

Highlights

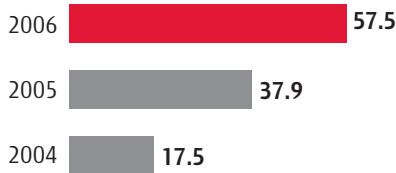
Chairman's Statement

Chief Executive Officer's Statement

Biographical Details of Directors

CHAIRMAN'S STATEMENT

Sales (US\$ million)



Loss before tax (US\$ million)



Review of Results

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

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

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

Strategic Overview

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

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

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



Simon To
Chairman

Business and Corporate Development

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

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

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

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

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

Corporate Governance

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

Outlook

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

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

Simon To
Chairman

21 March 2007

\$57.5

Sales increase +52% to \$57.5 million

-\$8.6

Loss before tax rises to \$8.6 million