HUTCHISON CHINA MEDITECH LTD

Hutchison China MediTech Limited ("Chi-Med")
(AIM: HCM)

Preliminary Results for the year ended 31 December 2007

Strong operating performance. Positive outlook across the Group.

London, Wednesday, 19 March 2008: Chi-Med today announces its preliminary results for the year ended 31 December 2007.

Group Results

- Sales up 29% to $65.1 million (2006: $50.4 million). Organic growth on continuing operations.
- Operating loss -$14.8 million (2006: -$8.2 million) reflecting higher research and development and consumer products investment and non-recurring loss from discontinued operations.
- Non-recurring loss from discontinued operations -$5.1 million (2006: -$2.9 million) includes losses plus one-time provision for closing Nao Ling Tong product line.
- Net loss attributable to equity holders of Chi-Med -$17.2 million (2006: -$9.6 million).

China Healthcare Division

- China Healthcare Division sales, on continuing operations, up 28% to $61.4 million (2006: $48.1 million), operating profit up 27% to $6.8 million (2006: $5.4 million) and net profit after tax attributable to equity holders of Chi-Med up 13% to $4.5 million (2006: $4.0 million).
- Due diligence underway on several potential China acquisitions and joint ventures.

Drug R&D Division

- Drug R&D Division spent $12.4 million in cash during 2007 (2006: $6.7 million).
- Landmark strategic partnership agreement signed with Eli Lilly and Company.
- Clinical progress on our Group lead drug candidate HMPL-004, positive outcomes in China Phase II study on ulcerative colitis and FDA clearance to expand to global Phase IIb trial.
- Discovery progress. Two novel small molecule compounds in late preclinical development. 72 global patent applications filed by the end of 2007 (2006: 61).

Consumer Products Division

- Sales up 36% to $2.9 million (2006: $2.1 million) following further London shop openings.
- Planning to launch Sen consumer products internationally in 2008.

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

"We have made considerable progress across each of our three operating divisions during the last year, in each case improving their underlying performance.

Our China Healthcare Division is benefiting from buoyant growth in the China pharmaceutical market, and existing operations are now contributing strong profit to the group. We are progressing multiple acquisition opportunities that could start to materialise this year.

Our Drug R&D Division is exceeding our expectations with breakthrough results in both development and discovery. Our lead drug, HMPL-004, returned exciting Phase II results this year and our team of over 160 scientists and staff have identified multiple novel small molecule compounds. As further validation of the strategy, we signed a landmark co-discovery partnership with Eli Lilly and Company ("Eli Lilly") to add to our existing partnerships with Merck KGaA and Procter & Gamble.

Our Consumer Product Division, Sen Medicine Company Limited ("Sen"), is demonstrating the attractiveness of its offer, further developing its brand in the UK and experiencing encouraging sales growth in 2007. In addition, we are now in late-stage planning to expand its products into luxury retail chains internationally.

With a strong cash position and continued growth opportunities for each of our divisions, we view 2008 with considerable confidence."

Ends

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About Chi-Med

Chi-Med is the holding company of a pharmaceutical and healthcare group focused on traditional Chinese medicine ("TCM") based primarily in China and was admitted to trading on the Alternative Investment Market of the London Stock Exchange in May 2006. Chi-Med operates three core business segments: 1) China healthcare – the manufacture, distribution and marketing of pharmaceuticals and health supplements in China; 2) Drug R&D – the discovery and global development of novel drug in the oncology and auto-immune therapeutic areas; and 3) Consumer products – global retailing and distribution consumer health and personal care products derived from TCM and botanical ingredients.

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

I am pleased to report on another year of considerable progress across Chi-Med's businesses. Sales, on a continuing operations basis, of the Group grew 29% to $65.1 million (2006: $50.4 million) primarily following strong China Healthcare Division performance. Total consolidated sales of the Group for 2007 were $69.7 million (2006: $57.5 million). Net loss attributable to Chi-Med stakeholders grew to -$17.2 million (2006: -$9.6 million) behind our increases in R&D and consumer products investment, and a non-recurring loss from discontinuing the product line of the Nao Ling Tong memory supplement ("NLT").

Strategic Overview

Chi-Med was created by Hutchison Whampoa Limited ("Hutchison Whampoa") to apply modern science and business practice to traditional Chinese medicine ("TCM"), in order to realise the substantial potential of novel TCM-based products, both for the China and the global pharmaceutical and consumer products markets. Chi-Med's intention is to build a unique and well-balanced portfolio of businesses that enable us to manage both the pace of growth and the risks associated with it.

China Healthcare Division -- We see particularly strong opportunity in the China Healthcare area and due to our range of fast growth and profitable products can target to maintain organic growth rates of over 20% for the foreseeable future.

The Group's China Healthcare strategy is to combine organic growth with acquisition. A key strength of our business is the infrastructure, reputation, experience and depth of connections of Hutchison Whampoa in China, all of which we leverage and which provides significant support in identifying potential, value creating acquisitions and joint ventures (collectively "acquisitions"). We are currently engaged in due diligence on multiple projects and hopeful to begin completing such acquisitions during the current financial year.

