Hutchison Whampoa Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 013)

OVERSEAS REGULATORY ANNOUNCEMENT

Please refer to the attached announcement of Hutchison China MediTech Limited, which is listed on the Alternative Investment Market operated by the London Stock Exchange and a 71.6% owned subsidiary of Hutchison Whampoa Limited.

As at the date of the announcement, the Directors of Hutchison Whampoa Limited are:

Executive Directors:
Mr. LI Ka-shing *(Chairman)*
Mr. LI Tzar Kuoi, Victor *(Deputy Chairman)*
Mr. FOK Kin-ning, Canning
Mrs. CHOW WOO Mo Fong, Susan
Mr. Frank John SIXT
Mr. LAI Kai Ming, Dominic
Mr. KAM Hing Lam

Non-executive Directors:
Mr. George Colin MAGNUS
Mr. William SHURNIAK

Independent Non-executive Directors:
The Hon. Sir Michael David KADOORIE
Mr. Holger KLUGE
Mr. William Elkin MOCATTA
(Alternate to The Hon. Sir Michael David Kadoorie)
Mr. Simon MURRAY
Mr. OR Ching Fai, Raymond
Mr. WONG Chung Hin
(also Alternate to Mr. Simon Murray)

Hong Kong, 21 March 2007

HUTCHISON CHINA MEDITECH LTD

Hutchison China MediTech Limited
(AIM: HCM)

Preliminary Results for the year ended 31 December 2006

London: Wednesday, 21 March 2007: Hutchison China MediTech Limited ("Chi-Med" or the "Company") today announces its preliminary results for the year ended 31 December 2006.

- **Sales up 52% to $57.5 million**
  Growth in China Healthcare business.

- **Loss before tax $8.6 million**
  Tight control of R&D spending.

- **$13 billion Chinese TCM market growth continues strongly**
  There are over 1,200 Traditional Chinese Medicine ("TCM") manufacturers across China. Chi-Med intends to consolidate and modernise the market through continued organic out-performance and through selective acquisition.

- **State-of-art R&D facility in full operation**
  Chi-Med's purpose built 5,000 square metre R&D facility in Shanghai allows Chi-Med to run a full set of R&D programmes in-house on a cost-effective basis with a team of over 100. It is one of the most advanced pharmaceutical R&D centres in China with all the resources needed for full research capability, including Biology, Chemistry, Drug Safety Evaluation, Drug Metabolism and Pharmacokinetics, and Pharmacology.

- **Growing drug R&D pipeline**
  Chi-Med has a library of over 10,000 drug substances which it has isolated from its screening of the herbal origins of TCM and which represent possibilities for the development of new drugs. It has six potential drugs in research, pre-clinical, Phase I or Phase II trials.

- **Phase II Trial result**
  The result of Phase II trials in China for Chi-Med's HMPL-004 inflammatory bowel disease drug is expected in Q3 this year.

- **Strategic alliances**
  Chi-Med announced key strategic partnerships with Merck of Germany for oncology drug discovery collaboration and with Procter & Gamble for collaboration on skin care targets. These agreements have generated our first research and development revenues, and similar additional agreements are expected in the future.

- **Sen reaches operating profit on a shop level**
  We have expanded Sen's product and service portfolio, refined the retail shop format and expanded the London shop chain to five. Each store we now open is profitable at the operating level and we plan seven new shops in central London over the next 12 to 18 months to achieve full bottom-line profitability for the Consumer products business.

Commenting, Christian Hogg, CEO of Chi-Med, said:

"In its first year as a listed company, Chi-Med has made very good progress. Our China healthcare business has built scale, profit, and cash flows and is well positioned to continue consolidating the major, high growth, yet very fragmented China TCM market both organically and by acquisition. Our Drug R&D business has a growing pipeline of potential drugs and is looking forward to the results of Phase II results for one of its leading candidates in the third quarter of this year. It has also signed its first discovery alliances with major Western corporations, earning its first revenues, with expectations of similar additional deals during this year. At the same time, our Sen TCM consumer products and services brand has reached operating profit at shop-level and is actively planning the expansion of its London chain as well as potential wider distribution agreements. Chi-Med is confident of delivering further material progress in the current year across all its business operations."

Enquiries

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About Chi-Med

Chi-Med is the holding company of a pharmaceutical and healthcare group based primarily in China and was admitted to trading on the Alternative Investment Market of the London Stock Exchange in May 2006. Chi-Med is focused on researching, developing, manufacturing, and selling pharmaceuticals, health supplements and other consumer health and personal care products derived from Traditional Chinese Medicine and botanical ingredients.

Chi-Med is majority owned by Hutchison Whampoa Limited, an international corporation listed on the Main Board of The Stock Exchange of Hong Kong Limited.

