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# Hutchison Whampoa Limited

*(incorporated in Hong Kong with limited liability)*  
**(Stock Code: 13)**

## 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 71.5% owned subsidiary of Hutchison Whampoa Limited.

As at the date of this announcement, the Directors of the Company 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  
Mrs Margaret LEUNG KO May Yee  
Mr William Elkin MOCATTA  
*(Alternate to The Hon Sir Michael  
David Kadoorie)*  
Mr WONG Chung Hin

Hong Kong, 4 March 2010



HUTCHISON CHINA MEDITECH LTD

**Hutchison China MediTech Limited (“Chi-Med”)  
(AIM: HCM)**

**Final Results for the year ended 31 December 2009**

**Strong results. Momentum continues. Positive outlook.**

**London: Thursday, 4 March 2010:** Chi-Med today announces its final results for the year ended 31 December 2009.

**Group Results**

- Revenues up 28% to \$111.0 million (2008: \$87.0m). Top line growth across all divisions.
- Operating loss cut sharply to \$4.6 million (2008: -\$14.2m) reflecting profit growth in China Healthcare Division and reduced loss in Drug R&D Division.
- Net loss attributable to equity holders more than halved to \$8.7 million (2008: -\$17.8m).
- \$3.6 million positive cash inflow (2008: \$15.1m outflow). \$41.8 million in cash and cash equivalents as at 31 December 2009 (31 December 2008: \$38.2m).

**China Healthcare Division**

- Sales up 26% to \$102.0 million (2008: \$80.7m). All organic growth.
- Operating profit up 43% to \$13.1 million (2008: \$9.1m).
- Net profit attributable to equity holders up 58% to \$9.3 million (2008: \$5.9m).

**Drug R&D Division**

- Sales up 112% to \$4.8 million (2008: \$2.3m) from research income from Eli Lilly and Company and Ortho-McNeil-Janssen Pharmaceuticals, Inc.
- Operating loss reduced by 35% to \$9.9 million (2008: -\$15.4m).
- Lead drug candidate, HMPL-004, met all clinical endpoints in US/European Phase IIb ulcerative colitis trial and is now a candidate for out-licensing.
- HMPL-011 approved for Phase I trial in Australia. Two further small molecule oncology drugs under review by China State Food & Drug Administration for Phase I clearance.

**Consumer Products Division**

- Development of strategy to accelerate growth by re-focusing on the China mass market.
- Formed Hutchison Hain Organic Holdings Limited – a new entity established with The Hain Celestial Group, Inc., a leading US organic and natural consumer products group. Sales launched in Hong Kong.
- Sen sales in Europe up 4% to \$4.2 million (2008: \$4.1m). Good progress in expansion to over 200 Marionnaud shops in France.

**Christian Hogg, Chi-Med CEO, said:**

“2009 was a good year for Chi-Med, in which we made considerable progress across all three divisions. We substantially grew our revenues, markedly reduced net loss, delivered net positive cash inflow and significantly strengthened our growth platform. Together, this has delivered considerable shareholder value over the year.

Just as important, we believe our outlook remains very strong. Our China Healthcare business has reinforced its position within the rapidly expanding China healthcare market and is well positioned to continue its impressive record of growth and realise further scale synergies. Our Drug R&D business has brought its lead drug candidate to the point of being a candidate for out-licensing. It has also strengthened its development pipeline and enhanced its reputation as one of China’s leading drug R&D companies. In our Consumer Products business, we have turned the focus to mass market retail distribution and to the considerable opportunities we see in the China market. We believe this creates the basis for this division to become a material component of the Chi-Med group.

The success of our strategy and execution to date has expanded our ability to drive further growth. We are leveraging our deep understanding of the China market, the strength of our scientific know-how, our scale manufacturing base and distribution network and the synergies with the retail division of Hutchison Whampoa Limited. We face the future with confidence and believe we will deliver increasing shareholder value this year and beyond.”

The Annual General Meeting of Chi-Med will be held at Citigate Dewe Rogerson, 3 London Wall Buildings, London, EC2M 5SY on Friday, 30 April 2010 at 11:00 a.m.

## **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. It is focused on researching, developing, manufacturing, and selling pharmaceuticals and health oriented consumer products.

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

*Results are reported in US dollar currency unless stated otherwise.*

## **CHAIRMAN'S STATEMENT**

2009 has been an important year for Chi-Med, one that has created significant shareholder value and one that positions us well for the future.

Financially, we have grown sales of Chi-Med and its subsidiaries (the "Group") by 28% to \$111.0 million, more than halved the net loss attributable to equity holders to \$8.7 million and generated positive cash flow.

Operationally, our China Healthcare and Drug R&D divisions in particular have again performed particularly well.

Strategically, we have formed a new and exciting organic and natural products entity within our Consumer Products Division, which we believe has the potential to considerably grow this business.

The scale and pace of growth of China's economy are formidable, and we have strong belief in its continued potential, particularly in the sectors within which we operate. We have a deep understanding of the China market, strong research, production and commercial capabilities within it, increasing scale economies and the benefits of Hutchison Whampoa Limited's ("HWL") experience and connections.

Our goal continues to be to build a unique, well-balanced portfolio of health and consumer products businesses in China. We use Chinese market trends and consumer insight, and combine these with global know-how, modern science and high quality local execution to develop novel products, for which the Chinese customer has a need. This opens new avenues for growth. We also take care to manage both the pace of growth and the risks associated with it.

I thank all our Directors, management and employees not only for delivering these results but for creating such a strong platform for continued future growth. We have not wavered in our belief of what Chi-Med can create and we are today able to demonstrate results, and the potential for the future.

### **China Healthcare Division**

The healthcare market in China continues to grow strongly, and our China Healthcare Division continued its impressive organic growth with revenues up 26% and net profit attributable to equity holders up 58% - a more than eight-fold growth since our listing in 2006. We believe it is also extremely well positioned to continue rapid growth.

Driving the China healthcare market is the growth of China's State healthcare programmes, which still only effectively cover a minority of the population but are progressively being rolled-out, as well as growth in consumer income. Traditional Chinese Medicine ("TCM") accounts for approximately 30% of the total China healthcare market in 2008 (Chinagate.com.cn) and is growing at least in line with the market, not least because TCM is supported by the Chinese Government's healthcare policy and has deep regional consumer acceptance.

Our China Healthcare Division has always focused primarily on TCM and we believe it is positioned for further growth. It is benefiting from scale economies, its brand strengths and its increasingly powerful distribution network. It has also secured very strong positions for its main products on both the 2009 edition of the Medicines Catalogue for national basic medical insurance, labour injury insurance and child birth insurance systems (“NMC”) for drug reimbursement and the New National Essential Medicines List (“Essential Medicines List”) that mandates distribution of drugs in China.

With our range of Chinese household name TCM products, we continue to expect strong performance and further margin improvement. Benefiting from HWL’s infrastructure, experience and depth of connections in China, we also continue to seek potential value-creating acquisitions and joint ventures.

We have also looked outside of TCM in order to capitalise on Chinese consumer needs. An example of this is our infant nutrition business, where we identified a need for world-class infant nutrition supplements, sourced premium quality products and know-how, and have over the past seven years built a high growth and profitable brand in this market.

### **Drug R&D Division**

Our Drug R&D business has had a successful year.

Our lead drug candidate, HMPL-004, delivered successful results in its global Phase IIb trial for ulcerative colitis (“UC”), and we are now engaged in finding the right partner to take this drug into Phase III and beyond. We also expanded our in-house oncology and inflammation small molecule pipeline with HMPL-011, entering Phase I trial in Australia; HMPL-012 and HMPL-013 being submitted for fast-track Investigational New Drug (“IND”) review in China; and a further two drugs, HMPL-813 and HMPL-309, proceeding into late-preclinical stages. Together with the continued good progress in our strategic alliances with Eli Lilly and Company (“Eli Lilly”) and Ortho-McNeil-Janssen Pharmaceuticals, Inc. (“J&J”), we have built strongly on our position.