Drug R&D Division -- TCM, with its botanical origins, has demonstrated its efficacy and safety under scientific scrutiny over several decades. We see it as a major and substantially untapped reservoir of novel drugs for the global pharmaceutical market. Our Drug R&D Division is dedicated to using the highest standards of modern science to identify and develop both botanical substances and small molecule compounds derived from TCM, which can deliver new treatments, especially in the areas of oncology and auto-immune diseases.

The validation of our drug research and development business, reflected by the Eli Lilly deal, our existing partnerships with Merck KGaA and Procter & Gamble, and the successful Phase II proof-of-concept ("POC") result on HMPL-004, gives us great confidence that we have a first-in-class operation with very high potential that justifies the accelerated investment that we expect to make in 2008.

Consumer Products Division -- With our Sen business, we have always stated that one route to accelerated growth is to leverage synergy with Hutchison Whampoa's global chain of over 7,800 health and beauty shops, 1,600 of which are luxury focused and consistent with the Sen brand image. We believe this will be transformational for our consumer products division.

Corporate Governance
We continue to maintain high standards of corporate governance with the objective of building the long-term interests of the Company and maximising returns to stakeholders.

During 2007 the Chi-Med Board remained largely unchanged apart from the departure of Mr. Stephen Yeung. I would like to take this opportunity to thank Stephen for his involvement as a Non-executive Director over the past years and wish him well in his retirement. As a group, our Independent Non-executive Directors bring a wealth of knowledge on AIM and growth businesses; corporate governance; and pharmaceutical research and development. They are making 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
Over the coming years, Chi-Med will continue making significant investments in its businesses, in which we see substantial opportunity to create superior shareholder value. For this reason, the Board has decided not to recommend a dividend for the year ended 31 December 2007.

The progress that has been made on the Chi-Med business is the result of the quality and commitment of our strong management team and all our employees and partners. My thanks and deep appreciation go to them all.

Simon To
Chairman, 17 March 2008

CHIEF EXECUTIVE OFFICER'S STATEMENT

Group Results
The Group continues to deliver rapid growth, with sales up 29% to $65.1 million. This reflected strong organic growth in our China Healthcare Division where sales, on a continuing operations basis, grew 28% to $61.4 million; a fourfold increase in revenues to $0.9 million in our Drug R&D Division, Hutchison MediPharma Limited ("HMPL"), from its strategic partnerships; and continued rapid growth in our Consumer Products Division where the Sen brand increased sales 36% to $2.9 million.

The China Healthcare Division increased its operating profit to $4.4 million from $2.5 million, before non-recurring items. However, this understates the performance of its continuing businesses since, in December 2007, we decided to discontinue the loss-making NLT. Excluding this product line, last year, the China Healthcare Division's operating profit was up 27% to $6.8 million. This highlights the improved platform for growth and profitability with which we have entered the current financial year.

HMPL continues to invest in its strong drug discovery and development programmes and has achieved significant success to date. As expected, therefore, despite the sharp increase in its revenues, its operating loss widened from -$6.0 million to -$10.1 million.

Sen too continues to invest, and its operating loss widened from -$1.1 million to -$2.1 million reflecting the set-up costs for its planned expansion, an associated write-down of inventory and the unfavourable impact of foreign exchange.

An effective Group overhead structure is necessary to develop all three of our divisions in parallel as well as manage the complexity of being a listed Group. Operating losses from Group overheads totalled -$4.3 million (2006: -$3.6 million). The $5.7 million expense of the one-off grant of share options at the time of the IPO is being amortised over the 2006-2009 period. Excluding this non-cash expense, Group overheads, after interest income, totalled $1.8 million (2006: $1.3 million).

The Group's overall operating loss, therefore, was -$14.8 million, compared to -$8.2 million in 2006. The Group's overall operating loss, on continuing operations, however was -$9.7 million compared to -$5.4 million in 2006, after excluding the losses and one-time provision for discontinuing the NLT product line.

Our tax charge increased to $0.8 million (2006: $0.0 million) reflecting the first stage increase in effective tax rate, as we approach the end of the tax holidays on both our Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited ("HBYS") and Shanghai Hutchison Pharmaceuticals Limited ("SHPL") joint ventures. HBYS and SHPL continue to enjoy a 50% reduction in China corporate income tax rate for the ensuing two years towards year 2009 at a rate of 12% and 12.5% respectively. Thereafter they will pay the full 25% China corporate income tax rate. Finance costs of $0.4 million (2006: $0.4 million) were incurred primarily as a result of borrowing in our SHPL joint venture that is being paid back with the positive cash flow on this business.

Profits attributable to minority interests increased to $1.2 million (2006: $1.0 million) as the HBYS joint venture continued to improve performance significantly. In consequence, the Group's net loss attributable to equity holders increased to -$17.2 million from -$9.6 million in 2006.

The Group maintains a strong balance sheet and ended the year with net assets of $97.6 million, including cash and cash equivalents totalling $53.3 million (2006: $70.6 million). In addition the Group holds $13.6 million (Chi-Med pro rata share) in bank guaranteed bills receivable (2006: $8.6 million) which although held in HBYS, can be accessed at a discount rate of less than 5% on demand.

China Healthcare

We believe the China healthcare market, and particularly the TCM segment, will continue to grow strongly and that our China Healthcare Division is extremely well positioned to take advantage of this opportunity and deliver sustained and profitable growth.

Underlying this belief is our view of the Central Government's healthcare policy, drug reimbursement system and position on TCM; as well as Chi-Med's existing operating framework in China.

