Chairman's Statement

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Simon To
Chairman

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

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

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

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

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

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

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

China Healthcare Division

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

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

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

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

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

Drug R&D Division

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

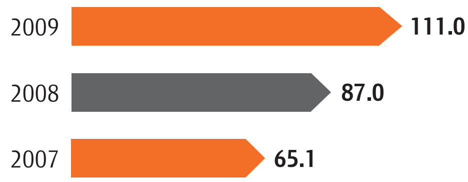
Our lead drug candidate, HMPL-004, delivered successful results in its global Phase IIb trial for ulcerative colitis ("UC"), and we are now engaged in finding the right partner to take this drug into Phase III and beyond. We also expanded our in-house oncology and inflammation small molecule pipeline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

From its inception, our Drug R&D Division focused on TCM, with its botanical origins and history of efficacy and safety, as a source of novel drugs for

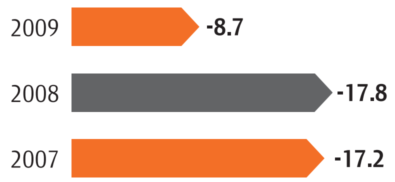
+28%

Organic sales growth of existing operations (% change 2009 vs. 2008)

Sales* (US$ million)



Net Loss Attributable to Equity Holders (US$ million)



* on continuing operations

Chairman's Statement

the global marketplace. This focus continues; but as our organisation and resource have grown – we now have a team of over 210 scientists and staff – we have formed strategic partnerships with major Western pharma groups and we have evolved our business into a focused conventional small molecule discovery group. Our concentration remains on oncology and auto-immune disease, both highly relevant therapeutic areas for the China and global markets.

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

Consumer Products Division

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

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

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

Corporate Governance

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

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

Dividend

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

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

Simon To
Chairman

2 March 2010