seen clear partial response efficacy among the approximately 10% of gastric cancer patients with high c-Met gene amplification.

Study 10 - Phase Ib gastric cancer, savolitinib monotherapy, patients with c-Met over-expression - China. A Phase Ib study of savolitinib (500mg twice daily) in China is ongoing. In this study, 40% of the patients have some level c-Met over-expression.

Studies 11 and 12 - Phase Ib gastric cancer, patients with c-Met gene amplification/overexpression, savolitinib combined with Taxotere® (docetaxel) - China. The first section of these Phase Ib dose finding studies are underway to assess combinability in patients with c-Met gene amplification and/or c-Met over-expression.

Syk, the most upstream B-cell pathway kinase target, is clinically validated in rheumatoid arthritis ("RA"), but currently Chi-Med & Gilead are the only companies pursuing.



[1] Approved drug = ®; All other clinical candidates: mAb = antibody (extracellular); small molecule (intracellular)

Innovation Platform

HMPL-523: We believe HMPL-523 is a potential global first-in-class oral inhibitor of Syk, a key protein involved in B-cell signaling. We are developing HMPL-523 for use in immunology, rheumatoid arthritis and lupus, as well as hematological cancers such as lymphoma and leukemia. In the past year, HMPL-523 has emerged, in our view, as one of Chi-Med's highest potential drug candidates. This is as a result of the successful completion of our Phase I study in healthy volunteers as well as fast emerging and highly compelling clinical proof-of-concept data from entospletinib (Gilead), which has begun to validate Syk as an important target in hematological cancer, in addition to its already established importance as a target in immunology.

Modulation of the B-cell signaling pathway has been proven to significantly advance the treatment of certain chronic immune diseases, such as rheumatoid arthritis. To date, targeted therapies approved in this area include monoclonal antibody ("mAb") anti-Tumor Necrosis Factor alpha ("TNFα") immune modulators as well as the small molecule Janus Tyrosine Kinase ("JAK") inhibitor, Xeljanz® (tofacitinib). The performance of Enbrel®, Pfizer's anti-TNFα mAb, is generally seen as the gold standard among these approved therapies, with 24 week ACR20/50/70 improvements of 44%/36%/15% in methotrexate resistant, placebo adjusted, rheumatoid arthritis patients. As an example, an ACR20 of 44% means that over a 24 week period an additional 44% of patients, over and above the placebo arm, observed a 20% improvement in their rheumatoid arthritis symptoms, according to the measurement scale established by the American College of Rheumatology ("ACR").

A small molecule drug candidate has important advantages over intravenous mAb immune modulators because oral small molecule compounds are more convenient to take and clear the system faster, thereby reducing the risk of infections from sustained suppression of the immune system. Xeljanz® was the first-in-class JAK inhibitor, however poor selectivity and resulting off-target toxicities have limited its usage. Most recently a group of more selective, and thereby cleaner, potential best-in-class JAK inhibitors have shown positive Phase II results in rheumatoid arthritis with baricitinib 4mg daily (Lilly/Incyte); GLPG0634 100mg twice daily (Gilead/Galapagos) and ABT-494 24mg daily (AbbVie) reporting 12 week ACR20/50/70 improvements of 30%/28%/14%; 35%/40%/23%; and 32%/24%/18% respectively.

Syk is the upstream kinase in the B-cell signaling pathway, a different and possibly complimentary molecular pathway to JAK, and has been clinically validated as an important target in rheumatoid arthritis. In 2010, fostamatinib 100mg twice daily (AstraZeneca/Rigel) reported exciting Phase II ACR20/50/70 clinical efficacy of 32%/24%/18% showing that a small molecule Syk inhibitor can deliver meaningful clinical benefit. Unfortunately, fostamatinib was not a selective Syk inhibitor as it potently inhibited multiple other kinases including FLT-3, Ret, KDR, FGFR, Lyn and JAK. We believe that this poor kinase selectivity led to off-target toxicity, with patients suffering diarrhea (19%) as well as hypertension, leading to 23% of patients having to receive anti-hypertensive therapy. After conducting global Phase III studies (OSKIRA 1/2/3) on fostamatinib, ultimately AstraZeneca decided not to proceed with regulatory filings because efficacy at the safe dose level, while statistically significant over the placebo, was not clinically meaningful relative to mAbs.

With respect to the treatment of hematological cancers, in recent years there have been major clinical successes and drug approvals of inhibitors targeting other kinases in the B-cell signaling

HMPL-523 – far superior selectivity to fostamatinib

Selectivity	HMPL-523 IC_{50} (nM)	fostamatinib IC_{50} (nM)
Syk enzyme	25 ± 5 (n=10)*	54 ± 16 (n=10)*
JAK 1,2,3 enzyme	›300, ›300, ›300*	120, 30, 480*
FGFR 1,2,3	›3,000, ›3,000, ›3,000	89, 22, 32*
FLT3 enzyme	63*	9*
LYN enzyme	921*	160*
Ret enzyme	›3,000*	5**
KDR enzyme	390 ± 38 (n=3)*	61 ± 2 (n=3)*
KDR cell	5,501 ± 1,607 (n=3)*	422 ± 126 (n=3)*

*: HMPL data and Eun-ho Lee, 2011; ** Birth Defects Research (Part A) 2009, 85: 130-6

pathway such as Bruton's tyrosine kinase, or BTK, and PI3Kδ. While these inhibitors have been successful, resistance to these inhibitors can emerge over time, leading to loss in efficacy, and new targets in B-cell signaling such as Syk are potential solutions to this problem. In late 2015, Gilead published highly compelling Phase II results for entospletinib (GS-9973), a small molecule selective Syk inhibitor being developed only in hematological cancer, in which a Nodal Response Rate ("NRR") of 65% was observed in chronic lymphocytic leukemia ("CLL") and small lymphocytic lymphoma. Nodal response is defined as a ›50% decrease from baseline in the sum of lymph node diameters. Importantly also, GS-9973 reported an NRR of 44.4% (4/9 patients) in an exploratory clinical study in CLL patients previously treated with the first-in-class BTK inhibitor, Imbruvica® (ibrutinib), and the first-in-class PI3Kδ inhibitor, Zydelig® (idelalisib), thereby indicating that Syk inhibition has potential to overcome resistance to Imbruvica® and Zydelig®. TAK-659 (Takeda), also a selective Syk inhibitor, saw similar strong signals of efficacy in their TAK-659 Phase I dose escalation study in lymphoma, also published in late 2015.

HMPL-523 clinical results published in 2015/2016 – During late 2015, we reported the top-line results our successful Phase I dose escalation study in healthy volunteers in Australia.

Study 20 – Phase I study of HMPL-523 in healthy volunteers – Australia. The first-in-human Phase I study of HMPL-523 was a dose-escalation study conducted to assess the safety, tolerability and pharmacokinetics of both single and repeat doses of HMPL-523 in healthy volunteers in Australia. The study began in June 2014, and completed ten single dose cohorts, with eight patients per cohort, from 5mg single dose through 800mg single dose. In mid-2015, the multiple ascending dose section of the Phase I study commenced in which HMPL-523 was administered once daily for 14 consecutive days. Four dose cohorts were completed in this section of the study, again with eight patients per cohort, from 200mg multiple dose through to 400mg multiple dose. At 400mg daily, HMPL-523 drug exposures are believed to be well above the predicted efficacious dose level and, consequently, there is no intention to escalate dosing further in healthy volunteers.

The preliminary safety profile of HMPL-523 was in-line with our expectations. No material off-target toxicities such as diarrhea and hypertension were observed with HMPL-523 in this study. Furthermore, HMPL-523 exhibited a linear human pharmacokinetic profile and a dose dependent suppression of human plasma B-cell activation. Full results of this Phase I study will be published in due course.

Active HMPL-523 clinical studies – We currently retain all rights to HMPL-523 worldwide. Now that a dose range for the further development of HMPL-523 in autoimmune disease has been established, we are planning Phase II proof-of-concept studies against multiple autoimmune diseases, such as rheumatoid arthritis and lupus. These studies are targeted to start in 2016. In addition, we have just begun dose escalation in the following Phase I study in hematological cancer patients:

Study 21 – Phase I of HMPL-523 in second/third-line lymphoma/leukemia patients – Australia. In January 2016, we began a Phase I, open-label, dose escalation study of HMPL-523 as monotherapy administered orally to relapsed and/or refractory B-cell non-Hodgkin's lymphoma or CLL patients who do not respond to, or are unable to tolerate, standard therapy or for whom there is no standard therapy. We are planning two stages for this study: a dose escalation stage and a dose-expansion stage.

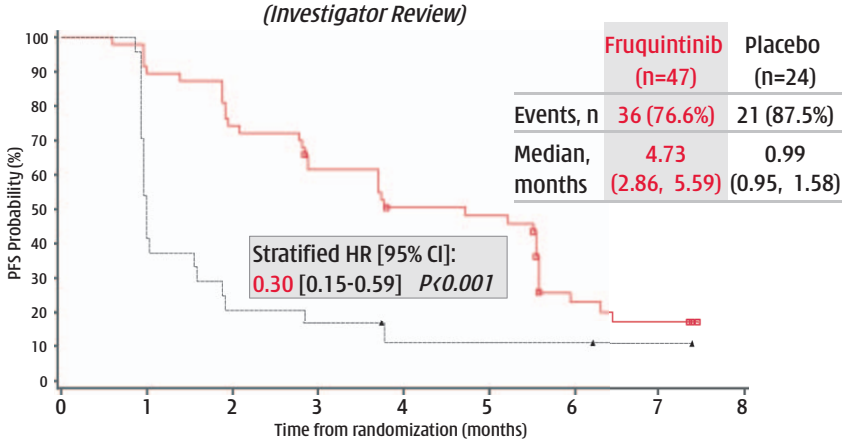
Innovation Platform

We believe this study could quickly provide clinical proof-of-concept that HMPL-523 is an effective Syk inhibitor and that, as has been shown with entospletinib and TAK-659, modulation of the B-cell signaling pathway through inhibition of Syk will provide patients with a highly meaningful clinical benefit.

Fruquintinib: Fruquintinib is a highly selective and potent oral inhibitor of VEGFR, a receptor tyrosine kinase which contributes to tumor angiogenesis, which we believe has the potential to be a global best-in-class VEGFR inhibitor for many types of solid tumors. Based on the pre-clinical and clinical data compiled so far, fruquintinib's kinase selectivity has been shown to reduce off-target toxicity. This allows for drug exposure, from a single 5mg oral dose, that is able to fully inhibit VEGFR for 24 hours a day and has potential for use in combination with other targeted therapies and chemotherapy in earlier lines of treatment with larger patient populations. We believe these are major points of differentiation compared to other less selective small molecule VEGFR inhibitors that have already been approved, such as Sutent®, Nexavar® (sorafenib) and Stivarga® (regorafenib).

Fruquintinib clinical results published in 2015/2016 – During 2015 we reported the results of the two Phase II proof-of-concept studies detailed below for which Lilly paid us $33.1 million in success-based proof-of-concept cash payments during the year:

Fruquintinib Phase II study in Colorectal Cancer: Kaplan-Meier Plot Of Progression Free Survival ("PFS")
(Investigator Review)



Phase II study of fruquintinib monotherapy in third-line colorectal cancer – China. In August 2014, we completed enrollment for a Phase II double-blind, placebo-controlled, multi-center study in China in just over four months to test fruquintinib as monotherapy among third-line metastatic colorectal cancer patients, using the 5mg daily, 3 weeks on/1 week off dose regimen. The goal of this study was to compare the PFS efficacy of fruquintinib versus placebo in metastatic colorectal cancer patients who failed at least two prior lines of treatment, including fluorouracil, oxaliplatin and irinotecan. A total of 71 patients were enrolled, with 47 in the fruquintinib arm and 24 in the placebo arm. Patient baseline characteristics were similar between the two treatment arms.

Fruquintinib demonstrated very strong anti-tumor activity in this study. Median PFS was 4.7 months in the fruquintinib arm compared to median PFS of 1.0 month in the placebo arm (hazard ratio = 0.30 ($p<0.001$)). The DCR in the fruquintinib arm was 68.1% compared with 20.8% in the placebo arm ($p<0.001$). Interim median Overall Survival rate, at the 6-month cut-off, was 7.6 months and 5.5 months in the fruquintinib arm and the placebo arm, respectively. In this study, fruquintinib has not shown any major unexpected safety issues and clearly met its primary endpoint of superiority in median PFS.

Phase II study of fruquintinib monotherapy in third-line NSCLC – China. In June 2014, we initiated a Phase II randomized, double-blind, placebo-controlled, multi-center study of fruquintinib versus placebo among patients with advanced non-squamous NSCLC who failed two lines of chemotherapy. By early March 2015, enrollment had been completed with a total of 91 patients randomized to 5mg of fruquintinib orally once per day, on a 3 weeks on/1 week off regimen plus best supportive care, or placebo plus best supportive care at a 2:1 ratio.

In September 2015, we reported that fruquintinib had clearly met its primary endpoint of superior median PFS versus placebo in this study. Assessment of secondary efficacy endpoints, including ORR, DCR and Overall Survival rate is ongoing, with all appearing in line with expectations at the August 2015 five-month data cut-off. The adverse events demonstrated in this study were consistent with the known safety profile for fruquintinib with no major unexpected safety issues. We expect to report the full data for this study at a scientific conference in 2016.

Active fruquintinib clinical studies - In partnership with Lilly, on fruquintinib, in China we are currently enrolling Phase III registration studies in two indications; the FRESCO study on colorectal cancer; and the FALUCA study on NSCLC. We also expect to start a Phase II proof-of-concept study on gastric cancer in China in the second half of 2016.

Study 14 - Phase III study in third-line colorectal cancer - China. In December 2014, we initiated FRESCO, a randomized, double-blind, placebo-controlled, multi-center, Phase III registration study of fruquintinib as monotherapy targeted at treating patients with locally advanced or metastatic colorectal cancer who have failed at least two prior systemic cancer therapies, including fluoropyrimidine, oxaliplatin and irinotecan. Patients are randomized at a two-to-one ratio to receive either 5mg of fruquintinib orally once per day, on a 3 weeks on/1 week off cycle, plus best supportive care or placebo plus best supportive care. The primary endpoint is Overall Survival, with secondary endpoints including PFS, ORR, DCR and duration of response. We expect enrollment to be completed in Q2 2016 after which we plan to establish an Independent Data Monitoring Committee ("IDMC") to conduct an interim analysis on FRESCO in Q4 2016. Our China FDA registration strategy will be determined based on the results of the IDMC.

Study 15 - Phase III study in third-line non-small cell lung cancer - China. In December 2015, we initiated FALUCA, a Phase III registration study for fruquintinib in third-line non-squamous NSCLC patients in China who have failed two prior systemic cancer therapies. Patients are randomized at a two-to-one ratio to receive either 5mg of fruquintinib orally once per day, on a 3 weeks on/1 week off cycle, plus best supportive care or placebo plus best supportive care. The primary endpoint is Overall Survival, with secondary endpoints including PFS, ORR, DCR and duration of response.

Sulfatinib clear superiority

	Sandostatin® (octreotide) / Placebo	Afinitor® (everolimus) / Placebo	Sutent® (sunitinib) / Placebo	Somatuline Depot® (lanreotide) / Placebo	sulfatinib
NET Approval	Mid-gut	Pancreatic	Pancreatic	Gastrointestinal (Antigen Ki67<10%)	All NET efficacy
Median PFS (months)	14.3/6.0	11.0 / 4.6	11.4 / 5.5	NR / 18.0	18.3
Hazard Ratio	0.34	0.35	0.42	0.47	
p-value	*0.000072*	*<0.001*	*<0.001*	*<0.001*	
Objective Response Rate[1]	2% / 2%	5% / 2%	9% / 0%	NR	38%
Disease Control Rate[2]	69% / 40%	73% / 51%	72% / 60%	NR	86%

[1] ORR = percent of patients with >30% tumor diameter shrinkage (Note: Intent to Treat ITT population = 21; patients evaluable for efficacy = 18; 3 patients withdrawn/lost to follow-up/AE); [2] DCR = percent of patients with tumor diameter growth <20%; [3] CTA = Clinical Trial Application (for Phase II/III in China).

Innovation Platform

Study 16 – Phase Ib study of fruquintinib combined with Taxol® in second-line gastric cancer – China. In early 2015, we began a Phase Ib dose finding study of fruquintinib in combination with Taxol® to determine the recommended Phase II dose. We have completed two dose cohorts, 2mg daily and 3mg daily (both 3 weeks on/1 week off) with both regimens being tolerable and showing encouraging preliminary response. We are currently in the final expansion phase of a 4mg daily cohort which, if successful, is expected to deliver full 24 hours a day VEGFR inhibition through an oral dose in combination with chemotherapy (Taxol®). This is an outcome that we believe has never been achieved before with a small molecule VEGFR TKI. After the completion of this Phase Ib dose finding study we expect to initiate a second-line gastric cancer Phase II study in China in the second half of 2016. Positive proof-of-concept results in combination with Taxol® could lead to potential global development of fruquintinib in combination with chemotherapy in earlier line settings in many other solid tumor indications including, but not limited to, NSCLC, colorectal cancer and breast cancer.

Sulfatinib: Sulfatinib is an oral drug candidate that selectively inhibits the tyrosine kinase activity associated with VEGFR and FGFR1, a receptor for a protein which also plays a role in tumor growth.

Sulfatinib clinical results published in 2015/2016 – During 2015, we released expanded Phase I clinical data indicating that sulfatinib has the highest ORR reported to date in patients with NET. An ORR of 44.4% was observed for sulfatinib in 18 evaluable NET patients, and importantly efficacy was observed across many NET sub-types including those originating in the thymus, pancreas and across the gastrointestinal tract. This compares favorably to less than 10% ORR for Sutent® and Afinitor®, the two targeted therapies that are approved for pancreatic NET patients only.

Active sulfatinib clinical studies – We currently retain all rights to sulfatinib worldwide. In 2015, we applied for and received clearance to proceed with both Phase I clinical trials in the US and Phase III clinical trials in China. Sulfatinib is the first oncology candidate that we have taken through proof-of-concept in China and have expanded into global development ourselves.

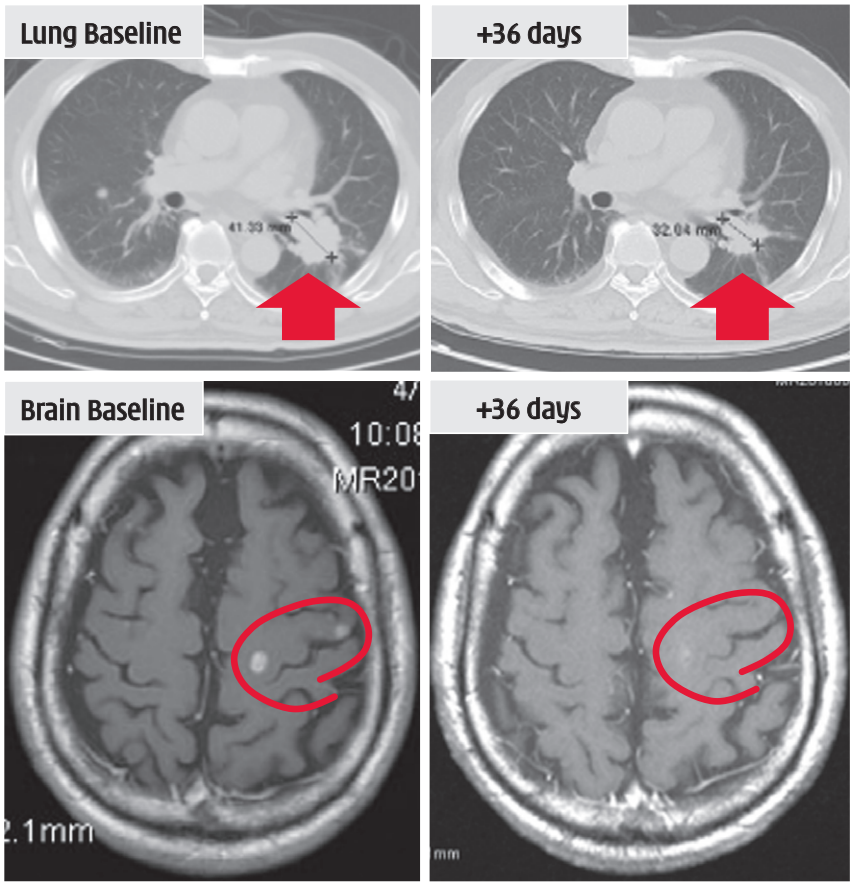
Study 17 - Phase Ib/II study in first-line NET - China. In early 2015, we began a 30 patient, 300mg sulfatinib daily, Phase Ib/II study in China in broad spectrum NET patients (pancreatic, gastrointestinal, liver, lymph and lung, among others) which, due to strong demand due to the major unmet medical need and clear efficacy of sulfatinib, was expanded and subsequently completed enrollment of 81 NET patients in December 2015. We expect to publish top-line results for this study during the course of 2016.

Study 17a. - Phase III study in first-line extra-pancreatic NET - China. In December 2015, we initiated SANET-ep, a Phase III sulfatinib registration trial in China in patients with extra-pancreatic NET (non-pancreatic). SANET-ep is a randomized, double-blind, placebo-controlled, multi-center registration study to treat pathologically low or intermediate grade NET patients whose disease has progressed, locally advanced or distant metastasized and for whom there is no effective therapy. Patients are being randomized at a 2:1 ratio to receive either 300mg of sulfatinib orally once per day, or placebo, on a 28-day treatment cycle. The primary objective of this study is to evaluate the PFS of sulfatinib as compared to that of placebo, with secondary endpoints including ORR, DCR, time to response, duration of response, Overall Survival, safety and tolerability. We expect to enroll about 270 patients in SANET-ep.