Central Government Healthcare Policy

The State Basic Medical Insurance Program ("BMIP") is the Central Government's main national health insurance system. Under this system, the government reimburses the cost of drug purchases by participants enrolled in the system. Enrolment is restricted to employees of

companies that participate in the scheme through salary-based contributions. At the end of 2006, approximately 160 million Chinese people were enrolled based on the latest China State Food & Drug Administration ("SFDA") data, which is around only 12% of the Chinese population and skewed to China's more economically developed urban areas.

According to the latest SFDA data, enrolment in the BMIP has increased at approximately 13% a year for the past five years, and this has primarily contributed to about a 19% a year increase in total pharmaceutical industry revenue over the same period. So in theory, BMIP enrolment increases, so does drug industry consumption and revenue.

In addition to the BMIP, the Chinese government has other medical care systems that offer considerably less cover for unemployed and rural consumers. As China's economy develops, we believe it is reasonable to expect that these consumers will gradually migrate to the BMIP.

Regulatory/Reimbursement Framework

The BMIP regularly reviews all drugs in China and regulates reimbursement by assigning each drug a classification on the National Medicine Catalogue ("NMC") and Provincial Medicine Catalogues ("PMC"). Drugs most commonly included on the NMC and PMC, and thereby reimbursed, are those that are necessary clinical treatments, that have wide application, good effect, and low cost.

Chi-Med's strategy is to ensure broadest possible reimbursement of the products of the Group across China to maximise sales. To do this, we generally focus on prescription drugs that provide proprietary clinical treatment as well as over-the-counter ("OTC") drugs that we can produce at a competitively low cost.

Central Government position on TCM

The Central Government has stated that it intends to firmly support the development of TCM.

As reported by China Daily in January 2007, Vice Premier Wu Yi outlined government measures to accelerate the development of TCM. These include China bidding to list TCM as a world intangible cultural heritage, as well as strengthening protection of TCM intellectual property rights. We believe this is one of the main factors which has led the Chinese TCM drug industry to grow by 24% to $16.5 billion in 2006 (2005: $13.3 billion), significantly outpacing growth in the chemical and biotech drug industry, which grew only 13% to $35.7 billion (2005: $31.7 billion), according to the latest SFDA data.

Furthermore, while a new policy is still in the drafting stage, we understand that the SFDA is currently working on significantly expanding the scope of its TCM protection policy on both existing and future proprietary TCM drugs. Chi-Med's experience on the She Xiang Bao Xin pill ("SXBXP") - where protection was extended for 5 years under State Secrecy Bureau direction - and on our Dan Ning tablet - where a 20-year process and composition patent was granted in 2007 - are clear examples of the Central Government's intention to continue to protect and support TCM.

The Existing Operating Framework of Chi-Med in China

Through our two TCM operating joint ventures in China, we believe we hold strong competitive advantages in both the proprietary prescription drug market - through SHPL - and the OTC market - through HBYS. Our core products are all either on the NMC or the PMC and we believe they are well positioned to grow as the overall market grows.

2007 China Healthcare Division performance

Chi-Med's total China healthcare sales, including discontinued operations, grew 20% to $65.9 million in 2007 (2006: $55.1 million) and operating profit, before one-time provisions, grew 73% to $4.4 million (2006: $2.5 million). In late December 2007 however, a decision was made to discontinue the loss making NLT product line in order to significantly improve the ongoing operating profit of Chi-Med's China Healthcare Division. A one-time provision of $2.6 million, of which approximately $2.1 million was non-cash in nature, was taken in the 2007 accounts to cover charges associated with the discontinuation of NLT.

Importantly, 2007 performance of Chi-Med's China Healthcare Division excluding NLT ("Continuing Operations") was very strong with sales growing 28% to $61.4 million (2006: $48.1 million) and operating profit up 27% to $6.8 million (2006: $5.4 million). Net profit after tax ("NPAT") attributable to Chi-Med equity holders on Continuing Operations grew 13% to $4.5 million (2006: $4.0 million). This NPAT growth lagged operating profit growth primarily because as mentioned, above tax holidays on both of our joint ventures partially expired.

The China healthcare sales and distribution network of the Group continued to strengthen in 2007. Currently, through HBYS and SHPL, over 1,800 full-time sales and distribution personnel are employed in over 200 cities in China.

It should be noted that the true scale of Chi-Med's China healthcare operations does not come through in IFRS financial statements which use prorated revenue consolidation, and thereby only reflect about 50% of the actual domestic sales in our joint ventures. For perspective, total domestic China sales in our three joint ventures in 2007 was $123.6 million (2006: $101.4 million) - representing the manufacture and sale of over 3.2 billion doses of medicine.

Chi-Med's product portfolio remains well diversified with 93% of the Group's China Healthcare sales last year coming from nine core products of which four are OTC; three Rx; and two health food.

Over-the-counter drugs

OTC drug sales through HBYS increased 26% in 2007 to $43.6 million (2006: $34.6 million), all of which was organic growth. We believe HBYS is now one of the largest and fastest growing OTC drug companies in China.