From its inception, our Drug R&D Division focused on TCM, with its botanical origins and history of efficacy and safety, as a source of novel drugs for the global marketplace. This focus continues; but as our organisation and resource have grown – we now have a team of over 210 scientists and staff – we have formed strategic partnerships with major Western pharma groups and we have evolved our business into a focused conventional small molecule discovery group. Our concentration remains on oncology and auto-immune disease, both highly relevant therapeutic areas for the China and global markets.

Thanks to our continuing strong internal and partnership discovery activities and the depth of our oncology preclinical pipeline, we can now look to evolve towards becoming a fully integrated pharmaceutical company in China focusing on cancer treatment. We believe the market for cancer treatment in China will represent a very fast growth opportunity over next ten to twenty years. Consequently, we expect to register our novel cancer drugs in China and start manufacturing and distribution over the next three to five years.

### **Consumer Products Division**

Our growth and deep understanding of the China marketplace, where we see considerable opportunities, have led us to significantly develop our strategy for our Consumer Products Division.

We believe there is a considerable and growing consumer need for mass market priced, high quality, and health oriented consumer products in China. The area of infant nutrition is an obvious example, but the point is relevant across all mainstream food and personal care categories. In order to capitalise on this opportunity, we have linked with The Hain Celestial Group, Inc. ("Hain Celestial"), a global leader in the field of organic and natural products, to speed our entry into the market in China.

We will now also focus our Sen consumer products strategy on sales to external health and beauty retailers, where we had some success during 2009 in France. We believe this will allow us better to leverage synergy with HWL's wholly owned A.S. Watson Group of over 8,600 retail shops, and whose strength in China, Asia, and Europe, should help us to build Sen. As this external retailer sales strategy evolves, we may consider scaling back our number of stand-alone internally operated shops in London.

### **Corporate Governance**

We maintain high standards of corporate governance to build the long-term interests of the Company and maximise the long-term returns to shareholders.

During 2009, the Chi-Med Board remained unchanged. As a group, our Independent Non-executive Directors bring a wealth of expertise on AIM and growth businesses, corporate governance, and pharmaceutical research and development. They have made, and continue to make a valuable contribution to the evolution of Chi-Med and I very much appreciate their involvement and wish to thank them all for their efforts.

### **Dividend**

The Board has decided not to recommend a dividend for the year ended 31 December 2009.

Over the near term, based on the success of the past few years, we believe we are now well placed to guide Chi-Med into a profitable and dividend paying era. We will achieve this without compromising the significant investment and growth opportunities that we see in China.

### **Simon To**

Chairman, 4 March 2010

## **CHIEF EXECUTIVE OFFICER'S STATEMENT**

### **Group Results**

Chi-Med once again performed strongly in 2009 with total sales up 28% to \$111.0 million (2008: \$87.0m). This reflected continued strong organic growth in our China Healthcare Division where sales grew 26% to \$102.0 million (2008: \$80.7m); a doubling of sales in our Drug R&D Division from Eli Lilly and J&J projects to \$4.8 million (2008: \$2.3m); and a 4% increase in Consumer Products Division sales on Sen to \$4.2 million (2008: \$4.1m).

Group operating loss was cut sharply to \$4.6 million (2008: -\$14.2m) reflecting the strong growth and improved margins in our China Healthcare business, the increased income in our Drug R&D business and the capitalisation of certain R&D expenses which was made possible by the highly successful HMPL-004 Phase IIb trial result.

Group's net overhead costs were \$5.2 million (2008: \$5.4m) reflecting tight cost control.

Finance costs of \$0.4 million (2008: \$0.5m) arose primarily as a result of borrowings of Shanghai Hutchison Pharmaceuticals Limited ("SHPL") and Hutchison Healthcare Limited ("HHL") in the China Healthcare Division.

Profit attributable to minority interests increased to \$1.7 million (2008: \$1.5m) as Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited ("HBYS") continued to improve performance.

Our tax charge was \$2.1 million (2008: \$1.5m) reflecting the growth in China Healthcare profitability, but benefiting from the low corporate income tax rates of 12.5% on both HBYS and SHPL. These rates are the result of tax holidays granted at the start of these joint ventures. Although these tax holidays expired in 2009, both SHPL and HBYS have been granted the High and New Technology Enterprise ("HNTE") status and, as such, will receive preferential tax status until the end of 2010, with an enterprise income tax rate of 15%. HNTE status is renewable subject to approval by relevant tax authorities. HHL, our third profitable China subsidiary will not pay any tax for the next few years due to its accumulated losses. In addition to enterprise income tax in China, we pay 5% withholding tax on dividends remitted outside China; the accrual for such items totalled \$0.6 million (2008: \$0.3m).

In total, the Group's net loss attributable to equity holders more than halved to \$8.7 million from \$17.8 million in 2008, and loss per share improved from 34.7 US cents in 2008 to 17.1 US cents in 2009.

Cash flow increased sharply with a net inflow of \$3.6 million in 2009, compared with a net outflow of \$15.1 million in 2008.

The Group maintains a strong financial position. As of 31 December 2009, net assets were \$75.3 million, including cash and cash equivalents totalling \$41.8 million (31 December 2008: \$38.2m). The Group has no debt outside of the China Healthcare Division. As at 31 December 2009, the China Healthcare Division held bank loans totalling \$8.3 million or 0.5 times 2009 EBITDA.

## **Overview of Business Divisions**

### **China Healthcare Division**

Our China Healthcare Division grew sales 26% to \$102.0 million. The strong revenue growth was all organic and reflected the growth in demand for both prescription and over-the-counter ("OTC") drugs in China, as well as the quality and strength of our brands, distribution channels and sales and marketing programmes.

Operating profit was up 43% to \$13.1 million, reflecting increasing scale synergies. Net profit attributable to equity holders increased 58% to \$9.3 million, resulting from the division's strong growth and the buy-out of the last of our minority partners in HHL.

Since 2005, the year before flotation, our China Healthcare Division has managed an impressive 29% compound average annual sales growth and has multiplied operating profit by over 24

times. Each of its three operating businesses has grown ahead of the rapidly expanding China market, and we believe each is well placed to continue this momentum in 2010. In 2009, we succeeded in securing a highly competitive position for our main products on the new Essential Medicines List that mandates distribution of drugs in China, and the NMC for drug reimbursement. We believe this positions our China Healthcare Division well to benefit from the Chinese Government's healthcare reforms.

To illustrate the scale of our China Healthcare Division's operations in China, in 2009, it manufactured and sold over 4.6 billion doses of medicine through its OTC and prescription channels, with combined domestic sales of HBYS, SHPL and HHL in 2009 of \$197.0 million. Under International Financial Reporting Standards accounting rules, Chi-Med consolidates 50% of the two jointly owned entities within the China Healthcare Division, HBYS and SHPL, and 100% of its now wholly-owned HHL operation.

Chi-Med's China Healthcare Division employs a total of over 4,100 staff (2008: 3,700), about 1,500 of these in general administration and two large-scale factories in Guangzhou and Shanghai, and about 2,600 in sales, marketing, and distribution operations in over 200 cities in China.

### **Drug R&D Division**

Hutchison MediPharma Limited ("HMPL") more than doubled its revenues to \$4.8 million in 2009, reflecting increased research and milestone payments from HMPL's collaborations with Eli Lilly and J&J.

It also substantially cut its operating loss from \$15.4 million in 2008 to \$9.9 million in 2009, reflecting both revenue growth as well as the capitalisation of expenses incurred in the development of our lead drug candidate, HMPL-004. We expect HMPL's operating performance to continue to improve in 2010.

Through its preclinical and clinical successes, we believe that HMPL has developed to be one of the leading drug discovery and development operations in China. In 2009, its lead drug candidate, HMPL-004, returned both encouraging Phase II results for Crohn's disease as well as break-through Phase IIb results for UC in which all primary and secondary end points were met. HMPL is now in a position to out-license HMPL-004 to a global partner for continued Phase III development and commercialisation.

