CHI-MED

PATHFINDER ADMISSION DOCUMENT






Health. Century. 21.

PLACING BY

PANMURE GORDON & CO

HUTCHISON CHINA MEDITECH LTD

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. This document comprises an admission document which has been drawn up in accordance with the AIM Rules. This document does not constitute a prospectus prepared in accordance with the Prospectus Rules and a copy of it has not been, and will not be, approved by the FSA.**

The Directors (whose names and business addresses appear on page 6 of this document) declare that, having taken all reasonable care to ensure that such is the case, the information contained in this document is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. All the Directors accept individual and collective responsibility for the Company's compliance with the AIM Rules.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority.**

**A prospective investor should be aware of the risks in acquiring securities in such companies and should only make any decision to do so after careful consideration and, if appropriate, consultation with an independent financial adviser. Any such acquisition involves a significant degree of risk, may result in the loss of the entire investment and may not be suitable for all recipients of this document.**

**London Stock Exchange plc has not itself examined or approved the contents of this document nor will it.**

**Your attention is drawn to Part IV of this document entitled "Risk Factors" for a discussion of certain factors which should be taken into account in considering whether or not to subscribe for Ordinary Shares. The whole of this document should be read in light of these risk factors.**

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CHI-MED

HUTCHISON CHINA MEDITECH LIMITED

和黃中國醫藥科技有限公司

*(incorporated and registered in the Cayman Islands, with registered number CR-106733)*

# ISIN number KYG4672N1016

## Placing of 14,537,704 Ordinary Shares of US$1 each at a Placing Price of 275 pence per Share and Admission to trading on AIM

## Nominated Adviser: Lazard & Co., Limited

## Corporate Broker: Panmure Gordon (Broking) Limited

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**Share capital immediately following the Placing**

| Authorised | | | Issued and fully paid | |
|---|---|---|---|---|
| **Number** | **Amount** | | **Number** | **Amount** |
| 75,000,000 | US$75,000,000 | *Ordinary Shares of US$1 each* | 51,212,121 | US$51,212,121 |

The Ordinary Shares subject to the Placing will, on Admission, rank *pari passu* in all respects with the existing issued Ordinary Shares in the Company.

This document does not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for Ordinary Shares to any person in any jurisdiction in which such an offer is unlawful. In particular, this document is not for distribution in or into the United States or to any resident or citizen of the United States, Canada, Australia, the Republic of Ireland, the Republic of South Africa, Japan or the Cayman Islands. In addition, the Ordinary Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended, or under any state securities laws and may only be offered or sold in offshore transactions as defined in and in accordance with Regulation S promulgated under the US Securities Act of 1933, as amended. Acquirers of the Ordinary Shares may not offer to sell, pledge or otherwise transfer the Ordinary Shares in the United States or to, or for the benefit of, US persons (other than distributors) unless such offer, sale, pledge or transfer is registered under the US Securities Act of 1933, as amended or an exemption from registration is available therefrom. The Company does not currently plan to register the shares under the US Securities Act of 1933, as amended.

Lazard & Co., Limited ("Lazard") and Panmure Gordon (Broking) Limited ("Panmure Gordon") are acting for the Company, and no one else, in connection with the Admission and the Placing and the other matters referred to in this document, and will not be responsible to any person other than the Company for providing the protections afforded to their respective clients or for providing any advice in relation to the Admission or the Placing or the other matters described in this document. Lazard's responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any other person whether in respect of his decision to acquire Ordinary Shares in reliance on any part of this document or otherwise. No representation or warranty, express or implied, is made by Lazard or Panmure Gordon as to any of the contents of this document, for which the Company and the Directors are solely responsible. Neither Lazard or Panmure Gordon has authorised the contents of, or any part of, this document and, without limiting the statutory rights of any person to whom this document is issued, no liability whatsoever is accepted by Lazard or Panmure Gordon for the accuracy of any information or opinions contained in this document or for any omissions of any information, for which the Company and the Directors are solely responsible. In particular, the information contained in this document has been prepared solely for the purposes of the Placing and the Admission and is not intended to inform or be relied upon by any subsequent purchasers of Ordinary Shares (whether on or off exchange) and accordingly no duty of care is accepted in relation to them.

The Company, Lazard and Panmure Gordon have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) in connection with the issue or sale of the Ordinary Shares in circumstances in which Section 21(1) of FSMA does not apply.

The distribution of this document and the offer of the Ordinary Shares in certain jurisdictions may be restricted by law. No action has been or will be taken by the Company, Lazard or Panmure Gordon to permit a public offering of the Ordinary Shares. Other than in the United Kingdom, no action has been or will be taken to permit the possession or distribution of this document (or any other offering or publicity materials or application form(s) relating to the Ordinary Shares) in any jurisdiction where action for that purpose may be required, or doing so is restricted or prohibited by law.

The placing of Ordinary Shares to persons who are resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of countries other than the United Kingdom may be affected by the laws and regulations of the relevant jurisdiction. No person receiving a copy of this document in any territory other than the United Kingdom may treat the same as constituting an offer or an invitation to him to subscribe, apply for or purchase Ordinary Shares unless, in the relevant territory, such offer or invitation could lawfully be made without compliance with any registration or other legal requirements other than any such requirements which have been fulfilled. Accordingly, persons (including, without limitation, nominees and trustees) receiving this document should not, in connection with the Placing, distribute or send the same into any jurisdiction where to do so would or might contravene securities laws or regulations. It is the responsibility of any person outside the United Kingdom to satisfy himself as to the full observance of the laws and any regulatory requirements of the relevant territory in connection therewith, including obtaining any governmental or other consent which may be required, and compliance with other necessary formalities including the payment of any issue, transfer or other taxes due in such territory.

This document is being solely issued to and directed at persons who are (i) qualified investors within the meaning of directive 2003/71/EC and any relevant implementing measures (the "Prospectus Directive") and (ii) who have professional experience in matters relating to investments who fall within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or are persons falling within article 49 ("High net worth companies, unincorporated associations, etc") of the Order (all such persons together being referred to as "Relevant Persons").

This document has been prepared solely for the benefit of the limited number of prospective investors to whom it has been addressed and delivered and may not, in any circumstances, be used for any other purpose or be viewed as a document for the benefit of the public. The reproduction, distribution or transmission of this document (either in whole or in part) without the prior written consent of the Company is prohibited.

In connection with the Placing, Panmure Gordon and/or any of its respective affiliates acting as an investor for its or their own account(s) may subscribe for or acquire Ordinary Shares and, in that capacity, may retain, acquire, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Placing or otherwise. Accordingly, references in this document to the Ordinary Shares being issued, offered, subscribed for or otherwise dealt with should be read as including any issue or offer to, or subscription, acquisition or dealing by Panmure Gordon and/or any of its affiliates acting as an investor for its or their own account(s). Panmure Gordon does not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

No person has been authorised to give any information or make any representation other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company, Lazard or Panmure Gordon or their respective directors, employees, or professional advisers. Neither the delivery of this document nor any subscription or acquisition made under it shall, in any circumstances, create any implication that there has been no change in the affairs of the Company and its subsidiaries since the date of this document or that the information in it is correct as of any subsequent date.

This document contains forward-looking statements. Words such as "anticipate", "believe", "plan", "expect", "intend", "estimate", "project", "will", "should", "could", "may", "predict" and similar expressions are typically used to identify forward-looking statements. You are cautioned that actual results could differ materially from those anticipated in forward-looking statements. Also, the forward-looking statements contained in this document are largely based on the Company's expectations, which reflect estimates and assumptions made by management. These estimates and assumptions by management reflect the Company's best judgement based on currently known market conditions and other factors, some of which are discussed below. Although the Company believes such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond the Company's control. In addition, management's assumptions about future events may prove to be inaccurate. The Company cautions all readers that the forward-looking statements contained in this document are not guarantees of future performance, and the Company cannot assure any reader that such statements will be realised or that the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many are beyond the Company's control and accordingly the predictions, forecasts, projections and other forward-looking statements may not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "Risk Factors" in Part IV of this document, as well as those included elsewhere in this document. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates (including production targets) and intentions expressed in such forward-looking statements.

When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environments in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to the Company, the Group or persons acting on the Company's or the Group's behalf.

A copy of this document is available to the public, free of charge, during normal business hours at the offices of DLA Piper Rudnick Gray Cary UK LLP for one month from the date of Admission.

## CONTENTS

## PLACING STATISTICS

| | |
|---|---|
| Placing Price | 275p |
| Number of Placing Shares[1] | 14,537,704 |
| Number of Ordinary Shares in issue following completion of the Placing[2] | 51,212,121 |
| Placing Shares as a percentage of the enlarged issued share capital of the Company[2] | 28.4% |
| Market capitalisation of the Company on Admission at the Placing Price[3] | £140.83 million |
| Estimated net proceeds receivable by the Company pursuant to the Placing and the Hong Kong Offering[4] | £36.77 million |

1 In addition, a further 7,750 Ordinary Shares are to be subscribed pursuant to the Hong Kong Offering as described in Part VII below.

2 Including 7,750 Ordinary Shares to be acquired pursuant to the Hong Kong Offering.

3 The market capitalisation of the Company at any given time will depend on the market price of the Ordinary Shares at that time. There can be no assurance that the market price of an Ordinary Share will equal or exceed the Placing Price.

4 The net proceeds receivable by the Company are stated after deduction of the expenses and commissions payable in connection with the Placing and the Hong Kong Offering which are expected to amount to approximately £3.23 million excluding VAT.

## EXPECTED TIMETABLE

| | |
|---|---|
| Admission of the Ordinary Shares to AIM | 19 May 2006 |
| CREST accounts credited in respect of Depositary Interests | 19 May 2006 |
| Unconditional dealings in the Depositary Interests expected to commence | 19 May 2006 |
| Despatch of share certificates | 26 May 2006 |

Each of the dates in the above timetable is subject to change without further notice at the absolute discretion of the Company and Lazard. References in this document to time are to London Time (BST), unless the context otherwise requires.

## INDUSTRY STATISTICS

Facts, statistics and other information contained in this document relating to China, the Chinese economy, the Chinese pharmaceutical or health supplement industry, healthcare market and the HWL Group have been compiled from various sources that are held to be generally reliable and which the Directors consider to be credible among those available in the market. This information has been accurately reproduced from the sources referred to in this document and, as far as the Company is aware, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, the accuracy of the source materials cannot be guaranteed and, at best, such materials provide a general impression of the competitive environment for the Group's key products. Moreover, statistics from different sources may not be prepared on a comparable basis. None of the Company, the Directors, Lazard, Panmure Gordon or their respective affiliates or professional advisers have verified the accuracy or comparability of the information contained in such sources. The Company makes no representation as to the accuracy of this information, which may be outdated, incomplete or inconsistent with other information compiled within or outside China. The published information may also be inconsistent with market conditions or other issues due to the potentially flawed or unscientific methodology used in the collection and analysis of the data. Accordingly, the industry information and statistics contained herein may not be accurate and should not be relied upon. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such information and statistics.

The information in this document and other statements about the potential market size for HMPL-002 and HMPL-004 have been extracted or derived from statistical data and information published by various sources including a report commissioned and paid for by the Company and produced by Cambridge Consultants Limited, an independent research organisation, dated 24 February 2006.

## CERTAIN FINANCIAL DATA

Certain historical financial information relating to the Joint Ventures has not been extracted or derived from Part V of this document but has been extracted or derived from the unaudited management financial information of the relevant Joint Ventures.