With domestic sales approaching $100 million, HBYS has improved scale in manufacturing operations. This combined with the successful strategy of annual price increases on key products – for example, the price of Fu Fang Dan Shen tablets was increased 10% in January 2007 - improving gross margins by 1.0 percentage point to 54.5% in 2007 (2006: 53.5%), despite significant raw material price increases during the year.

We believe that marketing operations and execution are HBYS's main competitive advantage. Three HBYS marketing campaigns, which focus effort on public relations rather than hard sell direct advertising, have been voted in the top 10 Marketing Programmes in China since 2003 by the Xin Jing Bao and Nanfang Dushi Bao, the two industry leading journals in China. These programmes include: the public relations campaign promising both free product and a price freeze on Banlangen granules (anti-viral) during the SARS epidemic of 2003; the public relations campaign promoting Banlangen granules as the "TCM antibiotic" concurrent with the State

Government's clamp down on over prescription of antibiotics in 2004; and the highly successful expired prescription medicine exchange programme for families, which has led to widespread national public relations coverage in China over the past eighteen months as well as participation by over 3 million Chinese consumers.

In 2007, HBYS opened the "Shen Nong TCM Garden", a novel cultural theme park, on the grounds of the factory in Guangzhou. The garden, with the objective of explaining TCM and its history, attracted over 300,000 visitors and broad media coverage in 2007. Second phase expansion is planned to open in 2009 and is expected to strengthen HBYS's position as one of the most respected TCM brands in Southern China.

HBYS's OTC distribution network grew significantly in 2007 and now has over 200 offices across China, employs over 1,200 staff, covering all cities with a population over 1 million. Furthermore 85% of PMC drug tenders were successful in 2007 and HBYS now holds 51, or 6.3%, of the total 815 PMC listed TCM drug products listed in all China.

Major activity in HBYS's Guangdong Government designated TCM Provincial Technology Centre has led to participation in multiple provincial innovation project tenders, government declared projects, and has secured the joint venture over $1.3 million in government R&D grants in 2007. These activities are expected to provide the joint venture with a stable stream of new products over the next five years.

Strong progress was also made in 2007 on HBYS's range of TCM bottled drinks under the Bai Yun Shan ("BYS") label. Sales grew 123% to $1.3 million (2006: $0.6 million) as test marketing progressed well and set a strong foundation for regional expansion of the BYS drink. These products are planned to bridge the gap between TCM medicines and daily use food and beverage products and represent a major area of growth potential for the HBYS.

Prescription Drugs

Prescription drug sales through our SHPL joint venture grew 21% to $14.1 million in 2007 (2006: $11.6 million) all of which was organic from existing products.

As reported previously, last year's SFDA tightening of policy on the access of medical representatives to hospitals, which initially was cause for concern, has turned out to have had no impact on SHPL results. Two factors have contributed to this – firstly, we have effectively migrated a significant portion of our hospital sales personnel to community marketing programmes which have proven to be effective; and secondly, after lobbying efforts by many of the major Pharmaceutical companies in China, the SFDA has softened its position on limiting medical representatives' access to hospitals.

SHPL's strong performance has seen a 32% increase in sales of our key cardiovascular prescription drug SXBXP to $11.5 million (2006: $8.7 million). In 2007 we focused on this product and have built very strong momentum behind it, which we expect to carry over into 2008.

Regionally, SHPL is making progress in expanding beyond our historical Shanghai stronghold which in 2007 represented 46% of sales (2006: 48%). Sales in markets outside Shanghai grew 25% during 2007 to $7.7 million (2006: $6.1 million) whereas sales in our more mature Shanghai market grew 17% to $6.5 million (2006: $5.6 million). Importantly, an encouraging sign for SHPL in 2007 was that in-market consumption grew 25%, outpacing ex-factory sales growth of 21%,

signifying that hospital pharmacy and chain drugstore inventories were reduced during the year. Good progress was made in both the hospital pharmacy (72% of sales) and chain drugstore channels (28% of sales) where in-market consumption grew 27% and 21% respectively.

Government relations have been a key focus area for SHPL over the past two years and are now yielding direct tangible benefits to the joint venture. In late 2006 SXBXP was awarded a State Secret Certificate as "Confidential Information" by the Ministry of Science and Technology and State Secrecy Bureau thereby extending effective IP protection for five years. In June 2007 the State Science & Technology Commission approved a $0.3 million grant to fund research on SXBXP's mechanism of action at one of China's top universities, Beijing Qing Hua University. In June 2007 the State Science and Technology Commission also approved a further grant of $0.4 million for the study of SXBXP mechanism of action and Dan Ning tablet activity in liver disease. In July 2007 our number two product, Dan Ning tablet (gall stone treatment), was granted a 20-year process and formula patent by the State Patent Bureau thereby guaranteeing it long-term NMC inclusion. In July 2007 the Shanghai Economic & Trade Commission also approved a grant of $0.1 million for research on SXBXP. In August 2007 the Shanghai Price Bureau approved a 14.9% increase in SXBXP's hospital bidding price to RMB 21.00/box, which improved its gross margin by some $0.5 million/year.

Health Supplements

Health supplement sales through our Hutchison Healthcare Limited ("HHL") joint venture, on a continuing operations basis, almost doubled to $3.7 million in 2007 (2006: $1.9 million). Including sales of the discontinued NLT product line, HHL sales for 2007 dropped 7% to $8.3 million (2006: $8.9 million). In 2007, $5.1 million was incurred in costs that covered both operating losses and a one-off provision associated with the discontinuation of the NLT product line.