CHAIRMAN'S STATEMENT

Review of Results

This is Chi-Med's first annual report as a listed company, and I am pleased to report considerable progress on all fronts. Our China healthcare business continued to increase market share in the fast growth China TCM pharmaceutical and health supplements markets. Our Drug R&D business made excellent progress in its discovery and clinical programmes, with a growing pipeline of potential drugs and the signing of its first drug and active ingredient discovery programmes with major Western corporations. The results of phase II trials for one of our leading candidates are now expected in the third quarter of this year. At the same time, our Consumer products business, through the Sen brand, expanded its London chain and reached operating profit in almost all of its shops.

Sales for the year rose 52% to $57.5 million (2005: $37.9 million), meeting our expectations and primarily reflecting the continuing growth in our China healthcare business as well as the first revenues for our Drug R&D business, and the continued growth of Sen. We continue to invest in our Drug R&D business so our overall loss before tax increased to $8.6 million (2005: $6.2 million). Tight controls on spending allowed us to beat our initial expectations of overall operating loss by a significant margin.

As Chi-Med is still in its development phase, the Board do not believe it appropriate to declare a dividend for the year ended 31 December 2006.

Strategic Overview

Chi-Med is focused on becoming the leading player in the development of modern science-based drug and consumer products derived from TCM to serve both the Chinese and international healthcare markets.

Strategically we believe that the large TCM industry in China represents a reservoir of pharmaceutical activity and proven safety from which we can develop new drugs and also develop financially attractive health and wellness consumer products and concepts for the global market.

We see the decades of success that our majority shareholder Hutchison Whampoa Limited ("Hutchison Whampoa") has enjoyed in China as a further significant advantage for Chi-Med in our drive to explore and commercialise the drug and consumer products opportunities, including potential acquisitions.

Business and Corporate Development

Our May 2006 IPO, which raised £40 million in gross proceeds, was one of the largest fund raisings for a China based company coming to the Alternative Investment Market ("AIM"). It supports Chi-Med both in funding our development and incentivising our senior executive, as well as in helping raise our international visibility. We are committed to delivering shareholder value against the strategy set out at float.

On the Drug R&D business, we have invested in exciting discovery and clinical programmes in oncology and auto-immune disease. We expect these investments to start to generate out licensing revenues in 2009 as our lead drug candidates progress through phase II clinical trials. We are particularly pleased that our R&D capabilities were endorsed by "Big Pharma" with the two cooperation deals Chi-Med signed with Merck KGaA and Procter & Gamble.

We have also made considerable progress on our Sen offering in the past twelve months and will seek to further expand the network of shops in London over the coming 12 to 18 months.

We continue to seek out attractive acquisitions of China businesses that will bring synergy to our existing portfolio of healthcare businesses in pharmaceuticals and health supplements, or which will expand our commercial footprint in the fast growth China healthcare industry.

On the corporate front, in order to increase the liquidity and following the listing of shares of Chi-Med, we have broadened investor research and distribution by appointing Investec Bank (UK) Limited as joint broker alongside Panmure Gordon (Broking) Limited; and the executive management have invested time in a private client broker programme.

Corporate Governance

Chi-Med is committed to achieving high standards of corporate governance with the objective of building the long-term interests of the Company and maximising returns to shareholders and stakeholders. Our move from a private to a publicly traded company required certain Board adjustments in order to comply with corporate governance best practice. The appointment of Mr. Michael Howell, Professor Christopher Huang and Mr. Christopher Nash as Independent Non-executive Directors early in the year 2006 was followed by the appointment of Mr. Nash as Senior Independent Director in September 2006. As a group, our Independent Non-executive Directors bring a wealth of knowledge on AIM and growth businesses, UK corporate governance, and pharmaceutical research and development to the Company. They are making valuable contributions to the evolution of Chi-Med. I very much appreciate their involvement and wish to thank them all for their efforts.

Outlook

We are excited and confident about Chi-Med's future prospects. With the full support of Hutchison Whampoa and its goodwill, experience, and capabilities throughout China, Chi-Med is well positioned to benefit from securing further attractive acquisitions in the China healthcare industry and to realise synergy and rapid growth from these activities. Our strong management and R&D team are also well placed to capitalise on the substantial growth potential in the global pharmaceutical and consumer products businesses.

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

CHIEF EXECUTIVE OFFICER'S STATEMENT

Chi-Med's purpose is to create value by being a pioneer in the field of modernisation and globalisation of TCM. TCM has for generations been a major element of China's healthcare system and represents over 30% of all healthcare spending in China. With the opening of China, the opportunity to establish TCM on a broad scale around the world has become an exciting reality.