Three novel, small molecule drugs emerged from pre-clinical during 2009. HMPL-011 is a first-in-class drug for inflammation, that was approved to enter Phase I trials in Australia. HMPL-012 and HMPL-013 are two angiogenesis inhibiting oncology drugs which are currently under IND review by the China State Food and Drug Administration ("SFDA"). The two latter projects open up what we consider to be a major opportunity as they represent the first "home grown" oncology drug candidates developed in China by a Chinese company. As such, they are attracting significant attention and support from the SFDA. The cancer treatment market in China is believed likely to become the largest in the world over the next twenty years. HMPL-012 and HMPL-013 represent the first steps on a pathway for HMPL to evolve from being a drug discovery and development company into a fully integrated China pharmaceutical company and eventually, we hope, one of China's leading cancer treatment companies.



HMPL has also continued to build its strategic partnerships, which balance financial risk in discovery and development stages, to generate increasing third-party income and augment our in-house know-how. During 2009, we progressed multiple “co-ownership” drug candidates through the research and pre-clinical stages under the collaborations with Eli Lilly and J&J.

### **Consumer Products Division**

The Consumer Products Division grew sales by 4% to \$4.2 million, reflecting global economic impacts on the retail markets in Europe. Nevertheless, the operating loss was narrowed very slightly from \$2.6 million in 2008 to \$2.5 million.

The impact of the global recession reduced like-for-like sales for our nine shops in London by some 10%. Largely offsetting this, Sen’s sales in France tripled to \$1.0 million, with its 34 top selling personal care products now being sold in over 200 Marionnaud outlets. The potential to expand Sen’s presence through Marionnaud’s over 1,200 shops in 13 countries, provides the opportunity to give Sen the scale it needs to reach profitability.

Importantly, we have now developed our Consumer Products Division’s strategy to take advantage of the considerable opportunities we have identified in the mass market in China. This holds the ability to make this Division a material part of the Group.

In October 2009, we established a new entity with Hain Celestial to develop its business in Asia. Hutchison Hain Organic Holdings Limited (“HHOH”) commenced operations in late 2009 and is currently launching new organic and natural products into PARKnSHOP, HWL’s leading supermarket chain in Hong Kong with more than 230 shops. The scale of this initiative is material. In December 2009, PARKnSHOP agreed to list a broad range of new organic and natural product items and placed an initial pipeline order for launch in early 2010. In addition, HHOH is planning to launch various new organic and natural personal care products through Watsons, HWL’s over 1,700-shop health and beauty chain in Asia.

HHOH is also in the process of developing and registering a break-through, European made, organic infant formula product range for the China market. This is to be co-branded Zhi Ling Tong (“ZLT”) and Earth’s Best® organic. Earth’s Best® is Hain’s US market leading organic infant nutrition brand and ZLT is Chi-Med’s high-end China infant supplements brand. This infant formula will take advantage of the major flux in the China infant formula market caused by the 2008 melamine contamination scandal. We intend to use our existing commercial distribution network in China to rollout these exciting products in 2010. The opportunity for Chi-Med in this area is material given the major scale of retail sales in the China infant formula market which are reported to be approximately \$3.5 billion (Media.asia).

### **Healthcare Market in China**

#### *The China Healthcare Market*

We believe that China represents the most significant healthcare opportunity in the world today, and may continue to do so for the next ten to twenty years.

China’s 1.3 billion people represent almost 20% of the world’s population. As a result of low birth rates due to the one-child policy, this population is aging. Of the approximate 9.4 million deaths in China in 2008 reported in the China Statistical Yearbook, we believe chronic diseases such as cancer (27% of deaths); cardio-vascular and cerebro-vascular disease (39% of deaths); and

respiratory disease (12% of deaths) are related to lifestyle problems such as smoking, poor diet and environmental issues such as pollution, stemming from China's industrialisation.

At present, per capita spending on healthcare in China remains very low by global standards. According to the statistics of the World Health Organisation ("WHO"), China's per capita total expenditure on health in 2006 was just \$94 per person, compared with \$6,719 per person in the US and \$3,332 per person in the UK. China ranked eighth on the WHO list of the world's largest healthcare markets in 2006 with total expenditures of approximately \$124.9 billion. However, with expenditure growing at an average of around 14% a year between 2003 and 2006 (2009 China Health Statistical Year Book), we believe it is reasonable to assume that China will bypass Japan as the second largest global healthcare market in the next decade.

Ex-factory sales in China for prescription and OTC pharmaceuticals, the market sector in which Chi-Med competes, grew 24% to \$29.5 billion in 2007 and maintained an average 22% compound annual growth between 2003 and 2007 (Business Monitor International). This is well ahead of the approximately 10% average annual GDP growth rate for China's economy over the past five years. We believe that this reflects both the Chinese consumer and the Government making healthcare a priority for investment as the country develops and consumers become wealthier.

#### *Chinese Government Healthcare Policy and Reform*

In 2009, the China State Council approved in principle the final draft of its healthcare reform programme which laid out Government spending of RMB850 billion (\$124.3 billion) from 2009 to 2011, with the objective of providing accessible and affordable healthcare to the country's 1.3 billion population.

China's Basic Medical Insurance System ("BMIS") is a nationwide system. It currently includes four schemes: the basic medical insurance scheme for urban employees; a scheme for urban residents targeting primarily the unemployed, such as the elderly and children; the rural cooperative medical insurance scheme; and medical aid for the poor in both rural and urban areas. According to the National Bureau of Statistics of China, approximately 317 million people (24% of the Chinese population) were enrolled in the basic medical insurance schemes for urban employees and urban residents as at the end of 2008 (2007: approximately 223m). We believe that this 42% growth in enrolment is an important driver behind the rapid China growth in sales of prescription and OTC pharmaceuticals.

Under the reform, the Chinese Government plans to broaden basic medical insurance coverage of both rural and urban population to at least 90% of the population by 2011. It is expected that each person covered by the basic medical insurance scheme for urban residents and the new rural cooperative medical insurance scheme would receive an annual subsidy of RMB120 (about \$17.4) to help pay healthcare costs.

In order to make healthcare more accessible to rural communities, the Chinese Government started investing in 2009 to overhaul the rural medical care infrastructure that will provide services. As reported by China Daily in 2009, the Minister of Health said that the central budget would allow for the building of some 2,000 county-level hospitals in the next three years, the goal being to ensure that each of China's 1,600 counties has at least one hospital of a national standard.

### *Regulatory/Reimbursement Framework*

Currently the authorities regularly review all drugs in China and regulate reimbursement by assigning each drug a classification on the NMC and Provincial Medicine Catalogue ("PMC"). In December 2009, the NMC was updated, the first update since 2004. A total of 2,196 drugs were listed, including 1,164 western medicines, 987 TCM, and 45 ethnic medicines. The drugs most commonly included on the NMC and PMC, and thereby reimbursed, are those that are necessary clinical treatments, which have wide application, good effect, and are low cost.

Drugs are assigned two classifications on the NMC: Type-A and Type-B. Type-A classification drugs must be included on all PMCs, whereas, the provincial authorities have the flexibility to "swap-out" up to approximately 15% of the NMC Type-B drugs for local alternatives in compiling the PMC. This allows local manufacturers still to secure reimbursement of their drugs even if they fail to make it to the NMC.

When a drug is listed on the NMC, it is then up to the manufacturer to tender hospitals across China's provinces for the right to supply the drug to that hospital. In the case of generic drugs, this can be highly competitive, and scale-operations are essential. In the case of proprietary drugs, hospital listing is more straightforward but is only guaranteed for Type-A NMC drugs, since Type-B NMC drugs can be swapped-out.