HHL has had two distinct business units.

In the first, our profitable Zhi Ling Tong ("ZLT") infant nutrition brand, we saw sales double to $3.7 million (2006: $1.9 million). This reflected good performance by the exclusive distributor of ZLT, He Hui Pharmaceuticals Limited, which is successful in developing a strong hospital and mother/baby store distribution model across China; and the marketing investment made by HHL behind the brand and its patented omega-3 product which is unique in the China market.

In mid-2007 registration approvals were received on ZLT probiotics, a toddler immunity product whose raw materials are imported from Denmark, to add to the already marketed omega-3 brain/retinal development product and calcium powder infant bone development product. The Group intends to further expand the ZLT range over the coming years to establish the brand as a leader in baby/infant health.

In contrast, the second distinct business unit of HHL, NLT, has performed poorly over the past two years in the face of increasing generic competition. While NLT operating losses were narrowed in 2007 by 14% to -$2.5 million (2006: -$2.9 million) by withdrawing from several unprofitable provincial markets, the resulting 35% drop in sales to $4.6 million (2006: $7.0 million) left the Group with little confidence in the long term potential of the product line. At the end of 2007, it was decided that the product line be discontinued and, in addition to the 2007 operating loss, a one-time provision of -$2.6 million was made, of which approximately -$2.1 million non-cash, to cover closure charges.

Acquisitions

The run up of the Chinese stock market has led to rapid appreciation in valuations of listed China healthcare enterprises in 2007. Naturally this has led to materially increased valuation expectations by some of the companies that Chi-Med has been in acquisition discussions with over the past two years. Despite this, we have continued to appraise potential strategic acquisitions and believe there remain good earnings enhancing opportunities.

The Group is focusing primarily on deals with similar structure to our SHPL and HBYS which expand the capital of new joint ventures through a cash injection in return for an injection of assets by Chinese partners. We are generally targeting to take at least a 50% share in new joint ventures, which are synergistic with our existing China Healthcare Division assets and are able to benefit from the strategic advantages that Hutchison Whampoa has to offer. It is hopeful that acquisitions could start to materialise in 2008.

Drug Research & Development

HMPL is dedicated to transforming scientific discoveries into innovative therapies for cancer and auto-immune diseases.

2007 Drug R&D Division performance

Chi-Med's Drug R&D revenue grew almost four-fold during 2007 to $0.9 million (2006: $0.2 million) from payments by Merck KGaA, Procter & Gamble and Eli Lilly. Its operating loss rose to -$10.1 million (2006: -$6.0 million) as a result of increased investment in HMPL's discovery organisation and programmes, as well as the cost of clinical trial programmes in the US and China.

Overall, 2007 was a highly productive year for HMPL in which the two major achievements were the landmark strategic alliance with Eli Lilly and the positive Phase II POC results on the Group's lead product, HMPL-004 thereby proving the Group's preclinical hypothesis and validating its scientific capability.

We believe HMPL is now generally accepted as one of the leaders in China's Pharmaceutical drug discovery arena. Going forward, the Group's target is for it to continue to build strategic alliances with multi-national pharmaceutical groups; identify global partners with which to co-develop our lead candidates; and advance our in-house preclinical programs into clinical POC studies taking advantage of China's low cost R&D structure and vast patient population.

Discovery Summary

During 2007, two novel small molecule compounds were selected for development, HMPL-010 for psoriasis and HMPL-011 for auto-immune diseases, such as rheumatoid arthritis. HMPL-010 is a novel chemical entity that blocks activation of NF-kB and is positioned as a topical treatment for psoriasis. HMPL-011 is a small molecule cytokine modulator that controls the production of pro-inflammatory cytokines and has been found to be effective in animal models of rheumatoid arthritis as well as a number of other inflammatory conditions. Both compounds are currently in preclinical evaluation.

In addition, the Group continued to execute against its goals of building a sustainable project portfolio and significant progress has been made on a number of other early stage projects. These projects are positioned for candidate selection throughout 2008 and beyond in the oncology and inflammation therapeutic areas. During 2007, six cases covering three new invention patents were filed in China and the US. Notice of allowance for two patent applications has been received:

the HMPL-004 US patent application covering composition and usage; and the HMPL-001 China patent application covering composition and usage.

On the strategic alliance front, the Group commenced research collaboration with Eli Lilly. HMPL will be responsible for all discovery activities leading to clinical candidate selection, and Eli Lilly will be responsible for clinical development. The collaborations with Merck KGaA and Procter & Gamble have gone according to plan in 2007 with solid progress having been made on both.

Development Summary

HMPL-004, treatment for auto-immune disorders

HMPL-004 is the lead drug candidate of the Group for treating inflammatory bowel diseases in Phase II clinical development. HMPL-004 is an orally active, proprietary botanic product that acts on multiple targets in the pathogenesis of inflammation. It is a compound extracted from a Chinese herb under controlled conditions and its composition well characterised. The anti-inflammation activity of HMPL-004 was originally identified in a cell-based anti-inflammation screening assay at HMPL and further confirmed in a various experimental animal models.

