

Notes To The Accounts

1 GENERAL INFORMATION

Hutchison China MediTech Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in the manufacturing, distribution and sales of traditional Chinese medicine ("TCM") and healthcare products. The Group is also engaged in carrying out pharmaceutical research and development. The Group and its jointly controlled entities have manufacturing plants in Shanghai and Guangzhou in the Peoples' Republic of China (the "PRC") and sell mainly in the PRC, United Kingdom ("UK") and France.

The Company was incorporated in the Cayman Islands on 18 December 2000 as an exempted company with limited liability under the Companies Law (2000 Revision), Chapter 22 of the Cayman Islands. The address of its registered office is P.O Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands.

The Company's ordinary shares were admitted to trading on the Alternative Investment Market operated by the London Stock Exchange. These consolidated accounts are presented in thousands of United States Dollars ("US\$'000"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

During the year, the Group has adopted all of the new and revised standards, amendments and interpretations issued by the International Accounting Standards Board that are relevant to the Group's operations and mandatory for annual periods beginning 1 January 2009. The adoption of these new and revised standards, amendments and interpretations did not have any material effect on the Group's results of operations or financial position.

However, the adoption of IAS 1 (revised), "Presentation of Financial Statements" has resulted in certain changes to the format of the Group's consolidated accounts in 2009 (including revised titles for these consolidated accounts).

In addition, IFRS 8, "Operating Segments" replaced IAS 14 with effect from 1 January 2009. IFRS 8 is a disclosure standard that requires the disclosure of information about the Group's operating segments. It replaced the requirement under IAS 14 to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the Group's results of operations or financial position. The Group determines that the operating segments are the same as the business segments previously identified under IAS 14. Goodwill relating to the acquisition of additional interests in a subsidiary during the year amounting to US\$406,000 has been allocated to the China healthcare segment.

(a) Basis of consolidation

The consolidated accounts of the Group include the accounts of the Company and all its direct and indirect subsidiaries made up to 31 December and also incorporate the Group's interests in jointly controlled entities on the basis set out in Note 2(c) below.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries and subsidiaries of jointly controlled entities.

The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Notes To The Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Subsidiaries

A subsidiary is an entity that the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(c) Jointly controlled entities

Jointly controlled entities are joint ventures in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the other venturers undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity.

The Group's interests in jointly controlled entities are accounted for by using proportionate consolidation. Under this method, the Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated accounts from the date that joint control commences until the date that joint control ceases.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entities that result from the Group's purchase of assets from the jointly controlled entities until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(d) Foreign currency translation

Items included in the accounts of each of the Group's companies are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and most of its principal subsidiaries and jointly controlled entities is Renminbi ("RMB") whereas the consolidated accounts are presented in United States Dollars ("US dollars"), which is the Company's presentation currency, as the Company holds investments in various countries and US dollars is considered as a common currency.

Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated at the rates of exchange ruling at end of reporting period. Exchange differences are included in the determination of profit or loss.

The accounts of the Company, overseas subsidiaries and jointly controlled entities are translated into the Company's presentation currency using the year end rates of exchange for the balance sheet items and the average rates of exchange for the year for the income statement items. Exchange differences are recognised directly in the consolidated statement of comprehensive income.

On consolidation, exchange differences arising from the translation of the net investments in foreign operations are recognised directly in the consolidated statement of comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Exchange differences arising from translation of inter-company loan balances among the Group's companies and jointly controlled entities are taken to the exchange reserve when such loans form part of the Group's net investment in a foreign entity. When such loans are repaid, the related exchange gains or losses are transferred out of the exchange reserve and are recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes the purchase price of the asset and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs less accumulated impairment losses over their estimated useful lives. The principal annual rates are as follows:

Buildings	20-30 years
Leasehold improvements	Over the unexpired period of the lease or 3-5 years, whichever is shorter
Plant and equipment	10 years
Furniture and fixtures, other equipment and motor vehicles	4-5 years

The assets' useful lives are reviewed, and adjusted if appropriate, at end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(k)).

Gains and losses on disposals are determined by comparing net sales proceeds with the carrying amount of the relevant assets and are recognised in profit or loss.

(f) Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost less accumulated impairment losses (if any). Cost includes the costs of construction of buildings and the costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2(e).

(g) Leasehold land

Leasehold land is stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost mainly represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years from the date the respective right was granted. Amortisation of leasehold land is calculated on a straight-line basis over the period of the land use rights.

Notes To The Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or jointly controlled entity at the date of acquisition. Goodwill on acquisition of a foreign operation is treated as an asset of the foreign operation.

Goodwill arising on acquisition is retained at the carrying amount as a separate asset, and subject to impairment test annually and when there are indications that the carrying value may not be recoverable. If the cost of acquisition is less than the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or jointly controlled entity, the difference is recognised directly in the consolidated income statement.

The profit or loss on disposal of a subsidiary or jointly controlled entity is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves.

(i) Trademarks and patents

Trademarks and patents have definite useful lives and are carried at historical cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the costs of trademarks and patents over their estimated useful lives of ten years.

(j) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will generate future economic benefits by considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised (if any) are amortised on a straight-line basis over the period of expected benefit, not exceeding five years. The capitalised development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount.

Where the research phase and the development phase of an internal project cannot be clearly distinguished, all expenditure incurred on the project is charged to the income statement.

(k) Impairment of assets

Assets that have an indefinite useful life are tested for impairment annually. Assets are reviewed for impairment to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in the income statement.

(l) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. These investments are initially recognised in the statement of financial position at fair value plus transaction costs and measured at each subsequent reporting date at fair value, except for equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less impairment losses. Changes in fair value are dealt with as movements in reserve except for impairment losses which are charged to the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. Dividends from available-for-sale financial assets are recognised when the right to receive payment is established. When available-for-sale financial assets are sold, the cumulative fair value gains or losses previously recognised in reserve is recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(n) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the asset is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(q) Financial liabilities

Financial liabilities (including trade and other payables) are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

(r) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(s) Employee benefits

(i) Pension plans

The Group operates various defined contribution plans. The Group's contributions to the defined contribution plans are charged to the income statement in the year incurred.