Study 17b. - Phase III study in first-line pancreatic NET - China. In the first quarter 2016, we intend to initiate a second sulfatinib Phase III registration trial, SANET-p, in pancreatic NET patients. SANET-p employs a similar treatment regimen and has primary and secondary endpoints similar to those for SANET-ep trial. We expect to enroll about 195 patients in SANET-p.

Study 18 - Phase I monotherapy in advanced solid tumors - US. A Phase I study in Caucasian patients also began in the US in late 2015. This study will evaluate the safety, tolerability and pharmacokinetics of sulfatinib in advanced solid tumors to determine the maximum tolerated dose and/or recommended Phase II dose, dose-limiting toxicities, pharmacokinetics profile, and preliminary anti-tumor activity in Caucasian patients. Once we

Phase Ib - epitinib human efficacy in lung & brain



Innovation Platform

have established the recommended Phase II dose among Caucasian patients, we expect to start a US Phase II study of sulfatinib in broad spectrum NET patients in the second half of 2016.

Study 19 – Phase II sulfatinib monotherapy in second-line thyroid cancer – China. In Q1 2016, we plan to begin enrollment in a Phase II study in China in approximately 50 patients to evaluate the safety, pharmacokinetics and efficacy of sulfatinib in patients with locally advanced or metastatic radioactive iodine-refractory differentiated thyroid cancer or medullary thyroid cancer into this study, with approximately 25 patients in each tumor type. We believe that sulfatinib's VEGFR/FGFR1 inhibition profile has strong potential in second-line thyroid cancer patients, particularly in China where there are few safe and effective treatment options for this patient population.

Epitinib: EGFR inhibitors have revolutionized the treatment of NSCLC with EGFR activating mutation. However, existing EGFR inhibitors such as Iressa® and Tarceva® cannot penetrate the blood-brain barrier effectively, leaving the >50% of patients that ultimately develop brain metastasis without an effective therapy. In contrast, epitinib is a potent and highly selective oral EGFR inhibitor designed to optimize brain penetration and has demonstrated brain penetration and efficacy in both pre-clinical and clinical studies. We therefore believe epitinib is well-positioned to address a major global unmet medical need and possibly be considered for Breakthrough Therapy designation.

Epitinib clinical results published in 2015/2016 – During 2015, we completed a Phase I dose escalation study and identified a recommended dose for proof-of-concept studies. We subsequently began a Phase Ib proof-of-concept study in NSCLC patients with EGFR activating mutation and brain metastasis. We have announced that preliminary clinical results in tumor assessments in the first 14 patients treated in the Phase Ib (Study 22 below) have been highly encouraging, with early patient tumor assessments showing strong efficacy in both the lung and brain.

Active epitinib clinical studies – We currently retain all rights to epitinib worldwide. In late 2015, we also submitted our Phase III clinical trial application in China for which we hope to receive clearance by mid-2016. Upon clearance, and subject to continued positive Phase Ib results, we expect to initiate a Phase III trial in China.

Study 22 – Phase Ib epitinib monotherapy in first-line EGFR activating mutation positive NSCLC with brain metastasis – China. We are conducting a Phase Ib proof-of-concept study of epitinib in approximately 30 patients to establish activity in EGFR activating mutation positive NSCLC patients with tumors metastasized to the brain. Full results of this Phase Ib study are expected later in 2016.

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

IC_{50} (nM)		HMPL-689	Zydelig®	duvelisib
Enzyme	PI3Kδ	0.8 (n = 3)	2	1
	PI3Kγ (fold vs. PI3Kδ)	114 (142X)	104 (52X)	2 (2X)
	PI3Kα (fold vs. PI3Kδ)	>1,000 (>1,250X)	866 (433X)	143 (143X)
	PI3Kδ human whole blood CD63+	3	14	15
	PI3Kβ (fold vs. PI3Kδ)	87 (109X)	293 (147X)	8 (8X)

[1] IC_{50} = concentration of a drug required for 50% inhibition of the target kinase *in vitro* Very low IC_{50} for the target cells and very high IC_{50} for healthy cells indicates high selectivity.

Theliatinib: Theliatinib is a novel EGFR inhibitor designed to treat tumors with wild-type EGFR activation such as gene amplification or protein over-expression. The current EGFR inhibitors such as Iressa® and Tarceva® are approved only for patients with EGFR activating mutation because they have limited binding affinity, and therefore response/efficacy, in cancers with wild-type EGFR. Theliatinib on the other hand has very strong binding affinity to the wild-type EGFR kinase and as such, in pre-clinical models, theliatinib has demonstrated 5- to 10-fold higher potency than Tarceva®.

Active theliatinib clinical studies - We currently retain all rights to theliatinib worldwide and are nearing completion of a Phase I dose escalation study.

Study 23 - Phase I dose escalation - China. We have completed 7 cohorts from 10mg daily through to 160mg daily. We have seen no dose limiting toxicities and intend to continue dose escalation. Once the Phase II dose is determined we intend to commence exploratory Phase Ib/II proof-of-concept studies in esophageal and head and neck cancers in 2016.

HMPL-689: There are multiple sub-families of PI3K kinases, and PI3Kδ plays important roles in B-cell activation, development, survival and migration. PI3Kδ is mainly expressed in circulating leukocytes and lymphoid tissues. PI3Kδ is the central signaling enzyme that mediates the effects of multiple receptors on B-cells. Aberrant B-cell function has also been observed in multiple autoimmune diseases and B-cell mediated malignancies. Therefore, PI3Kδ is considered to be a promising target for drugs that aim to prevent or treat hematologic cancer, autoimmunity and transplant organ rejection and other related inflammation diseases.

HMPL-689 has been designed to be a second generation, potentially global best-in-class PI3Kδ inhibitor in hematological cancer. It is intended to compete with Zydelig®, the first-in-class PI3Kδ inhibitor, which was granted Breakthrough Therapy designation in 2013 and approved for the treatment of multiple types of non-Hodgkin's lymphoma in 2014. HMPL-689 is, in general, differentiated through high selectivity, particularly on a PI3K isoform level, sparing PI3Kγ and minimizing the risk of serious infection. HMPL-689 is over five-fold more potent than Zydelig® at the whole blood level and has favorable pharmacokinetic properties, with expected good human oral absorption, moderate tissue distribution and low clearance, making it suitable for once daily oral dosing. We also expect HMPL-689 will have a low risk of drug accumulation and drug-drug interaction issues. As a result, HMPL-689 is expected to provide improved target coverage and robust efficacy at much lower doses than Zydelig® and as such reduce compound related toxicities.

Study 24 - Phase I of HMPL-689 in second/third-line hematological cancers (lymphoma/leukemia) - Australia. In 2016, we plan to initiate a first-in-human Phase I dose escalation study of HMPL-689 in patients with hematologic malignancies in Australia. Subject to success in Phase I we will look to develop HMPL-689 both as a monotherapy and potentially in combination with other B-cell mediators such as HMPL-523.

Innovation Platform

HMPL-453: FGFRs belong to a sub-family of receptor tyrosine kinases whose activation through the phosphorylation of various downstream molecules ultimately leads to increased cell proliferation, migration and survival. FGF/FGFR signaling regulates a wide range of basic biological processes, including tissue development, angiogenesis, and tissue regeneration. Aberrant activation in FGF/FGFR signaling through mutations, fusion and gene amplification has been found to be a driving force in many types of cancer, including NSCLC, gastric, breast, cholangiocarcinoma and bladder.

Currently, FGFR mAbs, FGF ligand traps and small molecule FGFR inhibitors are being evaluated in early clinical studies. BGJ-398 (Novartis), AZD4547 (AstraZeneca) and JNJ-42756493 (Janssen) are the leading selective FGFR inhibitors, and their early clinical trials provided substantial proof-of-concept with regard to anti-tumor efficacy and pharmacodynamic markers of effective FGFR pathway inhibition. However, there are still many challenges in the development of FGFR-directed therapies. Uncertainties include the screening and stratifying of patients who are most likely to benefit from FGFR targeted therapy. Intra-tumor heterogeneity observed in FGFR amplified cancer may compromise the anti-tumor activity. In addition, the low frequency of specific FGFR molecular aberrance in each cancer type may hinder clinical trial enrollment.

HMPL-453 is a highly selective and potent, small molecule that targets FGFR 1/2/3. HMPL-453 exhibited strong anti-tumor activity that correlated with target inhibition in tumor models with abnormal FGFR activation. HMPL-453 has good pharmacokinetic properties characterized by rapid absorption following oral dosing, good bioavailability, moderate tissue distribution and moderate clearance in all pre-clinical animal species. HMPL-453 was found to have low likelihood of drug-to-drug interaction issues. We intend to start Phase I clinical trials in China, as well as possibly in Australia, in 2016.

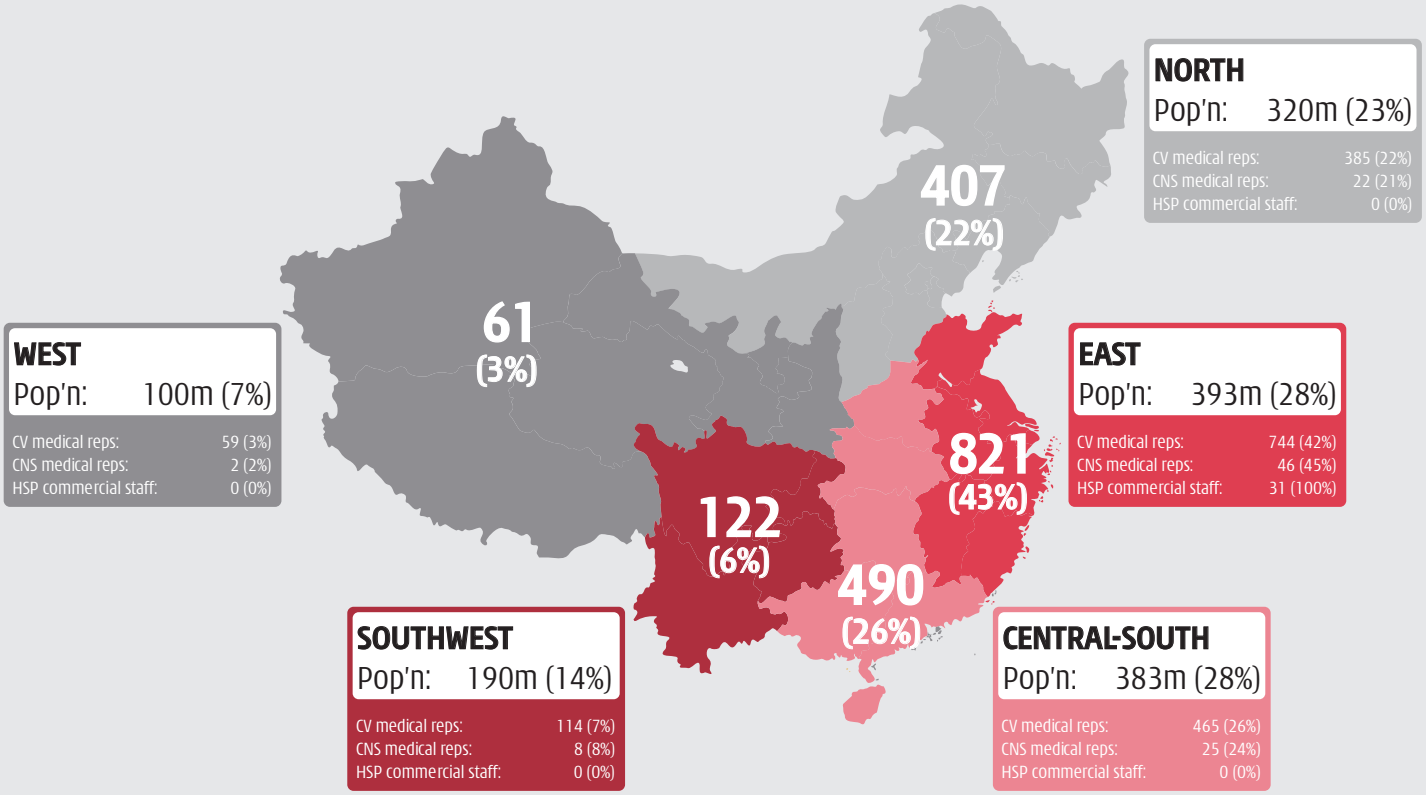
HMPL-004: Since the result of our interim analysis of the Phase III registration study in ulcerative colitis (NATRUL-3) was published in August 2014, we have been working closely with Nestlé Health Science SA, our partner in the Nutrition Science Partners JV, to improve the chance of clinical success for HMPL-004. We now have a better understanding, in the context of HMPL-004, of the clinical importance of concomitant use of 5-ASAs; the definition of 5-ASA resistance and importantly biomarker analysis.

The remaining major issue with HMPL-004, which is a botanical substance, is the high pill burden and resulting compliance challenges of the 2,400mg daily HMPL-004 dose. In 2015, a team of about 30 research staff focused on optimizing HMPL-004 formulation, by adding several steps to the extraction process and thereby increasing the concentration of the key bioactive ingredients. The new enriched formulation of HMPL-004 that has been created, named HM004-6599, is now over 70% diterpenoids as compared to the original formulation which comprised approximately 15% diterpenoids. In extensive pre-clinical in-vitro and in-vivo models HM004-6599 has now been shown to demonstrate superior inhibition of NF-kB activation, pro-inflammatory cytokine IL-1β production and TNFα dependent chemokine production including CCL-20. Given the enrichment, the predicted human efficacious dose of HM004-6599 could be as low as 400-500mg daily versus 2,400mg daily usage of HMPL-004. We now intend to progress HM004-6599 through IND enabling drug safety and manufacturing processes and target to re-start clinical trials in 2017.

In parallel with the work being conducted on HM004-6599 we have expanded our joint research activities with Nestlé Health Science S.A., expecting to fund a team of 45 research staff in 2016 and working on creating a pipeline of multiple highly enriched botanical drug candidates in the immunology/inflammation arena of gastrointestinal disease.

Discovery programs: Our fully integrated discovery teams in oncology and immunology continued to make substantial progress during the period. We staff and resource our discovery team with the objective of producing one or two new internally discovered drug candidates per year. In addition to the drug candidates against 8 molecular targets that are either in clinical development or are expected to start clinical development in 2016, we have compounds against two further targets (one novel and one validated) that should reach candidate nomination in 2016 as well discovery programs against five further novel molecular targets that could reach candidate nomination over the next few years.

A powerful Prescription Drugs Commercial Platform in China



Notes: 2010 Population - China State Census; CV = Cardiovascular; CNS = Central nervous system.

2015 Sales:

US$286.6m

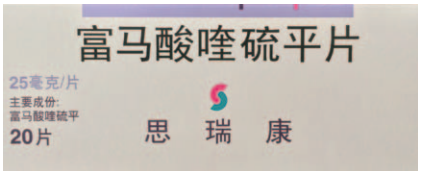
up +40%

- Over 1,900 sales people
- Covering in 300 cities and towns
- Detailing drugs to over 80,000 physicians
- Products distributed in over 13,500 hospitals

Commercial Platform

COMMERCIAL PLATFORM

Since 2001, we have also developed a profitable Commercial Platform, with the key element being our Prescription Drugs business which has a commercial network of over 1,900 medical sales representatives covering over 16,500 hospitals in about 300 cities and towns in China. We operate our Prescription Drugs business through our JVs, SHPL and Hutchison Sinopharm, in which we nominate management and run the day-to-day operations. The second, less core, element of our Commercial Platform is our Consumer Health business which focuses primarily on the manufacture, marketing and distribution of over-the-counter ("OTC") pharmaceutical products in China.



Seroquel (psychiatric disorders)

We intend to leverage this Commercial Platform, particularly our established Prescription Drugs business, to support the launch of products from our Innovation Platform if they are approved for use in China. Outside of China, we intend to commercialize our products in the US, Europe and other major markets either on our own or through partnerships with leading global pharmaceutical companies.

In 2015, sales of the Commercial Platform subsidiaries and JVs grew by 11% to $518.9 million (2014: $465.4m) and consolidated net profit attributable to Chi-Med from continuing operations increased by 10% to $25.2 million (2014: $22.8m), including non-recurring one-time costs of $1.7 million associated with relocation to our new factories ($0.4 million) and the take-back of commercial rights of certain products ($1.3 million).

Prescription Drugs business:

Sales of the subsidiaries and JVs in our Prescription Drugs business (SHPL and Hutchison Sinopharm) grew by 40% to $286.6 million (2014: $204.9m) and consolidated net profit attributable to Chi-Med increased by 20% to $15.9 million (2014: $13.2m) representing 63% of our Commercial Platform net profit.

SHPL: Our primarily own-brand Prescription Drugs business continues to perform very well, with 2015 sales up 17% to $181.1 million (2014: $154.7m). Our proprietary prescription cardiovascular drug SXBXP, which represented 88% of SHPL sales in 2015, grew 15% to $159.3 million (2014: $138.8m) as we continued to make progress through geographic and sales channel expansion and gaining market share in its mature markets. Within the coronary heart disease market in China, in 2015 SXBXP had approximately

She Xiang Bao Xin pill (cardiovascular)

12.1% market share, and market leadership in Shanghai with approximately 35.3% market share, among oral Chinese patented drugs (Frost & Sullivan).

Since its launch in 1983, the proprietary status of SXBXP has been supported by a combination of regulatory protection and in recent years the grant of State Secrecy protection which expires in December 2016. In July 2015, we were granted a 20-year invention patent covering SXBXP formulation from the China State Patent Office which will now secure our proprietary position on SXBXP in China through 2029. Furthermore, in 2015 we began to phase-in a 22% price increase on SXBXP, from its early 2015 level of RMB 2.7/day to RMB 3.3/day. This increase will bring SXBXP closer in-line with the 2014 Low Price Drug List policy which allows for maximum daily pricing for such products at RMB 5.0/day.

The SHPL commercial team now has about 1,900 medical sales representatives covering all regions of China, including about 1,800 cardiovascular and 100 central nervous system personnel. In 2015, for the first time since its inception in 2001, SHPL began to expand into commercialization of third party prescription drug products. Fee for service income of $5.1 million was earned during 2015 (2014: nil) from detailing Concor® (cardiovascular, Merck Serono) in certain provinces in China and Seroquel® (psychiatric disorders, AstraZeneca) across all China. The gross

margins earned on this third party business are meaningful and while 2015 was a period of start-up and investment, we expect these activities to become an important net profit contributor for SHPL.

In 2016 we plan to transition production of SHPL's own-brand products, including SXBXP, to our new 78,000 sqm factory in Feng Pu district, 40 kilometers south of Shanghai. The transition, including the re-location of approximately 500 full time staff and the attainment of Good Manufacturing Practice ("GMP") certification on the new facility, while in parallel maintaining record production despite operating at full capacity in the old site, has required major coordination.

Hutchison Sinopharm: Our third-party prescription drugs commercialization business, Hutchison Sinopharm, is making very good progress with sales of $105.5 million (2014: $50.2m) as we report our first full year of operations versus less than nine months in 2014. The majority of the legacy business of Hutchison Sinopharm is to provide low-margin logistics and distribution services, primarily in Shanghai municipality, to third-party pharmaceutical companies.

The core strategic focus of Hutchison Sinopharm is now to rapidly expand/evolve its team of over 90 commercial staff (2014: 50), into a higher margin full-service third-party prescription drugs commercialization company in China. This will allow Hutchison Sinopharm to complete more commercial deals, similar to the exclusive China commercialization deal on Seroquel® with AstraZeneca that was signed in early 2015. In 2015, Seroquel® had approximately 47% market share (Frost & Sullivan) of the Chinese market for schizophrenia and bipolar drugs and accounted for $21.1 million (2014: nil) of the sales of Hutchison Sinopharm between April and December 2015.

Consumer Health business:

Sales from continuing operations of the subsidiaries and JVs in our Consumer Health business (HBYS, Hutchison Hain Organic Holdings Limited ("HHO"), Hutchison Healthcare Limited ("HHL") and Hutchison Consumer Products Limited ("HCPL")) fell by 11% to $232.3 million (2014: $260.5m); and consolidated net profit attributable to Chi-Med from continuing operations fell by 4% to $9.3 million (2014: $9.6m) due mainly to a non-recurring one-time cost of $1.3 million resulting from our decision to take-back commercial rights on all HHL's Zhi Ling Tong infant nutrition products from our former exclusive distributor.

HBYS: Our OTC drugs business in China is navigating a complex transition in both pricing and manufacturing strategy. As a result, HBYS sales fell 13% to $211.6 million (2014: $243.7m) while net profit attributable to Chi-Med grew 3% to $8.6 million (2014: $8.3m). HBYS is the market leader in China for its two core generic OTC drug sub-categories, with market share of approximately 32.5% for Fu Fang Dan Shen ("FFDS") tablets (angina) and 51.1% for Banlangen granules (anti-viral) in 2015 (Frost & Sullivan).

In 2015, HBYS entered a period of transition in which key raw material costs dropped dramatically, thereby improving our profitability. At the same time, we have been capacity constrained as we encounter tightening of supply by our contract manufacturers ahead of the start-up of our new GMP factory in Bozhou, Anhui province. Our strategy to manage this temporary supply tightness has been to keep prices high on key products such as FFDS. As a result, while FFDS gross margin increased to 62% (2014: 49%) overall sales fell by -21% to $60.2 million (2014: $76.3m).

