HUTCHISON CHINA MEDITECH LIMITED

Hutchison China MediTech Limited ("Chi-Med")

(AIM: HCM)

Final Results for the year ended 31 December 2014

Break-out year for Drug R&D Division with 16 clinical studies on 7 drug candidates; 10 potential Breakthrough Therapy indications; as well as record China Healthcare Division revenues and profits.

London: Thursday, 26 February 2015: Chi-Med today announces its final results for the year ended 31 December 2014.

Consolidated Group Results (IFRS11)

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

Results are reported in US dollar currency unless otherwise stated.

Christian Hogg, Chi-Med CEO, said: "Chi-Med has had a great year in 2014 and the momentum is continuing in 2015. The route to our objective of becoming a large-scale China pharmaceutical company is now clearly laid out before us.

Our Drug R&D Division has made dramatic strides. During the year we published exciting new clinical data on three of our seven drug candidates. We have 16 clinical studies running in parallel, 10 of which are in potential Breakthrough Therapy indications. Many of these studies will publish data during 2015. For AZD6094 (savolitinib) and fruquintinib, we expect to make New Drug Application submissions in 2016 – the first in our history. And, our either first-in-class or best-in-class compounds against important targets such as Syk (HMPL-523), PI3Kδ (HMPL-689), as well as sulfatinib in neuroendocrine tumours all represent attractive near-term licensing opportunities.

Our China Healthcare Division has had a record year with sales of subsidiaries and JVs moving past $500 million and net profit attributable to Chi-Med equity holders growing 21% to $22.6 million. The gradual normalisation of certain raw material prices helped profitability. More importantly, our new third-party drug commercialisation business is now set to accelerate rapidly, building on top of our existing own-brand business. This is demonstrated by our recent third-party deals to take over commercial operations in certain provinces on Merck Serono's Concor®, the number two beta-blocker in China and, in all of China, on Seroquel®, AstraZeneca's leading bi-polar disorder/schizophrenia drug – both of which we started selling in early-2015.

As we guided last year, our Consumer Products Division has now moved into net profit.

In the current year, sales and profit in our China Healthcare and Consumer Products Divisions are well ahead of 2014 levels, and we expect this to continue through 2015.

In the Drug R&D Division, in the near term, fruquintinib will report the results of its third-line colorectal cancer Phase II study in early 2015. We expect this to be positive, triggering material success payments from Eli Lilly and Company ("Lilly"). Further milestones and success payments are expected on AZD6094 (savolitinib) later in 2015. We also expect our pipeline of clinical drug candidates to progress, enabling us again to publish further data at scientific community events, thereby building considerable shareholder value."

Highlights

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

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

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

China Healthcare Division – Record revenue and profit performance

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

Consumer Products Division – Focused on profitable activities

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

A presentation for analysts will be held at 9:00 a.m. today at the offices of Citigate Dewe Rogerson, 3 London Wall Buildings, London EC2M 5SY.

The Annual General Meeting of Chi-Med will be held at 4th Floor, Hutchison House, 5 Hester Road, Battersea, London SW11 4AN on Friday, 24 April 2015 at 10:00 a.m.

Ends

Enquiries

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About Chi-Med

Chi-Med is a China-based healthcare group focused on researching, developing, manufacturing and selling pharmaceuticals and health-related consumer products. Its China Healthcare Division manufactures, markets and distributes prescription and OTC pharmaceuticals in China. Its Drug R&D Division focuses on discovering and developing innovative therapeutics in oncology and autoimmune diseases. Its emerging Consumer Products Division focuses on organic and natural consumer products in Asia.

Chi-Med is majority owned by the multi-national conglomerate Hutchison Whampoa Limited ("Hutchison Whampoa"). For more information please visit: www.chi-med.com.