Pension costs are charged against the income statement within employee benefit expenses.

The pension plans are generally funded by the relevant group companies and by payments from employees of the contributory plans.

Notes To The Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Employee benefits (Continued)

(ii) Share-based payments

The Group operates certain equity-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted: i) including any market performance conditions; ii) excluding the impact of any non-market performance vesting conditions (for example, profitability and sales growth targets); and iii) excluding the impact of any non-vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At end of each reporting period, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share-based compensation reserve will be transferred to retained profits.

(t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(u) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the leases.

(v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(w) Government incentives

Incentives from government are recognised at their fair values where there is a reasonable assurance that the incentives will be received and all attached conditions will be complied with. Government incentives relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

(x) Revenue and income recognition

Revenue comprises the fair value of the consideration received and receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, volume rebates and discounts after eliminated sales within the Group. Revenue and income are recognised as follows:

(i) Sales of goods - wholesales

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Revenue and income recognition (Continued)

(ii) Sales of goods - retail

Sales of goods are recognised at the point of sales less an estimate for sales return based on past experience where goods are sold with a right to return. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sales, including credit card fees payable for the transaction. Such fees are included in selling expenses.

(iii) Service income

Revenue from the provision of pharmaceutical research and development services, and consultation and treatments services is recognised when services are rendered.

(iv) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

At the date of authorisation of these consolidated accounts, the following standards, amendments and interpretations were in issue but not yet effective:

IFRSs (Amendments) ⁽¹⁾	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRSs (Amendments) ⁽¹⁾	Improvements to IFRSs issued in 2009
IAS 24 (Revised) ⁽²⁾	Related Party Disclosures
IAS 27 (Revised) ⁽¹⁾	Consolidated and Separate Financial Statements
IAS 32 (Amendment) ⁽²⁾	Classification of Rights Issues
IAS 39 (Amendment) ⁽¹⁾	Eligible Hedged Items
IFRS 1 (Revised) ⁽¹⁾	First Time Adoption of IFRS
IFRS 1 (Amendments) ⁽¹⁾	Additional Exemptions for First-time Adopters
IFRS 2 (Amendments) ⁽¹⁾	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised) ⁽¹⁾	Business Combinations
IFRS 9 (Revised) ⁽³⁾	Financial Instruments
IFRIC 14 (Amendment) ⁽²⁾	Prepayments of a Minimum Funding Requirement
IFRIC 17 ⁽¹⁾	Distributions of Non-cash Assets to Owners
IFRIC 19 ⁽²⁾	Extinguishing Financial Liabilities with Equity Instruments

(1) Effective for the Group for annual periods beginning 1 January 2010.

(2) Effective for the Group for annual periods beginning 1 January 2011.

(3) Effective for the Group for annual periods beginning 1 January 2013.

The effect that the adoption of IFRS 3 (Revised), IAS 27 (Revised) and IFRIC 17 will have on the results and financial position of the Group will depend on the incidence and timing of transactions within the scope of these standards and interpretation occurring on or after 1 January 2010.

The adoption of other standards, amendments and interpretations listed above in future periods is not expected to result in substantial changes to the Group's accounting policies.

Notes To The Accounts

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, cash flow interest rate risk and liquidity risk. The Group does not use any derivative financial instruments for the year.

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The Group also has retail operations in the UK. The Group's assets and liabilities, and transactions arising from its operations that are exposed to foreign exchange risk are primarily with respect to the US dollars and UK pound sterling.

Management has a policy to require group companies to manage their foreign exchange risk against functional currency. It mainly includes managing the exposures arise from sales and purchases made by the relevant group companies in currencies other than their own functional currencies. The Group also manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures. The Group has not used any hedging arrangement to hedge its exposure during the year as foreign currency risk is considered insignificant.

As the assets and liabilities of each company within the Group are mainly denominated in the respective company's functional currency, management considers that the Group's volatility against changes in exchange rates of foreign currencies would not be significant. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

(ii) Credit risk

The carrying amounts of cash at bank, short-term bank deposits, trade and bills receivables and other receivables included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk of the counterparty in relation to its financial assets.

Substantially all of the Group's cash and cash equivalents are deposited in major financial institutions, which management believes are of high credit quality. The Group has a policy to limit the amount of credit exposure to any financial institution.

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that wholesales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally the Group does not require collaterals from trade debtors. Sales to retail customers are made in cash or via major credit cards.

Management makes periodic assessment on the recoverability of trade and bills receivables and other receivables. The Group's historical experience in collection of these receivables falls within the recorded allowances.

(iii) Cash flow interest rate risk

The Group has no significant interest-bearing assets except for the cash at bank and bank deposits. The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings, which bear interest at floating interest rates and expose the Group to cash flow interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk as management considers that the Group's borrowings are relatively insignificant to the Group; any reasonable changes in interest rate would not result in a significant change in the Group's results. Accordingly, no sensitivity analysis is presented for cash flow interest rate risk.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iv) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and cash equivalents and the availability of funding when necessary. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient cash balances and adequate credit facilities to meet its liquidity requirements in the short and long term.

The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, settlement of bank loans, settlement of payables and payment for operating expenses. The Group mainly finances its working capital requirements through a combination of internal resources and bank borrowings.

As at 31 December 2008 and 2009, except for the long-term bank loan which is repayable within one to two years, all of the Group's financial liabilities were due for settlement contractually within twelve months. Interest element in connection with bank loans repayable in the next twelve months and within one to two years calculated in accordance with the contractual undiscounted cash flows amounted to US\$360,000 (2008: US\$236,000) and US\$9,000 (2008: Nil) respectively.