## PARTIES INVOLVED

| | |
|---|---|
| **Directors** | Mr. Simon To<br>Mr. Christian Hogg<br>Mr. Patrick Wan<br>Mr. Christian Salbaing<br>Ms. Edith Shih<br>Mr. Stephen Yeung<br>Mr. Michael Howell<br>Professor Christopher Huang<br>Mr. Christopher Nash |
| **Company Secretary** | Ms. Edith Shih |
| **Registered Office** | Ugland House, P.O. Box 309<br>George Town, Grand Cayman<br>Cayman Islands<br>British West Indies |
| **Directors' Business Address** | 21/F Hutchison House<br>10 Harcourt Road<br>Hong Kong |
| **Nominated Adviser** | Lazard & Co., Limited<br>50 Stratton Street<br>London<br>W1J 8LL<br>United Kingdom |
| **Corporate Broker** | Panmure Gordon (Broking) Limited<br>155 Moorgate<br>London<br>EC2M 6XB<br>United Kingdom |
| **Legal Advisers to the Company as to English law** | DLA Piper Rudnick Gray Cary UK LLP<br>3 Noble Street<br>London<br>EC2V 7EE<br>United Kingdom |
| **Legal Advisers to the Company as to Cayman Islands law** | Conyers Dill & Pearman<br>Century Yard<br>Cricket Square<br>Hutchins Drive<br>P.O. Box 2681<br>George Town, Grand Cayman<br>British West Indies |
| **Legal Advisers to the Nominated Adviser as to English law** | Freshfields Bruckhaus Deringer<br>65 Fleet Street<br>London<br>EC4Y 1HS<br>United Kingdom |

| | |
|---|---|
| **Legal Advisers to the Company as to PRC law** | King and Wood<br>40th Floor, Office Tower A<br>Beijing Fortune Plaza<br>7 Dongsanhuan Zhong Lu<br>Chaoyang District<br>Beijing 100020<br>The PRC |
| **Legal Advisers to the Company as to Hong Kong law** | Freshfields Bruckhaus Deringer<br>11th Floor<br>Two Exchange Square<br>Hong Kong |
| **Auditors** | PricewaterhouseCoopers<br>22/F Prince's Building<br>10 Chater Road<br>Central<br>Hong Kong |
| **Reporting Accountants** | PricewaterhouseCoopers LLP<br>1 Embankment Place<br>London<br>WC2N 6RH<br>United Kingdom |
| **Patent Agent** | Fish & Richardson P.C.<br>225 Franklin Street<br>Boston<br>Massachusetts 02110-2804<br>United States |
| **Depositary** | Computershare Investor Services plc<br>P.O. Box 82<br>The Pavilions<br>Bridgwater Road<br>Bristol<br>BS99 7NH<br>United Kingdom |
| **Registrar** | Computershare Investor Services (Channel Islands) Ltd<br>P.O. Box 83<br>Ordnance House<br>31 Pier Road<br>St Helier<br>Jersey<br>Channel Islands JE4 8PW |

**The following information should be read in conjunction with the full text of this document, from which it is derived. You should read the whole of this document and not just rely on the key information set out below. Financial information has been extracted without material adjustment from the historical financial information of the Group set out in Part V of this document. In particular, your attention is drawn to the risk factors set out in Part IV of this document.**

### The Group's Businesses and Objectives

Hutchison China MediTech Limited (the "Company") is the holding company of a pharmaceutical and healthcare group based primarily in China. The Company is a wholly owned subsidiary of Hutchison Whampoa Limited ("HWL"), an international corporation listed on the Main Board of the Hong Kong Stock Exchange which had an annual turnover of US$31 billion in 2005 and over 200,000 employees in 53 countries worldwide as at 31 December 2005.

The Group focuses on researching, developing, manufacturing and selling pharmaceuticals, health supplements and other consumer health and personal care products derived from Traditional Chinese Medicine ("TCM") and botanical ingredients. The Company was established in 2000 as a wholly owned subsidiary of HWL when HWL identified three business development opportunities related to TCM. These were: drug research and development, China healthcare, and consumer products.

The overall aim of the Company is to draw on the untapped wealth of knowledge and history of usage in the TCM industry to develop pharmaceutical and consumer products for the global market.

The Group's three businesses complement each other in the pursuit of this overall aim.

#### *Drug research and development*

Through Hutchison MediPharma, the Group researches and develops TCM-derived botanical, semi-synthetic natural product drugs, and synthetic single chemical entity drugs, with the aim of developing them for the global market. The Group is focused on developing drugs for use in the oncology and auto-immune therapeutic areas.

#### *China healthcare*

The China healthcare business of the Group, which comprises the development, manufacture and sale of TCM pharmaceuticals and health supplements, is carried out by three operating joint ventures in China: Hutchison Baiyunshan; Shanghai Hutchison Pharmaceuticals; and Hutchison Healthcare. These operating joint ventures provide the Group with a cash generating domestic operating business in China, in addition to: (i) technical and marketing expertise in TCM; (ii) distribution coverage in the strategic TCM and health supplement markets in China; and (iii) large-scale, GMP certified, manufacturing facilities.

#### *Consumer products*

The Group is developing "Sen" as a quality TCM brand through provision of TCM medicines, TCM-based consumer products (e.g. skin and body care), and TCM services via its own retail stores. Sen is also working to expand its distribution of selected TCM-based consumer products through sales to third party retail outlets and licensing deals with large-scale consumer products companies, such as the deal with LG Household and Healthcare ("LG H&H") to develop Sen in South Korea.

**Summary Financial Information**

The summary consolidated financial information for the Company has been extracted without material adjustment from, and should be read in conjunction with, the historical financial information of the Group set out in Part V of this document.

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| ***Revenues*** | | | |
| Drug research and development | — | — | — |
| China healthcare | 13,317 | 17,009 | 37,176 |
| Consumer products | 271 | 493 | 685 |
| **Total revenues** | **13,588** | **17,502** | **37,861** |
| ***Operating loss*** | | | |
| Drug research and development[(1)] | (1,872) | (2,143) | (5,016) |
| China healthcare | (8,502) | (3,905) | 583 |
| Consumer products | (2,351) | (857) | (1,295) |
| **Total operating loss** | **(12,725)** | **(6,905)** | **(5,728)** |
| Finance costs | (285) | (364) | (496) |
| Share of results of associate | (63) | (53) | (7) |
| Taxation | 34 | (53) | (141) |
| **Loss for the year** | **(13,039)** | **(7,375)** | **(6,372)** |

(1) Drug research and development relates mainly to pharmaceutical research and development activities of Hutchison MediPharma Limited but also includes head office costs.

Over the three years to 31 December 2005, the Company has achieved growth in revenues and reduced its trading losses. From 2002 to 2005, the Group grew organic revenues in its China healthcare business by a CAGR of approximately 25 per cent.. Additional revenue growth and contribution to profit was delivered as a result of the establishment of Hutchison Baiyunshan in 2005.

In addition, the Group has continued over this period to focus on developing its drug research and development business, with the level of investment increasing year on year.

Further financial information on the Group is set out in Part V of this document.

**Current Trading and Prospects**

The Company has continued to make progress since the year end and is continuing its development in line with the pattern established between 2003 and 2005. Trading in each of the operating businesses is in line with Directors' expectations. Drug research and development investment continues to increase, driven by the US and Chinese clinical trials on multiple drug candidates. Two of the China heathcare joint ventures are now profitable and the Directors expect the third, Hutchison Healthcare, to move into profitability in the short to medium term. As a result of continued revenue growth and recent licensing activity the consumer products business has continued to reduce losses.

On 9 May 2006, the Directors of the Company approved the capitalisation of HK$575,219,920 of the amount owed as an intercompany debt by the Company to its immediate parent company, HHHL, by the issue of 36,666,665 Ordinary Shares. The Ordinary Shares are to be allotted and issued at par, credited as fully paid, to HHHL and such allotment and issue are conditional upon, but with effect immediately prior to, the Admission becoming effective. The amount capitalised is the amount outstanding to HHHL at 31 March 2006. Since 31 March 2006, the Group has incurred further indebtedness to HHHL in respect of the Group's working capital requirements. The Directors intend to repay these amounts shortly following Admission.

**Use of Proceeds**

The gross proceeds of the Placing and the Hong Kong Offering will be approximately £40 million. The net proceeds of the Placing and the Hong Kong Offering, expected to be up to approximately £36.77 million in aggregate, will be applied as follows:

- contingent on the success of the existing pipeline of drug candidates, the Company intends to use approximately £30 million to finance Hutchison MediPharma's drug research and development infrastructure and programmes during 2006, 2007 and 2008;
- approximately £2 million will be used to finance capital expenditure and working capital for expansion of the existing China healthcare business;
- approximately £3 million will be used to finance the consumer products business; and
- the balance will be used for general corporate purposes.

The Directors will continue to seek out new opportunities for acquisitions and strategic joint ventures to expand the business. The Company and Hutchison China have received multiple approaches and several possible opportunities are currently under investigation. The size of these opportunities ranges from relatively small to substantial. Any such opportunities available to the Group may be funded by the internal resources of the existing China healthcare business. However, a reallocation of net proceeds or further external funding may also be required.

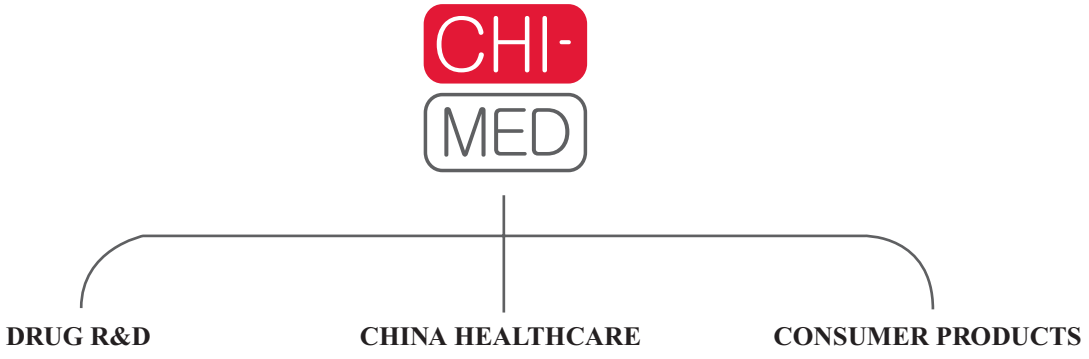
To the extent that the net proceeds of the Placing and the Hong Kong Offering are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed in interest-bearing deposits with banks or financial institutions.

## Group Overview

The Company is the holding company of a pharmaceutical and healthcare group based primarily in China. The Company is a wholly owned subsidiary of HWL, an international corporation listed on the Main Board of the Hong Kong Stock Exchange which had an annual turnover of US$31 billion in 2005 and over 200,000 employees in 53 countries worldwide as at 31 December 2005.

The Group focuses on researching, developing, manufacturing and selling pharmaceuticals, health supplements and other consumer health and personal care products derived from Traditional Chinese Medicine, or TCM, and botanical ingredients. The Company was established in 2000 as a wholly-owned subsidiary of HWL when HWL identified three business development opportunities related to TCM. These were drug research and development, China healthcare and consumer products. The overall aim of the Company is to draw on the untapped wealth of knowledge and history of usage in the TCM industry to develop pharmaceutical and consumer products for the global market. The Group's three businesses complement each other in pursuit of this aim.

The following diagram illustrates the Group's operating structure:




### *Introduction to TCM*

The Group's development focus is on modernised TCM pharmaceuticals. TCM refers to a range of traditional medical practices, including herbal medicines, which have developed over the course of several thousand years in China. It is a system of addressing human bodily dysfunction based on concepts and techniques that differ in fundamental respects from those of modern Western medicine. TCM is founded on different theories of the causes of sickness and functioning of the human organs and addresses the prevention and treatment of diseases in accordance with those theories.

The major conceptual difference of TCM compared with Western medicine is that TCM sees a person as a whole and strives for an overall internal balance, with diagnosis and treatment based on this holistic view of the patient, whereas Western medicine analyses bodily functions separately and focuses on diagnosis and treatment of specific illnesses and causes of disease. TCM emphasises restoration and maintenance of the equilibrium of bodily functions in the belief that the body has the potential to cure itself, if stimulated in the correct way.

TCM is prepared from raw materials including plants, animals and minerals, with the majority derived from herbal sources. Many herbs and plants produce chemical compounds which can have therapeutic actions in humans. Herbal medicines based on traditional knowledge include remedies such as Echinacea and St John's Wort and modern Western medicines including codeine and quinine (derived from the poppy and cinchona plants respectively). Traditionally, TCM required lengthy preparation by boiling and simmering raw materials according to ancient recipes, with the medicine consumed in the form of soup or as pellets. Usually each recipe combined several herbal ingredients tailored to the individual patient, with each herb performing a specific role.

Modern TCM combines traditional theories with modern production methods and extraction techniques. It includes pharmaceutical drugs in convenient capsule, pill and injection forms similar to Western medicines, as well as the traditional form of tailor-made prescriptions of raw materials. Modernised TCM pharmaceuticals are processed drugs derived from TCM ingredients and are categorised in China as prescription drugs or over-the-counter drugs, depending on the product.

A number of TCM products use ingredients derived from animal sources, as well as herbs and other plants. China has enacted a series of laws and regulations to protect endangered species, including acceding to the Convention on International Trade in Endangered Species (CITES), promulgating laws to protect and control wildlife medicinal materials, and to protect precious wildlife plants and animals. All companies within the Group have complied with the aforesaid laws and regulations concerning endangered species in China and none of the products produced by the Group relies on any endangered species on the CITES list.

***Drug research and development***

Through Hutchison MediPharma, the Group researches and develops TCM-derived botanical, semi-synthetic natural product drugs and synthetic single chemical entity drugs, with the aim of developing them for the global market. The Group is focused on developing drugs for use in the oncology and auto-immune therapeutic areas.

***China healthcare***

The China healthcare business of the Group, which comprises the development, manufacture and sale of TCM pharmaceuticals and health supplements, is carried out by three operating joint ventures in China: Hutchison Baiyunshan; Shanghai Hutchison Pharmaceuticals; and Hutchison Healthcare. These operating joint ventures provide the Group with a cash generating domestic operating business in China, in addition to: (i) technical and marketing expertise in TCM; (ii) distribution coverage in the strategic TCM and health supplement markets in China; and (iii) large-scale, GMP certified, manufacturing facilities.