HMPL is currently 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 global Phase IIb trial for ulcerative colitis ("UC"). In July 2007, HMPL completed a POC study for UC in China and announced positive clinical outcomes and all trial endpoints met. In this POC study, HMPL-004 was well tolerated and effective for treating patients with mild-to-moderate UC.

The Phase II POC study for UC was a multi-centre, randomised, double-blind, comparator study of 120 patients conducted in China. The study evaluated HMPL-004 at 400mg taken three times a day, orally, compared to Etiasa® (Mesalazine SR), the current first line standard of care. The primary endpoint was the improvement of the patient's clinical symptom score. The secondary endpoint was a colonoscopic score. After treatment for eight weeks the overall remission rate (combination of complete and partial remissions) for HMPL-004 was 57% by clinical score compared to 53% for Etiasa® in the Intent-To-Treat ("ITT") population, and 47% for HMPL-004 versus 42% for Etiasa® by colonoscopy in the ITT population. HMPL-004 was well tolerated in the study. The adverse event ("AE") rate was low and reported AEs were mild in nature.

In November 2007, HMPL obtained clearance from the Food and Drug Administration of the US to commence a global Phase IIb trial with HMPL-004 in patients with mild-to-moderate UC based on the successful outcome of China's POC result. The trial will assess the efficacy and safety profile of the drug in a broader patient population and dose range. The patient recruitment for this UC trial started in January 2008.

The on-going US Phase II trial for CD is a multi-centre, double-blind, randomised, and placebo-controlled study in both male and female patients with active moderate CD. It is anticipated that patient enrolment would be finished in 2008.

HMPL-002, sensitizer for cancer chemo-radiotherapy

HMPL is currently developing HMPL-002 in the US for locally advanced head and neck cancer ("HNC") patients undergoing concurrent Cisplatin chemo-radiotherapy treatment. As at end-2007, HMPL had completed enrolment in US for Phase I HNC patients.

HMPL is also proceeding well with a Phase II POC study in China of HMPL-002 indicated for its concurrent chemo-radiotherapy usage 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 therapies for NSCLC patients. The study completed enrolment at the end of 2007 with response results expected to be released in the third quarter of 2008 and survival data to be completed in early 2009.

Depending on the successful outcome of the HMPL-002 US Phase I trial, and the concurrent China Phase II POC study for NSCLC, we will make a go/no go decision for the US Phase II arm of the HMPL-002 trial.

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.

Strategic Alliances

Under the Eli Lilly partnership agreement, HMPL scientists and an Eli Lilly team will collaborate on the discovery and development of pharmaceutical compounds focused on targets in oncology and inflammation. The research partnership leverages the strengths and expertise of the two companies while taking advantage of the unique opportunities available in China to expedite the drug discovery process and reduce overall cost. Eli Lilly will provide HMPL an upfront payment, annual R&D support fees, potential discovery and development milestone payments, and royalties on worldwide sales of any commercialised products resulting from the collaboration. Potential discovery and development milestone payments will total from $20 million to $29 million per candidate. It is expected that HMPL will be delivering multiple candidates in the next several years.

The Eli Lilly deal is the first such kind of deal in China Pharmaceutical R&D history and represents a new model for innovative drug discovery and development partnership. Furthermore, to the best of our knowledge, never before has a major global pharmaceutical group injected its own in-house drug discovery programmes into a China based R&D company. It is a direct reflection of the business model of the Group and the quality of our China drug R&D operations.

HMPL will continue to seek additional strategic alliances to further enhance our discovery and development pipeline and to bring in short term revenue, as well as setting up the basis for major long term value creation through milestones and royalties on successful projects.

Consumer Products

Chi-Med's consumer products objective remains to create and develop a "new to the world" premium brand proposition centred on consumer health products and services derived from TCM and botanical ingredients.

We believe the TCM concept of natural botanical health can be applied to most consumer products categories such as food & beverage, beauty, and personal cleansing. We intend for Sen to establish a reputation as the leading TCM brand in the West through a one-of-a-kind premium product and service offering.

The Group has expanded its consumer product portfolio to over 250 items in categories such as teas, body care and skin care. It is expected that a further 200 items, in both existing and new related categories, will be needed to support our own standalone shops. In addition to these consumer products, TCM services (e.g. acupuncture, acupressure, reflexology, and facials) represent a key reputation building block and income source.

To start, Sen had to build a reputation as an expert in the field. We believe this is being achieved by continuing to offer sophisticated western consumers high quality TCM products and services, as we have done for the past five years. Given the regulatory constraints surrounding TCM and herbal medicines, as well as our desire to test multiple ranges of consumer products, a retail format has been chosen to start pilot testing the Sen brand and product portfolio. The objective of the Group, however, is to expand beyond our own shops by launching select Sen consumer products internationally through luxury retailers.

2007 Consumer products performance

Chi-Med's consumer products sales grew 36% to $2.9 million in 2007 (2006: $2.1 million) and operating loss increased to -$2.1 million (2006: -$1.1 million).

Sales growth was mainly driven by the full year effect of the successful Harvey Nichols shop and the part-year effect of the three new central London Sen shops which opened in late-2007 in Kensington, Westbourne Grove and Green Park.

The widening operating loss was mainly driven by set up costs for luxury retail expansion, an associated write-down of inventory, and the unfavourable impact of foreign exchange. Without these three one-time factors, operating loss would have been approximately equal to that of 2006.