While our pricing strategy has helped ease supply pressure in the short term, we remain focused on bringing on line the first phase of our 230,000 sqm Bozhou factory in late 2016. This will provide >50% increases in formulation (tablets and granules) capacity and, most importantly, it should address our main production bottle-neck – extraction – by adding 8,000 tons of new extraction capacity (>250% increase). The transition to Bozhou is highly complex due to the fact it is over 1,400 kilometers away from our Guangzhou base. We will however benefit in the mid- to long-term from cost efficiencies, by establishing this operation in central China, in terms of lower people and operating costs as well as close proximity to the source of key raw materials. We believe these cost efficiencies will contribute to materially increasing baseline HBYS gross margins, which were 43% in 2015 (2014: 40%), in future periods.

In July 2015, HBYS agreed to inject up to $9.0 million into a new JV with Guangdong Lai Da Pharmaceutical Company Limited ("Lai Da") for a 70% share in the new JV. Lai Da, for its 30% share, has contributed a portfolio of 31 drug products, with some being higher margin proprietary prescription drugs.

HHO: The performance of HHO, our natural and organic products venture with The Hain Celestial Group, Inc. ("Hain"), during 2015 continued to be strong with sales from continuing operations growing by 48% to $17.0 million (2014: $11.5m) and net profit attributable to Chi-Med of $0.7 million (2014: $0.3m). We believe the demand for high quality health-oriented consumer products is increasing and HHO is the exclusive regional distributor/marketer of a range of over 30 Hain brands of organic and natural products in nine countries/territories in Asia. In mid-2015 we re-entered the China market with the Earth's Best® brand, Hain's market leading US organic infant formula brand.

Commercial Platform

HHL and HCPL: The sales in our smaller consumer businesses HHL and HCPL fell by 27% to $3.6 million (2014: $4.9m) with net loss attributable to Chi-Med of-$0.1 million (2014: net profit $1.1m). Our key product, Zhi Ling Tong, a supplement brand for babies and pregnant mothers, remains popular within its obstetrics and gynecology hospital, mother/baby and drug store commercial channels. In late 2015, we took the decision to terminate the commercial agreement on Zhi Ling Tong with our exclusive China distributor of almost ten years, thereby incurring one-time non-cash expenses of $1.3 million. Under our direct control, we believe sales of Zhi Ling Tong in 2016 should grow rapidly and rapidly offset this cost of transition.

Property compensation: As previously reported both Commercial Platform JVs, SHPL and HBYS, are well advanced in the process of approximately tripling capacity through the construction of two major new GMP factories. The estimated total planned capital expenditures on these new factories are $140 million. In 2015, capital expenditures were $64.8 million and total aggregate capital expenditure, as at December 31, 2015, on the two new factories was $125.4 million, or 90% of the planned total expenditure. We have funded this capital expenditure during the last two years mostly with the cash reserves held in our JVs as well as bank borrowing of $26.5 million as at December 31, 2015.

In late 2015, we announced that SHPL had signed a land deal for the surrender of its 36-year land-use rights on its old 58,000 sqm factory site back to the Shanghai government in return for $105 million in compensation. This will result in a substantial gain in 2016, for both SHPL and Chi-Med, given that the total net book value of the land and fixed assets at the old site was $12.7 million as at December 31, 2015. In December 2015, SHPL received a first installment payment of $31.1 million in cash with the balance of approximately $73.9 million expected to be received in 2016. Furthermore, as a result of the deal, SHPL is also likely to receive approximately $15.0 million in additional subsidies over the next five years.

Recently, the Guangzhou government has issued their new urban redevelopment policy. Under this new policy, we estimate that HBYS compensation, based solely on precedent land auctions in the immediate vicinity, for surrender of the remaining 38-year land-use rights on our two plots of land in Guangzhou, Plot 1 (59,400 sqm) and Plot 2 (26,700 sqm), could be similar on a compensation per square meter basis, to that paid to SHPL above. For reference, the aggregate net book value, as at December 31, 2015, for the land and fixed assets in Plot 1 and Plot 2 was $24.0 million. While precedent land auctions are for indication only, and the outcome and timing of any deal remain uncertain and are not fully within our control, we are working towards agreeing on a compensation deal for Plot 2 in late 2016 or 2017.

Summary

As a result of over a decade of total focus on investing in innovation, we now believe that Chi-Med is within reach of our primary objective of becoming a leading global biopharmaceutical company based in China.

Referencing our global biotech peers, clinical and regulatory success during 2016 and 2017 in just one of our novel global first-in-class drug candidates, savolitinib and HMPL-523, could provide the catalyst to achieve this. And, beyond these global first-in-class drug candidates, we have our broad clinical pipeline of possible best-in-class compounds – fruquintinib and sulfatinib are now both in Phase III registration studies in China and epitinib is expected to start its first Phase III registration study in 2016. We believe all this is set to create substantial shareholder value by providing great benefits to patients.

Our research team, the largest of its type in China, continues to produce global innovations in oncology and immunology with as many as half a dozen drug candidates against novel molecular targets expected to reach the clinic in the next five years.

A solid foundation of Chi-Med's business continues to be our increasingly cash generative Commercial Platform, with the Prescription Drugs business in China being the strategic core. We expect this cash flow will continue to help sustain Chi-Med's continuous investment in innovation in the future. Now looking forward to the next two to three years, a second benefit of this deep commercial capability is set to emerge – the ability to use our commercial team to launch our un-partnered innovative products in China ourselves and thereby maximize the economic benefits to Chi-Med.

Achieving our ambitious objectives requires that we continue to move fast, and execute effectively, on all aspects of our business. We are confident we are well positioned to do this in 2016 and beyond.

Christian Hogg
Chief Executive Officer

February 29, 2016

Biographical Details Of Directors

1

Simon TO

Executive Director and Chairman

Mr To, aged 64, 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-five years, building its business from a small trading company to a multi-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-five 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 (currently a subsidiary of CK Hutchison Holdings Limited ("CK Hutchison")) TCM business and has been instrumental in the acquisitions made to date. He received a First Class Honors Bachelor's Degree in Mechanical Engineering from Imperial College, London and an MBA from Stanford University's Graduate School of Business (graduated top 5% of his class).

2

Christian HOGG

Executive Director and Chief Executive Officer

Mr Hogg, aged 50, 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

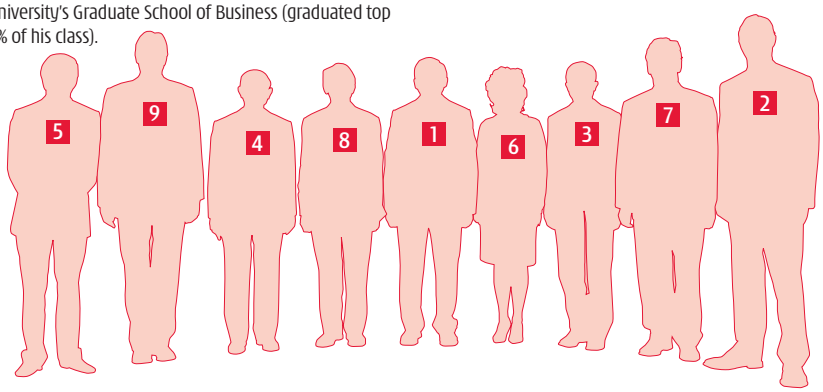
Johnny CHENG

Executive Director and Chief Financial Officer

Mr Cheng, aged 49, 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 (currently PricewaterhouseCoopers) 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 81, 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 US.


5

Christian SALBAING
Non-executive Director

Mr Salbaing, aged 66, has been a Non-executive Director since 2006. He is deputy chairman of Hutchison Whampoa (Europe) Limited, the European headquarters company of CK Hutchison. He is also deputy chairman of Hutchison Whampoa Luxembourg Holdings S.à r.l., the principal holding company for the businesses of CK Hutchison in Europe. He represents CK Hutchison 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 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 64, 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 CK Hutchison, a director of Hutchison International Limited, as well as director and company secretary of numerous companies in the CK Hutchison group. Ms Shih has been employed by Hutchison Whampoa Limited (currently a subsidiary of CK Hutchison) since 1991 and oversees all legal, regulatory, compliance and corporate secretarial affairs of the CK Hutchison group. She is the Vice President and Executive Committee member of The Institute of Chartered Secretaries and Administrators in the UK and a past President and current Council member of The Hong Kong Institute of Chartered Secretaries. She is also the Chairman of the Remuneration Committee and member of Governance Committee and the Audit Profession Reform Advisory Group of the Hong Kong Institute of Certified Public Accountants.

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 68, 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 US and Europe, and Railtrack Group plc in the UK. Mr Howell holds directorships in other private and public companies in the UK and US.

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 (US).


8

Christopher HUANG
Independent Non-executive Director

Professor Huang, aged 64, 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 a director of Hutchison Biofilm Medical Solutions Limited. 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 Royal Society of Biology (FRSB), and is currently President of the Cambridge Philosophical Society.


9

Christopher NASH
Independent Non-executive Director

Mr Nash, aged 57, 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 a non-executive director of Gasrec Limited. He was previously Chairman of Tempus Technology Limited, a non-executive director of NTR plc and GKN Evo eDrive Systems Ltd and a Director of Current OpenGrid Limited. Mr Nash's career has spanned over thirty six 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 financial statements for the year ended December 31, 2015.

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-related 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 Statements of Operations are set out on page 52 and show the Group's results for the year ended December 31, 2015.

DIVIDENDS

No interim dividend for the year ended December 31, 2015 was declared and the Directors do not recommend the payment of a final dividend for the year ended December 31, 2015.

RESERVES

Movements in the reserves of the Group during the year are set out in the Consolidated Statements of Changes in Shareholders' Equity on page 54.

NON-CURRENT ASSETS

Particulars of the movements of non-current assets of the Group are set out in notes 12 to 15 to the financial statements.

SHARE CAPITAL

The share capital of the Company is set out in the Consolidated Balance Sheets. Details of the ordinary shares of the Company are set out in note 21 to the financial statements.

Report Of The Directors

DIRECTORS

The Directors of the Company as at December 31, 2015 were:

Executive Directors:

Simon To
Christian Hogg
Johnny Cheng

Non-executive Directors:

Shigeru Endo
Christian Salbaing
Edith Shih

Independent Non-executive Directors:

Christopher Nash
Michael Howell
Christopher Huang

Mr Simon To, Mr Christian Hogg, 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 31 to 32.

DIRECTORS' INTERESTS IN SHARES

As at December 31, 2015, 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	256,146
Simon To	180,000
Michael Howell	153,600
Edith Shih	60,000
Christopher Nash	36,434
Christopher Huang	2,475

SHARE OPTION SCHEMES AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

(i) Share option scheme adopted in 2005 by the Company

The Company conditionally adopted a share option scheme on June 4, 2005 which was amended on March 21, 2007 (the "2005 Share Option Scheme"). Pursuant to the 2005 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 2005 Share Option Scheme during the year ended December 31, 2015:

Name or category of participants	Effective date of grant of share options	Number of share options held at January 1, 2015	Granted during 2015	Exercised during 2015	Expired/lapsed/ canceled during 2015	Number of share options held at December 31, 2015	Exercise period of share options	Exercise price of share options £
Director								
Johnny Cheng	25.8.2008 [1]	64,038	-	(64,038)	-	-	25.8.2008 to 24.8.2018	1.260
Employees in aggregate	11.9.2006 [2]	26,808	-	-	-	26,808	11.9.2006 to 18.5.2016	1.715
	18.5.2007 [3]	40,857	-	(3,000)	-	37,857	18.5.2007 to 17.5.2017	1.535
	1.12.2010 [1]	100,000	-	(100,000)	-	-	1.12.2010 to 30.11.2020	4.967
	24.6.2011 [1]	150,000	-	(75,000)	-	75,000	24.6.2011 to 23.6.2021	4.405
	20.12.2013 [1]	302,700	-	-	-	302,700	20.12.2013 to 19.12.2023	6.100
Total:		684,403	-	(242,038)	-	442,365		

Notes:

(1) 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.

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

(3) 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.

Report Of The Directors

(ii) Share option scheme adopted in 2015 by the Company

The Company conditionally adopted a share option scheme on April 24, 2015 (the "2015 Share Option Scheme"). Pursuant to the 2015 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 2015 Share Option Scheme is subject to the approval of the shareholders of CK Hutchison Holdings Limited, being the ultimate holding company of the Company. Accordingly, no share option has been granted under the 2015 Share Option Scheme.

(iii) 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 August 6, 2008 (as amended on April 15, 2011) and another share option scheme on December 17, 2014 (together the "HMHL Share Option Schemes"). The HMHL Share Option Schemes are share-based incentive programs 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.

The following share options were outstanding under the HMHL Share Option Schemes during the year ended December 31, 2015:

Category of participants	Effective date of grant of share options	Number of share options held at January 1, 2015	Granted during 2015	Exercised during 2015	Expired/lapsed/ canceled during 2015	Number of share options held at December 31, 2015	Exercise period of share options	Exercise price of share options US$
Employees in aggregate	2.8.2010 [1]	5,000	-	(5,000)	-	-	2.8.2010 to 1.8.2016	2.24
	18.4.2011 [2]	19,400	-	(19,400)	-	-	18.4.2011 to 17.4.2017	2.36
	17.12.2014 [3]	1,187,372	-	-	-	1,187,372	17.12.2014 to 19.12.2023	7.82
Total:		1,211,772	-	(24,400)	-	1,187,372		

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 December 20, 2014 and 25% on each of the first, second and third anniversaries of such date.

LONG TERM INCENTIVE PLAN

The Company adopted a Long Term Incentive Plan on April 24, 2015 (the "LTIP"). The Directors (including Executive Directors, Non-executive Directors and Independent Non-executive Directors), the directors of the Company's subsidiaries and the employees of the Group are eligible to participate in the LTIP. The LTIP awards grant participating directors or employees a conditional right to receive ordinary shares in the Company, to be purchased by an independent third party trustee (the "Trustee") up to a maximum cash amount depending upon the achievement of annual performance targets for each financial year of the Company stipulated in the LTIP awards.

On October 19, 2015, the Company granted awards under the LTIP to 2 Executive Directors and 41 senior managers and executives, giving each a conditional right to receive ordinary shares to be purchased by the Trustee up to a certain maximum cash amount depending upon the achievement of annual performance targets from 2014 to 2016. Details of the grants are as follows:

Name or category of participants	Maximum US$ amount per annum for the LTIP period stipulated in the LTIP awards
Executive Directors	
Christian Hogg	329,385
Johnny Cheng	101,619
Senior managers and executives in aggregate	1,370,893
Total:	1,801,897

Any ordinary shares purchased on behalf of an LTIP grantee are to be held by the Trustee until they are vested. Vesting will occur one business day after the publication date of the annual report for the financial year falling two years after the financial year to which the LTIP award relates. Vesting will also depend upon the continued employment of the award holder and will otherwise be at the discretion of the Board.

Based on the annual performance targets in 2014, 7,498 ordinary shares and 2,313 ordinary shares have been allocated to Mr Christian Hogg and Mr Johnny Cheng respectively. In addition, 30,825 ordinary shares have been allocated to senior managers and executives. The allocation of shares is due to vest one business day after the publication date of the 2016 annual report.

Report Of The Directors

SIGNIFICANT SHAREHOLDINGS

As at February 23, 2016, 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	64.86%
Mitsui & Co., Ltd. [2]	3,214,404	5.69%
FIL Limited [2]	2,560,184	4.53%
Slater Investments Limited [2]	2,090,266	3.70%

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 CK Hutchison Holdings Limited which is a Cayman Islands company registered and listed in Hong Kong.

(2) Major interests in shares of the Company notified to the Company under the provisions of rule 5 of the Disclosure Rules and Transparency Rules of the UK Financial Conduct Authority which have been incorporated by reference into the Company's articles of association.

AUDITOR

The financial statements 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 Wednesday, April 27, 2016 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

February 29, 2016

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 emphasize a quality board of Directors (the "Board"), effective risk management, 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 December 31, 2015, 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 31 to 32 and on the website of the Company (www.chi-med.com).

The Board has adopted a policy which recognizes 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 may 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. The Board will review and monitor from time to time the implementation of the policy to ensure its effectiveness and application.

Mr Christian Salbaing and Ms Edith Shih have served as Non-executive Directors and Mr Christopher Nash, Mr Michael Howell and Professor Christopher Huang have served as Independent Non-executive Directors of the Company for more than nine years. Notwithstanding the length of their service, Mr Salbaing and Ms Shih continue to demonstrate their commitment to fulfilling their role as Non-executive Directors, providing direction on Company strategy assisting generally on business operation and liaising with the majority shareholder. Similarly, Mr Nash, Mr Howell and Professor Huang satisfy the independence factors set out in Code Provision B.1.1 of the Code except for the length of their service. They are not involved in the daily management of the Company nor in any relationships or circumstances which might possibly interfere with their exercise of independent judgment. In addition, they continue to demonstrate the attributes of Independent Non-executive Directors and there is no evidence that their tenure has had any adverse impact on their independence.

Corporate Governance Report

The Board is of the opinion that Mr Nash, Mr Howell and Professor Huang remain independent in judgment and character, notwithstanding the length of their service. The Board believes that the knowledge and experience of the Group's business and the general business acumen of Mr Salbaing, Ms Shih, Mr Nash, Mr Howell and Professor Huang continue to generate significant contribution to the Company and the shareholders as a whole.

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 dialog 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 program 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 eight Board meetings in 2015 with 100% attendance of its members.

Position	Name of Director	Attended/Eligible to attend
Chairman	Simon To	8/8
Executive Directors:	Christian Hogg	8/8
	Johnny Cheng	8/8
Non-executive Directors:	Shigeru Endo	8/8
	Christian Salbaing	8/8
	Edith Shih	8/8
Independent Non-executive Directors:	Michael Howell	8/8
	Christopher Huang	8/8
	Christopher Nash	8/8

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 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 questionnaire. 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.

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.

Corporate Governance Report

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 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 organizes 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 dispatch of annual 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 and interim reports of the Company. In relation to related party transactions, detailed analysis is 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 49 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 position, 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 judgments 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 inquiries, 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 annual and interim results, and annual and interim 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 authorized 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 effective risk management and internal control systems. 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 risk management and 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 programs 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 risk management and 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 Howell with Professor Huang and Mr Nash as members. None of the Committee Members is related to the Company's external auditor.

The Audit Committee held nine meetings in 2015 with 100% attendance of its members.

Name of Member	Attended/Eligible to attend
Michael Howell (Chairman)	9/9
Christopher Huang	9/9
Christopher Nash	9/9

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 annual and interim results, the annual and interim reports 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 generally accepted accounting principles in the US. 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.

Corporate Governance Report

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 December 31, 2015, the fees paid to PwC were for both audit and non-audit services. The non-audit services, which amounted to approximately US$1.8 million, were mainly related to the provision of non-audit advisory services and internal control assessment review in preparation for the potential listing in the US. These non-audit services had been reviewed prior to the engagement by the Audit Committee, which considered such services not having an impairing effect on the independence of the auditor.

INTERNAL CONTROL, LEGAL AND REGULATORY CONTROL AND GROUP RISK MANAGEMENT

The Board has overall responsibility for the Group's systems 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 risk management and internal control systems, formulating an impartial opinion on the systems, 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 / IT 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 monitored of the Group's risk management and internal control systems for the year ended December 31, 2015 covering all material financial, operational and compliance controls, has conducted a review of their effectiveness, 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 and internal audit functions, and their training programs 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 on regulating issues and consultations. 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 organizes 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 organizing 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 objectives of attracting, retaining and motivating employees of the highest caliber 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 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 grants of share options and long term incentive plan awards 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 2015 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 2016 directors' fees, year end bonus and 2016 remuneration package of Executive Directors and senior executives of the Company. Executive Directors do not participate in the determination on their own remuneration.

Remuneration Policy

The remuneration of Mr 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 and remuneration benchmarks from other local and international companies as well as prevailing market conditions. Senior management also participates in bonus arrangements which are determined in accordance with the performance of the Group and of the individual. 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 2015 are as below:

Name of Director	Salary and fees	Bonus	Taxable benefits	Pension contributions	Share award/option benefits	Total
	US$	US$	US$	US$	US$	US$
Executive Directors:						
Simon To	18,990 [(1)(4)]	-	-	-	-	18,990
Christian Hogg	357,975 [(2)(4)]	676,923	14,902	24,960	- [(5)(6)]	1,074,760
Johnny Cheng	283,779 [(2)]	239,744	-	22,556	- [(5)(6)]	546,079
Non-executive Directors:						
Shigeru Endo	18,990 [(3)]	-	-	-	-	18,990
Christian Salbaing	18,990 [(3)]	-	-	-	-	18,990
Edith Shih	18,990 [(3)(4)]	-	-	-	-	18,990
Independent Non-executive Directors:						
Michael Howell	54,692	-	-	-	-	54,692
Christopher Huang	54,692	-	-	-	-	54,692
Christopher Nash	54,692	-	-	-	-	54,692
Aggregate emoluments	**881,790**	**916,667**	**14,902**	**47,516**	**0**	**1,860,875**

Notes:

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

(2) Emoluments paid include Director's fees of US$18,990.

(3) Such Director's fees were paid to Hutchison International 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 recognized as expenses in the past few years and no such expenses were recognized in 2015.