The most important subset of the NMC is the Essential Medicines List, which was announced in August 2009 by the Ministry of Health in China. The Essential Medicines List contains 307 drugs, including 205 western medicines and 102 TCM. It is mandatory for all state-owned grass-roots healthcare institutions to carry these 307 drugs. The Chinese Government is phasing in this requirement, with the intention to equip about 30% of state-owned grass-roots health institutions with the drugs on the Essential Medicines List by the end of 2009 and to raise this to 100% by 2020. Similar to the NMC, companies that produce generic drugs on the Essential Medicines List (including both HBYS and SHPL) will still have to tender, but in the case of companies with proprietary drugs on the Essential Medicines List, national distribution will be guaranteed. Proprietary drugs listed on the Essential Medicines List are therefore extremely valuable assets (Chi-Med has one such proprietary drug listed on the Essential Medicines List, SHPL's She Xiang Bao Xin pill for the treatment of cardiovascular disease).

With the expansion of the BMIS, we believe that the demand for drugs on the NMC, PMC, and Essential Medicines List will increase significantly. In addition, the competition to gain access to these lists should also increase.

Our China Healthcare Division is very well placed in this new environment. Our OTC products have the high scale and low cost of production needed to ensure we remain competitive in generic drug tenders, and our main prescription drug is proprietary and therefore not subject to tender.

### *Chinese Government position on TCM*

As in the past several years, the Chinese Government continues to encourage the development and use of TCM mainly because of its efficacy, safety and cost advantages. Latest Chinese Government data (up to 2007) shows the continued strong performance of the TCM drug industry relative to the chemical and biotech drug industry. Based on data published by Chinagate.com.cn in 2009, TCM sales in China in 2008 grew by 22.3% to RMB206.8 billion

(\$30.0 billion), compared to RMB169.1 billion (\$24.5 billion) in 2007 and totalled 31% of all pharmaceutical sales (including TCM, chemical drugs, and biotech drugs).

### **China Healthcare Division**

Our China Healthcare Division's product portfolio is well diversified with 91% of its sales in 2009 coming from seven core products of which four are OTC; two prescription; and one health food.

#### **OTC Drugs - HBYS**

OTC drug sales through HBYS increased 22% in 2009 to \$67.8 million (2008: \$55.4m), all of which was organic growth. Since HBYS was formed in mid-2005, compound annual sales growth has averaged 43%. We believe this continues to make HBYS one of the fastest growing, large-scale OTC drug businesses in China.

HBYS is a truly national company in China. Its OTC distribution network now has over 1,600 sales and marketing staff, up from about 1,500 in 2008, covering all cities with a population of over 1 million. These staff co-operate with about 225 first tier distributors in all provinces of China and manage local retail activities and marketing programmes. On a regional level, HBYS continued to advance further in the lucrative, and previously relatively un-covered east China market. Sales in this important region grew 30% to \$9.3 million (2008: \$7.2m). Strong progress was also made in southwest China where sales grew 27% to \$7.7 million (2008: \$6.1m). Outside these two above average markets, HBYS growth in 2009 was spread fairly evenly across China.

As in recent years, the five major HBYS products dominated sales, accounting for 90% of total HBYS sales (2008: 90%).

These products are Banlangen granules, an anti-viral treatment; Fu Fang Dan Shen tablets, principally for angina; Kou Yan Qing granules for periodontitis; Xiao Yan Li Dan tablets for liver/gallbladder; and Chuan Xin Lian tablets for inflammation.

Banlangen granules are HBYS's market leading anti-viral product series, and their sales grew 42% to \$30.0 million (2008: \$21.1m) as an immediate result of the severe cough and cold season in China and the major impact of H1N1 in late 2008 and 2009. The past six years have seen several major flu and respiratory outbreaks in the region, from SARS in 2003, to the several H5N1 bird flu outbreaks, to H1N1. This has led to continuously increasing demand for HBYS Banlangen granules. Banlangen, which is a generic OTC product manufactured by many companies in China, accounted for approximately 6.7% of the total cold remedy market in China in 2009 (IMS Health data) and the ex-factory cough and cold remedy sales in 2009 was estimated to be approximately \$2.7 billion (Business Monitor International). HBYS Banlangen is the market leader in this generic Banlangen sub-category with an average of about 45.6% market share. In some markets of China, particularly central and southern China, HBYS Banlangen holds 60-70% market share in the Banlangen sub-category.

TCM treatments account for approximately 59% of the entire Chinese cough and cold remedy market, with western drugs accounting for the remaining 41%. HBYS is well positioned to continue to grow in this segment by increasing market share in new markets such as Beijing and northern China where HBYS Banlangen market share grew to 26.1% in Q4 2009 from 19.1% in

Q4 2008. We believe growth will also come from market development, since the China cold remedy market is still underdeveloped compared to developed countries.

Fu Fang Dan Shen tablets (angina) grew sales 3% in 2009 to \$21.6 million (2008: \$21.0m), the rate of growth principally reflecting HBYS' prioritisation of large-scale production focus to the Banlangen granule business in 2009. In 2009, however, we invested both in organisational and marketing resources to develop our third ranked product Kou Yan Qing granules (periodontitis), sales of which grew 34% to \$4.9 million (2008: \$3.7m). We believe Kou Yan Qing granules have the potential to become a major product for HBYS over the next five years.

Beyond these drugs, the balance of the HBYS portfolio of over 10 minor drugs grew 20% to \$6.7 million (2008: \$5.6m).

Importantly, in late 2009, HBYS secured inclusion of an additional three drugs on the new NMC as Type-B drugs. These were Kou Yan Qing granules (periodontitis), Nao Xin Qing tablets (central nervous system/cardiovascular), and Dan Hong Hua Yu oral liquid (ophthalmology). Sales of these three Drugs increased 37% in 2009 to \$5.9 million and can be expected to continue growth in the coming years as a result of their inclusion on the NMC and resulting reimbursement.

By the end of 2009, a total of 56 HBYS products were included in the China NMC with 25 designated as Type-A and 31 as Type-B. In addition to this, a total of 23 HBYS drugs were included on the China Essential Medicines List.

In 2009, HBYS continued to offset increased raw material and labour costs by aggressive cost control programme as well as a 2.9% increase in Banlangen pricing. As in 2008, HBYS increased product and intermediate material outsource production. Along with the effective establishment of Enterprise Resource Planning systems and procedures, this enabled HBYS to slightly improve gross margins to 54.8% (2008: 54.2%).

HBYS continues to be one of the innovative OTC drug marketers in China, using a combination of effective public relations and mainstream advertising. HBYS deployed over \$13.9 million, 10.4% of sales, in national advertising in China and used famous Chinese actors as spokespeople for the Baiyunshan brand, the Banlangen product range, and Kou Yan Qing.

In research and development, HBYS made major progress in 2009 with a total of 13 projects receiving commitments for financial support of over \$2.4 million from China State, provincial, and local governments. These projects include research on new TCM technology platforms, research and development on new TCM drugs and therapeutic areas, and construction of new Good Agricultural Practice Sites in China. In 2009, HBYS was granted 46 patents by the China State Intellectual Property Office, and a further 22 submissions were made. Finally, HBYS Banlangen granules have been included as the research subject of a joint United States National Institutes of Health and Guangzhou Respiratory Disease Research Centre research project under Dr. Zhong Nan Shan. Dr. Zhong is arguably China's leading respiratory disease expert and the scientist who was responsible for isolating the cause of SARS in 2003.

#### Prescription Drugs - SHPL

SHPL grew prescription drug sales 38% to \$27.2 million in 2009 (2008: \$19.7m) all of which was organic from existing products. In the three years since 2006, compound annual sales growth in

SHPL has averaged 33%. Over the past two years, it has averaged 39% as a result of very effective expansion of our commercial network across China.

Sales of SHPL's proprietary cardiovascular prescription drug She Xiang Bao Xin pill ("SXBXP") grew 41% to \$22.4 million (2008: \$15.8m). SHPL is the only manufacturer of SXBXP in China. During 2009, it achieved two major regulatory results on SXBXP: first, the inclusion of SXBXP on the Essential Medicines List of 307 products that are now mandatory for all state-owned health institutions to carry in China; and, secondly, renewal of SXBXP's Type-A NMC drug status, which means it is fully reimbursed in all provinces.