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group regularly reviews and manages its capital structure to ensure optimal capital structure to maintain a balance between higher shareholders' return that might be possible with higher levels of borrowings and advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity attributable to the Company's equity holders as shown on the consolidated statement of financial position. Total borrowings include current and non-current borrowings.

Currently, it is the Group's strategy to maintain a minimal use of borrowings. The gearing ratios as at 31 December 2009 and 2008 were as follows:

	2009 US\$'000	2008 US\$'000
Total borrowings (Note 25)	8,258	7,606
Total equity attributable to the Company's equity holders	65,903	75,143
Gearing ratio	12.5%	10.1%

The increase in the gearing ratio during 2009 resulted primarily from the operating loss incurred for the year.

Notes To The Accounts

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation

The carrying amounts of the Group's current financial assets, including cash and bank balances, trade and bills receivables, and other receivables, and current financial liabilities, including trade payables, other payables and accruals, bank borrowings, and balances with related parties, approximate their fair values due to their short term maturities.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 2 includes a summary of the significant accounting policies used in the preparation of the accounts. The preparation of accounts often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the accounts. The Group bases its estimates and judgements on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the accounts.

(a) Useful lives of property, plant and equipment

The Group has made substantial investments in property, plant and equipment. Changes in technology or changes in the intended use of these assets may cause the estimated period of use or value of these assets to change.

(b) Impairment of assets

The Group tests annually whether goodwill has suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with the accounting policy stated in Note 2(k). The recoverable amount of an asset or a cash-generating unit is determined based on the higher of the asset's or the cash-generating unit's fair value less costs to sell and value-in-use. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the asset and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates.

(c) Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the relevant counterparty and the current market condition. Provisions are made where events or changes in circumstances indicate that the receivables may not be collectible. The identification of impairment in receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of receivables and impairment is recognised in the period in which such estimate has been changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) Research and development costs

Research expenditure is recognised as an expense as incurred. Where the research phase and the development phase of an internal project cannot be clearly distinguished, all expenditure incurred on the project is charged to the income statement. In determining whether the development costs can be capitalised, management assesses the probability that the project will generate future economic benefits by considering its commercial and technical feasibility. This assessment could change when there are subsequent technological advancement and innovations (Note 16).

(e) Deferred income tax

The Group has significant tax losses carried forward and has not recognised the deferred income tax assets on these losses. Deferred income tax assets in respect of tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. No deferred income tax assets are recognised when it is uncertain whether there are sufficient future taxable profits available before such tax losses expire. Where the final outcome of these uncertainties are different from the estimation, such differences will impact the carrying amount of deferred tax assets in the period in which such determination is made.

5 REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing, distribution and sales of TCM and healthcare products, and carrying out pharmaceutical research and development. Revenues recognised for the year are as follows:

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

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

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

China healthcare and drug research and development segments are primarily located in the PRC and the locations for consumer products segment are further segregated into UK and France.

The operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technological advancement and marketing approach. The performance of the reportable segments are assessed based on a measure of earnings or losses before interest income, finance costs and tax expenses ("EBIT/LBIT").

Notes To The Accounts

5 REVENUE AND SEGMENT INFORMATION (Continued)

The segment information for the reportable segments for the year is as follows:

	As at and for the year ended 31 December 2009						
	China healthcare	Drug R&D	Consumer products		Reportable segment	Unallocated	Total
	PRC US\$'000	PRC US\$'000	UK US\$'000	France US\$'000	Total US\$'000		
Sales to external customers	102,007	4,772	3,262	956	110,997	-	110,997
EBIT/(LBIT)	12,900	(9,950)	(1,711)	(796)	443	(5,341)	(4,898)
Interest income	173	2	-	-	175	108	283
Interest expense	399	-	-	-	399	-	399
Additions to non-current assets (other than financial instrument and deferred tax assets)	1,612	6,185	83	-	7,880	30	7,910
Depreciation/amortisation	2,387	1,492	667	1	4,547	21	4,568
Total assets	93,037	17,207	3,491	1,068	114,803	12,953	127,756

	As at and for the year ended 31 December 2008						
	China healthcare	Drug R&D	Consumer products		Reportable segment	Unallocated	Total
	PRC US\$'000	PRC US\$'000	UK US\$'000	France US\$'000	Total US\$'000		
Sales to external customers	80,670	2,250	3,747	304	86,971	-	86,971
EBIT/(LBIT)	9,072	(15,420)	(1,841)	(763)	(8,952)	(6,496)	(15,448)
Interest income	67	17	-	-	84	1,137	1,221
Interest expense	528	-	-	-	528	-	528
Additions to non-current assets (other than financial instrument and deferred tax assets)	857	1,493	1,032	3	3,385	13	3,398
Depreciation/amortisation	2,578	1,559	494	-	4,631	21	4,652
Total assets	74,702	8,722	3,254	314	86,992	30,965	117,957

5 REVENUE AND SEGMENT INFORMATION (Continued)

Sales to external customers is after elimination of inter-segment sales. The amount eliminated attributable to consumer products segment from UK to France is US\$882,000 (2008: US\$205,000).

Sales between segments are carried out at mutually agreed terms.

Unallocated expenses mainly represent corporate expenses which include corporate employee benefit expenses and the relevant share-based compensation expenses. Unallocated assets mainly comprise short-term corporate bank deposits and deferred tax assets.

A reconciliation of EBIT/(LBIT) for reportable segments to loss before taxation is provided as follows:

	2009 US\$'000	2008 US\$'000
EBIT/(LBIT) for reportable segments	443	(8,952)
Unallocated expenses	(5,341)	(6,496)
Interest income	283	1,221
Interest expense	(399)	(528)
Loss before taxation	(5,014)	(14,755)

As at 31 December 2009, the total non-current assets located in the PRC, UK and France were US\$42,878,000 (2008: US\$38,614,000), US\$1,016,000 (2008: US\$1,417,000) and US\$2,000 (2008: US\$2,000) respectively.