In the late-nineties, Hutchison Whampoa identified the potential within TCM for global development. Chi-Med was then established and has for the past seven-years built operations and businesses aimed at innovation in the TCM field. The three core Chi-Med operating units are: 1) China healthcare; 2) Drug R&D; and 3) Consumer products. Each of these three operating units contribute to Chi-Med's unique capability to build a major TCM group within China and globally.

CHINA HEALTHCARE

Chi-Med aims to build its China healthcare business into one of the largest and most profitable healthcare groups in China. This objective will be realised through organic growth, systematic acquisitions and effective integration of the business over the coming years.

Multiple factors combine to make China healthcare, and TCM in particular, a high potential long-term opportunity for Chi-Med. These factors include: 1) strong underlying China healthcare market growth; 2) current fragmentation in the market; and 3) the Chinese Central Government's firm support for TCM.

Within China healthcare, the TCM industry comprises four core sub-sectors: prescription drugs; OTC drugs; health supplements; and raw herb preparations. Although each sub-sector has a very different operating framework of manufacturing, marketing and distribution, TCM in China is a fast growth consumer driven business which plays to Chi-Med's organisational strengths which are deep in China consumer products experience.

Chi-Med has established operations in three of these sub-sectors: prescription drugs; OTC drugs; and health supplements. The know-how we have accumulated has prepared us to scale-up operations in each sub-sector through both organic growth and acquisitions or joint ventures.

2006 China healthcare performance

Chi-Med's China healthcare sales grew 48% to $55.1 million in 2006 (2005: $37.2 million) and operating profit grew over five-fold to $2.5 million (2005: $0.4 million). This reflected both strong operating performance and the first full-year effect of Chi-Med's most recent joint venture, Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Limited ("HBYS").

Separating out the impact of the HBYS acquisition, the China healthcare business recorded organic sales growth of 11.1% during 2006. This represents solid progress, particularly given some challenging market conditions on our prescription drug and health supplement businesses, and underlines the importance of having a diversified portfolio of products across multiple China healthcare sub-sectors. For perspective, 93% of Chi-Med's China healthcare sales were derived from a portfolio of nine core products four of them OTC drugs; three prescription; and two health foods.

Our China healthcare sales and distribution network strengthened in 2006. Currently, through our three China healthcare joint ventures, Chi-Med employs over 800 full-time and 1,200 part-time sales and distribution personnel in 30 provinces across China. This network provides us with a solid foundation for our organic growth over the coming years and closely mirrors population distribution in China.

Over-the-counter drugs

OTC drug sales, through HBYS, increased 113% in 2006 to $34.6 million (2005: $16.3m). HBYS started operations in May 2005. It recorded year-on-year organic growth of 28% in 2006 and the full year effect of HBYS added a further $13.8 million in sales.

HBYS has a very impressive track record in OTC marketing operations in China over the past four years. Three HBYS marketing and PR campaigns since 2003 have been voted in the top 10 Marketing Campaigns in China by the Xin Jing Bao and Nanfang Dushi Bao, two leading industry journals. These programmes include: 1) the PR campaign promising both free product and a price freeze on Banlangen granules (anti-viral) during the SARS epidemic of 2003; 2) the PR campaign promoting Banlangen granules as the "TCM antibiotic" concurrent with the State Government's clamp down on over prescription of antibiotics in 2004; and 3) the highly successful expired prescription medicine exchange programme of 2005-06 which led to widespread national PR coverage in China over the past eighteen months. Each of these marketing and PR campaigns has contributed to building the Baiyunshan brand in China and these successful campaigns have been a significant factor in our strong business results.

The four key products of HBYS have all exhibited fast growth despite price increases of 17% in Jun-05 on Banlangen granules (anti-viral) and of 7% in Jan-06 on Fu Fang Dan Shen tablets (Angina). These price increases, which prove pricing can rise in China healthcare, were designed to both offset the impact of raw material cost increases (sugar) and build gross margins which have improved from 52% in 2005 to 54% in 2006.

HBYS has an almost national presence across China with particular strength in central and southern China. Geographical expansion potential lies in both eastern and southwest China. We are confident that our leading brand positions in the generic OTC Banlangen granule (~40% market share) and Fu Fang Dan Shen tablet (~50% market share) markets will help us both penetrate new markets and build incrementally in our existing strong markets.

We expect our major investments in R&D should begin to reap benefits over the following two years through the HBYS R&D centre which, in March 2006, was designated as a TCM Provincial Technology Centre by the Guangdong Provincial Government. Work is currently underway to expand Fu Fang Dan Shen tablet usage indications as well as prepare Banlangen granules for export to Europe. Furthermore the fourth HBYS Good Agricultural Practice ("GAP") site, for the growing of herb raw materials, is planned for Tibet now that the Tibet railway is in place. GAP sites have proven to be a source of major product quality improvement and differentiation between HBYS's generic OTC products and its numerous competitors.