(6) For the year ended December 31, 2015, the Group accrued US$52,342 and US$16,148 with respect to the awards of Long Term Incentive Plan of the Company granted to Mr Hogg and Mr Cheng respectively, which amounts are not included in the table above.

TECHNICAL COMMITTEE

The Technical Committee comprises three members, chaired by Professor Huang with Mr To and Mr 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 2015 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, annual and interim 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 2015 Annual General Meeting was held on April 24, 2015 at 4th Floor, Hutchison House, 5 Hester Road, Battersea, London attended by PwC and all Directors including the Chairmen of the Board, the Audit Committee and the Remuneration Committee, except for the Chairman of the Technical Committee who was not in a position to attend the AGM due to personal reasons.

The latest shareholders' meeting of the Company was the 2015 Extraordinary General Meeting which was held on November 10, 2015 at 4th Floor, Hutchison House, 5 Hester Road, Battersea, London attended by PwC and all Directors including the Chairmen of the Board, the Audit Committee, the Remuneration Committee and the Technical Committee, except for a Non-executive Director who was not in a position to attend due to other business commitment.

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

February 29, 2016

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 financial statements of Hutchison China MediTech Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 50 to 108, which comprise the consolidated balance sheet as at December 31, 2015, and the consolidated statement of operations, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' 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 financial statements

The directors of the Company are responsible for the preparation and fair presentation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements 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 financial statements 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 financial statements 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 financial statements.

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 financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2015, and of the Group's financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, February 29, 2016

Consolidated Balance Sheets

As at December 31, 2015

	December 31, 2015 US$'000	December 31, 2014 US$'000
Assets		
Current assets		
Cash and cash equivalents	**31,941**	38,946
Short-term investments	**-**	12,179
Accounts receivable – third parties	**33,346**	22,724
Accounts receivable – related parties	**1,869**	2,184
Other receivables, prepayments and deposits	**3,413**	3,016
Amounts due from related parties	**9,293**	6,283
Inventories	**9,555**	4,405
Deferred tax assets	**250**	105
Total current assets	**89,667**	89,842
Property, plant and equipment, net	**8,507**	7,482
Leasehold land	**1,343**	1,436
Goodwill	**3,332**	3,430
Other intangible asset	**571**	666
Long-term prepayment	**2,132**	-
Deferred costs for initial public offering in the United States	**4,446**	-
Investments in equity investees	**119,756**	107,978
Total assets	**229,754**	210,834
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable – third parties	**20,565**	18,237
Accounts payable – related parties	**3,521**	2,190
Other payables, accruals and advance receipts	**26,177**	17,159
Deferred revenue	**1,171**	2,394
Amounts due to related parties	**6,243**	8,716
Short-term bank borrowings	**23,077**	26,282
Deferred tax liabilities	**308**	321
Total current liabilities	**81,062**	75,299
Deferred tax liabilities	**3,415**	2,626
Long-term bank borrowings	**26,923**	26,923
Deferred revenue	**3,498**	4,182
Deferred income	**2,132**	-
Other non-current liabilities	**10,447**	3,853
Total liabilities	**127,477**	112,883

	December 31, 2015 US$'000	December 31, 2014 US$'000
Commitments and contingencies (Note 19)		
Redeemable non-controlling interests	-	41,036
Company's shareholders' equity		
Ordinary shares; $1.00 par value; 75,000,000 shares authorized; 56,533,118 and 53,076,676 shares issued at December 31, 2015 and 2014	**56,533**	53,076
Additional paid-in capital	**113,848**	76,256
Accumulated losses	**(92,040)**	(100,051)
Accumulated other comprehensive income	**5,015**	9,870
Total Company's shareholders' equity	**83,356**	39,151
Non-controlling interests	**18,921**	17,764
Total shareholders' equity	**102,277**	56,915
Total liabilities and shareholders' equity	**229,754**	210,834

Simon To
Director

Christian Hogg
Director

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements Of Operations

For the year ended December 31, 2015

	2015 US$'000	2014 US$'000
Revenues		
Sales of goods – third parties	**118,113**	59,162
Sales of goods – related parties	**8,074**	7,823
Revenue from license and collaboration agreements – third parties	**44,060**	12,336
Revenue from research and development services – third parties	**2,573**	3,696
Revenue from research and development services – related parties	**5,383**	4,312
Total revenues	**178,203**	87,329
Operating expenses		
Costs of sales of goods – third parties	**(104,859)**	(53,477)
Costs of sales of goods – related parties	**(5,918)**	(5,372)
Research and development expenses	**(47,368)**	(29,914)
Selling expenses	**(10,209)**	(4,112)
Administrative expenses	**(19,620)**	(12,713)
Total operating expenses	**(187,974)**	(105,588)
Loss from operations	**(9,771)**	(18,259)
Other (expense)/income		
Interest income	**451**	559
Other income	**386**	20
Interest expense	**(1,404)**	(1,516)
Other expense	**(202)**	(761)
Total other (expense)/income	**(769)**	(1,698)
Loss before income taxes and equity in earnings of equity investees	**(10,540)**	(19,957)
Income tax expense	**(1,605)**	(1,343)
Equity in earnings of equity investees, net of tax	**22,572**	15,180
Net income/(loss) from continuing operations	**10,427**	(6,120)
Income from discontinued operation, net of tax	**-**	2,034
Net income/(loss)	**10,427**	(4,086)
Less: Net income attributable to non-controlling interests	**(2,434)**	(3,220)
Net income/(loss) attributable to the Company	**7,993**	(7,306)
Accretion on redeemable non-controlling interests	**(43,001)**	(25,510)
Net loss attributable to ordinary shareholders of the Company	**(35,008)**	(32,816)
(Losses)/earnings per share attributable to ordinary shareholders of the Company – basic and diluted (US$ per share)		
Continuing operations	**(0.64)**	(0.64)
Discontinued operation	**-**	0.02
Number of shares used in per share calculation – basic and diluted	**54,659,315**	52,563,387

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements Of Comprehensive Income

For the year ended December 31, 2015

	2015 US$'000	2014 US$'000
Net income/(loss)	**10,427**	(4,086)
Other comprehensive loss:		
Foreign currency translation loss	**(5,557)**	(2,712)
Total Comprehensive income/(loss)	**4,870**	(6,798)
Less: Comprehensive income attributable to non-controlling interests	**(1,732)**	(2,944)
Total Comprehensive income/(loss) attributable to the Company	**3,138**	(9,742)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements Of Changes In Shareholders' Equity

For the year ended December 31, 2015

	Ordinary Number	Shares Amount US$'000	Additional Paid-in Capital US$'000	Accumulated Losses US$'000	Accumulated Other Comprehensive Income US$'000	Total Company's Shareholders Equity US$'000	Non-controlling Interests US$'000	Total Equity US$'000
As of December 31, 2013	52,051	52,051	99,361	(92,575)	12,310	71,147	6,960	78,107
Net (loss)/income	-	-	-	(7,306)	-	(7,306)	3,220	(4,086)
Non-controlling interests arising from acquisition of a subsidiary	-	-	-	-	-	-	9,003	9,003
Purchase of additional interest in a subsidiary of an equity investee	-	-	-	(234)	-	(234)	-	(234)
Issuance of ordinary shares in relation to exercise of share options	1,025	1,025	1,655	-	-	2,680	-	2,680
Share-based compensation - share options	-	-	725	-	-	725	-	725
Foreign currency translation adjustments	-	-	-	-	(2,436)	(2,436)	(276)	(2,712)
Dividend paid to a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	(1,179)	(1,179)
Transfer between reserves	-	-	25	(25)	-	-	-	-
Dilution of interests in a subsidiary in relation to exercise of share options of a subsidiary	-	-	-	89	(4)	85	36	121
Accretion to redemption value of redeemable non-controlling interests	-	-	(25,510)	-	-	(25,510)	-	(25,510)
As of December 31, 2014	53,076	53,076	76,256	(100,051)	9,870	39,151	17,764	56,915
Net income	-	-	-	7,993	-	7,993	2,434	10,427
Issuance of ordinary shares in relation to exercise of share options	243	243	1,131	-	-	1,374	-	1,374
Issuance of ordinary shares in exchange of redeemable non-controlling interest	3,214	3,214	80,823	-	-	84,037	-	84,037
Share-based compensation								
Share options	-	-	168	-	-	168	-	168
Long term incentive plan	-	-	233	-	-	233	-	233
	-	-	401	-	-	401	-	401
Long term incentive plan - treasury shares held by Trustee (note 22(iii))	-	-	(1,786)	-	-	(1,786)	-	(1,786)
Foreign currency translation adjustments	-	-	-	-	(4,855)	(4,855)	(702)	(5,557)
Dividend paid to a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	(590)	(590)
Transfer between reserves	-	-	24	(24)	-	-	-	-
Dilution of interests in a subsidiary in relation to exercise of share options of a subsidiary	-	-	-	42	-	42	15	57
Accretion to redemption value of redeemable non-controlling interests	-	-	(43,001)	-	-	(43,001)	-	(43,001)
As of December 31, 2015	56,533	56,533	113,848	(92,040)	5,015	83,356	18,921	102,277

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements Of Cash Flows

For the year ended December 31, 2015

	2015 US$'000	2014 US$'000
Operating activities		
Net income/(loss)	**10,427**	(4,086)
Adjustments to reconcile net income/(loss) to net cash (used in)/generated from operating activities		
Depreciation and amortization	**2,015**	1,265
Loss on retirement of property, plant and equipment	**60**	36
Inventories written off	**12**	147
Provision for excess and obsolete inventories	**25**	15
Decrease in provision for excess and obsolete inventories due to sale of inventories	**(33)**	(106)
Allowance for doubtful accounts	**1,408**	185
Share-based compensation expense - share options	**1,151**	1,065
Share-based compensation expense - long-term incentive plan	**308**	-
Equity in earnings of equity investees	**(22,572)**	(15,180)
Dividend received from equity investees	**6,410**	15,949
Foreign currency gain	**198**	173
Income taxes	**1,093**	497
Changes in operating assets and liabilities		
Accounts receivable – third parties	**(12,030)**	8,285
Accounts receivable – related parties	**315**	1,754
Other receivables, prepayments and deposits	**(397)**	454
Amounts due from related parties	**(3,010)**	(5,029)
Inventories	**(5,154)**	167
Long-term prepayment	**(2,132)**	-
Accounts payable – third parties	**2,328**	2,332
Accounts payable – related parties	**1,331**	(162)
Other payables, accruals and advance receipts	**4,660**	(47)
Deferred revenue	**(1,907)**	(697)
Deferred income	**2,132**	-
Amounts due to related parties	**3,977**	1,342
Net cash (used in)/generated from operating activities	**(9,385)**	8,359
Investing activities		
Acquisition of a subsidiary, net of cash acquired	**-**	689
Purchases of property, plant and equipment	**(3,324)**	(3,729)
Deposit in short-term investments	**12,179**	(12,179)
Net cash generated from/(used in) investing activities	**8,855**	(15,219)

Consolidated Statements Of Cash Flows

For the year ended December 31, 2015

	2015 US$'000	2014 US$'000
Financing activities		
Proceeds from issuance of ordinary shares	**1,374**	2,680
Proceeds from exercise of share options of a subsidiary	**57**	121
Purchases of treasury shares	**(1,786)**	–
Dividends paid to a non-controlling shareholder of a subsidiary	**(590)**	(1,179)
Capital contribution from redeemable non-controlling interests	**–**	3,059
Repayment of loan to a non-controlling shareholder of a subsidiary	**–**	(2,250)
Proceeds from bank borrowings	**3,205**	8,205
Repayment of bank borrowings	**(6,410)**	(11,277)
Payment for deferred costs for initial public offering in the United States	**(1,321)**	–
Net cash used in financing activities	**(5,471)**	(641)
Net decrease in cash and cash equivalents	**(6,001)**	(7,501)
Effect of exchange rate changes on cash and cash equivalents	**(1,004)**	(416)
	(7,005)	(7,917)
Cash and cash equivalents		
Cash and cash equivalents at beginning of year	**38,946**	46,863
Cash and cash equivalents at end of year	**31,941**	38,946
Supplemental disclosure for cash flow information		
Cash paid for interest	**1,220**	1,466
Cash paid for tax, net of refunds	**510**	908
Supplemental disclosure for non-cash activities		
Issuance of ordinary shares in exchange of redeemable non-controlling interests	**84,037**	–
Deferred costs for initial public offering in the United States incurred but not yet paid	**3,125**	–

The accompanying notes are an integral part of these consolidated financial statements.

Notes To Consolidated Financial Statements

1. ORGANIZATION AND NATURE OF BUSINESS

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 equity investees 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.

The Company considers Hutchison Healthcare Holdings Limited as its immediate holding company and CK Hutchison Holdings Limited ("CK Hutchison") as its ultimate holding company. Hutchison Whampoa Limited was the Company's ultimate holding company till June 3, 2015 when it became a subsidiary of CK Hutchison upon certain reorganization within the group.

The Group determines the operating segments from both business and geographic perspectives as follows:

(i) Innovation Platform (Drug research and development ("Drug R&D")): focuses on discovering and developing innovative therapeutics in oncology and autoimmune diseases, and the provision of research and development services; and

(ii) Commercial Platform: comprising of the manufacture, marketing and distribution of prescription and over-the-counter pharmaceuticals in the PRC as well as certain health-related consumer products through Hong Kong. The Commercial Platform is further segregated into two core business areas:

  (a) Prescription Drugs: comprises the development, manufacture, distribution, marketing and sale of prescription pharmaceuticals; and

  (b) Consumer Health: comprises the development, manufacture, distribution, marketing and sale of over-the-counter pharmaceuticals and health-related consumer products.

Innovation Platform and Prescription Drugs business under the Commercial Platform are primarily located in the PRC. The locations for Consumer Health business under the Commercial Platform are further segregated into the PRC and Hong Kong.

The Group discontinued an operation in the PRC of the Consumer Health business under the Commercial Platform.

The Company was incorporated in the Cayman Islands on December 18, 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 are listed on the AIM regulated by the London Stock Exchange.

Liquidity

The Group incurred losses from operations of US$9.8 million and US$18.3 million for the years ended December 31, 2015 and 2014 respectively. As of December 31, 2015, the Group had accumulated losses of US$92.0 million. As of December 31, 2015, the Group had cash and cash equivalents of US$31.9 million and unutilized bank borrowing facilities of US$6.9 million. Subsequently, in February 2016, the Group has established new bank borrowing facilities of US$60.0 million. The Group regularly monitors 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.

Based on the Group's operating plan, the existing cash and cash equivalents are considered to be sufficient to meet the cash requirements to fund planned operations and other commitments for at least the next twelve months. The Group's operating plan includes the continued receipt of dividends from certain of its equity investees and there can be no assurances that these entities will continue to declare and pay dividends to its shareholders.

Notes To Consolidated Financial Statements

2. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND EQUITY INVESTEES

Name	Place of establishment and operations	Equity interest attributable to the Group		Principal activities
		At December 31,		
		2015	2014	
Subsidiaries				
Hutchison MediPharma Limited	PRC	**99.75%**	99.81%	Research and development of pharmaceutical products
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Company Limited ("Hutchison Sinopharm")	PRC	**51%**	51%	Provision of sales, distribution and marketing services to pharmaceutical manufacturers
Hutchison Hain Organic (Hong Kong) Limited ("HHOL") (note (i))	Hong Kong	**50%**	50%	Wholesale and trading of healthcare and consumer products
Hutchison Hain Organic (Guangzhou) Limited ("HHOGZL") (note (i))	PRC	**50%**	50%	Wholesale and trading of healthcare and consumer products
Hutchison Healthcare Limited ("HHL")	PRC	**100%**	100%	Manufacture and distribution of healthcare products
Hutchison Consumer Products Limited	Hong Kong	**100%**	100%	Wholesale and trading of healthcare and consumer products
Equity investees				
Nutrition Science Partners Limited ("NSPL") (note (ii))	Hong Kong	**49.88%**	49.91%	Research and development of pharmaceutical products
Shanghai Hutchison Pharmaceuticals Limited ("SHPL")	PRC	**50%**	50%	Manufacture and distribution of prescription drugs products
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited ("HBYS") (note (iii))	PRC	**40%**	40%	Manufacture and distribution of over-the-counter drug products

Notes:

(i) HHOL and HHOGZL are regarded as subsidiaries of the Company as while both shareholders of these subsidiaries have equal representation at the Board, in the event of a deadlock, the Group has a casting vote and is therefore, able to unilaterally control the financial and operating policies of HHOL and HHOGZL.

(ii) The 50% equity interest in NSPL is held by a 99.75% and 99.81% owned subsidiary of the Group as of December 31, 2015 and 2014. The effective equity interest of the Group in NSPL is therefore 49.88% and 49.91% for 2015 and 2014 respectively.

(iii) The 50% equity interest in HBYS is held by a 80% owned subsidiary of the Group. The effective equity interest of the Group in HBYS is therefore 40% for both 2015 and 2014.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements reflect the financial statements of the Company and all of its subsidiaries in which a controlling interest is maintained. Investments in equity investees over which the Group has significant influence are accounted for using the equity method. All inter-company balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("US GAAP").

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for amounts recorded in connection with acquisitions, including initial fair value determinations of assets and liabilities and other intangible assets as well as subsequent fair value measurements. Additionally, estimates are used in determining items such as useful lives of property, plant and equipment, write-down of inventories, allowance for doubtful accounts, share-based compensation, impairments of long-lived assets, impairment of other intangible asset and goodwill, taxes on income, tax valuation allowances and revenues from research and development projects. Actual results could differ from those estimates.

Foreign Currency Translation

The Group's functional currency is Renminbi ("RMB") but the presentation currency is US dollar ("US$"). The financial statements of the Company's subsidiaries with a functional currency other than the US dollar have been translated into the Company's reporting currency, the US dollar. All assets and liabilities of the subsidiaries are translated using year-end exchange rates and revenues and expenses are translated at average exchange rates for the year. Translation adjustments are reflected in the accumulated other comprehensive income/(loss) component of shareholders' equity.

Net foreign currency exchange losses of US$79,000 and US$480,000 were recorded in other (expense)/income for the years ended December 31, 2015 and 2014 respectively.

Cash and Cash Equivalents

The Group considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist primarily of cash in hand and demand deposits and are stated at cost, which approximates fair value.

Short-term Investments

Short-term investments include deposits placed with banks with original maturities of more than three months but less than one year. Interest generated from short-term investments are recorded over the period earned. It is recorded as 'interest income' on the statement of operations and measured based on the actual amount of interest the Group earns.

Notes To Consolidated Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable, other receivables and amounts due from related parties.

The Group places substantially all of its deposits of cash and cash equivalents and short-term investments 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 particular financial institution.

The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales of goods are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally the Group does not require collaterals from trade debtors.

Foreign Currency Risk

The Group's operating transactions and its assets and liabilities are mainly denominated in RMB, which is not freely convertible into foreign currencies. The Group's cash and cash equivalents that are subject to such government controls as of December 31, 2015 and 2014 are as disclosed in Note 7. The value of the RMB is subject to changes by the central government policies and international economic and political developments that affect the supply and demand of RMB in the foreign exchange market. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to effect the remittance.

Fair Value of Financial Instruments

Financial instruments that are measured at fair value is determined according to a fair value hierarchy that prioritizes the inputs and assumptions used, and the valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs are quoted prices for similar assets or liabilities in active markets; or quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Inputs are unobservable inputs based on the Group's assumptions and valuation techniques used to measure assets or liabilities at fair value. The inputs require significant management judgment or estimation.

The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The fair value of assets and liabilities is established using the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and a fair value hierarchy is established based on the inputs used to measure fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill represents the excess of the purchase price plus fair value of non-controlling interests over the fair value of identifiable assets and liabilities acquired. Goodwill is not amortized, but is tested for impairment at the reporting unit level on at least an annual basis or when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. When performing an evaluation of goodwill impairment, the Group has the option to first assess qualitative factors, such as significant events and changes to expectations and activities that may have occurred since the last impairment evaluation, to determine if it is more likely than not that goodwill might be impaired. If as a result of the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative fair value test is performed. No impairments of goodwill were identified during any of the years presented.

Property, Plant and Equipment

Property, plant and equipment consist of buildings, leasehold improvements, plant and equipment, furniture, fixtures, other equipment and motor vehicles. Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets.

Buildings	20 years
Plant and equipment	10 years
Furniture and fixtures, other equipment and motor vehicles	4-5 years
Leasehold improvements	Shorter of (a) 5 years or (b) remaining term of lease

Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of operations in the year of disposition. Additions and improvements that increase the value or extend the life of an asset are capitalized. Repairs and maintenance costs are expensed as incurred.

Impairment of Long-Lived Assets

The Group evaluates the recoverability of long-lived assets in accordance with authoritative guidance on accounting for the impairment or disposal of long-lived assets. The Group evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Such impairment is recognized in the event the net book value of such assets exceeds their fair value. If the carrying value of the net assets assigned exceeds the fair value of the assets, then the second step of the impairment test is performed in order to determine the implied fair value. No impairment of long-lived assets occurred in the years presented.

Leasehold Land

Leasehold land represents fees paid to acquire the right to use the land on which various plants and buildings are situated for a specified period of time from the date the respective right was granted and are stated at cost less accumulated amortization and impairment loss, if any. Amortization is computed using straight-line basis over the lease period of 50 years.