6 OTHER NET OPERATING INCOME

	2009 US\$'000	2008 US\$'000
Interest income	283	1,221
Net foreign exchange gains	671	17
Government incentives	114	96
Other operating income	308	493
Other operating expenses	(202)	(68)
	1,174	1,759

Notes To The Accounts

7 OPERATING LOSS

Operating loss is stated after charging/(crediting) the following:

	2009 US\$'000	2008 US\$'000
Auditors' remuneration	311	428
Amortisation of trademarks and patents recognised in administrative expenses	228	191
Amortisation of leasehold land	137	130
Cost of inventories recognised as expense	42,841	32,641
Depreciation on property, plant and equipment	4,203	4,331
(Write-back)/write-off of inventories	(9)	225
Provision for inventories	81	6
Provision for receivables	11	11
Loss on disposal of property, plant and equipment	188	110
Operating lease rentals in respect of land and buildings	2,202	1,907
Research and development expense	3,856	8,808
Employee benefit expenses (Note 12)	21,729	19,252

8 FINANCE COSTS

	2009 US\$'000	2008 US\$'000
Interest expense on bank loans	399	528

9 TAXATION CHARGE

	2009 US\$'000	2008 US\$'000
Current tax	1,809	1,291
Deferred income tax (Note 18)	257	212
Taxation charge	2,066	1,503

9 TAXATION CHARGE (Continued)

- (a) The Group has no estimated assessable profit in Hong Kong, UK and France for the year (2008: Nil).
- (b) Pursuant to the relevant PRC enterprise income tax rules and regulations, a special income tax rate of 18% (2008: 15%) has been granted to Hutchison MediPharma Limited, a subsidiary of the Group, as a foreign invested enterprise which is engaged in research and development activities. The company will be subject to a tax rate gradually increased to 25% towards year 2012.

Hutchison Healthcare Limited ("HHL"), a subsidiary of the Group, is entitled to a two-year exemption from income taxes followed by a 50% reduction in income taxes for the ensuing three years. These tax benefits will be expiring towards year 2012 and thereafter the company will be subject to a tax rate of 25%.

In addition, Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited ("HBYS") and Shanghai Hutchison Pharmaceuticals Limited ("SHPL"), jointly controlled entities of the Group, continue to enjoy a 50% reduction in income taxes at a rate of 12.5% for the year ended 2009. Both HBYS and SHPL have been granted High and New Technology Enterprise status ("HNTE status") and accordingly will be subject to a preferential income tax rate of 15% for the year 2010. The HNTE status is renewable beyond year 2010 subject to approval by the relevant tax authorities.

- (c) The taxation charge on the Group's loss before taxation differs from the theoretical amount that would arise using the Group's weighted average tax rate as follows:

	2009 US\$'000	2008 US\$'000
Loss before taxation	(5,014)	(14,755)
Tax calculated at the domestic tax rates of respective companies	(571)	(2,341)
Effect of tax concession	(93)	(194)
Expenses not deductible for taxation purposes	321	434
Utilisation of previously unrecognised tax losses	-	(8)
Tax losses for which no deferred tax asset was recognised	2,188	3,372
Withholding tax on unremitted earnings	539	289
Others	(318)	(49)
Taxation charge	2,066	1,503

The weighted average tax rate calculated at the domestic tax rates of respective companies for the year was 11.4% (2008: 15.9%). The fluctuation in the weighted average applicable tax rate arose because of the changes in the relative profitability of the Group's operations in different tax jurisdictions.

Notes To The Accounts

10 LOSS PER SHARE

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

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

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

11 DIRECTORS' EMOLUMENTS

	2009 US\$'000	2008 US\$'000
Fees	251	236
Basic salaries, housing allowances, other allowances and benefits in kind	639	565
Contributions to pension schemes	20	21
Share-based compensation expenses	62	298
	972	1,120

12 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2009 US\$'000	2008 US\$'000
Wages, salaries and bonuses	16,741	14,672
Pension costs - defined contribution plans	2,010	1,356
Staff welfare	2,828	2,269
Share-based compensation expenses	150	955
	21,729	19,252

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings situated in the PRC under medium term leases US\$'000	Leasehold improve- ments US\$'000	Plant and equip- ment US\$'000	Furniture and fixtures, other equipment and motor vehicles US\$'000	Construction in progress US\$'000	Total US\$'000
Cost						
As at 1 January 2009	19,309	5,177	9,637	9,948	431	44,502
Exchange differences	172	207	86	168	6	639
Additions	13	309	93	1,619	760	2,794
Disposals	(21)	(27)	(123)	(294)	-	(465)
Transfers	169	81	104	53	(407)	-
As at 31 December 2009	19,642	5,747	9,797	11,494	790	47,470
Accumulated depreciation and impairment						
As at 1 January 2009	5,341	2,811	5,358	5,046	-	18,556
Exchange differences	52	128	49	98	-	327
Charge for the year	934	1,217	434	1,618	-	4,203
Disposals	(3)	(10)	(89)	(167)	-	(269)
As at 31 December 2009	6,324	4,146	5,752	6,595	-	22,817
Net book value						
As at 31 December 2009	13,318	1,601	4,045	4,899	790	24,653