HBYS has spent the past three years developing and test marketing a range of TCM bottled drinks under the Kou Yang Qing ("KYQ") label. These products are planned to bridge the gap between TCM medicines and food & beverage products. We will continue to test market these products in Guangdong province in 2007 and based on success we will look to expand across China.

HBYS has a strong balance sheet with US$23.6 million of liquid assets on hand which came primarily from the Chi-Med cash injection at the start of the joint venture in early-2005. We intend to use this cash to support further acquisitions of TCM OTC businesses under the HBYS joint venture.

Prescription drugs

Prescription drug sales through our Shanghai Hutchison Pharmaceuticals Limited ("SHPL") joint venture remained flat in 2006 at $11.6 million (2005: $11.6m). This reflects good progress on our She Xiang Bao Xin ("SXBX") pills offset by a State Food & Drug Administration policy shift and a one-off distributor inventory rebalancing, the latter affecting our Dan Ning tablets. We expect SHPL, however, to resume growth in the current year.

Our SXBX pills are our top cardiovascular product and we grew sales by 17% to $8.7m, despite the difficulties we reported in July 2006 stemming from the State Food & Drug Administration's ("SFDA") policy of limiting medical sales representative activities in hospitals. We are succeeding to systematically migrate our commercial model on SXBX pill away from hospital sales towards targeted consumer education and brand building.

In 2006, the SXBX pill formula was awarded a State Secret Certificate as "Confidential Information" by the Ministry of Science and Technology and the State Secrecy Bureau. This certificate extends the intellectual property protection of SXBX pill for a further five years to late-2010 and guarantees SXBX pill protection against generics as well as superior status in the market as one of less than thirty TCM formulas granted protection by the State Secrecy Bureau.

Offsetting the progress on SXBX pill was a decline in the sales of Dan Ning tablets, for gall bladder inflammation, (-16% to $1.7m) due to one-time Shanghai distributor inventory rebalancing. As we also reported in July 2006, our Sheng Mai injection (cardiovascular/immunity) was affected by an SFDA policy shift which limited its prescription to emergency use only. This shift ultimately led to a 53% drop in Sheng Mai injection sales to $0.9m which, while severe, represents just 1.6% of Chi-Med's China healthcare sales and is not representative of the overall trend for the industry.

Innovation work on SHPL comes in two key areas: 1) expanding the usage claims on existing products; and 2) in-licensing of new products at pre-clinical stage. In 2006, we successfully gained SFDA approval to start clinical trials on Dan Ning tablets on a new usage indication of treating fatty liver. Two further applications to start clinical trials were submitted to the SFDA on in-licensed products, No. 1 Fu Huan (anti-hepatitis B) and Yin Zhi Huang powder injection (hepatitis). Our pipeline of new products on SHPL is robust and we believe that it will yield incremental benefit in the next three to five years.

SHPL is expected to resume growth in 2007 coming principally from geographic expansion of SXBX pill beyond our relatively limited regional east-China stronghold.

Health supplements

Health supplement sales through the Hutchison Healthcare Limited ("HHL") joint venture declined 4% in 2006 to $8.9 million (2005: $9.3m).

The lack of growth in 2006 came after the very strong geographic sales growth during 2004 (+30%) and 2005 (+52%) as we expanded our school promotion model in several new provinces in east China for our Nao Ling Tong ("NLT") capsule - an omega-3 memory product for school children. As reported in July 2006, we had hoped to continue this expansion to several new provinces in 2006 but we found that expanding at this rate geographically led to a dilution of our effectiveness. This has led us to a short-term strategy of focusing our efforts on the approximately 400 million people in our six core provincial strongholds of Chongqing, Sichuan, Anhui, Shandong, Zhejiang and Jiangsu provinces.

HHL has had strong success in these six markets over the past four years where we have built from scratch: well established commercial operations; a high level of brand and corporate awareness; and a strong understanding of the health supplement consumer in these markets.

Today, the majority of HHL sales come through NLT capsule and Zhi Ling Tong ("ZLT") capsules (pure DHA for foetus and infant brain and retinal development). The business models used on both NLT and ZLT are labour intensive with large numbers of sales staff calling on schools and hospitals throughout the country. It is this labour intensive approach that has required us to expand less quickly. In the short-term, our focus for both NLT and ZLT will be incremental growth potential within existing markets.