***Consumer products***

The Group is developing "Sen" as a quality TCM brand through provision of TCM medicines, TCM-based consumer products (e.g. skin and body care), and TCM services via its own retail stores. Sen is also working to expand its distribution of selected TCM-based consumer products through sales to third party retail outlets and licensing deals with large-scale consumer products companies, such as the deal with LG H&H to develop Sen in South Korea (further details of which are set out below).

**History and background**

The Group was established by HWL in June 2000 to develop and coordinate different business opportunities related to TCM. Since this time the Group has developed its three principal businesses through a combination of acquisitions and new business development with the financial support and technical expertise of HWL. The principal investments to date (details of which have been derived from the unaudited management accounts of the relevant members of the Group) have included:

- the establishment of Hutchison Healthcare in March 2001 as a joint venture with the Masson Group with a total committed investment of RMB 245 million, comprised of RMB 125 million in registered capital and RMB 120 million in shareholder loans. In December 2003 the registered capital of Hutchison Healthcare was increased to RMB 166 million, when Ningxia Dyne became a shareholder;

- the establishment of Shanghai Hutchison Pharmaceuticals as a joint venture with the Shanghai Medicine Company Limited, in April 2001 with a total committed investment of RMB 220 million, comprised of RMB 88 million in registered capital and RMB 132 million in shareholder loans;

- the formal establishment of the Sen consumer products business in February 2002, after two years of incubation, with an investment formally approved by HWL of HK$100 million.

- the formal establishment of Hutchison MediPharma in September 2002, after two years of incubation with an investment formally approved by HWL of HK$209 million; and

- the establishment of Hutchison Baiyunshan as a joint venture with Guangzhou Baiyunshan, in April 2005 with a total committed investment of RMB 345 million, comprised of RMB 200 million in registered capital and RMB 145 million in shareholder loans.

The Group is continuing to grow rapidly and has multiple other major investments planned or currently in place to ensure the continued development of its three principal businesses. These investments include:

- approximately £30 million to finance Hutchison MediPharma's drug research and development infrastructure and programmes during 2006, 2007 and 2008;
- approximately £2 million to finance capital expenditure and working capital for expansion of the existing China healthcare business; and
- approximately £3 million to finance the consumer products business.

The Directors will continue to seek out new opportunities for acquisitions and strategic joint ventures to expand the business. The Company and Hutchison China have received multiple approaches and several possible opportunities are currently under investigation. The size of these opportunities ranges from relatively small to substantial. Any such opportunities available to the Group may be funded by the internal resources of the existing China healthcare business. However, further external funding may also be required.

**Business Strategies**

The overall aim of the Company is to draw on the untapped wealth of knowledge and history of usage in the TCM industry to develop pharmaceutical and consumer products for the global market. In support of this aim, the Company has developed three complimentary businesses with the following strategies:

***Discovery, development and international commercialisation of Western-approved pharmaceuticals derived from TCM botanicals***

The Group's objective is to bring new pharmaceutical products to the global market by using modern drug discovery and development technologies, applying clinical standards that meet the requirements of the ICH guidelines. The Company has a library containing several thousand botanical ingredients used in TCM and expects to continue to make significant additions to this library. The Group's drug development processes focus on the development of drugs which are expected to be most relevant to unmet medical needs, particularly in the therapeutic areas of oncology and auto-immune disease, where TCM products have a long history of pre-clinical and clinical research and in-market usage, safety, and efficacy. Oncology and auto-immune disease represent two of the largest global pharmaceutical markets and are areas in which there remain substantial unmet medical needs. The Group's focus on botanical drug candidates with a documented history of usage reduces the risks associated with the development of pharmaceuticals, by, for example, allowing it to take advantage of the FDA's 2004 guidance on botanical drug products, which allows for an accelerated and cost efficient process for the US registration of such botanical drugs. This process has been used in the Group's HMPL-002 and HMPL-004 development programmes (explained in further detail in the section on "Drug Research and Development Business" below) to bypass or minimise Phase I trials.

The Group is currently expanding its focus from botanicals to include semi-synthetic natural product drugs, and synthetic single chemical entity drugs, by building on its existing know-how and discovery and development capabilities, which include more than 70 full time scientists and staff and comprehensive in-house pharmaceutical research facilities.

***Expansion of presence in the fast growing Chinese healthcare industry through organic growth and acquisitions***

From 1999 to 2004 the Chinese pharmaceutical market grew at a compound annual growth rate ("CAGR") of 20 per cent. from US$15.1 billion to US$37.2 billion. The Directors believe that increasing expenditure on pharmaceuticals will continue, because as the Chinese economy expands, and Chinese people become wealthier, the demand for healthcare will grow. The Directors consider that economies of large scale production and an extensive sales and distribution network are key to achieving one of the Group's objectives of becoming a leading manufacturer and supplier of TCM pharmaceuticals and health supplements in China. From 2002 to 2005, the Group grew organic revenues in its China healthcare business by a CAGR of approximately 25 per cent., and the Directors expect these businesses to continue to grow faster than the overall Chinese pharmaceutical market.

The Directors intend to continue to seek out new opportunities for acquisitions and strategic joint ventures that consolidate the Group's presence in existing markets in China and extend its presence into other regions of China, enabling the Group to leverage its established sales and distribution channels. The Directors believe that the Group's continued relationship with HWL with its overall reputation and experience in China should give the Group a significant advantage in identifying and securing these opportunities.

***Developing a global consumer brand in TCM derived products and services***

The Group seeks to capitalise on increasing consumer interest and demand in Western countries for traditional and alternative medicines, including TCM. The Group also intends to develop and sell consumer products (e.g. skin and body care) into mainstream Western markets using the TCM concept and botanical ingredients.

The Group's objective is to establish "Sen" as an internationally recognised TCM brand that can be used, under licence, by large-scale consumer products companies to launch TCM concept consumer products in North America, Europe and Asia. The Group's first example of this Sen licensing approach is the recent deal with LG H&H, one of South Korea's leading manufacturers of household products and cosmetics, to develop Sen in South Korea.

**Key Strengths**

The Directors believe that the Group's key strengths lie in the following areas:

- **Strong and efficient drug research and development capability:** The Group has assembled a high quality team of experienced research and development staff who already have two drug candidates in clinical development in the US and China. The Group also benefits from the lower costs of performing both discovery and clinical research in China and, aided by the US FDA's 2004 Guidance for Industry on Botanical Drug Products, expects increased speed to market in the US for certain established botanical drugs.

- **Diversified risk profile:** The business mix reduces Group risk by blending established, cash generating healthcare assets with developing businesses in drug development and consumer products. The established China healthcare operations provide a solid foundation and knowledge base for the Group's new business development activities.

- **Focus on China:** The Group's activities are based in one of the fastest growing healthcare markets in the world. This presents the Group with significant opportunities to grow its healthcare business rapidly and to market new treatments.

- **HWL's Reputation:** HWL will remain a major shareholder after the listing, and its strong reputation, and extensive experience in China, should assist the Group in identifying and securing opportunities for further development.

- **Potential of TCM:** The Group is looking to benefit from the increasing interest in TCM in the US and Europe and is ideally placed to do so.

- **Experienced Management Team:** The Group has a committed and well-balanced management team.

**Drug Research and Development Business**

***Overview***

Hutchison MediPharma is a pharmaceutical research and development ("R&D") company focusing on botanical drugs, semi-synthetic natural product drugs, and synthetic single chemical entity drugs. Hutchison MediPharma aims to bring novel drugs to the global market for the treatment of cancer and auto-immune diseases by using modern drug discovery and development technologies and clinical standards that meet the requirements of ICH guidelines. It is focused on the following portfolio of products and technology platforms:

- Two candidates in clinical development in both the US and China: HMPL-002, a radiosensitiser, for both head and neck and non-small cell lung cancer ("NSCLC"), in Phase I/II in the US and in proof of concept in China; and HMPL-004, an inhibitor to a group of inflammatory cytokines, for treatment of inflammatory bowel diseases ("IBD"), including Crohn's Disease ("CD") and Ulcerative Colitis ("UC"), in Phase II in the US and in proof of concept in China.

- A pipeline of discovery projects in the auto-immune/inflammatory diseases and oncology therapeutic areas which have shown activity against clinically validated targets.
- A number of technology platforms including molecular and cell biology, high throughput screening, genomics and informatics, to enable and support drug research and development projects.
- More than 26 patents and patent applications globally to protect existing preclinical and clinical candidates against potential generic competition.

The Directors believe that Hutchison MediPharma's competitive advantages lie in the following areas:

- An experienced research and development team, many of whom are Western-trained, with a track record of success and expertise in Western and Chinese pharmaceutical development providing the basis for innovative and high quality research.
- A sustainable tripartite discovery chemistry strategy (based on new botanical drugs, semi-synthetic natural product drugs and synthetic single chemical entity drugs) aimed at creating a diversified portfolio.
- The ability to carry out faster and lower cost human proof of concept studies in China thereby reducing the risk of failure in subsequent US trials.
- The ability to leverage HWL's presence in China to negotiate collaborations and obtain in-licensing opportunities, thereby providing access to external drug candidates and proprietary technologies and data, including unique botanical composition samples.

***Research and development facility and capacity***

The Group's research and development operations are carried out in a 5,000 square metre research and development facility based in Shanghai's Zhang Jiang High Tech Park, including a 500 square metre Chinese certified animal facility. The in-house pharmaceutical research facilities provide specialised equipment for most aspects of drug research and development.

Hutchison MediPharma has built drug discovery technologies, including molecular and cell biology, high throughput screening, genomics and informatics, to enable and support research and development projects. To date, multiple proprietary drug discovery platforms have been created. These include gene-targeted and cell-based screening assays, ligand-dependent screening assays and signal transduction pathway screening assays in addition to conventional cytotoxicity, protein assays and enzymatic assays, receptor tyrosine kinase assays, primary cell culture assays, recombinant DNA technologies, gene-chip technologies, recombinant protein expression technologies, and retroviral-mediated gene transfer technologies.

Botanical candidate screening is being expanded to include upfront assays of EGFR, VEGFR and Her2 in addition to cytotoxicity for cancer and chemokines/gene regulators/enzymes (p38 MAPK, MMPs, STAT3 DRQA, etc) for inflammation. The semi-synthetic candidate R&D activity aims to identify active components of natural products that are amenable to chemical modifications. This semi-synthetic research activity is generally intended to be an extension of existing botanical drug candidate research. In addition, synthetic single chemical entity approaches against clinically validated targets for cancer and autoimmune diseases are under development.

The Group's research and development team of over 70 scientists and staff includes Western-trained former research executives of international pharmaceutical and biotechnology companies, as well as advisory committees, whose members include highly reputable members of the medical community in the US and China in the fields of medicinal chemistry, pharmacology, oncology, cardiovascular and respiratory diseases, and antiviral treatments.

Hutchison MediPharma's regulatory and clinical team, and its network of world-renowned advisers and clinical research organisations, enable the Group to design protocols and conduct clinical trials in both the US and China.

***Management***

Hutchison MediPharma has an experienced senior management and R&D team, many of whom have held senior positions at leading global pharmaceutical and biotechnology companies in the US, including Pfizer, Johnson & Johnson, and Amgen. Their expertise covers the key functional areas in drug discovery including discovery biology, discovery pharmacology, drug metabolism and pharmacokinetics ("DMPK"), medicinal and natural product chemistry, drug development including clinical trial design and management, pharmaceutical sciences, animal facility management, and business development. The Company retains US consultants to advise on the toxicology and safety work required by regulatory agencies in the US.

Key members of the Hutchison MediPharma management team are set out below:

| Name | Title | Joined | Previously at |
|---|---|---|---|
| Samantha Du, Ph.D. | Chief Scientific Officer and Executive Vice President, Hutchison China MediTech; and Managing Director, Hutchison MediPharma | 2001 | Pfizer |
| Wei Guo Su, Ph.D. | Vice President, Drug Discovery | 2005 | Pfizer |
| Xun Zhang, Ph.D. | Vice President, Pharmaceutical Sciences & Project Operations | 2005 | Pfizer |
| Xiao Qiang Yan, Ph.D. | Vice President, Research & Technology | 2002 | Amgen |
| James He, M.D, M.Sc. | Group Director, Clinical and Regulatory Affairs | 2005 | Pfizer |
| Kevin Pan, Ph.D. | Group Director, Business Development | 2001 | Johnson & Johnson and Pfizer |
| Jeff Duan, M.D. | Group Director, Pharmacology | 2003 | Synta Pharmaceuticals |
| Yang Sai, Ph.D. | Group Director, Drug Metabolism & Pharmacokinetics | 2006 | Neurocrine Biosciences |

*Samantha Du, Ph.D. — Chief Scientific Officer and Executive Vice President, Hutchison China MediTech and Managing Director, Hutchison MediPharma*

Dr. Du joined Hutchison China in June 2001 as Senior Vice President and has since led all aspects of development and management of the company's R&D strategy. In 2002, she gained HWL's approval for the establishment of Hutchison MediPharma and has built up the company to over 70 employees. Dr. Du has led the advancement of two Phase II US clinical trials; the establishment of a rich discovery portfolio in less than three years; and establishment of strategic alliances with world leading research institutions and companies. Dr. Du is a well-recognised leader in the R&D arena in China through her advisory roles to various government bodies. Dr. Du started her research career at Pfizer's global R&D site in Connecticut, in the US, and led teams that delivered multiple INDs and NDAs for various anti-infective, cardiovascular, and metabolic medicines. Her last role at Pfizer was in the Global Strategic Operations Group, where she was in charge of licensing and related mergers and acquisitions activities in the metabolic disease area.