Notes To The Accounts

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings situated in the PRC under medium term leases US\$'000	Leasehold improve- ments US\$'000	Plant and equip- ment US\$'000	Furniture and fixtures, other equipment and motor vehicles US\$'000	Construction in progress US\$'000	Total US\$'000
Cost						
As at 1 January 2008	17,922	4,978	9,997	8,106	398	41,401
Exchange differences	1,185	(560)	670	334	26	1,655
Additions	28	841	258	1,842	428	3,397
Disposals	(4)	(82)	(1,334)	(421)	(110)	(1,951)
Transfers	178	-	46	87	(311)	-
As at 31 December 2008	19,309	5,177	9,637	9,948	431	44,502
Accumulated depreciation and impairment						
As at 1 January 2008	4,112	2,817	5,021	3,769	-	15,719
Exchange differences	278	(341)	350	43	-	330
Charge for the year	952	414	1,321	1,644	-	4,331
Disposals	(1)	(79)	(1,334)	(410)	-	(1,824)
As at 31 December 2008	5,341	2,811	5,358	5,046	-	18,556
Net book value						
As at 31 December 2008	13,968	2,366	4,279	4,902	431	25,946

As at 31 December 2009, the net book value of buildings pledged as security for the long-term bank loan amounted to US\$164,000 (2008: Nil) (Note 25).

14 LEASEHOLD LAND

The Group and its jointly controlled entities' interests in leasehold land represent prepaid operating lease payments and are located in the PRC.

	2009 US\$'000	2008 US\$'000
Cost		
As at 1 January	6,678	6,265
Exchange differences	59	413
As at 31 December	6,737	6,678
Accumulated amortisation		
As at 1 January	596	437
Exchange differences	6	29
Amortisation charge (Note 7)	137	130
As at 31 December	739	596
Net book value		
As at 31 December	5,998	6,082

As at 31 December 2009, the net book value of leasehold land pledged as security for the long-term bank loan amounted to US\$73,000 (2008: Nil) (Note 25).

15 GOODWILL

	2009 US\$'000	2008 US\$'000
Cost		
As at 1 January	7,052	6,616
Additions	406	-
Exchange differences	64	436
As at 31 December	7,522	7,052

Goodwill is allocated to HHL, a subsidiary of the Group, and SHPL and HBYS, jointly controlled entities of the Group, to the extent of US\$406,000 (2008: Nil), US\$2,924,000 (2008: US\$2,897,000) and US\$4,192,000 (2008: US\$4,155,000) respectively. During the year, the Group acquired an additional 32% interests in HHL from minority shareholders and recognised a goodwill of US\$406,000. Since then, HHL has become a wholly-owned subsidiary of the Group.

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Projections in excess of five years are used to take into account increasing market share and growth momentum.

There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenues and gross margin, and pre-tax discount rate of 10% (2008: 10%), to reflect the risks involved. Management prepared the financial budgets taking into account actual and prior year performance and market development expectations. Cash flows beyond that five-year period have been extrapolated using a steady growth rate of 3%. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

Notes To The Accounts

16 OTHER INTANGIBLE ASSETS

	Development costs		Trademarks and patents		Total	
	2009 US\$'000	2008 US\$'000	2009 US\$'000	2008 US\$'000	2009 US\$'000	2008 US\$'000
Cost						
As at 1 January	-	-	1,880	1,770	1,880	1,770
Exchange differences	-	-	19	109	19	109
Additions	4,705	-	5	1	4,710	1
As at 31 December	4,705	-	1,904	1,880	6,609	1,880
Accumulated amortisation and impairment						
As at 1 January	-	-	1,405	1,168	1,405	1,168
Exchange differences	-	-	14	46	14	46
Amortisation charge (Note 7)	-	-	228	191	228	191
As at 31 December	-	-	1,647	1,405	1,647	1,405
Net book value						
As at 31 December	4,705	-	257	475	4,962	475

During the year ended 31 December 2009, the Group capitalised development costs totalling US\$4,705,000 in respect of a drug candidate for which management are of the opinion that the technical feasibility of completing the candidate making it available for use or sale can be demonstrated and it is probable that future economic benefits can be generated to the Group.

Trademarks, patents and capitalised development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. Management are of the opinion that there is no indication of impairment on these assets as of 31 December 2009.

17 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2009 US\$'000	2008 US\$'000
Unlisted investment, at cost		
As at 1 January	145	136
Exchange differences	1	9
As at 31 December	146	145

Available-for-sale financial asset represents a 5% interest in an unlisted company established in the PRC acquired by a jointly controlled entity of the Group.

18 DEFERRED INCOME TAX

	2009 US\$'000	2008 US\$'000
Deferred tax assets	615	333
Deferred tax liabilities	(828)	(289)
Net deferred tax (liabilities)/assets	(213)	44

The movements in net deferred income tax (liabilities)/assets are as follows:

	2009 US\$'000	2008 US\$'000
At 1 January	44	256
Credited/(charged) to the consolidated income statement		
- depreciation allowances, accrued expenses and provisions	282	77
- withholding tax on unremitted earnings	(539)	(289)
At 31 December	(213)	44

The deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes related to the same fiscal authority.

The Group's deferred tax assets are mainly related to depreciation allowances, accrued expenses and provisions, and deferred tax liabilities are mainly related to unremitted earnings from jointly controlled entities.

The potential deferred tax assets in respect of tax losses which have not been recognised in the consolidated accounts amounted to approximately US\$14,700,000 as at 31 December 2009 (2008: US\$13,153,000).

These unrecognised tax losses can be carried forward against future taxable income and will expire in the following years:

	As at 31 December	
	2009 US\$'000	2008 US\$'000
No expiry date	35,251	27,553
2009	-	3,737
2010	5,747	5,747
2011	6,059	6,059
2012	9,624	9,624
2013	10,590	10,590
2014	8,437	-
	75,708	63,310

Notes To The Accounts

19 INVENTORIES

Raw materials
Work in progress
Finished goods

2009 US\$'000	2008 US\$'000
5,950	5,055
4,395	3,698
7,131	5,961
17,476	14,714

20 TRADE AND BILLS RECEIVABLES

Trade receivables from third parties
Trade receivables from a related party (Note 30)
Bills receivables

2009 US\$'000	2008 US\$'000
8,030	8,201
105	169
11,920	14,062
20,055	22,432

Substantially all the trade and bills receivables are denominated in RMB and are due within one year from the end of reporting period.