To accelerate HHL growth however, we will focus attention on the development of two new mass-market product initiatives over the coming year - Health Goal growth liquid and ZLT Probiotics (children's immunity). These products are designed to be sold "off-the-shelf" behind strong media support and will be less labour intensive and easier to expand than the NLT and ZLT models.

In November 2006, we began test marketing Health Goal growth liquid in four counties in Zhejiang province. Health Goal is an oral liquid designed to promote growth in children ages 4-7. It combines TCM to promote appetite with Western vitamins and minerals. The Zhejiang test market has to-date been a strong success reaching breakeven on an EBIT level only 10 weeks after the start of advertising. We will continue to monitor this test and contingent on continued strong results through Q2 2007. We will expand this test systematically into our six core provincial markets.

In mid-2007 we expect to receive registration approvals from the SFDA to begin test marketing ZLT Probiotics. ZLT Probiotics is a product priced at a level that will appeal to the mass markets, while building off the strong brand equity created by the ZLT capsule (pure DHA) business which is limited to hospital sales because of its very high price and requirement for doctor referrals.

China healthcare mergers & acquisitions

At IPO, we stated that Chi-Med intended to expand both organically via its three existing China joint ventures, as well as through a selective acquisition programme.

We are currently in negotiations with a number of mainland China healthcare companies. In addition to the internally generated prospects, we also have several advisers supporting our M&A search and negotiation programme. We have stated that it is simply a matter of time before Chi-Med announces progress in the area of China healthcare M&A. As is always the case in such negotiations, and particularly in the Chinese market, patience and thorough due diligence are the most important factors. The success of our most recent joint venture, HBYS, is proof that good investment opportunities are available and we need to spend great effort and time separating the good from the bad. We fully expect China healthcare M&A activity to rapidly evolve Chi-Med over the coming years.

DRUG RESEARCH & DEVELOPMENT

Hutchison MediPharma Limited ("HMPL"), under the strong leadership of Dr. Samantha Du and her team, is dedicated to transforming scientific discoveries from TCM into innovative therapies for cancer and auto-immune diseases. Based in Shanghai, HMPL is uniquely positioned to take advantage of an in-depth knowledge of TCM, a large pool of scientific talent, a large and affordable patient population, and easy access to a China's fast growth biotech infrastructure.

During 2006, HMPL advanced its two leading candidates into Phase II studies in both the US and China. Our HMPL-004 Phase II programs is expecting proof-of-concept ("POC") readout in Q3 2007. With a tripartite discovery approach including botanical drugs, natural products for optimal productivity, and synthetic new chemical entities, HMPL has filed multiple patent applications to protect its new discoveries. In the field of cancer therapy, a novel series of chemicals was discovered for a receptor tyrosine kinase and was progressed into late discovery stage. In the field of inflammatory disease, a novel small molecule, which inhibits the synthesis of cytokines through inhibition of NF-K beta activation was discovered and has entered the preclinical stage. In addition to these internal discovery programs, HMPL has also established IP co-ownership model strategic alliances with global healthcare companies Merck KGaA and Procter & Gamble. These collaborations are expected to bring both meaningful short-term revenue and major long-term value creation to Chi-Med.

2006 Drug R&D performance

Drug R&D registered its first income with $0.2 million in 2006 (2005: $0.0 million) with payments from Merck KGaA and Procter & Gamble for collaborations started in Q4 2006. Operating loss increased 20% to -$6.0 million (2005: -$5.0 million) as a result of further investment in HMPL's discovery organization and activities as well as clinical programmes in the US and China.

HMPL-002, sensitizer for cancer chemo-radiotherapy

HMPL is currently developing HMPL-002 in the United States for locally advanced head and neck cancer ("HNC") patients undergoing concurrent Cisplatin chemo-radiotherapy treatment. As reported in July 2006, HMPL had completed preclinical studies and successfully obtained the approval from the US Food and Drug Administration ("FDA") for its IND amendment to extend the clinical trials to concurrent chemo-radiotherapy. The radiation therapy alone targets a relatively smaller portion of the eligible patient population, as concurrent platinum-based chemo-radiotherapy is now considered the standard treatment for most locally advanced HNC patients who could tolerate the combined modality. The granting of this amendment from the FDA allows us to not only target a much larger patient population at faster speed, but also broaden the market potential of this important drug. The newly amended trial is in active recruitment stage. We now anticipate the completion of the Phase I portion of the combination trial and the initiation of the Phase II clinical studies in the US for the concurrent chemo-radiotherapy before the end of 2007.