Sen delivered like-for-like sales growth of 2% in shops open for more than one year consolidating the very strong 32% organic sales growth in 2006 as we expanded our ranges of consumer products items. Consumer loyalty continues to grow at Sen, with return customers making up an increasing proportion of our sales.

Breaking down the 2007 performance of each of the core Sen product and service categories, consumer product sales - teas, body care and skin care - were up 45%; the provision of consultations & services grew 49%; and OTC medicine sales grew 8%.

New Shops

At the end of 2007 Sen operated a chain of seven shops in central London including: Mayfair, King's Road; Knightsbridge (Harvey Nichols); Kensington; Westbourne Grove; Green Park; and the City. The UK strategy of the Group is to continue to open new shops in central London and by end-2008 Sen targets to have twelve shops, allowing for a more aggressive, targeted PR and marketing programmes.

Luxury Retail Expansion

In addition to our own UK shops, the Group is now planning to sell Sen products internationally through luxury retail chains, starting in France. Preparation for this expansion has taken almost two years, involving considerable organisational time and expense. Over 100 Sen consumer products are being registered in France under EU regulations. All product claims have been fully supported, all packaging and marketing materials have been adapted to be appropriate for both

English and French markets. Importantly also, both the Sen commercial and product supply organisations have been built up to support this expansion. This investment will enable Sen to expand luxury distribution internationally, thereby transforming the potential scale of the business over the coming five years.

Current Trading and Outlook for the Group

It is encouraging to report that to date this year, sales and profit growth rates in the China Healthcare Division are running well ahead of last year as the China pharmaceutical market continues to show robust growth. Furthermore, we have now started treating patients on our global HMPL-004 Phase IIb trial in UC, and hope to shortly announce Sen's international consumer product launch plans for 2008.

The Chi-Med Group organisation is currently focused on China acquisitions and, following current due diligence, we expect progress in 2008.

We remain very confident of the growth prospects for Chi-Med.

Christian Hogg
Chief Executive Officer, 17 March 2008

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 US$'000	2006 US$'000
Continuing operations			
Sales	2	65,110	50,433
Cost of sales		(27,656)	(21,322)
Gross profit		37,454	29,111
Selling expenses		(23,091)	(17,104)
Administrative expenses		(27,423)	(19,807)
Other net operating income		3,337	2,417
Operating loss		(9,723)	(5,383)
Finance costs		(299)	(388)
Loss before taxation		(10,022)	(5,771)
Taxation charge		(838)	(1)
Loss for the year from continuing operations		(10,860)	(5,772)
Discontinued operations			
Loss for the year from discontinued operations	3	(5,106)	(2,860)
Loss for the year		(15,966)	(8,632)
Attributable to:			
Equity holders of the Company		(17,191)	(9,605)
Minority interests		1,225	973
		(15,966)	(8,632)
Loss per share for loss from continuing and discontinued operations attributable to equity holders of the Company for the year			
- Basic and diluted (US$ per share)	4	(0.3357)	(0.2101)
Loss per share for loss from continuing operations attributable to equity holders of the Company for the year			
- Basic and diluted (US$ per share)	4	(0.2360)	(0.1475)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007

	2007 US$'000	2006 US$'000
ASSETS		
Non-current assets		
Property, plant and equipment	25,682	22,874
Leasehold land	5,828	4,230
Goodwill	6,616	6,241
Trademarks and patents	602	775
Available-for-sale financial asset	136	128
Deferred tax assets	256	-
	39,120	34,248
Current assets		
Inventories	11,722	9,490
Trade receivables	21,172	16,582
Other receivables and prepayments	2,204	2,110
Financial assets at fair value through profit or loss	-	60,544
Cash and bank balances	53,345	10,069
	88,443	98,795
Total assets	127,563	133,043
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	51,229	51,212
Reserves	39,067	51,739
	90,296	102,951
Minority interests	7,311	7,030
Total equity	97,607	109,981
LIABILITIES		
Current liabilities		
Trade payables	5,303	3,185
Other payables and accruals	17,042	11,894
Amounts due to related parties	496	868
Current tax liabilities	551	-
Short-term bank loans	6,564	7,115
Total liabilities	29,956	23,062
Total equity and liabilities	127,563	133,043

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	Attributable to equity holders of the Company								
	Share capital US$'000	Share premium US$'000	Share-based Compensa-tion reserve US$'000	Exchange reserve US$'000	General reserves US$'000	Accumu-lated losses US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
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
As at 1 January 2007	51,212	91,277	2,368	1,844	29	(43,779)	102,951	7,030	109,981
Exchange translation differences	-	-	-	2,037	1	-	2,038	333	2,371
(Loss)/profit for the year	-	-	-	-	-	(17,191)	(17,191)	1,225	(15,966)
Issue of shares	17	74	(53)	-	-	-	38	-	38
Dividend paid to a minority shareholder of a subsidiary	-	-	-	-	-	-	-	(1,277)	(1,277)
Share-based compensation expense	-	-	2,460	-	-	-	2,460	-	2,460
Transfer between reserves	-	-	(528)	-	35	493	-	-	-
As at 31 December 2007	51,229	91,351	4,247	3,881	65	(60,477)	90,296	7,311	97,607