Dr. Du received her Ph.D. in Biochemistry from the University of Cincinnati, in the US and her Bachelor's and Master's degrees in Molecular Biology and Chemistry from Jilin University, China.

*Wei Guo Su, Ph.D. — Vice President, Drug Discovery, Hutchison MediPharma*

Dr. Su joined Hutchison MediPharma in 2005, prior to which he spent fifteen years in Pfizer's US R&D organisation. Dr. Su delivered several high quality new drug candidates during his time with Pfizer with his last role being as an associate in the Medicinal Chemistry Department. He received his Ph.D. and post-doctoral fellowship in Chemistry from Harvard University under the guidance of Nobel Laureate Professor E. J. Corey and his Bachelor's degree in Chemistry from Fudan University in Shanghai, China.

*Xun Zhang, Ph.D. — Vice President, Pharmaceutical Sciences & Project Operations, Hutchison MediPharma*

Dr. Zhang joined Hutchison MediPharma in 2005, prior to which he spent eleven years in Pfizer's US R&D organisation where he was a director in the Pharmaceutical Sciences Division and, before that, four years at the Bristol-Myers-Squibb Research Institute. Dr. Zhang received his Ph.D. in Chemistry from the University of Texas at Austin and his Bachelor's degree in Chemistry from Peking University, China.

*Xiao Qiang Yan, Ph.D. — Vice President, Research & Technology, Hutchison MediPharma*

Dr. Yan joined Hutchison MediPharma in 2002, prior to which he spent over ten years in Amgen's US R&D organisation where he was a Molecular and Cell Biologist in haematology, pharmacology, pathology and functional genomics. Dr. Yan received his Ph.D. in Molecular and Cell Biology from the University of Toronto, Canada and his Bachelor's and Master's degrees in Medicine from the West China University of Sciences, China.

*James He, M.D, M.Sc. — Group Director, Clinical and Regulatory Affairs, Hutchison MediPharma*

Dr. He joined Hutchison MediPharma in 2005, prior to which he was an Associate Director in Pfizer's US R&D organisation having transferred from Pharmacia's Oncology Group. Dr. He has more than fifteen years experience in haematology, oncology, anti-inflammation, endocrinology, and immunology. He received his Medical Degree from Capital University of Medicine in Beijing, China and his Master's degree in Human Biology from the University of Waterloo, Canada.

*Kevin Pan, Ph.D. — Group Director, Business Development, Hutchison MediPharma*

Dr. Pan joined the Group in 2001 as the R&D Director of Shanghai Hutchison Pharmaceuticals and transferred to Hutchison MediPharma in 2003. Prior to joining the Group, Dr. Pan worked in the US R&D organisations of Johnson & Johnson and Pfizer. Dr. Pan received his Ph.D. in Organic Chemistry from Rutgers, the State University of New Jersey and his Bachelor's degree in Organic Chemistry from Fudan University in Shanghai, China.

*Jeff Duan, M.D. — Group Director, Pharmacology, Hutchison MediPharma*

Dr. Duan joined Hutchison MediPharma in 2003, prior to which he was an Assistant Director at Synta Pharmaceuticals in charge of Pharmacology in the cancer and autoimmune disease areas. Dr. Duan received his Medical Degree from Tianjin Medical University, China and is qualified to practice medicine in the US.

*Yang Sai, Ph.D. — Group Director, Drug Metabolism and Pharmacokinetics, Hutchison MediPharma*

Dr. Sai joined Hutchison MediPharma in 2006, prior to which he headed the Drug Metabolism and Pharmacokinetics Group at Neurocrine Biosciences where he established in vitro and in vivo pharmacokinetic characterisation and metabolite identification units. Dr. Sai spent his post-doctoral fellowship at Harvard University and the National Cancer Institute, received his Ph.D. in Biopharmacy from King's College, London, and his Bachelor's degree in Pharmacy from the Second Military Medical University in Shanghai, China.

***Commercialisation Strategy***

Hutchison MediPharma's strategy is to out-license all products once they have reached a late stage of development, typically prior to Phase III clinical trials as appropriate. Hutchison MediPharma expects to generate revenues through milestone payments and royalties on product sales.

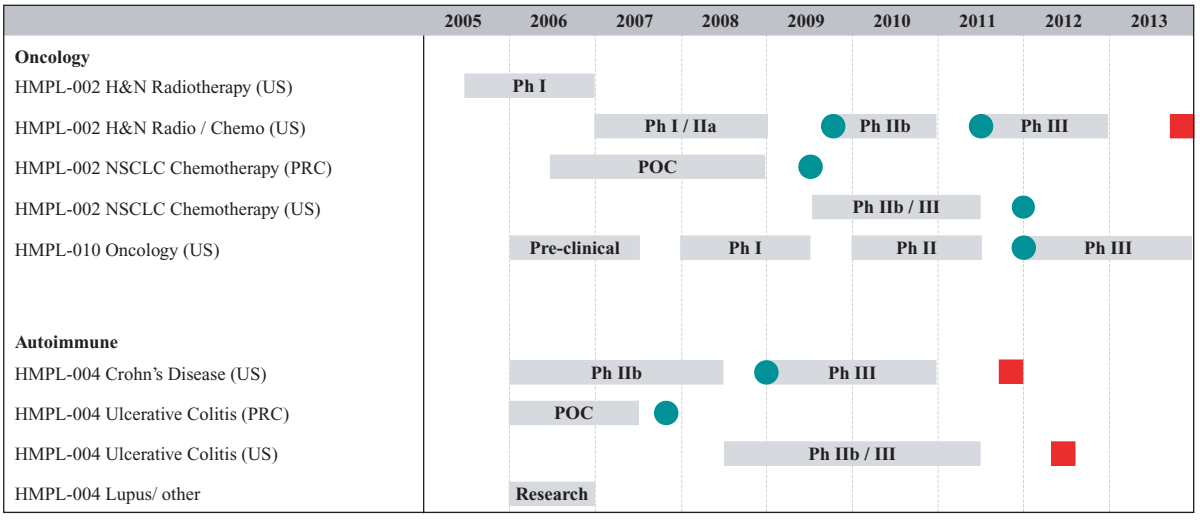
***Overview on Advanced Drug Candidates***

Hutchison MediPharma's development activities are focused on two target therapeutic areas: auto-immune/ inflammatory disorders and oncology. Currently, the company has anti-inflammatory and anti-cancer drug candidates in US and Chinese clinical trials and a pipeline of early stage leads. The discovery portfolio consists of botanical candidates, semi-synthetic natural product drugs and synthetic single chemical entity projects.

Currently, Hutchison MediPharma has obtained FDA approval to conduct Phase I/II and Phase II clinical trials in the US on two botanical drug candidates: HMPL-002, a radiosensitiser for the treatment of head and neck, lung and oesophageal cancers in combination with radiotherapy; and HMPL-004, a proinflammatory cytokine inhibitor for the treatment of CD. HMPL-002 and HMPL-004 are also being tested both in research and proof

of concept trials in China to expand range of usage. In addition, Hutchison MediPharma has one further EGFR/ VEGFR inhibitor oncology drug candidate, (HMPL-010) in pre-clinical studies assessing safety and efficacy.

The following chart outlines the current projected discovery and development pipeline and targets:




Notes: H&N – Head & neck cancer; NSCLC – Non small cell lung cancer; Possible out licensing point; Market launch;
Ph I – Phase I clinical trials; Ph II – Phase II clinical trials; Ph III – Phase III clinical trials; POC – Proof of concept clinical trials.

**HMPL-002 - treatment for head and neck cancer and NSCLC**

HMPL-002 is a botanical product extracted from a herb which naturally occurs in China. Following clinical trials conducted on approximately 3,000 human subjects, it has been approved in China as a radiosensitiser for the treatment of head and neck, lung and oesophageal cancers when used concomitantly with radiotherapy. The manufacturing processes for the drug product, including plant supply, extraction method and formulation, are well established. Hutchison MediPharma has acquired all the rights outside China for the existing approved indications and global rights for all new indications and uses for this product.

***Mechanism of Action and Efficacy***

HMPL-002 achieves its radiosensitising effect by reducing hypoxic conditions within the tumour cells, thus increasing the tumour's response to radiation. This biological effect is mediated by inhibition of multiple cellular metabolic pathways in tumour cells such as the regulation of oxygen homeostasis. In vitro findings were confirmed by in vivo animal results. Further efficacy studies comparing radiation only and radiation in combination with HMPL-002 oral administration confirmed that HMPL-002 improved radiation efficacy in mice.

Chinese clinical studies conducted in the 1990s confirmed the radiation-sensitising effect of HMPL-002 in patients with solid tumours. Patients experienced a higher response and survival rate when HMPL-002 was added to the radiotherapy. Multiple clinical trials were conducted in China from 1993 to 1998 leading to its final China market approval. A representative proof of concept trial was a double blind, multi-centre placebo-controlled study involving 383 patients followed by a subsequent open label trial with 245 lung, oesophageal, or head and neck cancer patients. The data demonstrated a significant increase in complete response rate for the radiation plus HMPL-002 group in comparison to radiation alone. In addition, the radiation dose required to achieve a complete response in the head and neck patients was significantly lower for the HMPL-002 treated group than for the control group. A multi-centre, randomised, placebo-controlled Phase III study involving 1,880 stage III cancer patients and 923 cancer patients in the control group (radiation alone), resulted in a significantly increased complete response rate for all three types of cancers in the treatment group. 36 per cent. of HMPL-002-treated lung cancer patients had complete tumour responses versus 10 per cent. of patients on placebo ($p<0.001$), 50.8 per cent. of HMPL-002-treated oesophageal cancer patients had complete responses versus 23.1 per cent. of patients on placebo ($p<0.001$), and 56.3 per cent. of head and neck cancer patients had complete responses versus 26.2 per cent. of patients on placebo ($p<0.001$). More importantly, the 2, 3 and 5-year survival rates were significantly increased for the HMPL-002 treated group as compared to the placebo group.

*Safety*

Non-clinical safety studies carried out by Hutchison MediPharma have indicated that HMPL-002 is generally well tolerated in animals. HMPL-002 is neither mutagenic nor teratogenic. In all the sub-chronic toxicity studies in rats and dogs, the major clinical observations were gastrointestinal related, which is consistent with the clinical findings in Chinese patients. Importantly, no cytotoxicities have been reported in Chinese clinical studies.

*Clinical and Regulatory Status and Plan*

The current US study is a Phase I/II trial for the treatment of head and neck cancer. The trials were designed by Hutchison MediPharma and its expert advisers and in collaboration with Pharmaceutical Product Development, Inc. ("PPD"), which is currently enrolling patients for the Phase I trial. The primary objective of the Phase I trial is to determine the maximum tolerated dose ("MTD"), to confirm the drug's safety profile in US patients, and to recommend an optimal dose for Phase II. The FDA has cleared HMPL-002 to enter directly into Phase II trials once the Phase I MTD trials are complete. The Phase II extension study will aim to enrol additional patients at multiple sites to examine overall tumour response and survival rates.

In China where HMPL-002 has been approved for use in combination with radiotherapy, a proof of concept study is on-going for the treatment of NSCLC in combination with chemotherapy and radiotherapy.

Opinion leaders in the therapeutic field in the US have endorsed both the US and Chinese trial protocols.

*Manufacture*

Sufficient quantities of clinical supplies have been manufactured for the planned Phase I and II trials in accordance with the appropriate FDA quality standards and GMP requirements.

*Competitive Advantages*

- HMPL-002 is safe and effective for the treatment of cancer when used in combination with radiotherapy based on Chinese clinical trial data.
- HMPL-002 is an oral agent.
- HMPL-002 does not show cytotoxicity in vivo and in human studies and does not induce adverse events typically seen with chemotherapy treatment.

**Market Potential for HMPL-002**

The following information relating to the market potential of HMPL-002 and the market for the treatment of head and neck cancer and NSCLC has been extracted or derived from statistical data and information published by various sources including a report commissioned and paid for by the Company and produced by Cambridge Consultants Limited, an independent research organisation, dated 24 February 2006. In collating that information, certain assumptions and qualifications have been made which may affect the interpretation of the information contained herein. Your attention is drawn to the qualifications set out in paragraph 23 of Part VIII.

*Head and Neck Cancer and NSCLC Markets*

The incidence of all cancers in the US in 2005 was 1.37 million. Of these, approximately 3 per cent. (40,000) and 11 per cent. (150,000) were head and neck cancers and NSCLC respectively. Between 2000 and 2005, the number of new patients with these forms of cancer in the US rose from 183,000 to 189,000 with a CAGR of 0.6 per cent.. Both head and neck cancers and NSCLC are commonly treated using radiotherapy, with approximately 80 per cent. of head and neck cancer and NSCLC patients in the US treated with radiotherapy, representing approximately 151,000 patients in 2005.