The market size for ex-factory sales in the Chinese cardiovascular prescription drug market in 2007 was approximately \$0.5 billion (Business Monitor International). Regionally, as expected, SXBXP held a leadership market share of approximately 30% in Shanghai in 2009 and shares of approximately 20% to 28% in select eastern markets in Jiangsu and Zhejiang provinces respectively. Beyond eastern China, apart from Beijing (approximately 6% market share) and Guangzhou (approximately 11% market share) we estimate SXBXP market shares are mostly less than 5% (IMS Health data). This highlights the opportunity for SXBXP to expand geographically.

SHPL has made solid progress in expanding out of its eastern China base and has proven its ability to enter and succeed in new markets. In 2009, sales in SHPL's east China stronghold of Shanghai, Jiangsu and Zhejiang provinces grew 33% to \$16.4 million. At the same time, sales in markets outside east China accelerated quickly and grew 45% to \$10.8 million (2008: \$7.5m) and grew to 40% of SHPL's total sales (2008: 38%).

SHPL also continued 2008's strong momentum on its second product, Dan Ning tablets (gallbladder/inflammation) with sales up 29% to \$3.7 million (2008: \$2.9m). Dan Ning's growth was spurred by the grant of a 20-year process and formula patent from the China State Intellectual Property Office in 2007, an important result that enabled Dan Ning to retain NMC Type-B drug status.

By the end of 2009, a total of 34 SHPL products were included in the NMC with 19 designated as Type-A and 15 as Type-B. In addition to this, a total of 15 SHPL drugs were included on the China Essential Medicines List.

SHPL continued to build its powerful commercial team from around 800 people in 2008 to over 900 sales and marketing staff by the end of 2009, with distribution of its SXBXP in over 6,700 hospitals in China, still only approximately 34% of the 19,712 hospitals in China (China Health Statistical Year Book 2009). There exists major expansion potential for SXBXP resulting from inclusion in the Essential Medicines List, which requires all state-owned, grass roots, health institutions to carry SXBXP by 2020. Furthermore, in addition to hospitals, there are over 212,000 state-run community health centres and clinics which, in theory, will also be required to carry SXBXP.

As a direct result of rapidly increasing scale, with stable market pricing, SHPL gross margins grew to 71.4% in 2009 (2008: 68.2%) despite general inflationary pressure on production costs.

In research and development, in 2009, SHPL secured Government commitments for research funding of approximately \$1.4 million. China patents were granted on both Dan Ning tablet and

Shengmai injection (cardiovascular and general immunity) and a further three patents were submitted for SXBXP as part of our continuing effort to protect our proprietary position on this important drug in China. Furthermore, a three-year research collaboration with Cambridge University was started in late 2009 aimed at studying the angiogenesis effect of SXBXP and its seven main medicinal component ingredients.

#### Health Supplements - HHL

Our HHL subsidiary grew 27% to \$7.0 million in 2009 (2008: \$5.5m), and operating profit grew 273% to \$1.0 million (2008: \$0.3m).

All of HHL's sales were accounted for by its ZLT infant and pregnant mother supplements brand, which we have successfully developed in partnership with our exclusive distributor into a strong hospital and mother/baby store distribution model across China. At the end of 2009, we operated 13 sales offices across China and sold products in more than 130 cities either through over 80 wholesalers or direct to over 50 national supermarket chains, over 30 drug store chains, and approximately 3,600 mother/baby shops and 1,200 hospitals.

In late 2009, we secured 100% ownership of HHL through the acquisition of our minority partner's 15% share in HHL at a total consideration, including share transfer price and current accounts payments of about \$0.6 million, which was equivalent to a multiple of approximately 15 times the partner's share of 2008 EBIT. Because of the rapid growth of HHL this multiple equated to 4 times the partner's share of HHL's 2009 EBIT.

HHL sells three ZLT licensed health supplement products. Sales of the largest, ZLT DHA capsules, an omega-3 product for use by pregnant and lactating women to promote brain and retinal development in babies, grew 46% to \$5.7 million in 2009 (2008: \$3.9m). Pregnancy supplementation is an emerging market in China, thanks in part to China's one-child policy and the importance a mother and family places on her single pregnancy. We believe we are one of the biggest players in this field in China, being one of the first to enter this market.

In addition to the ZLT DHA capsules we also sell calcium and probiotic products under the ZLT brand name. Securing 100% ownership of HHL has brought with it full control and ownership of the ZLT brand, which HHL has now licensed to our HHOH to be co-branded with Earth's Best® to launch a range of organic infant foods in China. As a result, in addition to working actively to broaden the ZLT range of premium quality infant and pregnant mother health supplement products, we are working now to expand the brand into organic infant foods through HHOH and the Earth's Best® co-branding project.

#### Acquisitions

We continue to appraise potential strategic acquisitions in the China healthcare market and believe that potential earnings enhancing opportunities exist.

Chi-Med is focusing primarily on deals with similar structure to SHPL and HBYS, which expand the capital of new joint ventures through a cash investment in return for an injection of assets by Chinese partners. We are generally targeting to take a minimum 50% share in any new China joint ventures and are seeking opportunities that are synergistic with our existing China Healthcare Division's assets.

#### **Drug Research & Development**

HMPL grew revenue 112% to \$4.8 million in 2009 (2008: \$2.3m), reflecting increased research and milestone payments from its collaborations with Eli Lilly and J&J. Its operating loss dropped to \$9.9 million (2008: -\$15.4m) primarily as a result of the revenue growth and also the capitalisation of expenses incurred in the development of our successful lead drug candidate, HMPL-004.

HMPL is dedicated to transforming scientific discoveries into innovative and effective therapies for cancer and auto-immune diseases. We believe that HMPL is now generally accepted as one of the leaders in China's pharmaceutical drug discovery and development arena. Our strategy continues to be for HMPL to build strategic alliances with multi-national pharmaceutical groups; identify global partners with which to co-develop our lead drug candidates for global markets; and advance our in-house preclinical programs into clinical proof-of-concept studies, taking advantage of China's efficient, low cost research and development structure and vast untreated patient population and scientific talent.

Our progress in the discovery of multiple small molecule cancer drug candidates, combined with our experience in running clinical trials in China and registering them under SFDA regulations, and favourable Government initiatives in establishing the life sciences industry as one of its three pillar industries, has opened up a new exciting opportunity for HMPL. This opportunity is to develop into a fully integrated China pharmaceutical business with a focus on oncology. HMPL will continue to pursue all our discovery and global partnership activities which we believe, over the next ten years, will underpin HMPL's evolution into an R&D driven, fully integrated, oncology therapeutics company in China.

#### Discovery Research Summary

During 2009, HMPL concluded discovery work on three small molecule drug candidates HMPL-011 for auto-immune disease, and HMPL-012 and HMPL-013, which are both high quality kinase candidates for use in the treatment of cancer. Three IND applications were made during 2009. HMPL-011 was submitted and subsequently approved for Phase I trials in Australia. HMPL-012 and HMPL-013 have been submitted to the SFDA for fast-track IND approval and are currently under review.

In the auto-immune therapeutic area, HMPL-011 is a novel cytokine modulator that controls the production of pro-inflammatory cytokines. It was advanced into a first-in-human Phase I clinical trial in Australia in October 2009. HMPL-011 is a potential first-in-class new chemical entity with a novel mechanism of action being developed as an oral therapy for auto-immune disease. In pre-clinical studies, the drug candidate has shown efficacy in animal models of rheumatoid arthritis, multiple sclerosis, and other auto-immune diseases. It has demonstrated an acceptable safety margin in animal toxicological evaluations. The Phase I clinical trial is a randomized, placebo-controlled, double-blind, single ascending dose trial in healthy male volunteers. The trial's primary objective is to evaluate the safety, tolerability, and pharmacokinetics of HMPL-011. The study is expected to report results in the first half of year 2010.