HMPL is also proceeding well with a Phase II proof-of-concept ("POC") study in China of HMPL-002 indicated for its concurrent chemo-radiotherapy in stage III A/B non-small cell lung cancer ("NSCLC") patients. The clinical study examines the efficacy and safety of HMPL-002 in its concomitant use with the most accepted first-line chemo-radiotherapy for NSCLC patients. The study is now in its active recruiting period. Through February 2007, nearly half of the targeted patient numbers have been enrolled. We expect to complete the patient's enrollment by the end of 2007.

Clinical studies conducted in China on over 3,000 human subjects have shown that HMPL-002 in combination with radiotherapy alone had only limited adverse reactions in patients with solid tumours. The most reported and notable adverse reactions are limited in gastrointestinal system such as nausea, vomiting, and diarrhoea. In our current clinical trials in the US for HNC and in China for NSCLC, data collected so far have further shown that HMPL-002 is generally well tolerated with no unexpected safety outcomes by patients undergoing concurrent platinum-based chemo-radiotherapies.

HMPL-004 – treatment for auto-immune disorders

HMPL-004 is our second lead drug candidate in Phase II clinical development. HMPL is conducting two clinical studies to evaluate the safety and efficacy of HMPL-004. A Phase II trial in the US for Crohn's disease ("CD") and a proof of concept ("POC") study in China for ulcerative colitis ("UC").

The US Phase II trial is a double blinded, randomised, multi-centred, placebo-controlled study in both male and female patients with active moderate Crohn's disease. We are anticipating finishing patient enrolment and treatment in 2008. The POC study of HMPL-004 for UC is progressing well in China. We are anticipating initial reading from this study by 3Q 2007.

The anti-inflammation activity of HMPL-004 was originally identified in a cell-based anti-inflammation screening assay at HMPL. We have demonstrated that HMPL-004 inhibits multiple targets in the mechanisms leading to inflammatory processes. These anti-inflammation activities of HMPL-004 were further confirmed in various experimental animal models. Additional three-month animal toxicity studies demonstrated no significant toxicities of HMPL-004, in agreement with the known safety profile of previous human usage experience of the herb.

Discovery

2006 has been a fulfilling year for discovery. We are continuing our efforts on auto-immune and oncology and growing the organisation significantly. In the oncology field, a novel chemical series was discovered for a receptor tyrosine kinase. As of the end of 2006, multiple compounds in the series demonstrated potency in vitro activity, good selectivity and efficacy in animal models of tumor growth. Patent application is in preparation. In support of our clinical candidate HMPL-002, an active metabolite of HMPL-002 was identified and PCT patents were filed. The discovery of the metabolite will contribute to our understanding of how HMPL-002 works in-vivo, open up more options for drug delivery to optimise efficacy and safety, and add value to HMPL-002. The identification of this metabolite provides further IP protection to the HMPL-002 product. On the auto-immune front, a novel small molecule cytokine synthesis compound was discovered. This compound inhibits the synthesis of cytokines through inhibition of NF-K beta activation and has demonstrated activity in animal models of a variety of inflammatory diseases, including inflammatory bowel diseases, rheumatoid arthritis and multiple sclerosis. Currently this project is in preclinical evaluation phase.

Strategic alliances

Two external collaborations were announced during 2006: a drug discovery collaboration with Merck KGaA of Germany; and a natural product screening collaboration for skin care targets with Procter & Gamble of the US. These collaborations adopted a risk and reward sharing scheme with milestones and royalty payments to HMPL. These deals mark the first intellectual property co-ownership collaborations of this type for a Chinese pharmaceutical company with

global healthcare companies. We expect revenues in the $1 million range in 2007 accelerating significantly from 2008 onwards from success based milestone payments and royalties from these agreements.

CONSUMER PRODUCTS

Chi-Med's objective for our consumer products division is to create and develop a differentiated, "new to the world", premium brand centred on consumer health products and services derived from TCM and to establish Sen as the leading TCM brand in the Western world.

We believe consumers in the Western world are becoming increasingly interested in complementary and alternative healthcare in addition to having an already high level of interest in consumer products with botanical based ingredients. This interest places TCM as one of the highest potential new premium consumer products concepts in the market that can be applied to most consumer products categories including food and beverage ("F&B"), beauty, and obviously health.

Given the regulatory constraints surrounding TCM and herbal medicines, as well as our desire to test multiple product ranges, we chose a retail format to start pilot testing the Sen Brand and product portfolio. We also chose to start this pilot test in London in order to gain access to the highly diverse and international consumer population. This London test has given us invaluable learning on how premium demographic consumers from all over the world view TCM.

Our primary focus over the past four years has been to create a profitable retail business model on the Sen Brand. This has required aggressive expansion of our product portfolio into multiple categories such as F&B, body care, skin care, and TCM services (e.g. acupuncture, acupressure & reflexology), as well as tight controls in rental, fit-out, and staffing costs. We have been successful in our efforts and now have a profitable operating model on a shop-level. This has meant that the majority of new shops opened in 2005 and 2006 have delivered operating profit from day one thereby contributing to paying our head office and warehouse overhead costs.