*Radiosensitiser Market Size*

In 2003, the US cancer market size was estimated at US$25.4 billion and projected to grow with a CAGR of 5.5 per cent. to reach US$35 billion by 2009.

The potential radiosensitiser market in head and neck cancer and NSCLC may be estimated from the total number of patients who are currently undergoing radiotherapy treatment. According to the American Head and Neck Society, many patients with head and neck cancer receive radiotherapy, one of the primary treatment methods. For NSCLC, the National Cancer Institute ("NCI") guidelines suggest that radiotherapy should be used in patients at stages IIIA, IIIB, and IV, which accounts for around 80 per cent. of total NSCLC patients.

There are currently no FDA or EMEA approved pharmaceuticals for use as radiosensitisers. There has however been some off-label use of certain cytotoxic agents as radiosensitisers in approximately 20 per cent. of radiotherapy patients.

The leading cytotoxic products used in the off-label radiosensitiser market include the following:

*Drugs in Phase II/III clinical trials in the US for use as radiosensitisers (FDA approved for other indications):*

| Drug | Company | Phase | Current main use | Comments |
|---|---|---|---|---|
| Cisplatin (Platinol) | BMS | III — H&NC and NSCLC | Multiple cancers | Alkylating agent; generics available |
| Docetaxel (Taxotere) | Sanofi-Aventis | III — H&NC and NSCLC | Breast cancer | Inhibits cell division |
| Ifosfamide (Ifex) | BMS | III — Other | Multiple cancers | Alkylating agent |
| Paclitaxel (Taxol) | BMS | III — H&NC and NSCLC | Ovarian, breast and lung cancers | Inhibits cell division |
| Carboplatin (Paraplatin) | BMS | II/ III — NSCLC | Ovarian and lung cancer | Alkylating agent; generics available |
| Cetuximab (Erbitux) | BMS/Merck KGaA | II/ III — H&NC and NSCLC | Colorectal cancer | Monoclonal antibody |
| Vinorelbine (Navelbine) | GSK | II/ III — NSCLC | Breast cancer and NSCLC | Inhibits cell division; generics available |
| Bevacizumab (Avastin) | Genentech (Roche) | II — H&NC | Colorectal cancer | Monoclonal antibody; angiogenesis inhibitor |
| Capecitabine (Xeloda) | Roche | II — H&NC | Breast and colorectal cancer | Antimetabolite; metabolically converted to 5-FU |
| Celecoxib (Celebrex) | Pfizer | II — H&NC | Precancerous colorectal polyps, arthritis pain | NSAID (COX-II inhibitor) |
| Epirubicin (Ellence) | Pfizer | II — H&NC | Breast cancer | Anthracycline antibiotic; DNA intercalator and topo-II inhibitor |
| Erlotinib (Tarceva) | Genentech | II — Other | NSCLC | FDA orphan drug status for NCSLC; specific inhibitor of EGFR tyrosine kinase |
| Fluorouracil (5-FU) | Multiple companies | II — H&NC | Skin cancer | Topical or injectable antineoplastic; generics available |
| Gefitinib (Iressa) | AstraZeneca | II — H&NC and NCSLC | NSCLC | Specific inhibitor of EGFR tyrosine kinase |
| Gemcitabine (Gemzar) | Eli Lilly | II — NSCLC | Multiple cancers | Antimetabolite |
| Hydroxyurea (Droxia, Hydrea) | NIH/ BMS | II — H&NC | Various cancers | Inhibits DNA synthesis, preventing cell division; generics available |
| Irinotecan (Camptosar) | Pfizer | II — H&NC | Colorectal cancer | Antineoplastic topo-I inhibitor |
| Oxaliplatin (Eloxatin) | Sanofi-Aventis | II — H&NC | Colorectal cancer | Alkylating agent |
| Pemetrexed disodium (Alimta) | Ely Lilly | II — NSCLC | Pleural mesothelioma | Antimetabolite |
| Temozolomide (Temodar) | Schering Plough | II — H&NC and NSCLC | Glioblastoma | Alkylating agent |
| Topotecan (Hycamtin) | GSK | II — Other | Ovarian cancer | Antineoplastic topo-I inhibitor |
| Trastuzumab (Herceptin) | Genentech | II — Other | Breast cancer | Inhibits cell division |

*Drugs in Phase II/III clinical trials in the US for use as radiosensitisers (non FDA approved):*

| Drug | Company | Trial Phase | Current usage | Comments |
|---|---|---|---|---|
| Efaproxiral (Efaproxyn) | Allos Therapeutics | III — NSCLC | N/A | FDA orphan drug status for breast cancer with hypoxic brain metastases |
| Etanidazole (Radinyl) | Roberts Pharma | III — H&NC | N/A | Hypoxic cell radiosensitiser |
| Gadolinium texaphyrin (Xcytrin) | Pharmacyclics | III — Other | N/A | Radiosensitization by localisation in cancer cells |
| INGN-201 (Advexin) | Introgen | II — NSCLC | N/A | p53 mediated action; FDA orphan drug status for head and neck cancer |
| Nimorazole | (generic) | II — H&NC | N/A | Hypoxic-cell sensitizer |
| Tirapazamine (Tirazone) | Sanofi-Aventis | II — H&NC and NSCLC | N/A | Inhibits DNA replication in hypoxic cells |

Of the above drugs in clinical trials for use as radiosensitisers, around 80 per cent. are already approved for use as cancer treatments. The average estimated cost per course of treatment per NSCLC or head and neck cancer patient treated with radiosensitisers is US$7,200[1]. Estimated costs range from Gemicitabine used to treat NSCLC at a cost of US$532 per patient[2] to an NSCLC trial involving a Cisplatin/Paclitaxel combined treatment at a cost of US$14,500 per patient[3]. The costs of radiosensitisers used in treating head and neck cancers also fall within this range.

At this point it is very difficult to estimate the size of the market for radiosensitisers as there are no approved drugs to benchmark against, but assuming that of the 80 per cent. of patients treated with radiotherapy, 20 per cent. would be treated in conjunction with a radiosensitiser, in 2005 there was a pool of around 30,000 NSCLC and head and neck cancer patients in the US who could have been treated with radiosensitisers. Proof of clinical efficacy from trials of radiosensitisers in these cancers may well increase the number of patients who could benefit from radiosensitiser treatment.

**HMPL-004 — treatment for auto-immune disorders**

HMPL-004 is a botanical product extracted from a herb that occurs naturally in China. The herb has an extensive history of use in TCM for the treatment of upper respiratory tract infections and other inflammatory and infectious diseases. HMPL-004 was developed in-house for the completely new indication of IBD, as a result of screening known TCM anti-inflammatory medicines.

***Mechanism of Action***

IBD is considered an auto-immune disease, as are rheumatoid arthritis, psoriasis, multiple sclerosis, and systemic lupus erythematosis. A deregulated immune response plays a major role in the pathogenesis of the disease. Pro-inflammatory cytokines, such as tumour necrosis factor alpha (TNF-α), IL-1β, IL-6, IL-12, IL-15, and IL-18 are the key mediators of inflammatory reactions. Conventional therapeutics for IBD include steroids, anti-inflammatory drugs, antibiotics, immunosuppressive reagents, and cytokine inhibitors.

HMPL-004 acts on multiple cellular targets in the inflammatory signal transduction pathways resulting in suppressed inflammation cytokine expression including TNF-α, IL-1β and IL-6. HMPL-004 was demonstrated to inhibit TNF-α and IL-1β production in cell-based assays. HMPL-004 is also able to inhibit NF-κB activation. NF-κB is a family of transcriptional factors that regulate a wide spectrum of genes critically involved in host defence and inflammation. The mechanism of action of HMPL-004 was further supported in laboratory IBD animal models. Treatment of IBD rats with HMPL-004 caused a significant drop in plasma cytokine concentrations, including TNF-α and IL-1β.

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1 Average calculated using dosage information from 7 different trials multiplied by the cost of each drug (Red Book, Pharmacy's Fundamental Reference, 2005 Edition), it was assumed the surface area of an average patient is 1.7 m2 (St. Vincent's Charity Hospital Glossary).

2 Calculated using a dosage of 75 mg/m2/wk gemicitabine for 6 weeks for a patient with an average surface area of 1.7 m2 at a cost of $69.58 per 100 mg of gemicitabine (Red Book, Pharmacy's Fundamental Reference, 2005 Edition).

3 Calculated using a dosage of 25 mg/m2/d cisplatin for 4 days and 60 mg/m2/d paclitaxel for 22 days for a patient with an average surface area of 1.7 m2 at a cost of $499.91 per 100 mg of cisplatin and $608.76 per 100 mg paclitaxel (Red Book, Pharmacy's Fundamental Reference, 2005 Edition).

***Safety***

Products extracted from the same herb as HMPL-004 have been widely used as traditional remedies in China and South East Asia to treat upper respiratory tract infections and other inflammatory and infectious diseases. Extracts of the same herb have also been used as dietary supplements in the US for many years. In over sixteen years, among an estimated 129 million users, a total of only fifteen cases of adverse events are documented in China. There have been no reports of adverse events associated with the dietary supplement use of extracts from the same herb source as HMPL-004 in searches of US FDA databases conducted by Mediwatch Ltd. in 2005.

***Clinical and Regulatory Status and Plan***

US FDA IND clearance was received in 2005 for a Phase II study on HMPL-004 for the treatment of patients with CD. The trial has been designed by Hutchison MediPharma and its CD expert advisers in collaboration with Omnicare, Inc., which is currently enrolling patients for the Phase II trial.

The US Phase II study is a double blind, randomised, multi-centre, placebo-controlled study to determine HMPL-004's efficacy and safety in both male and female subjects with active moderate CD.

In addition to the on-going Phase II trials in the US for the treatment of Crohn's disease, a proof of concept study is also underway in China to evaluate the efficacy of HMPL-004 for treatment of UC.

Opinion leaders in the therapeutic field have contributed to the trial design and IBD medication development guidelines, and prepared Hutchison MediPharma for pre-IND and IND submission communications with the US FDA.

***Manufacture***

HMPL-004 is extracted from a herb. The active ingredient used in the clinical trials was manufactured in a GMP facility in China. The drug is encased in a hard gelatine capsule, produced under GMP in the US.

Sufficient quantities of the clinical supplies have been manufactured with acceptable batch-to-batch reproducibility for use in the Phase II clinical trials.

***Competitive Advantages***

- HMPL-004 belongs to the same family of inflammatory cytokine inhibitors as Remicade, which has had success in similar indications. However, HMPL-004 does not demonstrate the same degree of adverse events.
- HMPL-004 is an oral agent rather than an injection like most antibody therapies.
- Extracted from a single herb and formulated as a solid dosage form, HMPL-004's cost per therapy is lower than existing antibody therapies.
- A long history of human use of the herb from which it is derived and animal safety studies suggests that the product is well-tolerated.

***Market Potential of HMPL-004***

The following information relating to the market potential of HMPL-004 and the market size for inflammatory disease treatments have been extracted or derived from statistical data and information published by various sources including a report commissioned and paid for by the Company and produced by Cambridge Consultants Limited, an independent research organisation, dated 24 February 2006. In collating that information, certain assumptions and qualifications have been made which may affect the interpretation of the information contained herein. Your attention is drawn to the qualifications set out in paragraph 23 of part VIII.

*Inflammatory Disease Market*

UC and CD are the two most common forms of IBD. The patient population with UC and CD in the US is estimated to be between 250,000-500,000 and 400,000-600,000 respectively. The annual incidences of UC and CD in the US are 2-7 cases per 100,000 population per year and 5-7 cases per 100,000 population per year, respectively.

Between 2001 and 2005 it is estimated that the number of patients with UC in the US increased by approximately 47,000[1], representing a CAGR of 4 per cent. and the number of patients with CD increased by approximately 58,000[2], a CAGR of 3 per cent..

*Inflammatory Disease Market Size*

The products used for the treatment of UC and CD are prescribed according to severity and anatomical location of the disease. The main types of drugs recommended for treatment of the two conditions include 5-aminosalicylates, corticosteroids and antibiotics to control inflammation and immuno-modulators.