CHAIRMAN'S STATEMENT

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

Group Strategy

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

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

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

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

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

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

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

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

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

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

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

Drug R&D Division

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

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

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

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

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

China Healthcare Division

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

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

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

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

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

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

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

Consumer Products Division

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

Cash and Finance

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

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

Dividend

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

The Board

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

Our People

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

Simon To

Chairman, 25 February 2015

OPERATIONS REVIEW

Group Results

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

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

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

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

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

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

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

Drug R&D Division

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

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

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

Market Dynamics in Oncology:

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

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

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

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

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

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

HMP Research and Development Strategy:

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

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

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

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

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

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

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

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

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

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

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

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

Product Pipeline Progress:

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

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

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

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

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

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

Clinical study 1 – PRCC: PRCC represents approximately 10-15% of the 270,000 new renal cell carcinoma (kidney cancer) patients worldwide annually. Chi-Med announced in May 2014 that HMP and AstraZeneca had commenced a global Phase II study in PRCC in the US, Canada and Europe. The basis for the Phase II study in PRCC was the strong correlation in the Australian Phase I study between c-Met+ status and response to AZD6094 published in May 2014 at the American Society of Clinical Oncology ("ASCO") annual meeting. Until now, out of a total of eight PRCC patients, who have been treated with various doses of AZD6094, three have achieved partial response (tumour measurement reduction of >30%), one of which has been on drug for >24 months and has tumour measurement reduction of >85%. A further three of these eight PRCC patients achieved stable disease. This aggregate ORR of 38% is very encouraging for PRCC which currently has no effective treatments on the global market. Furthermore, since the data for these eight patients is not mature the ORR could continue to improve with time. Prior to AZD6094, the highest ORR reported for a PRCC specific Phase II study (of 74 PRCC patients) was 13.5% by foretinib (GlaxoSmithKline) in 2012.

If in the global Phase II study on PRCC we are able to deliver an ORR in-line with that seen to-date, we will look to pursue US FDA Breakthrough Therapy designation which could lead to a submission for approval in 2016. We believe that an approval as a first-in-class treatment for PRCC could yield non-risk adjusted peak sales, in PRCC alone, of over $500 million. Interim results from this Phase II study in PRCC are expected to be reported during 2015.

Clinical studies 2 and 3 – EGFR activating mutation ("EGFRm+") TKI resistant NSCLC c-Met+ patients. There are about 1.4 million new NSCLC patients worldwide annually of which, while varying greatly by ethnicity, up to approximately 30% have EGFRm+. NSCLC patients with EGFRm+ are treated effectively with TKIs such as gefitinib and erlotinib (Roche) with total 2014 sales of approximately $2 billion. Unfortunately, most patients build

resistance to TKIs and tumour growth restarts via resistance pathways. The main resistance pathways include T790M mutation ("T790M+") accounting for approximately 45-50% of patients and c-Met+ about 15-20% of patients. This is particularly important given that both gefitinib and erlotinib will come off patent in 2017/2018. This will likely lead to cheaper and more accessible TKI treatments of EGFRm+ NSCLC which in turn will lead to an eventual increase in the prevalence resistance due to both T790M+ and c-Met+.

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

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

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

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

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

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

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

VEGF/VEGFR Inhibitors: At an advanced stage, tumours secrete large amounts of VEGF, a protein, to stimulate formation of excessive vasculature (angiogenesis) around the tumour, in order to provide greater blood flow, oxygen, and nutrients to fuel the rapid growth of the tumour. VEGFR inhibitors stop the growth of the vasculature around the tumour and thereby starve the tumour of the nutrients/oxygen it needs to grow rapidly.

Several first generation VEGF/VEGFR inhibitors have been approved globally since 2005 and 2006, including both small molecule TKI drugs such as sorafenib (Bayer) and sunitinib (Pfizer) with 2014 sales of approximately $1.0

billion and $1.2 billion respectively; and monoclonal antibodies such as bevacizumab (Roche) with 2014 sales of approximately $7.1 billion. The success of these drugs validated VEGFR inhibition as a new class of therapy for the treatment of cancer.