In the oncology therapeutic area, HMPL-012 was submitted to the SFDA in June 2009 for fast-track IND review. HMPL-012 is a novel compound that inhibits multiple kinases, crucial for tumour growth, apoptosis and invasion/metastasis. In animal efficacy studies, HMPL-012 demonstrated broad-spectrum anti-tumour activity via oral dosing. Its unique kinase profile provides a promising opportunity and potential therapeutic differentiation against existing products on the market. It is envisaged that HMPL-012 could be used as a single agent or in



combination with chemotherapies for the inhibition of tumour growth as well as invasion/metastasis. HMPL-012 is expected to initiate clinical trials in China in the second quarter of 2010.

HMPL-013 is another novel chemical entity and the second drug candidate discovered internally by HMPL for tumour-growth inhibition via blocking the VEGFR (vascular endothelial growth factor receptor) target it was submitted to the SFDA in August 2009 for fast-track IND review. It is differentiated from HMPL-012 and other marketed drugs in this class by its kinase selectivity in vitro and its superior potency in vivo against a variety of human xenografts.

In addition, HMPL progressed two further novel EGFR (epidermal growth factor receptor) inhibitors, HMPL-813 and HMPL-309, into preclinical testing. These two novel chemical entities are highly potent and selective EGFR inhibitors with excellent pharmacokinetic properties and exhibit potent in vivo anti-tumour activity.

#### Development Summary

##### *HMPL-004, Treatment for Auto-immune Disorders*

HMPL-004 is our lead drug candidate for treating inflammatory bowel diseases (“IBD”) and potentially other auto-immune diseases. It is an innovative oral botanical drug with a unique mechanism of action targeting NF- $\kappa$ B activation, which leads to inhibition of production of multiple pro-inflammatory cytokines. As such, HMPL-004 represents a new approach for the treatment of patients with active IBD. In 2009 it completed two clinical studies - a Phase II trial in the US for Crohn’s disease in July and a global Phase IIb trial for UC in November.

##### Phase II Trial – Crohn’s disease (“CD”)

The Phase II CD trial was a multi-centre, double-blind, randomized, and placebo-controlled study conducted in 101 CD patients in the United States and Ukraine. The clinical study included 8 weeks treatment with 1,200 mg per day of HMPL-004 or placebo and then 4 weeks of follow up. The primary endpoint of the trial was to assess the efficacy, which is the percentage of subjects with a clinical response -100 (minus 100), defined as a reduction in Crohn’s Disease Activity Index (CDAI) by at least 100 points from the baseline. Secondary endpoints including the clinical response -70 (minus 70), defined as CDAI reduction of at least 70 points, and the percentage of subjects attaining remission, defined as CDAI score of 150 or less, were also assessed.

While the trial failed to meet its primary endpoints, the outcomes of completed data analysis were encouraging and demonstrated a clear trend of efficacy for HMPL-004 at the 1,200 mg per day dose level. For the Intent-To-Treat patient population, the clinical response -100 at week 8 was 37% for HMPL-004 vs. 22% for the placebo ( $p = 0.087$ ). The clinical response -70 at week 8 was 49% for HMPL-004 vs. 32% for the placebo ( $p = 0.061$ ). The remission rate at week 8 was 29% for HMPL-004 vs. 14% for the placebo ( $p = 0.069$ ). Furthermore, HMPL-004 demonstrated a good safety profile. There were no treatment-related serious adverse events in the HMPL-004 arm thereby indicating higher dose levels could be considered.

##### Phase IIb Trial – Ulcerative Colitis (“UC”)

The Phase IIb UC trial was a multi-centre, double-blind, randomized and placebo-controlled study conducted in 223 UC patients in the United States, Canada and Europe. The three-armed clinical trial included 8 weeks treatment of HMPL-004 at two dose levels, 1,200 mg/day or 1,800 mg/day, vs. placebo. The primary efficacy endpoint of the trial was clinical response, defined as

the percentage of patients with a decrease in Mayo score from baseline  $\geq 3$  and  $\geq 30\%$  decrease in the Mayo score, along with either a decrease in rectal bleeding score  $\geq 1$  or absolute rectal bleeding score  $\leq 1$  at week 8. The secondary endpoints included clinical remission, defined as the percentage of patients with a Mayo score  $\leq 2$  with no individual score  $> 1$  at week 8; and the mucosal healing rate, defined as the percentage of patients with a decrease from baseline in Mayo endoscopy sub-score  $\geq 1$  and a Mayo sub-score of  $\leq 1$  at week 8. The safety profile of the drug was also assessed.

Completed data analysis demonstrated that all primary and key secondary endpoints were achieved. For the Intent-To-Treat patient population, the total clinical response of the two treatment arms at week 8 was 64% for HMPL-004 vs. 44% for placebo ( $p = 0.006$ ). The clinical remission at week 8 was 43% vs. 28% for HMPL-004 vs. placebo ( $p = 0.03$ ). The mucosal healing rate at week 8 was 53% vs. 36% for HMPL-004 vs. placebo ( $p = 0.02$ ). For the higher dose 1,800 mg/day arm, the clinical response at week 8 was 73% for HMPL-004 vs. 44% for placebo ( $p < 0.001$ ); the clinical remission at week 8 was 45% vs. 28% for HMPL-004 vs. placebo ( $p = 0.04$ ); and the mucosal healing rate at week 8 was 60% vs. 36% for HMPL-004 vs. placebo ( $p = 0.007$ ), respectively. In addition, HMPL-004 demonstrated an excellent safety profile at both dose levels. There were no treatment-related serious adverse events in either of the HMPL-004 arms reported by the investigators.

#### Status of HMPL-004 Development

The achievement of meeting all UC trial endpoints, along with the trend of efficacy demonstrated in the earlier CD trial, gives us the confidence to proceed with our development and partnership plans for this drug candidate. To this end we are engaged in licensing and co-development discussions with several global pharmaceutical and specialty pharmaceutical companies with existing gastro-intestinal disease businesses or a strong interest in entering the gastro-intestinal disease arena. All preparation for Phase III development for HMPL-004 is underway and we expect HMPL-004 to enter the global Phase III trial later this year.

#### Strategic Partnerships

A clear element of HMPL's strategy is to seek strategic partnerships to help further enhance our discovery and development pipelines and to mitigate risks and capture upside potential, as well as to form the basis for potential major long-term value creation through milestones and royalties on successful projects. In 2009, HMPL generated income of \$4.8 million (2008: \$2.3m) from these partnerships, which helped reduce the cash burn on the overall HMPL businesses.

### **Consumer Products**

#### *Strategy*

Until 2009 the core premise of Chi-Med's Consumer Products Division was to bring a range of high-end TCM related consumer products, under the Sen brand, to the global market place. It was our intention to use the extensive reach of A.S. Watson Group, HWL's global retailing network of over 8,600 shops in 34 countries, to help us expand Sen.

In 2009, partly because of the economic down-turn in Europe, and partly because of our increasing strength in the China, we have evolved our Consumer Products Division's strategy to now focus on developing the business in China. Secondly, we will position Sen product pricing to attract wider consumer demand and to be more compatible with A.S. Watsons mainstream mass-market retail position. We will also expand from just the Sen brand to multiple brands and

products in order to gain efficiencies and leverage overheads. We will focus on Sen's external expansion through HWL and third party retail outlets compared with the labour intensive internally managed "own-shop" model that we have historically run in London.

In line with this strategy, we established HHOH to manage and market the Hain Celestial portfolio of over forty organic and natural products brands in China and Asia, as well as to enter the organic infant food market in China. We also reduced the prices of Sen's main body and skin care products by 30% in France to broaden their consumer appeal.

We believe that, as a result of this strategic shift and the moves we have made, the Consumer Products Division will now evolve rapidly and establish itself as a valuable third Division for Chi-Med.