*5-aminosalicylate drugs prescribed in the US for treatment of UC and CD:*

| Drug | Company | Indication | Comments |
|---|---|---|---|
| Mesalamine (Pentasa) | Ferring/ Shire | UC/CD | Oral formulation. Mild to moderate disease |
| Mesalamine (Canasa) | Axcan Scandipharm | UC | Rectal formulation. Mild to moderate disease |
| Mesalamine (Asacol) | Proctor & Gamble | UC | Oral formulation. Mild to moderate disease and maintenance of remission |
| Mesalamine (Rowasa) | Solvay Pharmaceuticals | UC | Enema. Mild to moderate disease |
| Olsalazine (Dipentum) | UCB | UC | Oral formulation. Mild to moderate disease and maintenance of remission. Not used as often as other 5-ASA drugs as 11 per cent. of patients experience diarrhoea on Dipentum |
| Balsalazide (Colazal) | Salix Pharmaceuticals | UC | Oral formulation. Mild to moderate disease |
| Sulfasalazine (Azulfidine) | Pfizer | UC | Oral formulation. Mild to moderate disease, prolongation of clinical remission. Generics available |

*Corticosteroid drugs and antibiotics prescribed in the US for treatment of UC and CD:*

| Drug | Company | Indication | Comments |
|---|---|---|---|
| Budesonide (Entocort EC) | AstraZeneca | CD | Oral formulation for CD. Mild to moderate disease, maintenance of clinical remission for up to 3 months |
| Prednisone (Deltasone) | Pfizer | UC/CD | Oral and rectal. Moderate to severe disease. Generics available |
| Prednisolone (Depo-Medrol) | Pfizer | UC/CD | Oral and injectable. Moderate to severe disease. Generics available |
| Methylprednisolone (Solu-Medrol) | Pfizer | UC | IV formulation. Moderate to severe disease. Generics available |
| Metronidazole (Flagyl) | Pfizer | CD | Oral formulation. Mild to moderate disease. Generics available |
| Ciprofloxacin (Cipro) | Bayer | CD | Oral formulation. Mild to moderate disease. Generics available |

1 Assumed 300,000 patients with ulcerative colitis disease in 2001 and incidence of 4 new cases per 100,000 population per year. US population rates for 2002-2005 (US Census Bureau http://www.census.gov/popest/states/tables/NST-EST2005-08.xls) were used to calculate the number of new cases of ulcerative colitis disease in each year and the total added to 300,000 to give the patient population in 2005. The CAGR was calculated using 300,000-347,000 over 4 years of growth.

2 Assumed 500,000 patients with Crohn's disease in 2001 and incidence of 5 new cases per 100,000 population per year. US population rates for 2002-2005 (US Census Bureau http://www.census.gov/popest/states/tables/NST-EST2005-08.xls) were used to calculate the number of new cases of Crohn's disease in each year and the total added to 500,000 to give the patient population in 2005. The CAGR was calculated using 500,000-558,000 over 4 years of growth.

*Immuno-modulator drugs prescribed in the US for treatment of UC and CD:*

| Drug | Company | Indication | Comments |
|---|---|---|---|
| Infliximab (Remicade) | Schering-Plough/ Centocor | UC/CD | IV infusion. Moderate to severe disease. Approved for long-term remission-level control of CD and has US fast-track status for moderate to severely active paediatric CD |
| Azathioprine (Imuran) | GSK | UC/CD | Oral formulation. Moderate to severe disease. Generics available |
| 6-mercaptopurine (Purinethol) | GSK | UC/CD | Oral formulation. Moderate to severe disease. Generics available |
| Methotrexate (Rheumatrex) | Wyeth | UC/CD | Oral and IV formulation. Moderate to severe disease. Generics available |
| Cyclosporine (Sandimmune) | Novartis | UC | Oral and IV formulation. Moderate to severe disease. Generics available |
| Neoral (cyclosporine) | Novartis | UC | Oral and IV formulation. Moderate to severe disease. Generics available |

There are also a number of drugs in Phase II and Phase III clinical trials in the US for the treatment of UC and CD, including the following:

*Drugs in Phase II or III clinical trials in the US for treatment of UC and CD (FDA approved for other indications):*

| Drug | Company | Trial Phase | Comments |
|---|---|---|---|
| Adalamimab (Humira) | Abbott | III - CD | Moderate to severe. Human IgG1 monoclonal antibody against TNF. Launched in the US for rheumatoid arthritis |
| Clarithomycin | Abbott | III - CD | Mild to moderate disease. Antibiotic. Launched in US as antibiotic |
| Rituximab (Rituxan) | Roche | II/III - UC | Moderate to severe disease. Chimeric anti-CD20 antibody. Launched in the US for non-Hodgkins lymphoma |
| Nitazoxanide (Alinia) | Romark Laboratories | II - CD | Mild to moderate disease. Anti-protozoal. Launched in the US for treatment of C. parvum and diarrhoea in children |
| Rifaximin (Xifaxan) | Salix Pharmaceuticals | II - CD | Mild to moderate/moderate to severe disease. Antibiotic. Launched in the US as diarrhoea treatment |
| Rosiglitazone maleate (Avandia) | GSK | II - UC | Mild to moderate disease. Oral anti-diabetic agent. Launched in the US for type II diabetes |
| Sargramostim (Leukine) | Schering AG | II - CD | Moderate disease. Recombinant human granulocyte colony stimulating factor. Launched in the US for conditions relating to non-Hodgkins lymphoma |
| Somatropin | Genentech | II - CD | Childhood Crohn's disease. Recombinant human growth hormone. Launched in the US for multiple indications |

*Drugs in Phase II or III clinical trials in the US for treatment of UC and CD (Non FDA approved):*

| Drug | Company | Phase | Comments |
|---|---|---|---|
| CDP-870 (Cimzia) | UCB | II/III - CD | Moderate to severe. Humanised Fab antibody fragment against TNF linked to PEG |
| OPC-6535 | Otsuka | III - UC | Maintenance of remission in combination with Asacol |
| Visilizumab (Nuvion) | Protein Design Labs | II/III UC II CD | Severe disease. Anti-CD3 antibody |

| Drug | Company | Phase | Comments |
|---|---|---|---|
| ABT-874 | Abbott | II - CD | Moderate to severe disease. Human IgG1 monoclonal antibody to interleukin 12 |
| Alicaforsen | Isis Pharmaceuticals | II - UC | Moderate to severe disease. Antisense nucleic acids against intercellular adhesion molecule 1 |
| BIRB-796 Doramapimod | Boehringer Ingelheim | II - CD | Moderate to severe disease. p38 MAP kinase inhibitor |
| CCX-282 | ChemoCentryx | II - CD | Moderate to severe disease. Orally active, chemokine receptor antagonist |
| CNTO-1275 | Centocor | II - CD | Moderate to severe disease. Anti-IL12 antibody |
| CP-461 | OSI Pharmaceuticals | II - CD | Moderate to severe disease. Investigational cancer drug |
| Etiprednol (Cronaze) | IVAX Corporation | II - CD | Moderate to severe disease. Corticosteroid |
| Fontolizumab (HuZAF) | Protein Design Labs | II - CD | Moderate to severe disease. Humanised antiinterferon $\gamma$ antibody |
| Nolpitantium chloride | Sanofi-Aventis | II - UC | Mild to moderate disease |
| OrBec Beclometasone Oral | DOR Biopharma | II - CD | Moderate to severe disease. Corticosteroid. Granted FDA orphan drug designation and Fast Track designation for intestinal Graft-versus-Host disease |
| STA-5326 | Synta Pharmaceuticals | II - CD | Moderate to severe disease. IL-12 inhibitor |
| Teduglutide | NPS Pharmaceuticals | II - CD | Moderate disease. Growth hormone |

The estimated costs per recommended course of treatment per patient of the drugs used for CD are US$663[1] for the oral 5-ASA drug Pentasa[2] (mild-moderate disease), US$534[3] for the oral corticosteroid Entocort EC[4] (mild-moderate disease), and US$7,573[5] for the intravenous immuno-modulator Remicade[6] (moderate to severe disease).

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1 Assumed average dose of 4 of 250mg tablets taken 4 times daily (www.medicinenet.com/crohns_disease/page6.htm and assumed an 8 week course as this is recommended treatment for UC and has been shown safe in clinical trials (http://www.fda.gov/cder/foi/nda/99/20049-S006_Pentasa_prntlbl.pdf) price per 250mg tablet $0.74 taken from Red Book, Pharmacy's Fundamental Reference, 2005 Edition.

2 Pentasa is the most commonly used 5-ASA compound for treating mild-moderate Crohn's disease (www.medicinenet.com/crohns_disease/page6.htm)

3 Assumed average dose of 9mg once daily for up to 8 weeks (http://www.entocortec.com/p/science/science_convenient.asp) price per 3mg tablet $3.18 taken from Red Book, Pharmacy's Fundamental Reference, 2005 Edition

4 Entocort EC was approved for Crohn's disease in 2001, it causes fewer side effects than conventional corticosteroids and so it has been assumed it will be prescribed more often than conventional corticosteroids

5 Assumed 1 course of treatment is average dose of 5mg/kg given at 0, 2 and 6 weeks to induce remission (http://www.fda.gov/cder/foi/label/2005/103772s5113lbl.pdf). Assumed average weight of American (average between male and female) is 73kg (http://www.cdc.gov/nchs/data/hus/hus05.pdf), therefore requiring 365mg Remicade per dose. Price per 100mg Remicade $691.61 taken from Red Book, Pharmacy's Fundamental Reference, 2005 Edition. Total amount of Remicade given per course of treatment (3 doses) 1095mg. Therefore total cost to treat average American is $7573.

6 The majority of revenues from sales of Crohn's disease drugs is from Remicade (Lehman Brothers Pharmapipelines, 2003), therefore it is assumed that Remicade is the most commonly used immuno-modulator.

The estimated costs per recommended course of treatment per patient of the drugs used for UC are US$739[7] for the oral 5-ASA drug Asacol[8] (mild-moderate disease), US$9[9] for the oral corticosteroid, Deltasone[10] (mild-moderate disease), US$31[11] for the intravenous corticosteroid Solu-Medrol[12] (moderate-severe disease) and US$7,573[5] for the intravenous immuno-modulator Remicade[13] (moderate-severe disease).

In 2002, the US market size for CD was estimated to be US$590 million. This is expected to reach US$980 million by 2012[14], a CAGR of 5 per cent. In 2002, the US market size for UC was estimated to be US$420 million. This is expected to reach US$500 million by 2012, a CAGR of 2 per cent. However, the FDA approval of Remicade for UC in 2005 came after this market analysis was undertaken, and sales of this drug for UC are likely to have increased the overall value of the UC market further.

***Research Alliances***

Hutchison MediPharma has formed research and strategic collaborations with the University of California at Los Angeles, Shanghai Institute of Materia Medica, the Genetic and Cell Biology Institute of North-Eastern Normal University, Hong Kong Chinese University, the University of Maryland and Cambridge University. The Directors expect these partnerships to provide Hutchison MediPharma with novel drug targets, assays, compound libraries and clinical expertise to improve the speed and quality of Hutchison MediPharma's research programmes. The Company will continue to investigate and discuss other potential alliances with appropriate organisations.

***Product Protection Strategies***

While intellectual property ("IP") protection of new chemical entities resulting from small molecule and semi-synthetic discovery programmes is relatively straightforward, the IP protection of botanical drugs is new. Hutchison MediPharma has been working with its legal advisers with a view to designing a patent strategy that will protect botanical products. The main approach is to establish an international multi-layered patent estate surrounding the product that creates incremental barriers against generic penetration. The first layer protects the active compounds and active compositions prepared from medicinal plants. The next protects improved formulations that contain active compounds or compositions. A further layer protects processes for the production of active compounds or compositions.

As at the date of this document, the Group holds the patents/patent applications relating to HMPL-002 and HMPL-004 referred to in the report set out in Part III of this document.

The Group also holds patent applications and one patent in respect of three other families of potential drug candidates which are at an earlier stage of discovery and development. These are also referred to in the report in Part III but it is not possible to predict at this stage whether the Group will advance these candidates to further development or trials.

In addition, the Group's botanical products are further protected from generic competition by the high technical and regulatory barriers for demonstration of bio-equivalence, including both quality and the biological attributes of botanical mixtures.

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7 Assumed average dose of 2 of 400mg tablets 3 times daily (http://www.asacol.com/2007.shtml). Price per 400mg tablet $1.1 taken from Red Book, Pharmacy's Fundamental Reference, 2005 Edition.

8 Asacol is the most prescribed 5-ASA in the US for Ulcerative Colitis http://www.asacol.com/1006.shtml.

9 Assumed dose of 40mg/day for a maximum of 10 days treatment (Ulcerative Colitis Practice Guidelines in Adults (Update): American College of Gastroenterology, Practice Parameters Committee, Kornbluth and Sachar, American Journal of Gastroenterology 2004). Cost of 40mg of Deltasone $0.88 taken from Red Book, Pharmacy's Fundamental Reference, 2005 Edition, therefore cost for 10 days treatment $9.

10 Assumed brand of Prednisone supplied by the largest player, Pfizer, will be the drug most commonly prescribed.

11 Patients with severely active UC who are non-responsive to corticosteroids are usually administered with IV corticosteroids. Assumed dose of 60mg methylprednisolone per day for 10 days maximum. (Ulcerative Colitis Practice Guidelines in Adults (Update): American College of Gastroenterology, Practice Parameters Committee, Kornbluth and Sachar, American Journal of Gastroenterology 2004). Cost of 60mg Solu-Medrol (methylprednisolone) $3.10 taken from Red Book, Pharmacy's Fundamental Reference, 2005 Edition. Cost of 10 day Solu-medrol treatment $31.