Fruquintinib: Fruquintinib (HMPL-013) is a novel small molecule compound to treat cancer that selectively inhibits VEGFR. Fruquintinib as a result of better kinase selectivity is highly differentiated versus other small molecule VEGFR inhibitors, which can be prone to excessive off-target toxicities. Fruquintinib only inhibits VEGFR1, 2 and 3 resulting in few off-target toxicities and thereby allowing it to dose up to much improved target coverage, both in terms of extent and duration. Furthermore, fruquintinib has no drug accumulation problems and a low risk of drug/drug interaction problems which is favourable for combination therapies (e.g. fruquintinib in combination with chemotherapy) allowing for use earlier in a patients treatment regime and thereby increasing market potential by providing clinical benefit to a larger patient population.

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

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

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

Fruquintinib is a highly potent drug candidate with a unique safety profile linked to its therapeutic effect of inhibiting VEGFR. As has been previously reported in the context of the Phase Ib study, normal and manageable (mostly low grade) target related adverse events such as hand-foot-syndrome, dysphonia and hypertension uniquely occur in third-line colorectal cancer patients treated with fruquintinib. Furthermore, the prognosis for third-line colorectal cancer patients is so poor that a positive treatment outcome is likely attributable, again with a high degree of probability, to the drug being tested.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unlike c-Met, where targeted therapies are yet to be approved in the c-Met O/E patient population, there is a successful example of clinical efficacy among EGFR O/E patients, in tumour types such as colorectal cancer and head and neck cancer which have 53% and 66% to 90% EGFR O/E respectively. The most successful targeted therapy in this EGFR O/E patient population is the monoclonal antibody cetuximab (indicated for head and neck cancer and colorectal cancer) (Bristol-Myers Squibb and Merck Serono) with 2014 sales of approximately $1.8 billion. Importantly however, there remain many tumour types with high levels of EGFR O/E in which targeted therapies have not yet been approved such as NSCLC (62%), oesophageal (30-90%), gastric (44-52%), pancreatic (20-48%), glioblastoma (54-66%), ovarian (9-62%) and breast (basal) (68%) cancer. However, no small molecule EGFR TKIs have been approved for EGFR O/E cancers.

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

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

Epitinib: Epitinib (HMPL-813) is a highly potent EGFR inhibitor. Pre-clinical studies and orthotopic brain tumour models have shown that epitinib demonstrated excellent brain penetration and efficacy, superior to that of current globally marketed EGFRm+ inhibitors such as gefitinib and erlotinib. The first-in-human Phase I clinical trial started in late 2011 and epitinib has been well tolerated and demonstrated the anti-tumour activity expected from EGFRm+ inhibitors, i.e. partial response among patients EGFRm+ NSCLC patients. We have now completed dose escalation and have established 160mg once daily as the recommended Phase II dose ("RPTD") which is well tolerated with a relatively low incidence of expected adverse events. No dose limiting toxicity was seen in any dose level.

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

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

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

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

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

Most recently, in 2013 fostamatinib (AstraZeneca/Rigel), an oral small molecule pro-drug of the Syk inhibitor R406, failed to meet its primary endpoints in a global Phase III study in rheumatoid arthritis. Most companies with experience in the field attribute clinical failure of Syk compounds to-date to safety concerns. While it is well accepted, from both preclinical and clinical data, that effective inhibition of Syk will lead to the desired temporary down-regulation of the immune system and ameliorate inflammation, it has never been achieved by a compound with an acceptable safety profile. This is made particularly challenging in rheumatoid arthritis, which is a chronic disease requiring treatment over long periods of time in otherwise healthy individuals, so safety thresholds are extremely high.

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

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

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

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

colitis patients. In the aggregate, the data has demonstrated HMPL-004's high potential to address certain unmet medical needs in IBD.

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

Subsequent post-hoc analysis of the un-blinded NATRUL-3 data showed clear inconsistency with the Phase IIb study in efficacy among patients who had been on 5-ASAs for less than one year prior to NATRUL-3 (49% of the patients). In these patients we observed a high remission rate among the placebo-arm patients and a very low remission rate among HMPL-004 2,400mg-arm patients. After further analysis of the un-blinded NATRUL-3 data we hypothesise the following:

On the placebo-arm patients on 5-ASAs for less than one year: The high remission rate, given the short-term usage of 5-ASAs, was likely due to a delayed/slow response to prolonged 5-ASA treatment and improved compliance during the course of NATRUL-3's 8-week induction period.