#### Consumer Products Division performance

During 2009, Sen represented 100% of the Consumer Products Division. Sales for the Division grew 4% to \$4.2 million in 2009 (2008: \$4.1m) with an operating loss of \$2.5 million (2008: -\$2.6m). These results reflected the very challenging retail conditions for our London shops offset by strong growth in our retail expansion in Marionnaud in France.

#### *Sen Medicine Company Limited ("Sen UK")*

As a result of the economic downturn, sales of our nine central London shops/clinics fell 13% to \$3.3 million (2008: \$3.7m), with like-for-like sales down 10% as compared to like-for-like sales growth of 17% in 2008. Despite this, Sen UK narrowed its operating loss to \$1.7 million (2008: -\$1.8m) due primarily to tight cost control. Aggregate shop level operating losses remained flat at \$0.5 million (2008: -\$0.5m) and central overhead costs were slightly reduced to \$1.2 million (2008: \$1.3m).

#### *Sen Medicine Company (France) SARL ("Sen France")*

In June 2008, we introduced Sen's top 34 body care, skin care, and tea products into France through Marionnaud, Europe's largest perfumery and cosmetics retail chain with over 1,200 shops in 13 markets. We initially launched in 50 shops, expanding to 125 shops in mid-November 2008. Marionnaud is part of HWL's A.S. Watson Group.

In 2009, Sen France's sales more than tripled to \$1.0 million (2008: \$0.3m), resulting from three main actions. In September, we reduced our retail prices by an average 30%, remaining premium priced, but broadening appeal to the average French consumer. Over the second half of 2009, we expanded our distribution by around 70 shops, bringing us to over 200 out of the about 560 Marionnaud shops in France. Thirdly, we were granted the position of Marionnaud 2009 Christmas gift-with-purchase, which meant that Marionnaud bought some 350,000 units of Sen Sandalwood Stress Relief shower gel and gave it away to all shoppers who spent over 60 euros in Marionnaud over Christmas. As well as being profitable, this has significantly increased awareness of the Sen brand, which should benefit sales in 2010.

Sen France's operating loss was flat at \$0.8 million (2008: -\$0.8m) as we continued to invest in organisation and marketing to establish the brand. We expect performance to improve over the next two years as we expand further into the Marionnaud network and achieve greater scale.

#### *Hutchison Hain Organic Holdings Limited ("HHOH")*

In October 2009, Chi-Med formed the HHOH with Hain Celestial.

Hain Celestial manufactures and sells over forty brands of natural and organic consumer products in almost all natural food categories with some of their well-known brands including: Celestial Seasonings® (herbal tea), Terra® (gourmet chips), Garden of Eatin'® (organic corn chips), Health Valley® (organic cereals, snacks and soups), WestSoy® (organic soy drinks), Earth's Best® (organic infant foods and personal care), Arrowhead Mills® (organic baking products and mixes), MaraNatha® (organic nut and seed butters), SunSpire® (organic chocolate), DeBoles® (organic pasta), Hain Pure Foods® (natural and organic condiments), FreeBird™ (antibiotic and hormone free chicken), Plainville Farms® (antibiotic and hormone free turkey), Spectrum Naturals® (organic cooking oils), Spectrum Essentials® (organic health supplement oils), Walnut Acres Organic® (organic sauces, juices, and salsas), Imagine® (organic soups), Rice Dream® (organic rice drinks), Soy Dream® (organic soy drinks), Linda McCartney® (vegetarian frozen meals), JASON® (natural and organic personal care products), and Avalon Organics® (natural and organic personal care products).

Our goal is for HHOH to become one of the largest organic and natural consumer products companies in Asia. We aim to achieve this via the selling of the entire Hain product line in China and in other Asian or global markets in which we can create mutual advantage for HHOH and HWL. As the first move, in December 2009, HHOH secured agreement from PARKnSHOP, HWL's market leading supermarket chain in Hong Kong (about 230 shops), to list a broad range of Hain products in Hong Kong. The first one-to-two-month pipeline order of about \$1.6 million, to be booked as sales in early 2010, has now been delivered to Hong Kong.

HHOH's competitive advantage in Hong Kong is that with the removal of all middlemen, such as distributors and consolidators, we are able to reduce shelf pricing on this broad range of organic and natural products by an average of about 30-50% thereby allowing organic and natural products to be priced on the shelf at a 10-20% premium to non-organic mass-market products. At this moderate price premium, organic and natural products shift from being niche to appealing to mainstream consumers. The second advantage to retailers is that through one supplier (HHOH) they have access to over forty proven brands in almost all grocery categories. This simplifies their operations and allows HHOH to remove major cost from the product supply process given the scale and ability to consolidate shipments. We expect the HHOH business in Hong Kong to grow rapidly as a result.

The second main area in which HHOH will compete is the China infant formula and infant food category. Given the recent product recall and melamine contamination issues, we believe that the market is in flux, and that a high quality, internationally produced, organic proposition should have high levels of consumer appeal.

HHOH intends to launch a range of organic infant formula and food products into the China market over the next several years. These products will be Earth's Best® products adapted for the China market and will be co-branded with HHL's existing strong ZLT premium infant nutrition brand. In the US, Earth's Best is the fastest growing market leading organic baby food brand with an approximate 40% market share in grocery (A.C. Nielsen). We will introduce these products to the China market through our established and growing HHL infant nutrition commercial organisation and expect rapid growth.

## **Current Trading and Outlook for the Group**

We expect that 2010 will be a strong year for Chi-Med across all three divisions. Sales and profit growth rates in the China Healthcare Division have started the year ahead of 2009 levels and we are engaged in several activities that could lead to step change growth in 2010 .

On the Drug R&D Division, we are now deeply engaged in development partnership and licensing discussions on HMPL-004 and expect completion in 2010. The results of the Australian Phase I trial on HMPL-011 should be reported in the first half of 2010 and our two small molecule oncology drugs under IND review by the SFDA should also enter Phase I in 2010. These activities, combined with the fast evolution of our big Pharma collaborations, position HMPL as one of the leading China-based life sciences operations. This is increasingly making HMPL an appealing target for both financial and strategic biotech investors. In 2010, we will consider all options to fund and lock-in the appropriate value of this business.

The Consumer Products Division is set for major progress in 2010 with the development of HHOH, where we will launch both the extensive Hain Celestial organic and natural products portfolio in Hong Kong (a strategy that is already showing positive results in 2010), and the organic infant formula into mainland China. Sen is also set to continue its positive growth pattern in France.

Overall, we look forward to 2010 with great confidence.

**Christian Hogg**

Chief Executive Officer, 4 March 2010

**HUTCHISON CHINA MEDITECH LIMITED  
CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	2009 US\$'000	2008 US\$'000
Sales	2	110,997	86,971
Cost of sales		(44,586)	(36,127)
Gross profit		66,411	50,844
Selling expenses		(44,810)	(31,744)
Administrative expenses		(27,390)	(35,086)
Other net operating income		1,174	1,759
Operating loss		(4,615)	(14,227)
Finance costs		(399)	(528)
Loss before taxation		(5,014)	(14,755)
Taxation charge		(2,066)	(1,503)
Loss for the year		(7,080)	(16,258)
Attributable to:			
Equity holders of the Company		(8,748)	(17,755)
Minority interests		1,668	1,497
		(7,080)	(16,258)
Loss per share for loss attributable to equity holders of the Company for the year (US\$ per share)	3	(0.1708)	(0.3466)

**HUTCHISON CHINA MEDITECH LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	2009 US\$'000	2008 US\$'000
Loss for the year	(7,080)	(16,258)
Other comprehensive (loss)/income:		
Exchange translation differences	(1,073)	2,122
Total comprehensive loss for the year (net of tax)	<u>(8,153)</u>	<u>(14,136)</u>
Attributable to:		
Equity holders of the Company	(9,480)	(16,108)
Minority interests	1,327	1,972
	<u>(8,153)</u>	<u>(14,136)</u>