12 Assumed brand of Methylprednisolone supplied by largest player, Pfizer, will be the drug most commonly prescribed.

13 Remicade was approved for ulcerative colitis in 2005, it is assumed the uptake of the drug will be as large and as rapid as it was for the treatment of Crohn's disease and is therefore the most commonly prescribed immuno-modulator for ulcerative colitis.

14 Crohn's Disease. Decision Resources, 2003.

Overall, through these multiple layers of innovation, coupled with a proprietary quality control system, manufacturing know-how, the high degree of difficulty in demonstrating bio-equivalence for multi-component botanical drugs and lack of regulatory guidelines for generic botanical products, the Directors believe that Hutchison MediPharma's botanical pipeline enjoys strong product protection.

**China Healthcare Business**

***Overview***

The Group's China healthcare business is currently comprised of three pharmaceutical and health supplement joint venture businesses with over 1,750 employees, several well-known Chinese brands, multiple China GMP production sites, and sales and distribution operations in over 120 cities in China. These three businesses are:

- Hutchison Baiyunshan, a joint venture in which the Group holds a 37.5 per cent. share (through a 75 per cent. equity interest in an intermediate holding company which holds 50 per cent. of Hutchison Baiyunshan). Hutchison Baiyunshan is primarily focused on OTC and prescription TCM drugs;
- Shanghai Hutchison Pharmaceuticals, a 50 per cent. owned joint venture, primarily focused on prescription TCM drugs; and
- Hutchison Healthcare, a 68 per cent. owned joint venture which produces health food products.

From 1999 to 2004 the Chinese pharmaceutical market grew at a CAGR of 20 per cent. from US$15.1 billion to US$37.2 billion. The Directors believe that increasing expenditure on pharmaceuticals will continue, because as the Chinese economy expands, and Chinese people become wealthier, the demand for healthcare will grow.

The Directors consider that economies of large scale production and an extensive sales and distribution network are key to achieving one of the Group's objectives of becoming a leading manufacturer and supplier of TCM pharmaceuticals and health supplements in China.

From 2002 to 2005 the Group grew organic revenues in its China healthcare business by a CAGR of approximately 25 per cent. Gross margins also improved from approximately 61 per cent. in 2003 to over 66 per cent. in 2004. Whilst the establishment of Hutchison Baiyunshan diluted gross margins back to around 61 per cent. in 2005, the Directors believe that as scale increases, gross margins will return towards their prior levels through improvements in production management and procurement of raw materials and packaging. The EBITDA for the China healthcare business improved from a loss of US$9.2 million in 2003 and a loss of US$2.8 million in 2004, turning positive in 2005 with US$1.0 million of EBITDA.

The Company aims to expand its presence in the fast growing and fragmented Chinese healthcare industry through organic growth and acquisitions. The Directors believe that the Group's continued relationship with HWL, with its overall reputation and experience in China, should give the Group a significant advantage in identifying and securing these opportunities. Preliminary discussions are underway with several Chinese healthcare acquisition targets.

***Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited***

Hutchison Baiyunshan primarily engages in the research and development, manufacture and sale of OTC and prescription TCM drugs. Hutchison Baiyunshan is a joint venture in which the Group owns a 37.5 per cent. share (through a 75 per cent. equity interest in an intermediate holding company which holds 50 per cent. of Hutchison Baiyunshan). The Chinese joint venture partner, Guangzhou Baiyunshan, is a pharmaceutical company listed on the Shenzhen stock exchange.

Hutchison Baiyunshan was one of the first TCM manufacturers in China to obtain Chinese Good Agricultural Practice ("GAP") certification for its cultivation operations and during the SARS outbreak of 2003 was the leading domestic supplier of Ban Lan Gen (板藍根) granules, a Chinese herb with antiviral properties. It was also one of the first pharmaceutical companies to introduce the concept of "TCM antibiotics", following the issue in 2004 of a decree by the SFDA that restricted the sale of Western antibiotics in China. Hutchison Baiyunshan also offers numerous products which are part of the Insurance Catalogue, a list of drugs approved for reimbursement under the urban social medical insurance scheme operated by the Chinese government (for more information on the Insurance Catalogue see "Social healthcare and medical insurance scheme" in Part II).

As a relatively new addition to the Group, Hutchison Baiyunshan has only a limited trading history in its current form. However, since the establishment of the joint venture in May 2005, the business has performed well, and achieved strong growth in its core products, particularly Ban Lan Gen granules and Fu Fang Dan Shen tablets. Gross margins and operating profit margins have been approximately 53 per cent. and 11 per cent. respectively in the eight months of trading, following its establishment, in 2005. The Directors expect the business to continue to grow strongly, with margins set to improve steadily as further economies of scale are realised from increased production. Hutchison Baiyunshan represented 43 per cent. of the Group's consolidated revenues for the eight months of trading following its establishment in May 2005 to 31 December 2005.

*Products*

As at 31 December 2005, Hutchison Baiyunshan had registered 137 TCM pharmaceutical products with the SFDA. Of these, 44 are prescription drugs, and 93 are OTC drugs. At the same date, 56 of these products have been admitted to the national and/or provincial Insurance Catalogues and seven of these products are nationally protected TCMs. For details regarding TCM protection in China, please see the section entitled "Regulatory protection for TCM pharmaceutical products" in Part II of this document.

Hutchison Baiyunshan's best selling products are:

- *Fu Fan Dan Shen tablets (*復方丹參片*)* — Hutchison Baiyunshan sells over 700 million doses a year as a treatment for chest congestion and angina pectoris, to promote blood circulation and relieve pain;

- *Ban Lan Gen granules* (板藍根顆粒) — Hutchison Baiyunshan sells over 200 million doses a year for the treatment of colds, viral flu, fever, and respiratory tract infections. Ban Lan Gen is a herb available widely in China and products derived from it were used extensively during the SARS outbreak of early 2003 as a prophylactic measure. As a result of the effective promotion and positioning of its product during that period, Baiyunshan's Ban Lan Gen granules became one of the leading brands of Ban Lan Gen products in China;

- *Kou Yan Qing granules* (口炎清顆粒) — Hutchison Baiyunshan sells over 13 million doses a year for detoxification and for the treatment of mouth ulcers and periodontitis. The drug has been granted Class II TCM protection by the SFDA until 21 November 2009, and is currently admitted to the Insurance Catalogue of Guangdong province; and

- *Xiao Yan Li Dan tablets* (消炎利胆片) — Hutchison Baiyunshan sells over 55 million doses a year to promote the function of the liver and gallbladder. It is also used for the treatment of acute cholecystitis and cholangitis.

These four products accounted for approximately 43 per cent., 31 per cent., 8 per cent. and 5 per cent., respectively, of Hutchison Baiyunshan's gross sales for the eight months of trading following its establishment in 2005.

*Production facilities*

The majority of Hutchison Baiyunshan's products are manufactured at its Chinese GMP certified facility at Guangzhou in Guangdong Province. The facility has a site area of approximately 120,000 square metres, with the capacity to produce 5 billion tablets and 4,500 tonnes of granules per year. As at 31 December 2005, the company employed over 900 staff.

Hutchison Baiyunshan has outsourced certain less critical or complex manufacturing processes to third party GMP manufacturers. The Directors consider that this arrangement enables Hutchison Baiyunshan to direct its resources more effectively to the high value-adding functions of the production process, and to benefit from the flexibility and cost savings associated with using the excess production capacities of the contracted manufacturers.

Hutchison Baiyunshan operates two Chinese GAP certified cultivation sites, one in Anhui province in Eastern China for the production of Ban Lan Gen granules, and the other in Guangdong Province in Southern China for the production of Chuan Xin Lian, a component ingredient of Xiao Yan Li Dan tablets. These two sites together cover an area of over 6,500 acres, and as at 31 December 2005 were among only 26 Chinese GAP certified cultivation sites for TCM herbs in China.

*Research and development*

Hutchison Baiyunshan's research and development centre, located at the company's facility at Guangzhou, is responsible for the development of new TCM products. Research and development activities are focused on six discrete areas of TCM: TCM antibiotics; respiratory diseases; cardiovascular diseases; antiviral treatments; functional foods and supplements; and GAP-site expansion.

Capitalising on its strong research and development capabilities, Hutchison Baiyunshan has developed proprietary know-how and technological processes for the efficient extraction of active ingredients from medicinal herbs, resulting in an overall reduction in the cost of production. Hutchison Baiyunshan's strengths include the areas of Chinese medicinal herb extraction and fingerprinting and tablet coating. Hutchison Baiyunshan has proprietary rights to the medical formulae of six of its key pharmaceutical products.

*Marketing and distribution*

Hutchison Baiyunshan sells its products directly to regional distributors for on-sale to local distributors, hospitals and clinics, pharmacies and other retailers, and appoints sales representatives at a local level to market its products and promote OTC sales to retailers in 120 cities across China.

The Directors believe that certain of Hutchison Baiyunshan's product offerings are suitable for commercialisation in overseas markets through registration as OTC medicines (for example, Ban Lan Gen granules).

***Shanghai Hutchison Pharmaceuticals Limited***

Shanghai Hutchison Pharmaceuticals engages in the development, manufacture and sale of TCM pharmaceuticals, with a primary focus on TCM prescription drugs in the cardiovascular area. Shanghai Hutchison Pharmaceuticals was one of the first Sino-foreign TCM equity joint ventures established in China. It is 50 per cent. owned by the Group and 50 per cent. owned by the Shanghai Medicine Company Limited ("Shanghai Medicine"). Shanghai Medicine forms part of the Shanghai Pharmaceuticals Group, the largest pharmaceutical group in Eastern China. Shanghai Hutchison Pharmaceuticals owns the original Shanghai No.1 TCM Plant, which was founded in 1958 and created the first TCM injection in China.

Shanghai Hutchison Pharmaceuticals' products are sold under the "Shang Yao" ("上藥") brand, a trademark that has been used for over 30 years in the TCM pharmaceutical retail market in Eastern China. Shang Yao means "Shanghai pharmaceuticals" a general term which is associated by the public with government endorsement and a reputation for quality stemming from the 1970s, when products from Shanghai were generally considered to be the best in China. The ownership rights of the Shang Yao trademarks were transferred to Shanghai Hutchison Pharmaceuticals in 2001 and 2002 as part of the Shanghai Medicine Company Limited's contribution to the joint venture's capital.

Since its formation Shanghai Hutchison Pharmaceuticals' revenues have grown strongly to US$23 million in 2005, a CAGR of over 19 per cent. between 2002 and 2005. The business moved into profitability in 2004 following strong sales growth in its core products, particularly She Xiang Bao Xin pills, which led to revenue growth of approximately 27 per cent.. Growth in 2005 was reduced owing to increased competition for Dan Ning tablets and Sheng Mai injection, geographic expansion and changes to the sales team. However, the Directors expect the business to continue to grow strongly in 2006 supported by an expansion in the sales team. Gross margins, which were approximately 65 per cent. in the year ended 31 December 2005, have improved 8 percentage points since 2002, driven by the economies of scale from increased output, refurbished production facilities, and a focus on commercial development of high gross margin products such as She Xiang Bao Xin pills. Shanghai Hutchison Pharmaceuticals EBITDA was US$3.4 million in 2005 up from a small loss in 2002. Shanghai Hutchison Pharmaceuticals represented 31 per cent. of the Group's consolidated revenues in the year ended 31 December 2005.

*Products*

As at 31 December 2005, Shanghai Hutchison Pharmaceuticals had registered 69 TCM pharmaceutical products, in various different modern dispensing forms, including tablets, pills, injections and oral liquids, with the SFDA. Of these products, 39 are prescription drugs and 30 are OTC drugs.

The three major products of Shanghai Hutchison Pharmaceuticals are:

- *She Xiang Bao Xin pills* (麝香保心丸) — Shanghai Hutchison Pharmaceuticals sells over 200 million doses a year for the long term treatment of coronary artery and heart disease, and for rapid control and prevention of acute angina. Shanghai Hutchison Pharmaceuticals has proprietary rights over the medical formula of the She Xiang Bao Xin pill, and it is also subject to PRC State TCM protection until 7 February 2008. Shanghai Hutchison Pharmaceuticals is currently the only approved manufacturer for this drug in China. She Xiang Bao Xin pills are currently admitted to the Insurance Catalogue for all of China.

- *Dan Ning tablets* (胆寧片) — Shanghai Hutchison Pharmaceuticals sells over 44 million doses a year for the treatment of chronic gall bladder inflammation and gallstones. Shanghai Hutchison Pharmaceuticals has proprietary rights over the medical formula of the Dan Ning tablet produced by it, which is also subject to PRC State TCM protection until 12 September 2009. Shanghai Hutchison Pharmaceuticals is currently the only approved manufacturer for the drug in China. The Dan Ning tablet is currently admitted to the Insurance Catalogue in multiple provinces in China.