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

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

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

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

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

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

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

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

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

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

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

China Healthcare Division

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

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

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

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

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

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

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

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

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

Prescription Drugs – SHPL:

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

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

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

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

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

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

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

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

OTC Drugs – HBYS:

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

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

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

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

Sales of HBYS' market leading generic anti-viral, Banlangen granules, was down 25% to $55.6 million in 2014, against all-time record sales of $74.2 million in 2013, which had been driven by widespread publicity and consumer anxiety around the avian influenza (H7N9) virus outbreak in China during the first half of 2013. 2014 was an

abnormally quiet flu season in China, however we see that Banlangen is returning to growth given that 2015 appears to be turning into a serious flu season in the region. The most reliable source of third party information to gauge the severity of the flu season in China (particularly southern China) would be the Hong Kong Department of Health ("HK DoH") which reported 300 severe cases, requiring intensive care unit admission, of influenza (210 deaths) from 2 January through 16 February 2015, as compared to 266 severe cases (133 deaths) in the entire flu season last year (January to late April 2014). The predominant virus being influenza A (H3N2), the HK DoH has stated that overall influenza activity has continued to rise rapidly since late December 2014 and is currently at a very high level, including the admission rate of influenza among elderly aged 65 years or above, exceeding the peak levels observed in the past few years.

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

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

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

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

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

Prescription Drug Marketing and Commercialisation – Hutchison Sinopharm:

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

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

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

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

Nutritional Supplements – HHL:

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

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

Property Update on HBYS/SHPL Production Expansion:

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

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

Consumer Products Division

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

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

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

Hutchison Hain Organic (HHO):

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

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

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

Current Trading and Outlook for the Group

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

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

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

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

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

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

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

Christian Hogg
Chief Executive Officer, 25 February 2015

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	31 December 2014 US$'000	31 December 2013 US$'000
ASSETS		
Non-current assets		
Property, plant and equipment	7,482	5,028
Leasehold land	1,436	1,508
Goodwill	1,953	407
Other intangible asset	666	-
Investments in joint ventures	113,014	111,405
Deferred tax assets	257	285
	124,808	118,633
Current assets		
Inventories	4,405	1,420
Trade and other receivables	34,446	14,789
Other prepayments and deposits	2,563	1,977
Amounts due from related parties	1,591	1,985
Cash and bank balances	51,125	46,863
	94,130	67,034
Total assets	218,938	185,667
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	53,076	52,051
Reserves	41,813	36,819
	94,889	88,870
Non-controlling interests	24,994	15,966
Total equity	119,883	104,836
LIABILITIES		
Current liabilities		
Trade payables	20,427	4,163
Other payables, accruals and advance receipts	13,638	15,389
Amounts due to related parties	8,716	7,374
Bank borrowings	26,282	51,508
Current tax liabilities	122	-
	69,185	78,434
Non-current liabilities		
Deferred tax liabilities	2,947	2,397
Bank borrowing	26,923	-
	29,870	2,397
Total liabilities	99,055	80,831
Net current assets/(liabilities)	24,945	(11,400)
Total assets less current liabilities	149,753	107,233
Total equity and liabilities	218,938	185,667

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

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

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.

2 Revenue and segment information

The Company and its subsidiaries (together the "Group") are principally engaged in researching, developing, manufacturing and selling pharmaceuticals and health-related consumer products. Revenues recognised for the year are as follows:

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

Notes:

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

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

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

- China healthcare: comprises the development, manufacture, distribution, marketing and sale of over-the-counter products, prescription products and health supplements products.

- Drug research and development: relates mainly to drug discoveries and other pharmaceutical research and development activities, and the provision of research and development services.

- Consumer products: relates to sales of health-related consumer products.

3 Earnings per share

(a) Basic earnings/(losses) per share

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

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

(b) Diluted earnings per share

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

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

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

4 Notes to the consolidated statement of cash flows

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

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

4 Notes to the consolidated statement of cash flows (Continued)

(b) Acquisition of a subsidiary

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

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

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

Notes:

(i) Other intangible asset represents the GSP license.

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

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

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

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