Other Intangible Asset

Intangible asset with finite useful life represents the Goods Supply Practice ("GSP") license. It is carried at cost less accumulated amortization and impairment loss, if any. Amortization is computed using straight-line basis over its estimated useful life of 10 years.

Notes To Consolidated Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost or 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 realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. A provision for excess and obsolete inventory will be made based primarily on forecast of product demand and production requirements. The excess balance determined by this analysis becomes the basis for excess inventory charge and the written-down value of the inventory becomes its cost. Written-down inventory is not written up if market conditions improve.

Accounts Receivable

Accounts receivable are stated at the amount management expect to collect from customers based on their outstanding invoices. Management reviews accounts receivable regularly to determine if any receivable will potentially be uncollectible. Estimates are used to determine the amount of allowance for doubtful accounts necessary to reduce accounts receivable to its estimated net realizable value. The amount of the allowance for doubtful accounts is recognized in the statement of operations.

Research and Development Expense

Research and development expenses consist primarily of salaries and benefits, share-based compensation, occupancy, materials and supplies, contracted research, consulting arrangements and other expenses incurred to sustain the Group's research and development programs. Research and development costs are expensed as incurred.

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 statement of operations on a straight-line basis over the period of the leases.

Total operating lease rentals for land and building for the years ended December 31, 2015 and 2014 amounted to US$1,426,000 and US$810,000 respectively. Out of this total, US$237,000 and nil were recorded in research and development expenses for the years ended December 31, 2015 and 2014 respectively and US$1,189,000 and US$810,000 were recorded in administrative expenses for the years ended December 31, 2015 and 2014 respectively. Government incentives received in respect of research and development are recorded as a reduction to operating lease rentals in 2015 and 2014.

Income Taxes

The Group accounts for income taxes under the liability method. Under the liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and income tax bases of assets and liabilities and are measured using the tax income rates that will be in effect when the differences are expected to reverse. A valuation allowance is recorded when it is more likely than not that some of the net deferred income tax asset will not be realized.

The Group accounts for a tax position from an uncertain tax position in the consolidated financial statements only if it is more likely than not that the position is sustainable based on its technical merits and consideration of the relevant tax authority's widely understood administrative practices and precedents. If the recognition threshold is met, the Group records only the portion of the tax position that is greater than 50 percent likely to be realized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowings

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

Defined Contribution Plans

The Company's subsidiaries in the PRC participate in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. The relevant labor regulations require the Company's subsidiaries in the PRC to pay the local labor and social welfare authorities monthly contributions at a stated contribution rate based on the monthly basic compensation of qualified employees. The relevant local labor and social welfare authorities are responsible for meeting all retirement benefits obligations and the Company's subsidiaries in the PRC have no further commitments beyond their monthly contributions. The contributions to the plan are expensed as incurred.

The Group also makes payments to other defined contribution plans for the benefit of employees employed by subsidiaries outside the PRC. The defined contribution plans are generally funded by the relevant companies and by payments from employees of the contribution plans.

The Group's contributions to defined contribution plans for the years ended December 31, 2015 and 2014 amounted to US$1,653,000 and US$1,370,000 respectively.

Share-Based Compensation

Share options

The share options are classified as equity settled awards. The Group recognizes share-based compensation expense on share options granted to employees and directors based on their estimated grant date fair value using the Binomial model. This Binomial pricing model uses various inputs to measure fair value, including estimated market value of the underlying ordinary share at the grant date, contractual terms, estimated volatility, risk-free interest rate and expected dividend yields. The Group recognizes share-based compensation expense, net of estimated forfeitures, in the consolidated statements of operations on a graded vesting over the requisite service period. The Group applies an estimated forfeiture rate derived from historical and expected future employee termination behavior. If the actual number of forfeitures differs from those estimated by management, adjustments to compensation expense may be required in future periods.

For share options granted to non-employees, the fair value of the share options is estimated using the Binomial model. This model utilizes the estimated market value of the Company's underlying ordinary share at the measurement date, the contractual terms of the option, estimated volatility, risk-free interest rates and expected dividend yields of the Company's ordinary share. The Company recognizes share-based compensation expense, net of estimated forfeitures, in the consolidated statements of operations on graded vesting over the requisite service period. Measurement of share-based compensation is subject to periodic adjustment for changes in the fair value of the award.

Share-based compensation expense, when recognized, is charged to the consolidated statements of operations with the corresponding entry to additional paid-in capital or non-controlling interests.

Notes To Consolidated Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-Based Compensation (Continued)

Long Term Incentive Plan

The Long Term Incentive Plan ("LTIP") is recognized as a liability in the consolidated balance sheets before the determination date (i.e. the achievement date on which the performance conditions is known, being one business day following the publication of the annual report for the financial year to which the award relates). Following the determination dates, the LTIP are settled in a variable number of shares based on a fixed monetary amount, which is determined by the actual achievement of performance target. The LTIP are classified as equity-settled awards from this date. The amounts previously recorded in the liability will be transferred to additional paid-in capital.

The Group recognizes the expense, net of estimated forfeitures, on the LTIP based on a fixed monetary amount on a straight-line basis over the requisite period. The Group applies an estimated forfeiture rate derived from historical and expected future employee termination behavior. If the actual number of forfeitures differs from those estimated by management, adjustments to compensation expense may be required in future periods. Prior to the determination date, the amount of LTIP that are expected to vest also takes into consideration the achievement of the non-market performance conditions and the extent to which the performance conditions are likely to be met.

Treasury shares

The Company accounted for treasury shares under the cost method. As of December 31, 2015 and 2014, the amount of treasury shares is approximately US$1,786,000 and nil, respectively, and the number of treasury shares is 40,655 and nil, respectively. The treasury shares were purchased for the purpose of the granting of conditional awards under LTIP as disclosed in Note 22. The Company expects to repurchase the shares amounting to approximately US$307,000 during 2016, based on estimation of the determination of LTIP.

Ordinary shares

The Company's ordinary shares are stated at par value of $1.00 per ordinary share. The difference between the consideration received, net of issuance cost, and the par value is recorded in additional paid-in capital. Specific incremental costs directly attributable to the Company's proposed offering of shares in the United States have been deferred and will be charged against the gross proceeds of the offering upon closing of the offering.

Convertible Preferred Shares

When the Company or its subsidiaries issues preferred shares, the Group assesses whether such instruments should be liability, mezzanine equity, or permanent equity classified based on multiple indicators such as redemption features, conversion features, voting rights and other embedded features. Freestanding equity instruments with mandatory redemption requirements, embodies an obligation to repurchase the issuer's equity shares by transferring assets, or certain obligations to issue a variable number of shares, are treated as liability-classified instruments. Equity instruments that are redeemable at the option of the holder or not solely within our control are classified as mezzanine equity of the issuer entity (and redeemable non-controlling interests of the consolidated financial statements of the Group if preferred shares are issued by its subsidiaries). Subsequent measurements of financing instruments are driven by the instruments' balance sheet classification.

The Group also reviews the terms of each convertible instrument and determines whether the host instrument is more akin to debt or equity based on the economic characteristics and risks in order to evaluate if there were any embedded features would require bifurcation and separate accounting from the host contract. For embedded conversion features that are not required to be separated under ASC 815, Derivatives and Hedging, the Group analyzes the accounting conversion price and our share price at the commitment date to identify any beneficial conversion features.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible Preferred Shares (Continued)

For modification to preferred shares not classified as liabilities, the Group assesses whether an amendment to the term of the preferred shares is an extinguishment or a modification using the fair value model. The Group considers that a significant change in fair value after the change of the terms to be substantive and thus triggers extinguishment. A change in fair value which is not significant immediately after the change of the terms is considered non-substantive and thus is subject to modification accounting. When preferred shares are extinguished, the difference between the fair value of the consideration transferred to the preferred shareholders and the carrying amount of such preferred shares (net of issuance costs) is treated as a deemed dividend to the preferred shareholders. When preferred shares are modified and such modification results in value transfer between preferred shareholders and ordinary shareholders, the change in fair value resulted from the amendment is treated as a deemed dividend to or from the preferred shareholders.

Government Incentives

Incentives from governments are recognized at their fair values. Government incentives that are received in advance are deferred and recognized in the statement of operations over the period necessary to match them with the costs that they are intended to compensate. Government incentives in relation to the achievement of stages of research and development projects are recognized in the statement of operations when there is reasonable assurance that the incentives will be received and all attached conditions have been compiled with.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer who is the chief operating decision maker.

The chief operating decision maker has reviewed the Group's internal reporting in order to assess performance and allocate resources and determined that the Group's reportable segments are as disclosed in Note 1.

Revenue Recognition

Sales of goods - wholesale

Revenue from our Commercial Platform segments are recognized when product is delivered and title passes to the customer and there are no further obligations to the customer. Recognition of revenue also requires reasonable assurance of collection of sales proceeds and completion of all performance obligations. Sales discounts are issued to customers as direct discounts at the point-of-sales or indirectly in the form of rebates. Additionally, sales are generally made with a limited right of return under certain conditions. Revenues are recorded net of provisions for sales discounts and returns.

Revenues from research and development projects

The Group recognizes revenue for the performance of services when each of the following four criteria is met: (i) persuasive evidence of an arrangement exists; (ii) services are rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is reasonably assured.

The Group follows ASC 605-25, Revenue Recognition – Multiple-Element Arrangements and ASC 808, Collaborative Arrangements, if applicable, to determine the recognition of revenue under the Group's license and collaborative research, development and commercialization agreements. The terms of these agreements generally contain multiple elements, or deliverables, which may include (i) licenses to the Group's intellectual property, (ii) materials and technology, (iii) clinical supply, and/or (iv) participation in joint research or joint steering committees. The payments the Group may receive under these arrangements typically include one or more of the following: non-refundable, up-front license fees; funding of research and/or development efforts; amounts due upon the achievement of specified milestones; and/or royalties on future product sales.

Notes To Consolidated Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Revenues from research and development projects (Continued)

ASC 605-25 provides guidance relating to the separability of deliverables included in an arrangement into different units of accounting and the allocation of arrangement consideration to the units of accounting. The evaluation of multiple-element arrangements requires management to make judgments about (i) the identification of deliverables, (ii) whether such deliverables are separable from the other aspects of the contractual relationship, (iii) the estimated selling price of each deliverable, and (iv) the expected period of performance for each deliverable.

To determine the units of accounting under a multiple-element arrangement, management evaluates certain separation criteria, including whether the deliverables have stand-alone value, based on the relevant facts and circumstances for each arrangement. Management then estimates the selling price for each unit of accounting and allocates the arrangement consideration to each unit utilizing the relative selling price method. The Company determines the estimated selling price for deliverables within each agreement using vendor-specific objective evidence ("VSOE") of selling price, if available, or third party evidence of selling price if VSOE is not available, or the Company's best estimate of selling price, if neither VSOE nor third party evidence is available. Determining the best estimate of selling price for a deliverable requires significant judgment. The Company typically uses its best estimate of a selling price to estimate the selling price for licenses to do development work, since it often does not have VSOE or third party evidence of selling price for these deliverables. In those circumstances where the Company applies its best estimate of selling price to determine the estimated selling price of a license to development work, it considers market conditions as well as entity-specific factors, including those factors contemplated in negotiating the agreements as well as internally developed estimates that include assumptions related to the market opportunity, estimated development costs, probability of success and the time needed to commercialize a product candidate pursuant to the license. In validating its best estimate of selling price, the Company evaluates whether changes in the key assumptions used to determine its best estimate of selling price will have a significant effect on the allocation of arrangement consideration between deliverables. The Company recognizes consideration allocated to an individual element when all other revenue recognition criteria are met for that element.

The allocated consideration for each unit of accounting is recognized over the related obligation period in accordance with the applicable revenue recognition criteria.

If there are deliverables in an arrangement that are not separable from other aspects of the contractual relationship, they are treated as a combined unit of accounting, with the allocated revenue for the combined unit recognized in a manner consistent with the revenue recognition applicable to the final deliverable in the combined unit. Payments received prior to satisfying the relevant revenue recognition criteria are recorded as unearned revenue in the accompanying balance sheets and recognized as revenue when the related revenue recognition criteria are met.

The Group typically receives non-refundable, up-front payments when licensing the Group's intellectual property, which often occurs in conjunction with a research and development agreement. If management believes that the license to the Group's intellectual property has stand-alone value, the Group generally recognizes revenue attributed to the license upon delivery provided that there are no future performance requirements for use of the license. When management believes that the license to the Group's intellectual property does not have stand-alone value, the Group would recognize revenue attributed to the license rateably over the contractual or estimated performance period. For payments payable on achievement of milestones that do not meet all of the conditions to be considered substantive, the Group recognizes a portion of the payment as revenue when the specific milestone is achieved, and the contingency is removed. Other contingent event-based payments for which payment is either contingent solely upon the passage of time or the result of collaborator's performance are recognized when earned. The Company's collaboration and license agreements generally include contingent milestone payments related to specified pre-clinical research and development milestones, clinical development milestones, regulatory milestones and sales-based milestones. Pre-clinical research and development milestones are typically payable upon the selection of a compound candidate for the next stage of research and development. Clinical development milestones are typically payable when a product candidate initiates or advances in clinical trial phases or achieves defined clinical events such as proof-of-concept. Regulatory milestones are typically payable upon submission for marketing approval with regulatory authorities or upon receipt of actual marketing approvals for a compound, approvals for additional indications, or upon the first commercial sale. Sales-based milestones are typically payable when annual sales reach specified levels.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Revenues from research and development projects (Continued)

At the inception of each arrangement that includes milestone payments, the Company evaluates whether each milestone is substantive and at risk to both parties on the basis of the contingent nature of the milestone. This evaluation includes an assessment of whether (a) the consideration is commensurate with either (i) the entity's performance to achieve the milestone or (ii) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the entity's performance to achieve the milestone; (b) the consideration relates solely to past performance; and (c) the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement. The Company evaluates factors such as the scientific, regulatory, commercial and other risks that must be overcome to achieve the respective milestone, the level of effort and investment required to achieve the respective milestone and whether the milestone consideration is reasonable relative to all deliverables and payment terms in the arrangement in making this assessment.

For further details on the license and collaboration agreements, see Note 23.

Comprehensive Income/(loss)

Comprehensive income/(loss) is defined as the change in equity of a business enterprise during a period from transactions, and other events and circumstances from non-owner sources, and currently consists of net income and gains and losses on foreign currency translation related to the Company's subsidiaries.

Earnings/(losses) per share

Basic earnings/(losses) per share is computed by dividing net income/(loss) available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings/(losses) per share is calculated by dividing net income/(loss) attributable to ordinary shareholders, by the weighted average number of ordinary and dilutive ordinary share equivalents outstanding during the period. Dilutive ordinary share equivalents include shares issuable upon the exercise or settlement of share-based awards issued by the Company and its subsidiaries using the treasury stock method and the ordinary shares issuable upon the conversion of the preferred shares issued by its subsidiary, Hutchison MediPharma Holdings Limited ("HMHL"), (referred to as redeemable non-controlling interests on the consolidated balance sheets) using the if-converted method.

The computation of diluted earnings/(losses) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect.

In determining the impact from share-based awards and convertible preferred shares issued by HMHL, the Company first calculates the diluted earnings per share at the HMHL and includes in the numerator of consolidated earnings/(losses) per share the amount based on the diluted earnings/(losses) per share of HMHL multiplied by the number of shares owned by the Company.

In addition, periodic accretion to preferred shares of HMHL (Note 20) is recorded as deductions to consolidated net income to arrive at net income/(loss) available to the Company's ordinary shareholders for purpose of calculating the consolidated basic earnings/(losses) per share.

Discontinued Operation

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 statement of operations, which comprises the post-tax profit or loss of the discontinued operation.

Notes To Consolidated Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Profit appropriation and statutory reserves

The Group's subsidiaries established in the PRC are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Group's subsidiaries registered as wholly-owned foreign enterprise have to make appropriations from its after-tax profit (as determined under generally accepted accounting principles in the PRC ("PRC GAAP") to reserve funds including general reserve fund, the enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the company. Appropriation to the enterprise expansion fund and staff bonus and welfare fund is made at the company's discretion.

The use of the general reserve fund, enterprise expansion fund, statutory surplus reserve and discretionary surplus fund are restricted to the offsetting of losses or increases the registered capital of the respective company. The staff bonus and welfare fund is a liability in nature and is restricted to fund payments of special bonus to employees and for the collective welfare of employees. All these reserves are not allowed to be transferred to the company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

For the years ended December 31, 2015 and 2014, profit appropriation to statutory funds for the Group's entities incorporated in the PRC was approximately US$24,000 and US$25,000 respectively. No appropriation to other reserves was made for any of the years presented.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360) - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The standard states that a strategic shift could include a disposal of a major geographic area of operations, a major line of business, a major equity investment, or other major parts of an entity. ASU 2014-08 is effective for fiscal years and interim periods within those years beginning after December 15, 2014. The adoption of ASU 2014-08 did not have a material impact on the Group's consolidated balance sheets, results of operations, or cash flows. However, in the event that a future disposition meets the revised criteria, this standard will have an impact on the presentation of the financial statements and associated disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to clarify the principles of recognizing revenue and create common revenue recognition guidance between US GAAP and International Financial Reporting Standards ("IFRS"). An entity has the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. ASU 2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, and early adoption is permitted but not earlier than the original effective date of December 15, 2016. The Group is currently evaluating the method of adoption and the impact ASU 2014-09 will have on the Group's consolidated balance sheets, results of operations, cash flows, and associated disclosures.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40) - Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 provides guidance regarding management's responsibility to (i) evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and (ii) provide related footnote disclosures. ASU 2014-15 is effective for fiscal years and interim periods within those years beginning after December 15, 2016. The adoption of ASU 2014-15 is not expected to have a significant impact on the Group's consolidated financial statement disclosures.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330) – Simplifying the Measurement of Inventory which requires an entity to measure inventory within the scope of this ASU at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this guidance more closely align the measurement of inventory in US GAAP with the measurement of inventory in IFRS. ASU 2015-11 is effective for fiscal years and interim periods within those years beginning after December 15, 2016. The Group does not expect this updated standard to have a material impact on the consolidated financial statements and associated disclosures.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740) – Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies the presentation of deferred income taxes, which require the deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. ASU 2015-17 is effective for fiscal years and interim periods within those years beginning after December 15, 2016. The adoption of ASU 2015-17 is expected to impact the presentation of the Group's consolidated balance sheets only.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 makes a number of changes to the accounting for equity investments and financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. It also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period. ASU 2016-01 is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption of this particular guidance from ASU 2016-01 is not permitted. The Group is currently evaluating the method of adoption and impact ASU 2016-01 will have on the Group's consolidated balance sheets, results of operations, cash flows, and associated disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early adoption is permitted. The Group is currently evaluating the method of adoption and the impact ASU 2016-02 will have on the Group's consolidated balance sheets, results of operations, cash flows and associated disclosures.

Other amendments that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Group's consolidated financial statements upon adoption.

Notes To Consolidated Financial Statements

4. ACQUISITION

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 which was formerly known as Sinopharm Holding HuYong Pharmaceutical (Shanghai) Co., Ltd.. Hutchison Sinopharm is engaged in providing sales, distribution, and marketing services to major domestic and multi-national third party pharmaceutical manufacturers. The Group expects the acquisition will provide a broadened sales and marketing platform for synergy across the Group.

The Group accounted for the transaction using the acquisition method. The allocation of the purchase price is based on the fair value of assets acquired and liabilities assumed as at the acquisition date. The following table summarizes the amount invested in Hutchison Sinopharm and the fair value of the assets acquired and liabilities assumed recognized at the acquisition date.

	US$'000
Cash and cash equivalents	10,286
Property, plant and equipment	69
Goodwill (note (i))	3,023
Other intangible asset (note (ii))	708
Deferred tax assets	100
Inventories	3,208
Accounts receivable and other receivables	21,105
Accounts payable and other payables	(14,932)
Deferred tax liabilities	(198)
Short-term bank borrowings	(4,769)
Fair value of net assets acquired	18,600
Less: Non-controlling interest (note (iii))	(9,003)
Total purchase consideration	9,597
Cash and cash equivalents acquired	10,286
Less: cash injected	(9,597)
Net cash inflow arising from acquisition	689

Notes:

(i) Goodwill 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. This goodwill is attributable to the Prescription Drugs business under the Commercial Platform.

(ii) Other intangible asset of US$708,000 represents the GSP license which enables Hutchison Sinopharm to carry out the drug distribution business and is amortized over its useful life of 10 years.

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

(iv) The fair value of accounts receivable and other receivables was equal to the gross contractual amount of which all were expected to be collectible.

(v) Acquisition related costs of approximately US$23,000 have been included in the administrative expenses in the Consolidated Statements of Operations.

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

5. DISCONTINUED OPERATION

In 2013, the Group discontinued an operation in the PRC which was part of the Group's Consumer Health business under the Commercial Platform segment, as its performance was below expectation in light of increased competitive activities in the consumer products market.

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

	2015 US$'000	2014 US$'000
Sales of goods	-	-
Expenses	-	-
Other income (note)	-	2,096
Net income before taxation from discontinued operation	-	2,096
Income tax expense	-	(62)
Net income for the year from discontinued operation	-	2,034
Cash flow from discontinued operation		
Net cash generated from operating activities	-	2,515
Net increase in cash and cash equivalents	-	2,515

Note:

The income from the discontinued operation for the year ended December 31, 2014 represented the compensation income from an arbitration proceeding 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.