2006 Consumer products performance

Chi-Med's consumer products sales grew 206% to $2.1 million in 2006 (2005: $0.7 million) and operating losses declined 16% to -$1.1 million (2005: -$1.3 million). The driver of the improvement was the full year effect of the new Sen shops in the City (Spitalfields) and Chelsea (King's Road), as well as part year effect of the Harrods and Harvey Nichol's shops in Knightsbridge.

Excluding new store openings in 2006, Sen delivered very strong like-for-like organic growth in net sales of 32% in 2006 in shops open for more than one year. This is highly encouraging as it shows that the Sen proposition is one that generates loyalty and repurchase over time.

Breaking down the 2006 performance of each of the core Sen product and service categories, we can see that major progress was made in retail item sales (e.g. F&B, body, and skin care) with total sales up 174% in 2006 (organic growth 28%); and provision of consultations & services up 294% in 2006 (organic growth 34%). OTC medicine sales grew 143% in total, but organically they declined by 9% as more customers were traded up to more effective tailor-made prescription formulations provided after consultation.

New Shops

We will focus on opening new shops in central London, aiming to build a very strong presence and reputation through opening a further seven shops. This will bring the total number of Sen shops within central London to thirteen over the coming 12 to 18 months and will allow us to start targeted marketing and PR campaigns. We expect these new shops to contribute sufficient profit to put Sen in a breakeven position on a standalone basis.

CONCLUDING REMARKS

Chi-Med intends to build each of our three core divisions into successful, large-scale businesses. It is our intention to become one of the leading players in China healthcare; to successfully discover and bring new oncology and auto-immune therapies to global markets; and to create a globally known consumer products brand. With the very high quality and energy of our entrepreneurial management and the strong support of Hutchison Whampoa, I am confident we will achieve our ambitions.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 US$'000	2005 US$'000
Sales	2	57,474	37,861
Cost of sales		(23,404)	(14,615)
Gross profit		34,070	23,246
Selling expenses		(23,902)	(18,200)
Administrative expenses		(20,709)	(10,837)
Other net operating income		2,302	63
Operating loss		(8,239)	(5,728)
Finance costs		(392)	(496)
Share of results of an associate		-	(7)
Loss before taxation		(8,631)	(6,231)
Taxation charge		(1)	(141)
Loss for the year		(8,632)	(6,372)
Attributable to:			
Equity holders of the Company		(9,605)	(6,777)
Minority interests		973	405
		(8,632)	(6,372)
Loss per share for loss attributable to equity holders of the Company during the year			
- Basic and diluted (US$ per share)	3	(0.2101)	(0.1848)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	2006 US$'000	2005 US$'000
ASSETS		
Non-current assets		
Property, plant and equipment	22,874	22,012
Leasehold land prepayments	4,230	4,085
Goodwill	6,241	5,948
Trademarks and patents	775	862
Available-for-sale financial asset	128	-
	34,248	32,907
Current assets		
Inventories	9,490	8,678
Trade receivables	16,582	12,864
Other receivables and prepayments	2,110	2,816
Financial assets at fair value through profit or loss	60,544	-
Cash and bank balances	10,069	5,617
	98,795	29,975
Total assets	133,043	62,882
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	51,212	-
Reserves	51,739	(33,670)
	102,951	(33,670)
Minority interests	7,030	5,661
Total equity/(deficits)	109,981	(28,009)
LIABILITIES		
Current liabilities		
Trade payables	3,185	3,938
Other payables and accruals	11,894	8,156
Amounts due to related parties	868	71,412
Short-term bank loans	7,115	7,385
Total liabilities	23,062	90,891
Total equity and liabilities	133,043	62,882