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 US$'000	2006 US$'000
Cash flows from operating activities			
Net cash used in operations	5	(7,688)	(3,246)
Interest received		937	559
Interest paid		(367)	(392)
Income tax paid		(543)	(1)
Net cash used in operating activities		(7,661)	(3,080)
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,807)	(2,582)
Addition to leasehold land		(1,415)	-
Purchase of trademarks and patents		(15)	(44)
Purchase of available-for-sale financial asset		-	(124)
Acquisition of subsidiaries by a jointly controlled entity		-	(20)
Formation of a subsidiary by a jointly controlled entity		-	30
Net cash used in investing activities		(7,237)	(2,740)
Cash flows from financing activities			
(Decrease)/increase in amount due to immediate holding company		(471)	2,479
Dividend paid to a minority shareholder of a subsidiary		(1,277)	-
New short-term bank loans		4,760	374
Repayment of short-term bank loans		(5,709)	(936)
Issue of shares, net of share issuance costs		38	68,743
Net cash (used in)/generated from financing activities		(2,659)	70,660
Net (decrease)/increase in cash and cash equivalents		(17,557)	64,840
Cash and cash equivalents at beginning of year		70,613	5,617
Exchange differences		289	156
Cash and cash equivalents at end of year		53,345	70,613
Analysis of cash and cash equivalents			
- Cash and bank balances		53,345	10,069
- Financial assets at fair value through profit or loss		-	60,544
		53,345	70,613

NOTES

1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets.

2 Revenue and segment information

The Group is principally engaged in the manufacturing, distribution and sales of TCM and healthcare products. Revenue recognised for the year are as follows:

	2007 US$'000	2006 US$'000
Continuing operations		
Sales of goods	62,530	49,060
Revenue from services	2,580	1,373
	65,110	50,433
Discontinued operations		
Sales of goods	4,551	7,041
	69,661	57,474

Primary reporting format – business segments

The Group's activities are categorised into four main areas:

- China healthcare – Health supplement: comprises the research and development, manufacture, distribution and sale of western and TCM health supplements products.
- China healthcare – Over-the-counter ("OTC") & prescription: comprises the development, manufacture, distribution and sale of OTC & prescription TCM products.
- Consumer products: relates to TCM pharmaceuticals and sales of TCM-based consumer lifestyle products and services sold through retail stores.
- Drug research and development: relates mainly to drug discoveries and other pharmaceutical research and development activities, and the provision of research and development services.

NOTES

3 Loss for the year from discontinued operations

In December 2007, the Group discontinued its Nao Ling Tong memory supplement operations, which represented a separate major line of the Group's business, as the product line performed below expectation in light of increased competitive and regulatory activities in the generic health supplement market.

The results and cash flows of the discontinued operations are set out below. The 2006 comparative figures in the consolidated income statement have also been reclassified to conform to the current year presentation.

	2007 US$'000	2006 US$'000
Revenue	4,551	7,041
Expenses	(9,657)	(9,901)
Loss before taxation from discontinued operations	(5,106)	(2,860)
Taxation charge	-	-
Loss for the year from discontinued operations	(5,106)	(2,860)
Cash flows from discontinued operations		
Net cash flows from operating activities	(2,194)	(2,229)
Net cash flows from investing activities	(14)	(1)
Net cash flows from financing activities	(174)	23
Net cash flows	(2,382)	(2,207)

4 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.

	2007	2006
Loss for the year		
- Continuing operations (US$'000)	(12,085)	(6,745)
- Discontinued operations (US$'000)	(5,106)	(2,860)
	(17,191)	(9,605)
Weighted average number of outstanding ordinary shares in issue	51,216,279	45,712,743
Basic and diluted loss per share (US$)		
- Continuing operations	(0.2360)	(0.1475)
- Discontinued operations	(0.0997)	(0.0626)
Total basic and diluted loss per share (US$)	(0.3357)	(0.2101)

NOTES

4 Loss per share (continued)

(a) The weighted average number of ordinary shares for the year ended 31 December 2006, for the purposes of basic loss per share, has been retrospectively adjusted for the effects of the capitalisation of 36,666,665 ordinary shares on 9 May 2006.

(b) Diluted loss per share equals basic loss per share as the exercise of the outstanding employee share options would have an antidilutive effect.

5 Note to the consolidated cash flow statement

Reconciliation of loss for the year to net cash used in operations

	2007 US$'000	2006 US$'000
Loss for the year	(15,966)	(8,632)
Adjustments for:		
Taxation charge	838	1
Share-based compensation expense	2,460	2,368
Amortisation of trademarks and patents	212	163
Amortisation of leasehold land	111	91
Impairment on property, plant and equipment	603	-
Write-off of inventories	359	-
Provision for inventories	326	-
Provision for trade and other receivables	1,734	161
Depreciation on property, plant and equipment	3,477	2,740
Loss on disposal of property, plant and equipment	269	80
Interest income	(937)	(559)
Interest expense	367	392
Operating loss before working capital changes	(6,147)	(3,195)
Changes in working capital:		
- increase in inventories	(2,419)	(184)
- increase in trade receivables	(5,129)	(3,223)
- (increase)/decrease in other receivables and prepayments	(244)	854
- increase/(decrease) in trade payables	1,837	(927)
- increase in other payables, accruals and amounts due to related parties	4,414	3,429
Net cash used in operations	(7,688)	(3,246)