6. FAIR VALUE DISCLOSURES

The following table presents the Group's financial instruments by level within the fair value hierarchy:

	Fair Value Measurement Using			
	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
As of December 31, 2015				
Cash and cash equivalents	**31,941**	**-**	**-**	**31,941**
As of December 31, 2014				
Cash and cash equivalents	38,946	-	-	38,946
Short-term investments	12,179	-	-	12,179

Accounts receivable, other receivables, amounts due from related parties, accounts payable and amounts due to related parties are carried at cost, which approximates fair value due to the short-term nature of these financial instruments and are therefore, excluded from the above table.

The carrying amount of bank borrowings also approximates its fair values.

Notes To Consolidated Financial Statements

7. CASH AND CASH EQUIVALENTS

	December 31, 2015 US$'000	December 31, 2014 US$'000
Cash at bank and in hand	**31,941**	32,019
Short-term bank deposits (note (i))	**-**	6,927
	31,941	38,946
Denominated in:		
US$ (note (ii))	**7,352**	8,104
RMB (note (ii))	**19,271**	28,034
UK Pound Sterling	**318**	247
Hong Kong dollar ("HK$")	**4,987**	2,543
Euro	**13**	18
	31,941	38,946

Notes:

(i) The weighted average effective interest rate on bank deposits, with maturity ranging from 7 to 30 days and 7 to 78 days as of December 31, 2015 and 2014 respectively, was 3.72% and 1.74% per annum as of December 31, 2015 and 2014 respectively.

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

8. SHORT-TERM INVESTMENTS

	December 31, 2015 US$'000	December 31, 2014 US$'000
Bank deposits maturing over three months (note (i))		
Denominated in:		
RMB	**-**	12,179

Note:

(i) The weighted average effective interest rate on bank deposits, with maturity ranging from 91 to 167 days, was 2.92% per annum as of December 31, 2014.

9. ACCOUNTS RECEIVABLE

Substantially all the accounts receivable are denominated in RMB and HK$ and are due within one year from the end of the reporting period.

The carrying value of accounts receivable approximates their fair values.

Movements on the allowance for doubtful accounts, which is only in respect of accounts receivable-third parties, are as follows:

	2015	2014
	US$'000	US$'000
At January 1	**1,793**	1,670
Allowance	**1,408**	185
Exchange difference	**(74)**	(62)
At December 31	**3,127**	1,793

In December 2015, the Group recorded a provision amounting to approximately US$1,322,000 which represents the outstanding balance due from a distributor of which collection has become doubtful due to the distributor's unsatisfactory performance during the fourth quarter of 2015. The Group has terminated the distributor's exclusive distribution rights in January 2016.

As at December 31, 2015 and 2014, accounts receivable of approximately US$52,000 and US$2,130,000 respectively were past due but not impaired. These are in respect of a number of independent customers for whom there is no recent history of default. The aging analysis of these receivables is as follows:

	December 31, 2015	December 31, 2014
	US$'000	US$'000
Up to 3 months	**-**	-
4 to 6 months	**-**	24
6 to 12 months	**52**	2,106
	52	2,130

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

As at December 31, 2015, there are no accounts receivables from related parties that are past due or impaired.

Notes To Consolidated Financial Statements

10. OTHER RECEIVABLE, PREPAYMENTS AND DEPOSITS

Other prepayments and deposits consisted of the following:

	December 31, 2015 US$'000	December 31, 2014 US$'000
Prepayments to suppliers	1,542	1,327
Interest receivable	-	200
Prepaid general and administrative expenses	253	295
Government incentives	-	407
Deposits	309	147
Value-added tax receivables	748	441
Others	561	199
	3,413	3,016

11. INVENTORIES

Inventories consisted of the following:

	December 31, 2015 US$'000	December 31, 2014 US$'000
Raw materials	753	291
Finished goods	8,802	4,114
	9,555	4,405

Movements on the provision for excess and obsolete inventories are as follows:

	2015 US$'000	2014 US$'000
At January 1	34	126
Provision	25	15
Decrease due to sale of inventories	(33)	(106)
Exchange difference	(1)	(1)
At December 31	25	34

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	2015 US$'000	2014 US$'000
Cost		
Buildings	2,392	2,491
Leasehold improvements	5,989	4,291
Plant and equipment	88	91
Furniture and fixtures, other equipment and motor vehicles	12,806	12,278
Construction in progress	567	832
Total Cost	21,842	19,983
Less: Accumulated depreciation		
As at January 1	12,501	11,860
Exchange differences	(524)	(278)
Acquisition of a subsidiary	-	112
Expense for the year	1,908	1,180
Disposals	(550)	(373)
As at December 31	13,335	12,501
	8,507	7,482

Depreciation expense for the years ended December 31, 2015 and 2014 is approximately US$1,908,000 and US$1,180,000 respectively.

Notes To Consolidated Financial Statements

13. LEASEHOLD LAND

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

	2015 US$'000	2014 US$'000
Cost		
As at January 1	1,720	1,761
Exchange differences	(69)	(41)
As at December 31	1,651	1,720
Accumulated amortization		
As at January 1	284	253
Exchange differences	(13)	(6)
Amortization charge	37	37
As at December 31	308	284
Net book value		
As at December 31	1,343	1,436

14. GOODWILL AND OTHER INTANGIBLE ASSET

Goodwill consisted of the following:

	Commercial Platform	
	2015 US$'000	2014 US$'000
As at January 1	3,430	407
Addition	-	3,023
Exchange differences	(98)	-
As at December 31	3,332	3,430

The addition to goodwill in 2014 in the Prescription Drugs business under Commercial Platform arose from the acquisition of Hutchison Sinopharm (see Note 4).

Goodwill as at January 1, 2014 of US$407,000 represents goodwill arising from the acquisition of HHL in 2009, which is included in the Consumer Health business under the Commercial Platform.

The Group performed its most recent annual impairment test as of December 31, 2015 and concluded that goodwill was not impaired.

14. GOODWILL AND OTHER INTANGIBLE ASSET (Continued)

Other intangible asset consisted of the following:

	2015 US$'000	2014 US$'000
GSP License		
Cost		
As at January 1	**714**	-
Addition	**-**	708
Exchange differences	**(29)**	6
As at December 31	**685**	714
Accumulated amortization		
As at January 1	**48**	-
Amortization charge	**70**	48
Exchange differences	**(4)**	-
As at December 31	**114**	48
Net book value		
As at December 31	**571**	666

The GSP license arose from the acquisition of Hutchison Sinopharm (see Note 4), is recorded at fair value, and is amortized on a straight-line basis over its estimated useful life of 10 years. The amortization expense for the years ended December 31, 2015 and 2014 is approximately US$70,000 and US$48,000 respectively.

The estimated aggregate amortization expense for each of the next five years as of December 31, 2015 is as follows:

	GSP License US$'000
2016	70
2017	70
2018	70
2019	70
2020	70

Notes To Consolidated Financial Statements

15. INVESTMENTS IN EQUITY INVESTEES

Investments in equity investees comprised the following:

	December 31, 2015 US$'000	December 31, 2014 US$'000
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited	**60,762**	55,753
Shanghai Hutchison Pharmaceuticals Limited	**49,709**	39,158
Nutrition Science Partners Limited	**9,046**	12,823
Other	**239**	244
	119,756	107,978

Particulars regarding the principal equity investees are as disclosed in Note 2.

All of the equity investees are private companies and there is no quoted market price available for their shares.

Summarized financial information for the significant equity investees HBYS, SHPL and NSPL are as follows:

(i) Summarized balance sheet

	Commercial Platform				Innovation Platform	
	Consumer Health HBYS December 31,		Prescription Drugs SHPL December 31,		Drug R&D NSPL December 31,	
	2015 US$'000	2014 US$'000	**2015 US$'000**	2014 US$'000	**2015 US$'000**	2014 US$'000
Current assets	**114,383**	144,129	**129,456**	77,566	**3,034**	8,548
Non-current assets	**88,263**	73,042	**95,513**	65,608	**30,000**	30,000
Current liabilities	**(61,467)**	(84,850)	**(124,617)**	(52,052)	**(14,941)**	(12,903)
Non-current liabilities	**(16,116)**	(17,013)	**(7,089)**	(19,216)	**-**	-
Net assets	**125,063**	115,308	**93,263**	71,906	**18,093**	25,645

15. INVESTMENTS IN EQUITY INVESTEES (Continued)

(ii) Summarized statement of operations

	Commercial Platform				Innovation Platform	
	Consumer Health		Prescription Drugs		Drug R&D (a)	
	HBYS		SHPL		NSPL	
	2015	2014	**2015**	2014	**2015**	2014
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Revenue	**211,603**	243,746	**181,140**	154,703	**-**	-
Gross profit	**91,461**	96,421	**127,608**	109,965	**-**	-
Depreciation and amortization	**(3,274)**	(3,206)	**(2,765)**	(2,651)	**-**	-
Interest income	**628**	1,322	**306**	257	**-**	-
Finance cost	**(158)**	(139)	**-**	-	**-**	-
Income/(loss) before taxation	**25,164**	24,805	**37,401**	31,505	**(7,552)**	(16,812)
Income tax expense and non-controlling interest	**(3,788)**	(4,030)	**(6,094)**	(5,103)	**-**	-
Net income/(loss)	**21,376**	20,775	**31,307**	26,402	**(7,552)**	(16,812)

Notes:

(a) NSPL only incurs research and development expenses in 2015 and 2014.

(b) The net income for other individual immaterial equity investees for the year ended December 31, 2015 is approximately US$12,000. The net loss for other individual immaterial equity investees for the year ended 2014 is approximately US$5,000.

Notes To Consolidated Financial Statements

15. INVESTMENTS IN EQUITY INVESTEES (Continued)

(iii) Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of investments in equity investees is as follows:

	Commercial Platform				Innovation Platform	
	Consumer Health		Prescription Drugs		Drug R&D	
	HBYS		SHPL		NSPL	
	As at December 31,		As at December 31,		As at December 31,	
	2015	2014	**2015**	2014	**2015**	2014
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Opening net assets at January 1	**115,308**	109,986	**71,906**	66,476	**25,645**	42,457
Purchase of additional interests in a subsidiary of an equity investee	**-**	(468)	**-**	-	**-**	-
Net income/(loss)	**21,376**	20,775	**31,307**	26,402	**(7,552)**	(16,812)
Dividend declared	**(6,410)**	(12,820)	**(6,410)**	(19,077)	**-**	-
Other comprehensive income and non-controlling interests	**(5,211)**	(2,165)	**(3,540)**	(1,895)	**-**	-
Closing net assets at December 31	**125,063**	115,308	**93,263**	71,906	**18,093**	25,645
Group's share of net assets	**62,532**	57,654	**46,632**	35,953	**9,046**	12,823
Goodwill	**-**	-	**3,077**	3,205	**-**	-
Non-controlling interests	**(1,770)**	(1,901)	**-**	-	**-**	-
Carrying value	**60,762**	55,753	**49,709**	39,158	**9,046**	12,823

The equity investees had the following operating lease commitments and capital commitments:

(a) The equity investees lease various factories and offices under non-cancelable operating lease agreements. Future aggregate minimum payments under non-cancelable operating leases as of the date indicated are as follows:

	December 31, 2015	December 31, 2014
	US$'000	US$'000
Not later than one year	**1,452**	1,109
Later than one year and not later than five years	**509**	548
Total minimum lease payments	**1,961**	1,657

15. INVESTMENTS IN EQUITY INVESTEES (Continued)

(iii) Reconciliation of summarized financial information (Continued)

(b) Capital commitments

The equity investees had the following capital commitments:

	December 31, 2015 US$'000	December 31, 2014 US$'000
Property, plant and equipment		
Contracted but not provided for	**27,789**	61,311

16. ACCOUNTS PAYABLE

Substantially all the accounts payable due to third parties are denominated in RMB and US$ and due within one year from the end of the reporting period.

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

17. OTHER PAYABLES, ACCRUALS AND ADVANCE RECEIPTS

Other payables, accruals and advance receipts consisted of the following:

	December 31, 2015 US$'000	December 31, 2014 US$'000
Research and development expenses	**3,758**	5,963
Accrued salaries and benefits	**5,521**	4,140
Accrued expenses	**11,232**	3,938
Other payables	**3,322**	1,802
Payments in advance from customers	**641**	564
Deferred government incentives	**1,256**	580
Current tax liabilities	**442**	122
Accrued interest	**5**	50
	26,177	17,159

Notes To Consolidated Financial Statements

18. BANK BORROWINGS

Summarized below are the bank borrowings as of December 31, 2015 and 2014:

	December 31, 2015 US$'000	December 31, 2014 US$'000
Non-current (note (i))	**26,923**	26,923
Current (note (i),(ii) and (iii))	**23,077**	26,282
	50,000	53,205

The weighted average interest rate for bank borrowings outstanding as of December 31, 2015 and 2014 was 1.39% and 1.60% respectively.

Notes:

(i) In December 2011, the Group, through its subsidiary entered into a three-year term loan with a bank in the aggregate principal amount of HK$210,000,000 (US$26,923,000). The term loan bears interest at 1.50% over the Hong Kong Interbank Offered Rate ("HIBOR") per annum and was classified as a short-term bank borrowing as at December 31, 2013.

In June 2014, the term loan was refinanced into a four-year term loan which bears interest at 1.35% over the HIBOR per annum. Accordingly, the term loan is recorded as a long-term bank borrowing as at December 31, 2015 and 2014.

The term loan is unsecured and guaranteed by Hutchison Whampoa Limited (an indirect subsidiary of CK Hutchison) as at December 31, 2015 and 2014. A fee is paid to Hutchison Whampoa Limited for the guarantee (note 25).

(ii) As at December 31, 2015 and 2014, the Group, through its subsidiary has revolving loans of HK$180,000,000 (US$23,077,000) and HK$205,000,000 (US$26,282,000) which bears interest at 1.05% over HIBOR per annum till October 2015 and 1.25% over HIBOR per annum from November 2015 and are unsecured. The borrowing was classified as current borrowings as of December 31, 2015 and 2014.

(iii) The carrying amount of all bank borrowings approximates their fair values. The fair value of bank borrowings was estimated using a discounted cash flows approach (an income approach) using market based observable inputs. Such fair value measurements are considered Level 2 under the fair value hierarchy.

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

	December 31, 2015 US$'000	December 31, 2014 US$'000
Within 1 year	**23,077**	26,282
Between 2 and 5 years	**26,923**	26,923
	50,000	53,205

(v) As at December 31, 2015 and 2014, the carrying amounts of the Group's bank borrowings are all denominated in HK$.

(vi) As at December 31, 2015 and 2014, the Group has unused credit facilities in relation to revolving loan facilities of US$6,923,000 and US$8,526,000 respectively.

19. COMMITMENTS AND CONTINGENCIES

(a) Lease commitments

The Group leases various factories and offices under non-cancelable operating lease agreements. Future aggregate minimum payments under non-cancelable operating leases as of the date indicated are as follows:

	December 31, 2015 US$'000	December 31, 2014 US$'000
Not later than one year	**1,274**	980
Later than one year and not later than five years	**911**	1,425
Later than five years	**183**	329
Total minimum lease payments	**2,368**	2,734

(b) Capital commitments

The Group had the following capital commitments:

	December 31, 2015 US$'000	December 31, 2014 US$'000
Property, plant and equipment		
Contracted but not provided for	**593**	719

In addition, the Group has also undertaken to provide the necessary additional funds for NSPL to finance its ongoing operations.

20. REDEEMABLE NON-CONTROLLING INTERESTS

In November and December 2010, the Company and HMHL, entered into subscription and shareholders' agreements ("SSAs") with Mitsui & Co., Ltd. ("Mitsui") and SBCVC Fund III Company Limited ("SBCVC") (collectively, the "preferred shareholders"), whereby HMHL issued 7,390,029 redeemable convertible preferred shares ("Preferred Shares") for an aggregate consideration of US$20.1 million. The Preferred Shares on an as-if-converted basis represented approximately 19.76% of the aggregate issued and outstanding share capital of HMHL on the closing date.

In October 2012, the Company repurchased all 2,815,249 Preferred Shares from SBCVC. The remaining 4,574,780 Preferred Shares of US$12.5 million held by Mitsui represents approximately 12.24% of HMHL on a fully diluted basis.

In May and June 2014, the Company and HMHL further entered into two subscription agreements with Mitsui, whereby HMHL issued a total of 672,713 HMHL's Preferred Shares to Mitsui and 4,825,418 HMHL's ordinary shares to the Company for an aggregate consideration of US$25.0 million, after which Mitsui's interest in HMHL remained at 12.24% on a fully diluted basis.

On July 23, 2015, the Company entered into a subscription agreement with Mitsui under which the Company has issued 3,214,404 new ordinary shares of the Company valued at approximately US$84.0 million in exchange for the Preferred Shares held by Mitsui with carrying value of US$84.0 million (including accretion adjustment up to July 23, 2015). The transaction was completed on July 23, 2015 and as a result of this transaction, Mitsui held approximately 5.69% of the enlarged share capital of the Company. The outstanding balance of redeemable non-controlling interests was extinguished with the corresponding increase in the Company's shares and additional paid-in capital amounts.

Notes To Consolidated Financial Statements

20. REDEEMABLE NON-CONTROLLING INTERESTS (Continued)

Conversion

Pursuant to the SSAs signed in 2010, the preferred shareholders have the right to convert all of their preferred shareholdings into ordinary shares of HMHL at the initial conversion ratio of 1:1 at any time after the date of issuance of the preferred shares by issuing a notice to the Company. However, these preferred shares could be convertible into a higher conversion ratio of ordinary shares of HMHL when there is occurrence of a pre-defined adjustment event ("Adjustment Event").

In July 2012, Mitsui and SBCVC agreed for an extension of triggering of Adjustment Event. The Company assessed whether this amendment to the preferred shares was an extinguishment or a modification in accordance with its accounting policy. It was concluded that it was modification, rather than extinguishment, of preferred shares as the change in fair value of the preferred shares due to the amendment was less than 10%.

In March 2013, as a result of the satisfaction of the required condition, the conversion ratio of the preferred shares is no longer subject to change due to Adjustment Event.

Redemption

Preferred shareholders have the right to require the Company to redeem the preferred shares if HMHL fails to be listed after the company valuation of HMHL has reached above the specified threshold. The redemption price shall be based on such preferred shareholder's share of the actual valuation that would have been obtained in the event of occurrence of such pre-defined condition.

Liquidation

In the event of a winding-up of HMHL, any other return of capital (other than a redemption or purchases by HMHL of its own shares), or a trade sale, where the distribution proceeds are equal to or less than the post money valuation at preferred shares issuance, then such proceeds shall be distributed first to repay preferred shareholders up to the subscription price and any accrued and unpaid dividend before any surplus will be distributed to the holders of the ordinary shares. However, if the distribution proceeds are greater than the post money valuation at preferred shares issuance, distribution proceeds will be distributed equally and ratably among the preferred and ordinary shareholders.

Accounting for preferred shares

The preferred shares issued by HMHL are redeemable upon occurrence of an event that is not solely within the control of the issuer. Accordingly, the redeemable preferred shares issued by HMHL are recorded and accounted for as redeemable non-controlling interests outside of permanent equity in the Group's consolidated balance sheets. The Group recorded accretion when it is probable that the preferred shares will become redeemable. The accretion, which increases the carrying value of the redeemable non-controlling interests, is recorded against retained earnings, or in the absence of retained earnings, by recording against the additional paid-in capital. During the years ended December 31, 2015 and 2014, HMHL recorded an accretion of US$43,001,000 and US$25,510,000 respectively to the preferred shares based on such preferred shareholder's share of the estimated valuation of HMHL.

21. ORDINARY SHARES

The Company is authorized to issue 75,000,000 ordinary shares.

A summary of ordinary shares transactions (in thousands) is as follows:

	2015	2014
Balance as at January 1	**53,076**	52,051
Issuances of shares	**3,214**	–
Issuances in relation to exercise of options	**243**	1,025
Balance as at December 31	**56,533**	53,076

Each ordinary share is entitled to one vote. The holders of ordinary shares are also entitled to receive dividends whenever funds are legally available and when declared by the board of directors.

22. SHARE-BASED COMPENSATION

(i) Share-based Compensation of the Company

The Company conditionally adopted a share option scheme (the "HCML Share Option Scheme") on June 4, 2005 which was amended on March 21, 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 aggregate number of shares issuable under the HCML Share Option Scheme is 2,560,606 ordinary shares. As of December 31, 2015, the number of shares authorized but unissued was 18,466,882 ordinary shares.

Share options granted are generally subject to a three-year or four-year vesting schedule, depending on the nature and the purpose of the grant. Share options subject to three-year vesting schedule, in general, vest 33.3% upon the first anniversary of the vesting commencement date as defined in the grant letter, and 33.3% every subsequent year. Share options subject to four-year vesting schedule, in general, vest 25% upon the first anniversary of the vesting commencement date as defined in the grant letter, and 25% every subsequent year. No outstanding share options will be exercisable or subject to vesting after the expiry of a maximum of ten years from the date of grant.

On December 17, 2014, 593,686 share options were canceled with the consent of the relevant eligible employees in exchange for 1,187,372 new share options of a subsidiary (see note (ii)). This was accounted for as a modification of the original share options granted which did not result in any incremental fair value to the Group.

As of December 31, 2014, 75,000 outstanding share options were held by non-employees. These share options are subject to re-measurement through each vesting date to determine the appropriate share-based compensation expense. These share options were fully vested as of December 31, 2014 and were exercised during the year ended December 31, 2015. As of December 31, 2015, no share options are held by non-employees.