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

	Attributable to equity holders of the Company								
	Share capital US$'000	Share premium US$'000	Share-based Compensation reserve US$'000	Exchange reserve US$'000	General reserves US$'000	Accumulated losses US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
As at 1 January 2005	-	-	-	(31)	-	(27,368)	(27,399)	-	(27,399)
Exchange translation differences	-	-	-	468	-	-	468	-	468
(Loss)/profit for the year	-	-	-	-	-	(6,777)	(6,777)	405	(6,372)
Capital injection by minority shareholder of a subsidiary	-	-	-	-	-	-	-	5,256	5,256
Relating to disposal of a subsidiary	-	-	-	38	-	-	38	-	38
As at 31 December 2005	-	-	-	475	-	(34,145)	(33,670)	5,661	(28,009)
As at 1 January 2006	-	-	-	475	-	(34,145)	(33,670)	5,661	(28,009)
Exchange translation differences	-	-	-	1,369	-	-	1,369	308	1,677
(Loss)/profit for the year	-	-	-	-	-	(9,605)	(9,605)	973	(8,632)
Issue of shares	51,212	97,560	-	-	-	-	148,772	-	148,772
Share issuance costs	-	(6,283)	-	-	-	-	(6,283)	-	(6,283)
Relating to acquisition of subsidiaries by a jointly controlled entity	-	-	-	-	-	-	-	58	58
Relating to formation of a subsidiary by a jointly controlled entity	-	-	-	-	-	-	-	30	30
Share-based compensation expense	-	-	2,368	-	-	-	2,368	-	2,368
Transfer between reserves	-	-	-	-	29	(29)	-	-	-
As at 31 December 2006	51,212	91,277	2,368	1,844	29	(43,779)	102,951	7,030	109,981

CONSOLIDATED CASH FLOWS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 US$'000	2005 US$'000
Cash flows from operating activities			
Cash used in operations	4	(3,246)	(13,080)
Interest received		559	104
Interest paid		(392)	(496)
Income tax paid		(1)	(20)
Net cash used in operating activities		(3,080)	(13,492)
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,582)	(1,781)
Purchase of trademarks and patents		(44)	-
Purchase of available-for-sale financial asset		(124)	-
Net capital injection in the formation of jointly controlled entities		-	(11,675)
Acquisition of subsidiaries by a jointly controlled entity		(20)	-
Formation of a subsidiary by a jointly controlled entity		30	-
Disposal of a subsidiary		-	(14,518)
Net cash used in investing activities		(2,740)	(27,974)
Cash flows from financing activities			
Increase in amount due to immediate holding company		2,479	25,072
Increase in amount due to minority shareholder of a subsidiary		-	5,253
New short-term bank loans		374	317
Repayment of short-term bank loans		(936)	(302)
Capital injection by minority shareholder of a subsidiary		-	3
Issue of shares, net of share issuance costs		68,743	-
Net cash from financing activities		70,660	30,343
Net increase/(decrease) in cash and cash equivalents		64,840	(11,123)
Cash and cash equivalents at beginning of year		5,617	16,274
Exchange differences		156	466
Cash and cash equivalents at end of year		70,613	5,617
Analysis of cash and cash equivalents			
- Cash and bank balances		10,069	5,617
- Financial assets at fair value through profit or loss		60,544	-
		70,613	5,617

NOTE

1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets, which were carried at fair value.

2 Segment information

The Group's activities can be categorised into three main areas:

- China healthcare: comprises the development, manufacturer, distribution and sale of traditional Chinese medicine pharmaceuticals and health supplements.
- Consumer products: relates to traditional Chinese medicine-based consumer products and services sold through retail stores.
- Drug research and development: relates mainly to pharmaceutical research and development activities.

	2006	2005
China healthcare	55,147	37,176
Consumer products	2,099	685
Drug research and development	228	-
Total	57,474	37,861

3 Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
Loss attributable to equity holders of the Company (US$000)	(9,605)	(6,777)
Weighted average number of ordinary shares in issue (Note)	45,712,743	36,666,667
Basic loss per share (US$ per share)	(0.2101)	(0.1848)

Note:

The weighted average number of ordinary shares for the purposes of basic earnings per share has been retrospectively adjusted for the effects of the capitalisation of 36,666,665 ordinary shares on 9 May 2006.

Diluted loss per share is not presented as the exercise of the employee share option would have an antidilutive effect.

4 Notes to consolidated cash flow statements

(a) Reconciliation of loss for the year to cash used in operations

	2006 US$'000	2005 US$'000
Loss for the year	(8,632)	(6,372)
Adjustments for:		
Taxation charge	1	141
Share of results of an associate	-	7
Share-based compensation expense	2,368	-
Amortisation of trademarks and patents	163	154
Amortisation of leasehold land prepayments	91	72
Depreciation on property, plant and equipment	2,740	2,093
Loss on disposal of property, plant and equipment	80	11
Interest income	(559)	(175)
Interest expense	392	496
Net gain on disposal of a subsidiary	-	(195)
	(3,356)	(3,768)
Changes in working capital:		
- increase in inventories	(184)	(2,375)
- increase in trade receivables	(3,062)	(5,257)
- decrease/(increase) in other receivables and prepayments and amounts due from related parties	854	(1,172)
- decrease in trade payables	(927)	(1,279)
- increase in other payables and accruals and amounts due to related parties	3,429	771
Cash used in operations	(3,246)	(13,080)

Ends