The carrying value of trade and bills receivables approximates their fair values due to their short term maturities.

There is no concentration of credit risk with respect to trade and bills receivables as the Group has a large number of customers.

Bills receivables represent non-interest bearing bank acceptance bills with a maturity period of 3 to 6 months.

Movements on the provision for trade receivables are as follows:

At 1 January
Provision for trade receivables
Receivables written off during the year as uncollectible
Exchange difference

2009 US\$'000	2008 US\$'000
2,109	2,005
11	11
(663)	(39)
19	132
1,476	2,109

At 31 December

The impaired and provided receivables of US\$1,476,000 (2008: US\$2,109,000) are aged over 6 months.

20 TRADE AND BILLS RECEIVABLES (Continued)

As at 31 December 2009, trade receivables of approximately US\$254,000 (2008: US\$1,758,000) were past due but not impaired. These related to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	2009 US\$'000	2008 US\$'000
Up to 3 months	202	750
4 to 6 months	20	22
Over 6 months	32	986
	254	1,758

The credit quality of trade receivables neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

21 CASH AND BANK BALANCES

	2009 US\$'000	2008 US\$'000
Cash at bank and in hand	31,948	11,857
Short-term bank deposits (note (a))	9,804	26,349
	41,752	38,206

	2009 US\$'000	2008 US\$'000
Denominated in:		
US dollars	15,181	27,913
RMB (note (b))	24,755	9,232
UK Pound Sterling	392	201
HK\$	553	546
Euro	871	314
	41,752	38,206

(a) The weighted average effective interest rate on short-term bank deposits, with maturity ranging from one week to two months, was 1% (2008: 3%) per annum. Cash at bank earns interest at floating rates based on daily bank deposit rates.

(b) Cash and bank balances denominated in RMB were deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Notes To The Accounts

22 SHARE CAPITAL

(a) Authorised and issued share capital

	Number of shares of US\$1 each	Nominal amount US\$'000
Authorised:		
As at 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	75,000,000	75,000
	Number of shares	US\$'000
Issued and fully paid:		
As at 1 January 2008, 31 December 2008 and 1 January 2009	51,229,174	51,229
Issue of shares under share option scheme (note)	50,000	50
As at 31 December 2009	51,279,174	51,279

Note:

On 11 December 2009, 50,000 ordinary shares of US\$1 each were allotted and issued by the Company at £1.09 each (equivalent to US\$1.80 each) for an aggregate cash consideration of approximately US\$90,000 upon the exercise of the relevant options to subscribe for these shares. These new shares rank pari passu in all respects with the then existing shares. The weighted average share price at the exercise date was at £2.02.

(b) Share option schemes

(i) Share option scheme of the Company

On 4 June 2005, the Company adopted a share option scheme (the "HCML Share Option Scheme"), which was subsequently amended by the Board of Directors of the Company on 21 March 2007. Pursuant to the HCML Share Option Scheme, the Board of Directors of the Company may, at its discretion, offer any employees and directors (including executive and non-executive directors but excluding independent non-executive directors) of the Company, holding companies of the Company and any of their subsidiaries or affiliates, and subsidiaries or affiliates of the Company options to subscribe for shares of the Company. As of 31 December 2009, options representing approximately 3.43% of the issued share capital of the Company were granted to a director of the Company and certain employees of the Group and its jointly controlled entities under the HCML Share Option Scheme which are exercisable within a period of ten years from the offer date subject to the vesting schedules of the respective share options.

22 SHARE CAPITAL (Continued)

(b) Share option schemes (Continued)

(i) Share option scheme of the Company (Continued)

The following share options were outstanding under the HCML Share Option Scheme as at 31 December 2009:

Name or category of participant	Effective date of grant	Exercise period of share options	Exercise price	Number of shares subject to the options
Director Christian Hogg	19 May 2006 (note (i) & (ii))	On Admission to 3 June 2015	£1.090	768,182
Employees in aggregate	19 May 2006 (note (i) & (ii))	On Admission to 3 June 2015	£1.090	553,683
	11 September 2006 (note (ii))	From 11 September 2006 to 18 May 2016	£1.715	80,458
	23 March 2007 (note (iii))	From 23 March 2007 to 22 March 2017	£1.750	8,535
	18 May 2007 (note (iii))	From 18 May 2007 to 17 May 2017	£1.535	90,298
	25 August 2008 (note (iv))	From 25 August 2008 to 24 August 2018	£1.260	256,146
				1,757,302

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2009		2008	
	Average exercise price in £ per share	Number of options	Average exercise price in £ per share	Number of options
As at 1 January	1.23	2,063,362	1.26	2,418,957
Granted	-	-	1.26	256,146
Exercised	1.09	(50,000)	-	-
Lapsed/replaced	1.69	(256,060)	1.38	(611,741)
As at 31 December	1.17	1,757,302	1.23	2,063,362

The Company has no legal or constructive obligation to repurchase or settle the share options in cash. Save as mentioned above, no other share options under the HCML Share Option Scheme were cancelled or exercised or lapsed during the year ended 31 December 2009.