**HUTCHISON CHINA MEDITECH LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2009**

	2009 US\$'000	2008 US\$'000
<b>ASSETS</b>		
Non-current assets		
Property, plant and equipment	24,653	25,946
Leasehold land	5,998	6,082
Goodwill	7,522	7,052
Other intangible assets	4,962	475
Available-for-sale financial asset	146	145
Deferred tax assets	615	333
	<u>43,896</u>	<u>40,033</u>
	-----	-----
Current assets		
Inventories	17,476	14,714
Trade and bills receivables	20,055	22,432
Other receivables and prepayments	4,577	2,572
Cash and bank balances	41,752	38,206
	<u>83,860</u>	<u>77,924</u>
	-----	-----
Total assets	<u><u>127,756</u></u>	<u><u>117,957</u></u>
<b>EQUITY</b>		
Capital and reserves attributable to the Company's equity holders		
Share capital	51,279	51,229
Reserves	14,624	23,914
	<u>65,903</u>	<u>75,143</u>
Minority interests	9,397	9,283
	<u>75,300</u>	<u>84,426</u>
	-----	-----
<b>LIABILITIES</b>		
Current liabilities		
Trade payables	8,166	5,290
Other payables, accruals and advance receipts	30,715	18,836
Amounts due to related parties	2,149	974
Current tax liabilities	724	536
Bank borrowings	8,112	7,606
	<u>49,866</u>	<u>33,242</u>
Non-current liabilities		
Deferred income	1,616	-
Deferred tax liabilities	828	289
Bank borrowings	146	-
	<u>52,456</u>	<u>33,531</u>
	-----	-----
Total liabilities	<u><u>52,456</u></u>	<u><u>33,531</u></u>
	-----	-----
Total equity and liabilities	<u><u>127,756</u></u>	<u><u>117,957</u></u>



**HUTCHISON CHINA MEDITECH LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	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 2008	51,229	91,351	4,247	3,881	65	(60,477)	90,296	7,311	97,607
(Loss)/profit for the year	-	-	-	-	-	(17,755)	(17,755)	1,497	(16,258)
Other comprehensive income:									
Exchange translation differences	-	-	-	1,647	-	-	1,647	475	2,122
Total comprehensive income/(loss) for the year (net of tax)	-	-	-	1,647	-	(17,755)	(16,108)	1,972	(14,136)
Share-based compensation expenses	-	-	955	-	-	-	955	-	955
Transfer between reserves	-	-	(219)	-	-	219	-	-	-
As at 31 December 2008	51,229	91,351	4,983	5,528	65	(78,013)	75,143	9,283	84,426
As at 1 January 2009	51,229	91,351	4,983	5,528	65	(78,013)	75,143	9,283	84,426
(Loss)/profit for the year	-	-	-	-	-	(8,748)	(8,748)	1,668	(7,080)
Other comprehensive loss:									
Exchange translation differences	-	-	-	(732)	-	-	(732)	(341)	(1,073)
Total comprehensive (loss)/income for the year (net of tax)	-	-	-	(732)	-	(8,748)	(9,480)	1,327	(8,153)
Issue of shares	50	188	(148)	-	-	-	90	-	90
Share-based compensation expenses	-	-	150	-	-	-	150	-	150
Transfer between reserves	-	-	(305)	-	423	(118)	-	-	-
Dividend paid to a minority shareholder of a subsidiary	-	-	-	-	-	-	-	(1,213)	(1,213)
As at 31 December 2009	51,279	91,539	4,680	4,796	488	(86,879)	65,903	9,397	75,300

**HUTCHISON CHINA MEDITECH LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	2009 US\$'000	2008 US\$'000
Cash flows from operating activities			
Net cash generated from/(used in) operations	4	13,646	(12,433)
Interest received		283	1,221
Interest paid		(399)	(528)
Income tax paid		(1,621)	(1,306)
		<hr/>	<hr/>
Net cash generated from/(used in) operating activities		11,909	(13,046)
		<hr/>	<hr/>
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,794)	(3,397)
Purchase of trademarks and patents		(5)	(1)
Payments for development costs		(4,705)	-
Acquisition of additional interests in a subsidiary		(406)	-
Proceeds from disposal of property, plant and equipment		8	17
		<hr/>	<hr/>
Net cash used in investing activities		(7,902)	(3,381)
		<hr/>	<hr/>
Cash flows from financing activities			
Increase in amount due to immediate holding company		-	504
Decrease in amount due to minority shareholders of a subsidiary		(201)	(40)
Dividend paid to a minority shareholder of a subsidiary		(1,213)	-
New short-term bank loans		4,815	2,110
New long-term bank loan		146	-
Repayment of short-term bank loans		(4,309)	(1,507)
Issue of shares, net of share issuance costs		90	-
		<hr/>	<hr/>
Net cash (used in)/generated from financing activities		(672)	1,067
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		3,335	(15,360)
Cash and cash equivalents at 1 January		38,206	53,345
Exchange differences		211	221
		<hr/>	<hr/>
Cash and cash equivalents at 31 December		41,752	38,206
		<hr/>	<hr/>
Analysis of cash and cash equivalents			
- Cash and bank balances		41,752	38,206
		<hr/>	<hr/>

## NOTES:

### 1 Basis of preparation

The consolidated accounts of Hutchison China MediTech Limited (the “Company”) have been prepared in accordance with International Financial Reporting Standards. These consolidated accounts have been prepared under the historical cost convention except that certain financial assets and liabilities are measured at fair values, as appropriate.

### 2 Revenue and segment information

The Company and its subsidiaries (together the “Group”) is principally engaged in the manufacturing, distribution and sales of traditional Chinese medicine (“TCM”) and healthcare products, and carrying out pharmaceutical research and development.

Revenues recognised for the year are as follows:

	2009 US\$'000	2008 US\$'000
Sales of goods	103,966	82,173
Service income	7,031	4,798
	<u>110,997</u>	<u>86,971</u>

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

- China healthcare: comprises the development, manufacture, distribution and sale of over-the-counter products, prescription TCM products, and western and TCM health supplements products.
- Drug research and development: relates mainly to drug discoveries and other pharmaceutical research and development activities, and the provision of research and development services.
- Consumer products: relates to sales of consumer lifestyle products and services.

### 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.

	2009	2008
Loss for the year attributable to equity holders of the Company (US\$'000)	<u>(8,748)</u>	<u>(17,755)</u>
Weighted average number of outstanding ordinary shares in issue	<u>51,232,051</u>	<u>51,229,174</u>
Loss per share attributable to equity holders of the Company (US\$)	<u>(0.1708)</u>	<u>(0.3466)</u>

No diluted loss per share is presented as the exercise of the outstanding employee share options would have an anti-dilutive effect.

**NOTES (Continued):****4 Note to the consolidated statement of cash flows**

Reconciliation of loss for the year to net cash generated from/(used in) operations:

	2009 US\$'000	2008 US\$'000
Loss for the year	(7,080)	(16,258)
Adjustments for:		
Taxation charge	2,066	1,503
Share-based compensation expenses	150	955
Amortisation of trademarks and patents	228	191
Amortisation of leasehold land	137	130
(Write-back)/write-off of inventories	(9)	225
Provision of inventories	81	6
Provision for receivables	11	11
Depreciation on property, plant and equipment	4,203	4,331
Loss on disposal of property, plant and equipment	188	110
Interest income	(283)	(1,221)
Interest expense	399	528
Exchange differences	(1,719)	137
Operating loss before working capital changes	(1,628)	(9,352)
Changes in working capital:		
- increase in inventories	(2,834)	(3,223)
- decrease/(increase) in trade and bills receivables	2,366	(1,271)
- increase in other receivables and prepayments	(2,005)	(368)
- increase/(decrease) in trade payables	2,876	(13)
- increase in other payables, accruals and advance receipts, and amounts due to related parties	11,879	1,794
- increase in deferred income	1,616	-
- increase in amount due to immediate holding company	1,376	-
Net cash generated from/(used in) operations	<u>13,646</u>	<u>(12,433)</u>