Notes To Consolidated Financial Statements

22. SHARE-BASED COMPENSATION (Continued)

(i) Share-based Compensation of the Company (Continued)

A summary of the Company's share option activity and related information is as follows:

	Number of share options	Weighted-average Exercise Price in £ per share	Weighted-average remaining contractual life (years)	Aggregate intrinsic value (in £'000)
Outstanding at January 1, 2014	2,303,317	3.67	5.93	5,843
Granted	-	-		
Exercised	(1,025,228)	1.59		
Canceled	(593,686)	6.10		
Outstanding at December 31, 2014	684,403	4.67	6.79	6,423
Granted	-	-		
Exercised	(242,038)	3.77		
Canceled	-	-		
Outstanding at December 31, 2015	442,365	5.16	6.53	10,061
Vested and expected to vest at December 31, 2014	569,931	4.39	6.38	5,506
Vested and exercisable at December 31, 2014	419,878	3.91	5.64	4,256
Vested and expected to vest at December 31, 2015	333,393	4.85	6.05	7,685
Vested and exercisable at December 31, 2015	291,015	4.67	5.77	6,762

The Company uses the Binomial model to estimate the fair value of share option awards using various assumptions that require management to apply judgment and make estimates, including:

Volatility

The Company calculated its expected volatility with reference to the historical volatility prior to the issuances of share options.

Risk-free Rate

The risk-free interest rates used in the Binomial model are with reference to the sovereign yield of the United Kingdom because the Company's shares are currently listed on AIM and denominated in pounds sterling (£).

22. SHARE-BASED COMPENSATION (Continued)

(i) Share-based Compensation of the Company (Continued)

Dividends

The Company has not declared or paid any dividends and does not currently expect to do so in the foreseeable future, and therefore uses an expected dividend yield of zero in the Binomial model.

In determining the fair value of share options granted, the following assumptions were used in the Binomial model for awards granted in the periods indicated:

	Effective date of grant of share options	
	June 24, 2011	December 20, 2013
Value of each share option	£1.841	£3.154
Significant inputs into the valuation model:		
Exercise price	£4.405	£6.100
Share price at effective date of grant	£4.3250	£6.1000
Expected volatility	46.6%	36.0%
Risk-free interest rate	3.130%	3.160%
Contractual life of share options	10 years	10 years
Expected dividend yield	0%	0%

The following table summarizes the Company's share option values:

	2015 (in £'000, except per share data)	2014 (in £'000, except per share data)
Weighted-average grant-date fair value of share option granted during the period	**-**	-
Total intrinsic value of share options exercised	**3,296**	7,738
Total intrinsic value of share options exercised in US$'000	**5,020**	12,034

Notes To Consolidated Financial Statements

22. SHARE-BASED COMPENSATION (Continued)

(i) Share-based Compensation of the Company (Continued)

Share-based Compensation Expense

The Company recognizes compensation expense for only the portion of options expected to vest, on a graded vesting approach over the requisite service period. The following table presents share-based compensation expense included in the Group's consolidated statements of operations:

	2015 US$'000	2014 US$'000
Research and development expenses	74	539
Administrative expenses	14	233
	88	772

As of December 31, 2015, the total unrecognized compensation cost was US$55,000, net of estimated forfeiture rates, and will be recognized on a graded vesting approach over the weighted-average remaining service period of 1.97 years.

Cash received from option exercises under the share option plan for the years ended December 31, 2015 and 2014 was approximately US$1,374,000 and US$2,680,000 respectively. The Company will issue new shares to satisfy share options exercises.

(ii) Share-based Compensation of a subsidiary

HMHL adopted a share option scheme on August 6, 2008 (as amended on April 15, 2011) and another share option scheme on December 17, 2014 (collectively 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 aggregate number of shares issuable under the HMHL Share Option Schemes is 9,622,414 ordinary shares. As of December 31, 2015, the number of shares authorized but unissued was 157,111,839 ordinary shares.

Share options granted are generally subject to a four-year vesting schedule, depending on the nature and the purpose of the grant, share options subject to four-year vesting schedule, in general, vest 25% upon the first anniversary of the vesting commencement date as defined in the grant letter, and 25% every subsequent year. No outstanding share options will be exercisable or subject to vesting after the expiry of a maximum of six or nine years from the date of grant.

On December 20, 2013, 2,485,189 share options were canceled 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. This was accounted for as a modification of the original share options which did not result in any incremental fair value to the Group for the options in exchange for new share options under HCML Share Option Scheme. For the share options in exchange for cash consideration, this was accounted for as a modification in classification that changed the award's classification from equity-settled to a liability.

A liability has been recognized on the modification date taking into account the requisite service period that has been provided by the employee at the modification date. As at December 31, 2015, US$0.9 million and US$0.8 million have been recognized in other non-current liabilities and other payables respectively. As at December 31, 2014, US$0.7 million and US$1.0 million were recognized in other non-current liabilities and other payables respectively.

22. SHARE-BASED COMPENSATION (Continued)

(ii) Share-based Compensation of a subsidiary (Continued)

A summary of the subsidiary's share option activity and related information follows:

	Number of share options	Weighted-average Exercise Price in US$ per share	Weighted-average remaining contractual life (years)	Aggregate intrinsic value US$'000
Outstanding at January 1, 2014	538,420	2.03	2.30	1,356
Granted	1,187,372	7.82		
Exercised	(80,924)	1.50		
Lapsed	(393,212)	2.15		
Canceled	(39,884)	1.70		
Outstanding at December 31, 2014	1,211,772	7.71	8.84	134
Granted	–	–		
Exercised	(24,400)	2.34		
Lapsed	–	–		
Canceled	–	–		
Outstanding at December 31, 2015	1,187,372	7.82	7.97	32,292
Vested and expected to vest at December 31, 2014	769,714	7.75	8.88	54
Vested and exercisable at December 31, 2014	316,393	7.48	8.55	107
Vested and expected to vest at December 31, 2015	759,918	7.82	7.97	20,667
Vested and exercisable at December 31, 2015	593,686	7.82	7.97	16,146

The subsidiary uses the Binomial model to estimate the fair value of share option awards using various assumptions that require management to apply judgment and make estimates, including:

Volatility

The subsidiary calculated its expected volatility with reference to the historical volatility of the comparable companies for the past five to six years as of the valuation date.

Risk-free Rate

The risk-free interest rates used in the Binomial model are with reference to the sovereign yield of the United States.

Dividends

The subsidiary has not declared or paid any dividends and does not currently expect to do so in the foreseeable future, and therefore uses an expected dividend yield of zero in the Binomial model.

Notes To Consolidated Financial Statements

22. SHARE-BASED COMPENSATION (Continued)

(ii) Share-based Compensation of a subsidiary (Continued)

Dividends (Continued)

In determining the fair value of share options granted, the following weighted-average assumptions were used in the Binomial model for awards granted in the periods indicated:

	Effective date of grant of share options		
	August 2, 2010	April 18, 2011	December 17, 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	48.6%	55.4%	48.4%
Risk-free interest rate	2.007%	2.439%	1.660%
Contractual life of share options	6 years	6 years	9 years
Expected dividend yield	0%	0%	0%

The following table summarizes the subsidiary's share option values:

	2015 (in US$'000, except per share data)	2014 (in US$'000, except per share data)
Weighted-average fair value of share option granted during the period	**-**	3.49
Total intrinsic value of share options exercised	**352**	247

Share-based Compensation Expense

The subsidiary recognizes compensation expense for only the portion of options expected to vest, on a graded vesting approach over the requisite service period. The following table presents share-based compensation expense included in the Group's consolidated statements of operations:

	2015 US$'000	2014 US$'000
Research and development	**1,063**	293

As of December 31, 2015, the total unrecognized compensation cost was US$336,000, net of estimated forfeiture rate, and will be recognized on a graded vesting approach over the weighted-average remaining service period of 1.97 years.

Cash received from option exercises under the share option plan for the years ended December 31, 2015 and 2014 were US$57,000 and US$121,000 respectively. The subsidiary will issue new shares to satisfy share option exercises.

22. SHARE-BASED COMPENSATION (Continued)

(iii) Long Term Incentive Plan

The Company granted awards under LTIP on October 19, 2015. The LTIP awards granted participating directors or employees a conditional right to receive ordinary shares in the Company (the "Ordinary Shares"), to be purchased by a trustee consolidated by the Company (the "Trustee") up to a maximum cash amount depending upon the achievement of annual performance targets for each financial year of the Company stipulated in the LTIP awards. The Trustee has been set up solely for the purpose of purchasing and holding the Ordinary Shares during the vesting period on behalf of the Group using funds provided by the Group.

On the determination date, the Company will determine the cash amount, based on the actual achievement of each annual performance target, for the Trustee to purchase the Ordinary Shares. The Ordinary Shares will then be held by the Trustee until they are vested. Vesting will occur one business day after the publication date of the annual report of the Company for the financial year falling two years after the financial year to which the LTIP award relates. Vesting will also depend upon continued employment of the award holder with the Group and will otherwise be at the discretion of the Board of Directors of the Group. The initial LTIP awards will cover a three-year period from 2014 to 2016 (the "LTIP Period"). The maximum cash amount per annum for the LTIP Period stipulated in the LTIP awards is approximately US$1.8 million.

As at December 31, 2015, the number of Ordinary Shares purchased and held by the Trustee is 40,655 amounted to approximately US$1.8 million and none of the LTIP awards have been vested or forfeited. Other than the treasury shares, the Trustee does not have any assets or liabilities as at December 31, 2015.

LTIP awards prior to the determination date

As the extent of achievement of the performance targets is uncertain prior to the determination date, a probability based on management's assessment on the achievement of the performance target has been assigned to calculate the amount to be recognized as an expense over the requisite period with corresponding entry to liability. As at December 31, 2015, approximately US$75,000 was recorded as compensation expense with a corresponding liability for LTIP awards prior to the determination date.

LTIP awards after the determination date

Upon the determination date, if the performance target is achieved, the Company will pay the fixed monetary amount to the Trustee to purchase the Ordinary Shares. If the performance target is not achieved, no Ordinary Shares of the Company will be purchased and the amount previously recorded in the liability will be reversed through profit or loss. Any cumulative compensation expense previously recognized as a liability will be transferred to additional paid-in capital, as an equity-settled award.

As at December 31, 2015, approximately US$1,786,000 was paid to the Trustee and debited to the additional paid-in capital as treasury shares and approximately US$233,000 was recorded as a compensation expense with a credit to additional paid-in capital.

Notes To Consolidated Financial Statements

22. SHARE-BASED COMPENSATION (Continued)

(iii) Long Term Incentive Plan (Continued)

The following table presents the expenses recognized under the LTIP awards:

	2015 US$'000	2014 US$'000
Research and development expenses	156	-
Administrative expenses	152	-
	308	-

As of December 31, 2015, the total unrecognized compensation cost was approximately US$2,678,000 net of the estimated probability rate, and will be recognized over the requisite period.

23. REVENUE FROM LICENSE AND COLLABORATION AGREEMENTS - THIRD PARTIES

The Group recognized revenue from license and collaboration agreements - third parties of US$44.1 million and US$12.3 million for the years ended December 31, 2015 and 2014 respectively, which consisted of the following:

	2015 US$'000	2014 US$'000
Milestone revenues	19,212	5,000
Amortization of upfront payment	1,907	701
Research and development services	22,941	6,635
	44,060	12,336

These are mainly from 2 license and collaboration agreements as follows:

License and collaboration agreement with Eli Lilly

On October 8, 2013, the Group entered into a licensing, co-development and commercialization agreement in China with Eli Lilly ("Lilly") relating to fruquintinib, a targeted oncology therapy for the treatment of various types of solid tumors. In accordance with terms of the agreement, the Group is entitled to receive a series of payments of up to US$86.5 million, including upfront payments and development and regulatory approval milestones. Should fruquintinib be successfully commercialized in China, the Group would receive tiered royalties based on certain percentage of net sales. Development costs after the first development milestone are shared between the Group and Lilly.

Following execution of the agreement, the Group received a non-refundable, up-front payment of US$6.5 million.

23. REVENUE FROM LICENSE AND COLLABORATION AGREEMENTS - THIRD PARTIES (Continued)

License and collaboration agreement with Eli Lilly (Continued)

Supplemental to the main agreement, the Group also signed an option agreement which grants Lilly an exclusive option to expand the fruquintinib rights beyond Hong Kong and China. The option agreement further sets out certain milestone payments and royalty rates that apply in the event the option is exercised on a global basis. However, these are subject to further negotiation should the option be exercised on a specific territory basis as opposed to a global basis. The option was not considered to be a separate deliverable in the arrangement as it was considered to be substantive.

As at December 31, 2015, the option has not been exercised by Lilly.

The license rights to fruquintinib, delivered at the inception of the arrangement, did not have stand-alone value apart from the other deliverables in the arrangement which include the development services, the participation in the joint steering committee and the manufacturing of active pharmaceutical ingredients during the development phase. The non-refundable up-front payment was deferred and is being recognized rateably over the development period, which has been estimated to end in 2018. The Group recognizes milestone revenue relating to the deliverables in the agreement as a single unit of accounting using the milestone method.

For the year ended December 31, 2015, the Group recognized US$19.2 million milestone revenues in relation to the achievement of the "proof of concept" milestone for two indications in accordance with the terms of the agreement. The Group did not recognize any milestone revenues in relation to this contract during the year ended December 31, 2014. The Group recognized US$1.8 million and US$0.6 million revenue from amortization of the up-front payment during the years ended December 31, 2015 and 2014. In addition, the Group recognized US$19.4 million for the provision of research and development services for the year ended December 31, 2015.

License and collaboration agreement with AstraZeneca

On December 21, 2011, the Group and AstraZeneca ("AZ") entered into a global licensing, co-development, and commercialization agreement for volitinib (name subsequently changed to 'savolitinib'), a novel targeted therapy and a highly selective inhibitor of the c-Met receptor tyrosine kinase for the treatment of cancer.

Under the terms of the agreement, development costs for savolitinib in China will be shared between the Group and AZ, with the Group continuing to lead the development in China. AZ will lead and pay for the development of savolitinib for the rest of the world. The Group received a non-refundable upfront payment of US$20.0 million upon the signing of the agreement and will receive up to US$120 million contingent upon the successful achievement of clinical development and first sale milestones. The agreement also contains possible significant future commercial sale milestones and up to double-digit percentage royalties on net sales. Following execution of the agreement, the Group received milestone payment of US$5.0 million in 2013, and a further US$5.0 million in 2014.

The license right to develop savolitinib in the rest of the world was delivered to AZ at the inception of the arrangement. Such license had stand-alone value apart from the other deliverables in the arrangement which include the development of savolitinib in China and the participation in the joint steering committee. The non-refundable up-front payment was allocated to (a) the license to develop savolitinib in the rest of the world, which was recognized at inception and (b) the research and development services for which amount allocated has been deferred and is being recognized rateably over the development period which is expected to end in 2021.

The Group recognizes milestone revenue relating to the deliverables, in the agreement as a single unit of using the milestone method. The Group did not recognize any milestone income for the year ended December 31, 2015 but US$5.0 million for the year ended December 31, 2014. The Group also recognized US$3.5 million and US$6.6 million for the provision of research and development services for the years ended December 31, 2015 and 2014 respectively. In addition, the Group recognized US$0.1 million and US$0.1 million as revenue from amortization of the upfront payment during the years ended December 31, 2015 and 2014.

Notes To Consolidated Financial Statements

23. REVENUE FROM LICENSE AND COLLABORATION AGREEMENTS - THIRD PARTIES (Continued)

License and collaboration agreement with Ortho-McNeil-Janssen

After an original research and development alliance agreement entered in December 2008, the Group modified the original arrangement and entered into a new research and development alliance agreement with Ortho-McNeil-Janssen Pharmaceuticals, Inc. ("Janssen") on June 2, 2010 for the discovery and development of novel small-molecule therapeutics against a target in the area of inflammation/immunology. The original agreement signed in December 2008 was terminated and superseded by the new agreement.

Under the terms of the 2010 agreement, the Group will provide drug discovery activities in order to assess whether the selected compound meets certain criteria specified in the agreement. Upon selected compound meeting the specified criteria, Janssen has the option to elect to receive from the Group an exclusive worldwide license to develop and commercialize the compound. If Janssen opts not to do so, the Group may choose to further pursue clinical development of drug compounds from the discovery program through the demonstration of clinical proof-of-concept. Upon the success in achieving the clinical proof-of-concept, Janssen may again opt to take over further development and obtain the exclusive rights to develop and commercialize drug compounds from the Group's program. The option did not have any significant value at inception of the arrangement.

The Group received from Janssen an up-front, non-refundable payment of US$3.0 million upon execution of the 2008 agreement, which was carried forward to cover discovery activities under the 2010 agreement.

The Group recognized the upfront payment of US$3.0 million over the drug discovery period under the initial agreement signed in 2008. Upon signing of the 2010 agreement, the portion of revenue that had not been recognized under the 2008 agreement was adjusted to be recognized over the remaining drug discovery period under the terms of the 2010 agreement to September 2012. The Group received US$1.0 million in 2011 following confirmation of selected compound meeting sustainable lead criteria and a further US$6.0 million in 2013 when the selected compound met development candidate criteria as specified in the agreement.

The Group did not recognize any milestone for the years ended December 31, 2015 and 2014.

In November 2015, Janssen has terminated the license and collaboration agreement between HMPL and Janssen dated June 2, 2010 for the discovery and development of novel small molecule therapeutics against a target in the area of inflammation/immunology. All licenses and other rights granted by the Group to Janssen should have been terminated upon the termination date. The Group does not have any outstanding liabilities or obligations due to/from Janssen in relation to the termination of the agreement.

24. GOVERNMENT INCENTIVES

The Group receives government grants from the PRC Government (including the National level and Shanghai province). These grants are given in support of drug research and development activities and are conditional upon i) the Group spending a predetermined budget cost, regardless of success or failure of the research and development projects and ii) achievement of certain stages of research and development projects being approved by relevant PRC government authority. These government grants are subject to ongoing reporting and monitoring by the PRC Government over the period of the grant.

Government incentives which are deferred and recognized in the statement of operations over the period necessary to match them with the costs that they are intended to compensate are recognized in other payable, accruals and advance receipts (note 17) and will be refundable to the PRC Government if the related research and development projects are suspended. In 2015 and 2014, the Group received government grants of US$4,898,000 and US$859,000 respectively.

The government grants recorded as a reduction to research and development expenses for the years ended December 31, 2015 and 2014 was US$3,664,000 and US$3,558,000 respectively.

25. SIGNIFICANT RELATED PARTY TRANSACTIONS

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:

		2015 US$'000	2014 US$'000
(a)	Transactions with related parties:		
	Sales of goods to		
	- Indirect subsidiaries of CK Hutchison	**8,074**	7,823
	Income from provision of research and development services		
	- Equity investees	**5,383**	4,312
	Purchase of goods from		
	- A non-controlling shareholder of a subsidiary	**11,894**	6,727
	- Equity investees	**3,701**	2,480
		15,595	9,207
	Providing consultancy services to		
	- An equity investee	**-**	38
	Rendering of marketing services from		
	- Indirect subsidiaries of CK Hutchison	**751**	480
	- An equity investee	**5,093**	-
		5,844	480
	Rendering of management service from		
	- An indirect subsidiary of CK Hutchison	**845**	989
	Interest paid to		
	- An immediate holding company	**144**	113
	- A non-controlling shareholder of a subsidiary	**85**	19
		229	132
	Guarantee fee on bank loan to		
	- An indirect subsidiary of CK Hutchison	**471**	471
	Dividend paid to		
	- A non-controlling shareholder of a subsidiary	**590**	1,179

Notes To Consolidated Financial Statements

25. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

		December 31, 2015 US$'000	December 31, 2014 US$'000
(b)	Balances with related parties included in:		
	Accounts receivable from related parties:		
	- Indirect subsidiaries of CK Hutchison (note (i))	**1,379**	1,922
	- An equity investee (note (i))	**490**	262
		1,869	2,184
	Accounts payable due to a related party:		
	- A non-controlling shareholder of a subsidiary (note (i))	**3,521**	2,190
	Amounts due from related parties:		
	- Indirect subsidiaries of CK Hutchison (note (i))	**136**	107
	- Equity investees (note (i))	**2,157**	1,176
	- Loan to an equity investee (note (ii))	**7,000**	5,000
		9,293	6,283
	Amounts due to related parties:		
	- Immediate holding company (note (iii))	**1,775**	8,694
	- An indirect subsidiary of CK Hutchison (note (i))	**20**	22
	- An equity investee	**1,898**	-
	- Loan from a non-controlling shareholder of a subsidiary (note (iv))	**2,550**	-
		6,243	8,716
	Non-controlling shareholders:		
	- Loan from a non-controlling shareholder of a subsidiary (note (iv))	**-**	2,550
	- Loan from a non-controlling shareholder of a subsidiary (note (v))	**579**	579
	- Interest payable due to a non-controlling shareholder of a subsidiary	**105**	19
		684	3,148
	Deferred income:		
	- An equity investee (note (vi))	**2,132**	-
	Other non-current liabilities		
	-Immediate holding company (note (iii))	**9,000**	-

25. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties included in: (Continued)

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 an equity investee is unsecured and interest-bearing (with waiver of interest).

(iii) Amount due to immediate holding company is unsecured, interest-bearing. As of December 31, 2015, approximately US$1,775,000 is repayable within one year or repayable on demand and approximately US$9,000,000 is repayable within three years from December 2017. As of December 31, 2014, the balance is repayable on demand. The carrying value of amount due to immediate holding company approximates its fair value.