Notes To The Accounts

22 SHARE CAPITAL (Continued)

(b) Share option schemes (Continued)

(i) Share option scheme of the Company (Continued)

Notes:

- (i) The share options were granted on 4 June 2005, conditionally upon the Company's Admission which took place on 19 May 2006.
- (ii) The share options granted to certain founders of the Company are subject to, amongst other relevant vesting criteria, the vesting schedule of 50% on 19 May 2007 and 25% on each of 19 May 2008 and 19 May 2009. The share options granted to non-founders of the Company are subject to, amongst other relevant vesting criteria, the vesting schedule of one-third on each of 19 May 2007, 19 May 2008 and 19 May 2009.
- (iii) The share options granted are subject to, amongst other relevant vesting criteria, the vesting schedule of one-third on each of the first, second and third anniversaries of the date of grant of share options.
- (iv) The share options granted are subject to, amongst other relevant vesting criteria, the vesting schedule of 25% on each of the first, second, third and fourth anniversaries of the date of grant of share options.
- (v) As at 31 December 2009, the fair value of share options in connection with the 1,757,302 share options outstanding as at the same date remain unvested were amounting to £58,000 (equivalent to US\$90,000). The amount is to be recognised as expense of the Group over the remaining vesting periods of the relevant share options as mentioned in the notes (i) to (iv) above. The amount recognised as expenses for the year ended 31 December 2009 amounted to US\$126,000 (2008: US\$925,000).

The fair value of options granted under the HCML Share Option Scheme determined using the Binomial Model is as follows:

	Effective date of grant of share options				
	19 May 2006	11 September 2006	23 March 2007	18 May 2007	25 August 2008
Value of each share option	£1.546	£0.553	£0.635	£0.533	£0.569
Significant inputs into the valuation model:					
Exercise price	£1.090	£1.715	£1.750	£1.535	£1.260
Share price at effective grant date	£2.5050	£1.7325	£1.7900	£1.5400	£1.2600
Expected volatility (note)	38.8%	38.8%	40.0%	40.0%	35.0%
Risk-free interest rate	4.540%	4.766%	4.834%	5.098%	4.700%
Expected life of options	1.2 to 3.9 years	3.4 to 5.3 years	3.9 to 5.8 years	3.9 to 5.7 years	7.1 to 8.0 years
Expected dividend yield	0%	0%	0%	0%	0%

Note:

For share options granted on or before 18 May 2007, the volatility of the underlying stock during the life of the options is estimated based on the historical volatility of the comparable companies for the past one to two years as of the valuation date, that is, the effective grant date, since there is no or only a relatively short period of trading record of the Company's shares at the respective grant dates.

For share options granted after 18 May 2007, the volatility of the underlying stock during the life of the options is estimated with reference to the volatility of the Company two years prior to the issuance of share options.

22 SHARE CAPITAL (Continued)

(b) Share option schemes (Continued)

(ii) Share option scheme of a subsidiary

On 6 August 2008, Hutchison MediPharma Holdings Limited ("HMHL"), a direct wholly-owned subsidiary of the Company, adopted a share option scheme (the "HMHL Share Option Scheme") pursuant to which any employee or director of HMHL and any of its subsidiaries and affiliates is eligible to participate in the HMHL Share Option Scheme subject to the discretion of the board of directors of HMHL. As of 31 December 2009, options representing approximately 15.44% of the issued share capital of HMHL were granted to certain employees of Hutchison MediPharma Limited, a subsidiary of HMHL under the HMHL Share Option Scheme which are exercisable within a period of six years from the offer date subject to the vesting schedules of 25% on each of the first, second, third and fourth anniversaries of the date of grant of share options.

The following share options were outstanding under the HMHL Share Option Scheme as at 31 December 2009:

Category of participant	Effective date of grant	Exercise period of share options	Exercise price	Number of shares subject to the options
Employees in aggregate	6 August 2008 (note (i))	From 6 August 2008 to 5 August 2014	US\$1.28	4,274,000
	5 October 2009 note (ii)	From 5 October 2009 to 4 October 2015	US\$1.52	358,000
				4,632,000

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2009		2008	
	Average exercise price in US\$ per share	Number of options	Average exercise price in US\$ per share	Number of options
As at 1 January	1.28	4,528,000	N/A	-
Granted	1.52	367,000	1.28	4,542,000
Lapsed	1.29	(263,000)	1.28	(14,000)
As at 31 December	1.30	4,632,000	1.28	4,528,000

The Group has no legal or constructive obligation to repurchase or settle the share options in cash. Save as mentioned above, no other share options under the HMHL Share Option Scheme were cancelled or exercised or lapsed during the year ended 31 December 2009.

Notes To The Accounts

22 SHARE CAPITAL (Continued)

(b) Share option schemes (Continued)

(ii) Share option scheme of a subsidiary (Continued)

Notes:

- (i) The share options granted are subject to, amongst other relevant vesting criteria, the vesting schedule of 25% on each of the first, second, third and fourth anniversaries of the date of grant of share options.
- (ii) As at 31 December 2009, the fair value of share options in connection with the 4,632,000 share options outstanding as at the same date remain unvested was amounting to US\$65,000. The amount is to be recognised as expense of the Group over the remaining vesting periods of the relevant share options as mentioned in the note (i) above. The amount recognised as expenses for the year ended 31 December 2009 amounted to US\$24,000 (2008: US\$30,000).

The fair value of options granted under the HMHL Share Option Scheme determined using the Binomial Model is as follows:

	Effective date of grant of share options	
	6 August 2008	5 October 2009
Value of each share option	US\$0.034	US\$0.027
Significant inputs into the valuation model:		
Exercise price	US\$1.280	US\$1.520
Share price at effective grant date	US\$0.270	US\$0.261
Expected volatility (note)	53%	53%
Risk-free interest rate	3.293%	2.564%
Expected life of options	4.6 to 5.8 years	6 years
Expected dividend yield	0%	0%

Note:

The volatility of the underlying stock during the life of the options is estimated based on the historical volatility of the comparable companies for the past one to seven years as of the valuation date, that is, the effective grant date.

23 TRADE PAYABLES

	2009 US\$'000	2008 US\$'000
Trade payables due to third parties	8,166	4,984
Trade payables due to a related party (Note 30)	-	306
	8,166	5,290

Substantially all the trade payables are denominated in RMB and due within one year from the end of reporting period.

The carrying value of trade payables approximates their fair values due to their short term maturities.

24 OTHER PAYABLES, ACCRUALS AND ADVANCE RECEIPTS

	2009 US\$'000	2008 US\$'000
Other payables and accruals		
Accrued operating expenses	6,365	4,481
Accrued salaries	3,773	2,650
Amounts due to joint venture partners	1,073	-
Other payables	9,727	7,464
	20,938	14,595
Advance receipts		
Payments in advance from customers	6,636	1,943
Deferred government incentives	3,141	2,298
	9,777	4,241
	30,715	18,836

25 BANK BORROWINGS

	2009 US\$'000	2008 US\$'000
Long-term bank loan	219	-
Short-term bank loans	8,039	7,606
Total borrowings	8,258	7,606
Less: Short-term bank loans	(8,039)	(7,606)
Current portion of long-term bank loan	(73)	-
Total current portion	(8,112)	(7,606)
Total non-current portion	146	-
Weighted average effective interest rate	5.99%	6.58%

The short-term bank loans are unsecured, interest bearing and denominated in RMB. The carrying amount of these bank loans approximates their fair values.

The long-term bank loan is secured by certain leasehold land and buildings of a subsidiary of a jointly controlled entity (Notes 13 and 14). This bank loan is interest bearing, denominated in RMB and its carrying amount approximates its fair value.

Notes To The Accounts

26 DEFERRED INCOME

Deferred income represents upfront payments received by the Group in respect of its pharmaceutical research and development services.

27 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

28 COMMITMENTS**(a) Capital commitments**

The Group had the following capital commitments not provided for at 31 December 2009:

	2009 US\$'000	2008 US\$'000
Property, plant and equipment		
Authorised but not contracted for	-	-
Contracted but not provided for	238	164
	238	164

(b) Operating lease commitments

The Group leases various factories, offices and retail stores under non-cancellable operating lease agreements.

As at 31 December 2009, the future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases were as follows:

	2009 US\$'000	2008 US\$'000
Not later than one year	1,391	801
Later than one year and not later than five years	2,775	2,472
Later than five years	2,742	3,317
	6,908	6,590

Notes To The Accounts

29 JOINTLY CONTROLLED ENTITIES

Particulars of the principal jointly controlled entities of the Group are set out in Note 33. The following amounts represent the Group's share of the assets, liabilities, income, results, and commitments of the jointly controlled entities. They are included in the consolidated statement of financial position and consolidated income statement:

	2009 US\$'000	2008 US\$'000
Assets		
Non-current assets	27,246	28,116
Current assets	57,933	43,204
	85,179	71,320
Liabilities		
Non-current liabilities	7,617	13,942
Current liabilities	35,613	20,023
	43,230	33,965
Net assets	41,949	37,355
Income	95,960	75,144
Expenses	(85,583)	(67,828)
Profit after taxation	10,377	7,316
Operating lease commitments	186	63

There are no contingent liabilities relating to the Group's interests in the jointly controlled entities and these jointly controlled entities did not have any material contingent liabilities as at 31 December 2009.

30 SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed above, the Group has the following significant transactions during the year with related parties which were carried out in the normal course of business at terms determined and agreed by the relevant parties:

	2009 US\$'000	2008 US\$'000
(a) Transactions with related parties:		
Sales of goods to		
- A fellow subsidiary	956	304
Management service fee to		
- An intermediate holding company	848	876
Technology fee to		
- A minority shareholder of a subsidiary	-	31

No transactions have been entered into with the directors of the Company (being the key management personnel) during the years ended 31 December 2008 and 2009 other than the emoluments paid to them (being the key management personnel compensation) as disclosed in Note 11.

	2009 US\$'000	2008 US\$'000
(b) Balances with related parties included in:		
Trade receivables from a related party (Note 20):		
- A fellow subsidiary	105	169
Trade payables due to a related party (Note 23):		
- A minority shareholder of a subsidiary	-	306
Amounts due to related parties:		
- Immediate holding company	2,149	773
- Minority shareholders of a subsidiary	-	201
	2,149	974

Balances with related parties are unsecured, interest-free and repayable on demand. The carrying values of balances with related parties approximate their fair values due to their short term maturities.

Notes To The Accounts

31 HOLDING COMPANIES

The immediate holding company is Hutchison Healthcare Holdings Limited, a company incorporated in the British Virgin Islands. The Company's directors regard Hutchison Whampoa Limited, a company incorporated and listed in Hong Kong, as being the ultimate controlling party of the Company.

32 APPROVAL OF ACCOUNTS

The consolidated accounts set out on pages 42 to 80 were approved by the Board of Directors on 2 March 2010.

33 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES AS AT 31 DECEMBER 2009

Name	Place of establishment and operation	Nominal value of issued ordinary share capital/ registered capital	Equity interest attributable to the Group		Type of legal entity	Principal activities
			As at 31 December 2009	2008		
Subsidiaries						
Hutchison Healthcare Limited	The PRC	RMB166,250,000	100%	67.97%	Limited liability company	Manufacture and distribution of healthcare products
Hutchison MediPharma Limited	The PRC	US\$25,500,000	100%	100%	Limited liability company	Research and development of pharmaceutical products
Sen Medicine Company Limited	UK	£1	100%	100%	Limited liability company	Retail and distribution of TCM based consumer products
Sen Medicine Company (France) SARL	France	Euro7,500	100%	100%	Limited liability company	Distribution of TCM based consumer products
Jointly controlled entities						
Shanghai Hutchison Pharmaceuticals Limited	The PRC	RMB88,000,000	50%	50%	Limited liability company	Manufacture and distribution of TCM products
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited	The PRC	RMB200,000,000	37.5%	37.5%	Limited liability company	Manufacture and distribution of TCM products