(iv) Loan from a non-controlling shareholder of a subsidiary is unsecured and interest-bearing and is repayable in December 2016. The balance is recorded in current liabilities as at December 31, 2015 and non-current liabilities as at December 31, 2014. US$2,250,000 was repaid during the year ended December 31, 2014.

(v) Loan from a non-controlling shareholder of a subsidiary is unsecured, interest bearing (with waiver of interest) and is recorded in other non-current liabilities.

(vi) Deferred income represents amount recognized from granting of promotion and marketing rights. 50% of the amount is received during the year ended December 31, 2015 and the remaining 50% balance to be received is recorded in amounts due from related parties: equity investees.

26. INCOME TAXES

	2015 US$'000	2014 US$'000
Continuing operations:		
Current tax		
- HK	**150**	131
- PRC	**415**	51
Deferred income tax - PRC	**1,040**	1,161
Income tax expense	**1,605**	1,343

(a) The Company, a subsidiary incorporated in British Virgin Islands and its Hong Kong subsidiaries are subject to Hong Kong profits tax which has been provided for at the rate of 16.5% on the estimated assessable profits less estimated available tax losses for the years ended December 31, 2015 and 2014.

(b) Taxation in the PRC has been provided for at the applicable rate on the estimated assessable profits less estimated available tax losses. Under the PRC Enterprise Income Tax Law (the "EIT Law"), the standard enterprise income tax rate for domestic enterprises and foreign invested enterprises is 25%. In addition, the EIT Law provides for, among others, a preferential tax rate of 15% for companies which qualifies as High and New Technology Enterprises. Hutchison MediPharma Limited qualifies as a High and New Technology Enterprise. Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared by their PRC to their foreign investors. A lower withholding tax rate of 5% is applicable if direct foreign investors with at least 25% equity interest in the PRC companies are incorporated in Hong Kong and meet the condition or requirements pursuant to the tax arrangement between the PRC and Hong Kong. Since the equity holders of the major subsidiaries and equity investees of the Company are Hong Kong incorporated companies, the Company has used 5% to provide for deferred tax liabilities on retained earnings which are anticipated to be distributed. As of December 31, 2015 and 2014, the amounts accrued in deferred tax liabilities relating to withholding tax on dividends were determined on the basis that 100% of the distributable reserves of the major subsidiaries and equity investees operating in the PRC will be distributed as dividends.

Notes To Consolidated Financial Statements

26. INCOME TAXES (Continued)

The reconciliation of the Group's reported income tax expense to the theoretical tax amount that would arise using the tax rates of the Company against the Group's (loss)/income before income taxes and equity in earnings of equity investees is as follows:

	2015 US$'000	2014 US$'000
Continuing operations:		
Loss before income taxes and equity in earnings of equity investees	**(10,540)**	(19,957)
Tax calculated at the statutory tax rate of the Company	**(1,739)**	(3,293)
Effects of different tax rates available to different jurisdictions	**(2,953)**	3,551
Tax valuation allowance	**4,505**	783
Expenses not deductible for tax purposes	**253**	399
Utilization of previously unrecognized tax losses	**(34)**	(1,055)
Withholding tax on undistributed earnings of equity investees	**1,216**	1,161
Others	**357**	(203)
Income tax expense	**1,605**	1,343

Deferred income tax as at December 31 is as follows:

	December 31, 2015 US$'000	December 31, 2014 US$'000
Deferred tax assets	**250**	105
Deferred tax liabilities	**(3,723)**	(2,947)
Net deferred tax liabilities	**(3,473)**	(2,842)

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

	2015 US$'000	2014 US$'000
At January 1	**(2,842)**	(2,267)
Exchange differences	**88**	4
Acquisition of a subsidiary (Note 4)	**-**	(98)
Utilization of previously recognized withholding tax on undistributed earnings	**321**	797
(Charged)/Credited to the consolidated statement of operations		
- withholding tax on undistributed earnings of equity investees	**(1,216)**	(1,161)
- deferred tax on amortization of intangible assets	**24**	11
- deferred tax on provision of assets	**152**	-
- utilization of previously recognized tax losses	**-**	(128)
At December 31	**(3,473)**	(2,842)

26. INCOME TAXES (Continued)

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 significant components of deferred tax assets and liabilities are as follows:

	December 31, 2015 US$'000	December 31, 2014 US$'000
Deferred income tax assets:		
Tax losses	**9,297**	7,468
Depreciation allowances	**-**	49
Others	**250**	43
Total deferred income tax assets	**9,547**	7,560
Less: Valuation allowance	**(9,297)**	(7,455)
Deferred income tax assets	**250**	105
Deferred income tax liabilities:		
Undistributed earnings from equity investees	**3,560**	2,760
Others	**163**	187
Deferred income tax liabilities	**3,723**	2,947

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

	December 31, 2015 US$'000	December 31, 2014 US$'000
No expiry date	**28,699**	21,063
2015	**-**	10,098
2016	**-**	-
2017	**3,982**	4,097
2018	**865**	1,148
2019	**4,298**	633
2020	**33,735**	-
	71,579	37,039

Notes To Consolidated Financial Statements

26. INCOME TAXES (Continued)

The Company believes that it is not more likely than not that future operations will generate sufficient taxable income to realize the benefit of the deferred income tax assets as the subsidiaries of the Company have had sustained pre-tax losses. Accordingly, a valuation allowance has been recorded against the deferred income tax assets arising from the tax losses of the Company.

The table below summarizes changes in the deferred tax valuation allowance:

	2015	2014
	US$'000	US$'000
Deferred income tax valuation allowance:		
At January 1	**7,455**	9,470
Exchange differences	**(235)**	(135)
Charged to statement of operations	**4,505**	783
Utilization of previously unrecognized tax losses	**(34)**	(1,055)
Write-off of expired tax losses	**(1,493)**	(1,169)
Others	**(901)**	(439)
At December 31	**9,297**	7,455

The Group recognizes interests and penalties, if any, under other payables, accruals and advance receipts on its consolidated balance sheets and under other expenses in its consolidated statement of operations. As of December 31, 2015 and 2014, the Group did not have any material unrecognized uncertain tax positions.

27. (LOSSES)/EARNINGS PER SHARE

(a) Basic (losses)/earnings per share

Basic (losses)/earnings per share is calculated by dividing the net (loss)/income attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year. Periodic accretion to preferred shares of HMHL (note 20) is recorded as deductions to consolidated net income to arrive at net (loss)/income available to the Company's ordinary shareholders for purpose of calculating the consolidated basic (losses)/earnings per share.

	2015	2014
Weighted average number of outstanding ordinary shares in issue	**54,659,315**	52,563,387
Net income/(loss) from continuing operations	**10,427**	(6,120)
Net income attributable to non-controlling interests	**(2,434)**	(2,203)
Accretion on redeemable non-controlling interests	**(43,001)**	(25,510)
Net loss for the year attributable to ordinary shareholders of the Company – Continuing operations (US$'000)	**(35,008)**	(33,833)
Income from discontinued operation, net of tax	**-**	2,034
Net income attributable to non-controlling interests	**-**	(1,017)
Net income for the year attributable to ordinary shareholders of the Company – Discontinued operation (US$'000)	**-**	1,017
	(35,008)	(32,816)
(Losses)/earnings per share attributable to ordinary shareholders of the Company		
– Continuing operations (US$ per share)	**(0.64)**	(0.64)
– Discontinued operation (US$ per share)	**-**	0.02
	(0.64)	(0.62)

Notes To Consolidated Financial Statements

27. (LOSSES)/EARNINGS PER SHARE (Continued)

(b) Diluted (losses)/earnings per share

Diluted (losses)/earnings per share is calculated by dividing net (loss)/income attributable to ordinary shareholders, by the weighted average number of ordinary and dilutive ordinary share equivalent outstanding during the period. Dilutive ordinary share equivalents include shares issuable upon the exercise or settlement of share-based awards issued by the Company and its subsidiaries using the treasury stock method and the ordinary shares issuable upon the conversion of the preferred shares issued by HMHL using the if-converted method. The computation of diluted (losses)/earnings per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect.

In determining the impact from share-based awards and convertible preferred shares issued by HMHL, the Company first calculates the diluted earnings per share at HMHL and includes in the numerator of consolidated (losses)/earnings per share the amount based on the diluted (losses)/earnings per share of HMHL multiplied by the number of shares owned by the Company. If dilutive, the percentage of the Company's shareholding in HMHL was calculated by treating convertible preferred shares issued by HMHL as having been converted at the beginning of the period and share options as having been exercised during the period.

For purpose of calculating (losses)/earnings per share for discontinued operation the same number of potential ordinary shares used in computing the diluted per share amount for income from continuing operations was used in computing diluted per share amount for income from discontinued operation.

	2015	2014
(Losses)/earnings per share attributable to ordinary shareholders of the Company		
- Continuing operations (US$ per share)	**(0.64)**	(0.64)
- Discontinued operation (US$ per share)	**-**	0.02
	(0.64)	(0.62)

For the years ended December 31, 2015 and 2014, the preferred shares issued by HMHL and share options issued by the Company and HMHL were not included in the calculation of diluted loss per share because of their anti-dilutive effect.

Diluted loss per share from continuing operations for the years ended December 31, 2015 and 2014 was the same as the basic loss per share from continuing operations.

28. SEGMENT REPORTING

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. Details of the operating segments are disclosed in Note 1. The performance of the reportable segments are assessed based on two measurements: (a) earnings or losses of subsidiaries before interest income, finance costs and tax expenses ("EBIT/(LBIT)") and (b) equity in earnings of equity investees, net of tax.

28. SEGMENT REPORTING (Continued)

The segment information for the reportable segments is as follows:

Continuing operations

	For the year ended December 31, 2015						
	Innovation Platform	Commercial Platform					
	Drug R&D	Prescription Drugs	Consumer Health		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	52,016	105,478	3,028	17,681	178,203	-	178,203
EBIT/(LBIT)	(119)	676	(169)	1,211	1,599	(11,186)	(9,587)
Interest income	79	114	29	1	223	228	451
Equity in earnings of equity investees, net of tax	(3,770)	15,653	10,689	-	22,572	-	22,572
Operating profit/(loss)	(3,810)	16,443	10,549	1,212	24,394	(10,958)	13,436
Finance costs	-	-	-	85	85	1,319	1,404
Additions to non-current assets (other than financial instrument and deferred tax assets)	3,218	88	5	4	3,315	9	3,324
Depreciation/amortization	1,864	94	11	5	1,974	41	2,015
Income tax expense	-	239	-	148	387	1,218	1,605

	As at December 31, 2015						
	Innovation Platform	Commercial Platform					
	Drug R&D	Prescription Drugs	Consumer Health		Reportable segment		
	PRC	PRC	PRC	Hong Kong	Total	Unallocated	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	49,545	97,572	66,552	8,651	222,320	7,434	229,754
Property, plant and equipment	8,312	122	27	7	8,468	39	8,507
Leasehold land	1,343	-	-	-	1,343	-	1,343
Goodwill	-	2,925	407	-	3,332	-	3,332
Intangible asset	-	571	-	-	571	-	571
Investments in equity investees	9,285	49,709	60,762	-	119,756	-	119,756

Notes To Consolidated Financial Statements

28. SEGMENT REPORTING (Continued)

Continuing operations (Continued)

	For the year ended December 31, 2014						
	Innovation Platform	Commercial Platform					
	Drug R&D	Prescription Drugs	Consumer Health		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	20,344	50,202	3,847	12,936	87,329	–	87,329
EBIT/(LBIT)	(13,817)	48	771	999	(11,999)	(7,001)	(19,000)
Interest income	33	68	12	3	116	443	559
Equity in earnings of equity investees, net of tax	(8,409)	13,201	10,388	–	15,180	–	15,180
Operating profit/(loss)	(22,193)	13,317	11,171	1,002	3,297	(6,558)	(3,261)
Finance costs	–	10	77	19	106	1,410	1,516
Additions to non-current assets (other than financial instrument and deferred tax assets)	3,671	915	24	2	4,612	6	4,618
Depreciation/amortization	1,145	65	6	7	1,223	42	1,265
Income tax expense	–	51	–	131	182	1,161	1,343

	As at December 31, 2014						
	Innovation Platform	Commercial Platform					
	Drug R&D	Prescription Drugs	Consumer Health		Reportable segment		
	PRC	PRC	PRC	Hong Kong	Total	Unallocated	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	43,061	68,650	70,731	7,050	189,492	21,342	210,834
Property, plant and equipment	7,305	62	36	8	7,411	71	7,482
Leasehold land	1,436	–	–	–	1,436	–	1,436
Goodwill	–	3,023	407	–	3,430	–	3,430
Intangible asset	–	666	–	–	666	–	666
Investments in equity investees	13,067	39,158	55,753	–	107,978	–	107,978

Segment information for discontinued operation has been disclosed in Note 5.

Revenue from external customers is after elimination of inter-segment sales. The amount eliminated attributable to (a) sales between Prescription Drugs business and Consumer Health business within the PRC of US$1,187,000 and US$271,000; (b) sales within Consumer Health business from Hong Kong to the PRC of US$2,874,000 and US$105,000 for the years ended December 31, 2015 and 2014.

28. SEGMENT REPORTING (Continued)

Sales between segments are carried out at mutually agreed terms.

There was one customer under Innovation Platform who accounted for 23% of the Group's revenue for the year ended December 31, 2015. There was one customer under Innovation Platform who accounted for 13% of the Group's revenue for the year ended December 31, 2014.

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 EBIT/(LBIT) for reportable segments to net income/(loss) from continuing operations is provided as follows:

	2015 US$'000	2014 US$'000
EBIT/(LBIT)	**1,599**	(11,999)
Unallocated expenses	**(11,186)**	(7,001)
Interest income	**451**	559
Equity in earnings of equity investees, net of tax	**22,572**	15,180
Finance costs	**(1,404)**	(1,516)
Income taxes	**(1,605)**	(1,343)
Net income/(loss) from continuing operations	**10,427**	(6,120)

29. LITIGATION

From time to time, the Group may become involved in litigation relating to claims arising from the ordinary course of business. The Group believes that there are currently no claims or actions pending against the Group, the ultimate disposition of which could have a material adverse effect on the Group's results of operations, financial condition or cash flows. However, litigation is subject to inherent uncertainties and the Group's view of these matters may change in the future. When an unfavorable outcome occurs, there exists the possibility of a material adverse impact on the Group's financial position and results of operations for the periods in which the unfavorable outcome occurs, and potentially in future periods.

30. RESTRICTED NET ASSETS

Relevant PRC laws and regulations permit payments of dividends by the Company's subsidiaries in China only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Company's subsidiaries in China are required to make certain appropriation of net after-tax profits or increase in net assets to the statutory surplus fund prior to payment of any dividends. In addition, registered share capital and capital reserve accounts are also restricted from withdrawal in the PRC, up to the amount of net assets held in each subsidiary. As a result of these and other restrictions under PRC laws and regulations, the Company's subsidiaries in China are restricted in their ability to transfer their net assets to the Group in terms of cash dividends, loans or advances, which restricted portion amounted to US$80,040,000 and US$79,441,000 as at December 31, 2015 and 2014 respectively. Even though the Group currently does not require any such dividends, loans or advances from the PRC subsidiaries, for working capital and other funding purposes, the Group may in the future require additional cash resources from the Company's subsidiaries in China due to changes in business conditions, to fund future acquisitions and development, or merely to declare and pay dividends to make distributions to shareholders.

Further, the Group has certain investments in equity investees, of which the Group's equity in undistributed earnings amounted to US$74,715,000 and US$51,244,000 as at December 31, 2015 and 2014 respectively.

Notes To Consolidated Financial Statements

31. ADDITIONAL INFORMATION: CONDENSED FINANCIAL STATEMENTS OF THE COMPANY

Regulation S-X require condensed financial information as to financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated and unconsolidated subsidiaries together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

The Company's investments in its subsidiaries are accounted for under the equity method of accounting. Such investment is presented on separate condensed balance sheets of the Company as "Investments in subsidiaries" and the Company's shares of the profit or loss of subsidiaries are presented as "Equity in earnings of subsidiaries" in the statements of operations. Ordinarily under the equity method, an investor in an equity method investee would cease to recognize its share of the losses of an investee once the carrying value of the investment has been reduced to nil absent an undertaking by the investor to provide continuing support and fund losses. For the purpose of this condensed financial information of parent company, the Company has continued to reflect its share, based on its proportionate interest, of the losses of a subsidiary regardless of the carrying value of the investment even though the Company is not legally obligated to provide continuing support or fund losses.

The Company's subsidiaries did not pay any dividends to the Company for the periods presented except for Hutchison Chinese Medicine Holding Limited and Hutchison Chinese Medicine (Shanghai) Investment Limited. Hutchison Chinese Medicine Holding Limited declared dividends of US$1,923,000 and US$2,564,000 during the years ended December 31, 2015 and 2014 respectively. Hutchison Chinese Medicine (Shanghai) Investment Limited declared dividends of US$2,949,000 and US$15,385,000 during the years ended December 31, 2015 and 2014 respectively. These dividends were settled by off-setting against amounts due to the same subsidiaries.

Certain information and footnote disclosures generally included in financial statements prepared in accordance with US GAAP have been condensed and omitted. The footnote disclosures represent supplemental information relating to the operations of the Company, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Group.

31. ADDITIONAL INFORMATION: CONDENSED FINANCIAL STATEMENTS OF THE COMPANY (Continued)

Condensed Balance Sheets

	December 31, 2015 US$'000	December 31, 2014 US$'000
Assets		
Current assets		
Cash and cash equivalents	**1**	1
Prepayments	**19**	1
Amounts due from related parties	**76**	76
Total current assets	**96**	78
Non-current asset		
Investments in subsidiaries	**93,396**	90,004
Deferred costs for initial public offering in the United States	**4,446**	-
Total assets	**97,938**	90,082
Liabilities and shareholders' equity		
Current liabilities		
Other payables and accruals	**5,224**	599
Amounts due to subsidiaries	**9,029**	9,055
Amounts due to immediate holding company	**329**	241
Total liabilities	**14,582**	9,895
Redeemable non-controlling interests	**-**	41,036
Company's shareholders' equity		
Ordinary share; $1.00 par value; 75,000,000 shares authorized;		
56,533,118 and 53,076,676 shares issued at December 31, 2015 and 2014	**56,533**	53,076
Other shareholders' equity	**26,823**	(13,925)
Total Company's shareholders' equity	**83,356**	39,151
Total liabilities and shareholders' equity	**97,938**	90,082

Notes To Consolidated Financial Statements

31. ADDITIONAL INFORMATION: CONDENSED FINANCIAL STATEMENTS OF THE COMPANY (Continued)

Condensed Statements of Operations

	2015 US$'000	2014 US$'000
Operating expenses		
Administrative	**(4,658)**	(1,146)
Other expense		
Interest expense	**(4)**	(3)
Other expense	**(7)**	(98)
Total other expenses	**(11)**	(101)
Equity in earnings of subsidiaries, net of tax	**12,662**	(6,059)
Net income/(loss)	**7,993**	(7,306)

Condensed Statements of Cash Flows

	2015 US$'000	2014 US$'000
Operating activities		
Net income/(loss)	**7,993**	(7,306)
Adjustments to reconcile net income/(loss) to net cash used in operating activities		
Equity in earnings of subsidiaries, net of tax	**(12,662)**	6,059
Loss on dilution of interest in a subsidiary	**3**	98
Changes in operating assets and liabilities		
Prepayments	**(18)**	(1)
Amounts due to subsidiaries	**3,171**	1,379
Other payables and accruals	**1,425**	(318)
Amounts due to immediate holding company	**88**	89
Net cash from operating activities and net increase in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**1**	1
Cash and cash equivalents at end of year	**1**	1

32. SUBSEQUENT EVENTS

The Group evaluated subsequent events through February 29, 2016 which is the date when the consolidated financial statements were issued.

In February 2016, the Group established additional new credit facilities with Bank of America N.A. and Deutsche Bank AG, Hong Kong Branch totaling an aggregate amount of HK$468.0 million (equivalent to US$60.0 million). These facilities are unsecured with certain financial covenant requirements, with a range of 12 and 18 month terms, and were established in order to give the Group additional flexibility in the context of execution of the proposed listing in the United States.

Information For Shareholders

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

Code
HCM

Financial Calendar

Closure of Register of Members	April 26, 2016 to April 27, 2016
Annual General Meeting	April 27, 2016
Interim Results Announcement	August 2016

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Important information
This annual report does not constitute a registration statement on Form F-1 and does not constitute or form, and will not form, part of any offer or invitation to sell or issue, or the solicitation of an offer to purchase or acquire, any ordinary shares or any other securities of the Company in the United States or in any other jurisdiction. Securities may not be offered or sold in the United States absent registration or an exemption from registration under the United States Securities Act of 1933, as amended ("US Securities Act"). Any potential public offering of securities to be made in the United States will be made by means of a Form F-1 Registration Statement that has been declared effective by the United States Securities and Exchange Commission. The Form F-1 Registration Statement contains detailed information about the issuer and its management and financial statements. This annual report is being issued pursuant to and in accordance with Rule 135e under the US Securities Act.

No money, securities or other consideration is being solicited, and, if sent in response to the information contained in this annual report, will not be accepted.

This annual report is not directed to, or intended for distribution or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

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 materialize or turn out to be incorrect.

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和黄中国医药科技有限公司