- *Sheng Mai injection* (生脈注射液) — Shanghai Hutchison Pharmaceuticals sells over 6 million doses a year for the treatment of cardiovascular disease and to enhance general immunity. Shanghai Hutchison Pharmaceuticals does not have proprietary rights to the Sheng Mai injection but the Sheng Mai injection does have PRC State TCM 28 protection until 9 July 2012. The Sheng Mai injection is currently admitted to the Insurance Catalogue for multiple provinces in China and is produced by a number of manufacturers in China.

These three products accounted for approximately 65 per cent., 17 per cent. and 16 per cent., respectively, of Shanghai Hutchison Pharmaceuticals' gross sales for the twelve months ended 31 December 2005.

Shanghai Hutchison Pharmaceuticals also manufactures and sells other prescription and OTC drugs designed to treat a range of illnesses and symptoms, including anaemia, liver and blood deficiencies, vascular pains, thoracico-abdominal swelling, pain due to injury, rheumatic pains, palpitations and insomnia, and tinnitus and dizziness.

*Production facilities*

All of Shanghai Hutchison Pharmaceuticals' products are manufactured at its Chinese GMP certified production facility in Shanghai. This facility has a site area of approximately 57,000 square metres, and a capacity to produce 1 billion tablets, 760 million pills and 9 million injections per year. As at 31 December 2005, Shanghai Hutchison Pharmaceuticals had over 800 employees.

*Research and development*

Shanghai Hutchison Pharmaceuticals does not engage in extensive in-house research and development to discover or devise new pharmaceutical products. Instead, it focuses on extending the characteristics and applications of its products to different indications and on undertaking product modifications to expand its product offerings. Shanghai Hutchison Pharmaceuticals has also entered into collaborative arrangements with universities and government institutions in China for the development of new products, and in some cases has acquired technologies and research results from such organisations. Shanghai Hutchison Pharmaceuticals and the China Second Military Medical University are working together on technology for further improving the functionality of its TCM products.

*Marketing and distribution*

As at 31 December 2005, Shanghai Hutchison Pharmaceuticals had a team of marketing and medical sales representatives and a network of regional distributors covering more than 78 cities across China.

Shanghai Hutchison Pharmaceuticals sells its products directly to distributors for on-sale to hospitals and clinics, pharmacies and other retail outlets in their respective areas, as well as to other local distributors. Its sales representatives promote its products to doctors and purchasing managers in hospitals, clinics and pharmacies and, as part of its marketing efforts, it regularly sponsors doctors and medical practitioners to attend medical conferences and conventions.

Because of the higher economic growth and broader coverage of higher priced drugs in the Insurance Catalogue in the bigger cities in China, the company has focused its sales and marketing efforts on the more developed and prosperous areas of Eastern China, principally in Shanghai and the adjoining Zhejiang and Jiangsu provinces. The company aims to maintain the existing strong rate of sales growth by expanding its sales team and geographic market coverage from its foothold in major cities in Eastern China to other cities and towns in the same region and gradually to other areas of China.

***Hutchison Healthcare Limited***

Hutchison Healthcare engages in the research and development, manufacture and sale of Western and TCM health supplement products. Hutchison Healthcare is an equity joint venture based in Guangzhou, Guangdong Province, that is owned 68 per cent. by the Group, 17 per cent. by Masson Group, and 15 per cent. by Ningxia Dyne. Hutchison Healthcare's health supplement products are largely generic in nature and many of their formulations are based on the WHO's recommended daily intakes of various active ingredients. As at 31 December 2005, Hutchison Healthcare had registered 21 health supplements with the SFDA.

Since a complete restructuring in 2002, Hutchison Healthcare has been in an expansion phase and therefore the business is yet to break even. The restructuring involved a new management team and a major reappraisal of the product mix and marketing strategy. This has resulted in a significant headcount reduction and a major investment in sales and marketing to establish the core brands. During this process revenues have continued to grow strongly and gross margins have remained high, at approximately 72 per cent., but broadly flat owing to the high proportion of variable costs resulting from Hutchison Healthcare's contract manufacturing strategy. The Directors expect gross margins to improve once new supply contracts, lower packaging costs and pricing increases are realised and most importantly once Hutchison Healthcare's scale warrants investment in in-house manufacturing facilities. Break even is expected in the short to medium term as the business continues to increase production and leverage the increased marketing expenditure and sales distribution. Hutchison Healthcare's leading products, Nao Ling Tong capsules and Zhi Ling Tong capsules achieved significant growth in 2004 and 2005. Sales (excluding rebates) of Nao Ling Tong capsules increased by 71 per cent. in 2004 and 66 per cent. in 2005 to reach US$7.8 million and sales (excluding rebates) of Zhi Ling Tong capsules increased 410 per cent. in 2004 and by 110 per cent. in 2005 to reach US$2.1 million. Hutchison Healthcare represented 24 per cent. of the Group's consolidated revenues in the year ended 31 December 2005.

*Products*

Hutchison Healthcare's two major products are:

- *Nao Ling Tong capsules* (腦靈通) — Hutchison Healthcare sells over 45 million doses a year of this supplement, made from Omega-3 fatty acids with a high DHA/EPA ratio. This product is targeted at students at junior to mid school levels and is used to improve memory, by supplementing DHA levels in the brain.

- *Zhi Ling Tong capsules* (智靈通) — Hutchison Healthcare sells over 2 million doses a year of this supplement, made from algae DHA oil. It is designed to promote the brain and retinal development of babies and young children, and is exclusively endorsed by the Chinese Association for Improving Birth Outcomes and Child Development.

These products accounted for 81 per cent. and 14 per cent., respectively, of Hutchison Healthcare's gross sales for the twelve months ended 31 December 2005.

*Production facilities*

The majority of Hutchison Healthcare's products are contract manufactured at a dedicated China GMP certified manufacturing facility in the Masson Group's pharmaceutical plant in the Guangzhou Liwan (Jiang Gao) Economic Development Zone. As at 31 December 2005, Hutchison Healthcare had over 90 employees.

*Research and development*

While concepts for new health supplement products are developed internally within Hutchison Healthcare, the development and testing of new products are outsourced to third party manufacturers. Hutchison Healthcare has obtained licences in China to produce several health food products specifically designed for children aged between 11 and 18, which it plans to launch through its existing marketing channels in the youth health

supplement segment. In the case of Zhi Ling Tong capsules, the company has developed a calcium powder for the enhancement of infant growth and bone health, and plans to develop further nutritional products for infants. It is also in the process of registering two new women's health food products, which it plans to launch into test markets late in 2006.

*Marketing and distribution*

Hutchison Healthcare's distribution structure has a 1,000-strong network of sales managers, dedicated distributor sales representatives and full-time promoters and covers more than 100 cities in China, with a particular focus on the Eastern China region. Zhi Ling Tong capsules are mainly distributed to hospital pharmacies and speciality stores for infant products, whilst the rest of the company's products are distributed to drugstore chains, hypermarkets and other retail outlets.

Apart from media-based marketing and in-store promotions, Hutchison Healthcare engages in extensive direct consumer marketing activities. In the case of Nao Ling Tong capsules, which is primarily student oriented, the company has targeted direct promotions at schools and to parents and teachers. These promotions combine educational support programmes with community events and TV and newspaper advertising in target areas. The company has actively promoted Zhi Ling Tong capsules to mothers and doctors, through sponsoring post-natal care programmes and medical seminars.

As part of the Group's overall business development strategy, it plans to intensify Hutchison Healthcare's market penetration in the Eastern China region by expanding the company's sales operations. It is set to launch Nao Ling Tong capsules in four new provinces this year (Fujian, Henan, Hunan and Shandong) followed by Beijing, Hebei and Shanghai in 2007. The Group also plans to market a wider range of products in key cities in the provinces of Jiangsu, Zhejiang, Sichuan, Heilongjiang and Jilin, where living standards have improved significantly over the last 3 to 5 years.

**Consumer Products Business**

***Sen Medicine Company Limited***

Sen is a retailer of TCM based consumer lifestyle products and services in the UK. Since inception in 2001, the company has focused on brand creation, consumer and geographical market research, product and packaging development, pilot store design implementation and modification, regulatory research and consultation and general development of the "Sen" brand. Sen's range of products includes premium TCM based consumer products such as health supplements, teas, personal care and skin care products.

The Sen London pilot store, which opened in South Molton Street, Mayfair in December 2002, sells TCM health supplements, a broad range of TCM-based products (such as teas, beverages, vegetarian snacks and foods, toiletries and body care and skin care products) and TCM-based healthcare therapies (such as acupressure, reflexology, Chinese massage and acupuncture). The store also offers personal consultations with qualified TCM practitioners, and houses a "Liquid Health Bar".

Sen has sought to address many of the common concerns and misconceptions that British consumers have towards TCM, particularly with respect to product safety and hygiene. Measures adopted include: (i) rigorous testing of all Sen products to screen against potential contaminants; (ii) staff training and consumer education as to the scientific background and benefits of TCM; (iii) the creation of an exclusive and luxurious retail environment that appeals to high-end consumers; and (iv) the retailing of modern TCM-based lifestyle products alongside more traditional TCM-derived healthcare products.

Further store openings occurred in London in late 2005 and early 2006 with a second store in the City of London's Spitalfields Market development, a third store in Chelsea's King's Road and a fourth store in a new Harrods development in Knightsbridge. The company is also planning to open concessions in key prestige retail outlets in central London, building on the success of the first concession in Fenwick's department store in New Bond Street. The company has entered into a distribution arrangement with Pure Health Limited, a distributor in the UK, to distribute its various products, including 43 different TCM formula tablets, to healthcare practitioners in the UK and other countries. Sen will further expand into prestige, natural TCM based skin care products, which the Directors believe will enhance the opportunities for Sen to take advantage of HWL's significant health and beauty retailing presence across Europe and Asia.

It is the Group's intention that Sen should become a leader in TCM consumer products in key Western markets. Sen's strategy is to capitalise on Western consumers' increasing interest in TCM and other products based on natural ingredients and it plans to expand via strategic licensing agreements with major consumer products companies. Several such discussions are underway and the Directors believe that Sen has both an appealing concept and appealing products, and that these attributes, coupled with what the Directors believe to be the Group's unique knowledge of the TCM industry, are attractive to potential partners.

In April 2006, the Group entered into a Technical Licence and Assistance Agreement and a Distributorship Agreement with LG H&H, one of South Korea's leading manufacturers of household products and cosmetics, to develop Sen in South Korea. These agreements give LG H&H an exclusive licence and distributorship rights in relation to the Sen brand in South Korea in return for a royalty on net sales and commitments on annual volume. LG H&H will utilise its extensive consumer products infrastructure to test and develop Sen in South Korea and will be responsible for all investment there. The Group will be responsible for providing product innovation and assistance in development of marketing programmes and materials.

Sen intends to sell certain TCM OTC medicines with potentially broad consumer appeal in the UK under the "Sen" brand. In order to comply with the regulatory requirements on sale and marketing of such products, the Company is in the process of registering those products under the 2004 EU Directive on traditional herbal medicinal products which simplifies the registration procedure in the EU (see Part II of this document). Details of the registration requirements under the Directive are set out in Part II of this document. The Directors believe that Sen's UK OTC registrations will be facilitated by: (i) GAP herb sourcing capability in China; and (ii) the Group's product development and production capabilities. The Directors believe that the Group's experience in selling TCM OTC products in China, makes it well placed to assess which of those products have the potential for success in the UK market.

The Group aims to be EBIT breakeven on the Sen retail business and expects to achieve this in the short to medium term. Sen plans to deliver profit primarily by leveraging its brand reputation to sell consumer products to the broader market through wholesalers, distributors and third party retailers either independently or through licensing arrangements similar to the LG H&H deal in South Korea. As at 31 December 2005, Sen had 23 employees.

**Competitive Environment**

The Group faces significant competition in each of the markets in which it operates and proposes to expand. An outline of the competitive environment for the Group's key products is set out below. For a review of the competitive environment in China, the US and other markets in which the Group operates, please refer to the Industry and Regulatory Overview section set out in Part II of this document.

Due to the lack of well-developed market research services in China, the information set out below has been assembled by collecting and assessing data from multiple sources such as the SFDA, Chinese government publications, distributor and wholesaler information, media purchasing information, and public company records. This information, at best, provides a general impression of the competitive environment for the Group's key products.

*Nao Ling Tong capsules (20 per cent. of the Group's 2005 consolidated revenue):*

Nao Ling Tong is the third largest brand in the brain and memory health food category in China with approximately a 5 per cent. market share in 2004. The top six brands in this highly regional and fragmented category represent approximately 33 per cent. of total category sales.

*She Xiang Bao Xin pills and Fu Fan Dan Shen tablets (20 per cent. and 18 per cent. of the Group's 2005 consolidated revenue respectively):*

Both She Xiang Bao Xin pills and Fu Fan Dan Shen tablets compete in the Chinese TCM cardiovascular pharmaceuticals market which is valued at approximately RMB7.8 billion. While both products are sizable and established, each accounted for approximately 2 per cent. of the total TCM cardiovascular pharmaceuticals market in China in 2004. The top eight brands in this market represent approximately 40-45 per cent. of total category sales, with the leading product, Dan Shen pills, holding an approximate 12-13 per cent. share.

*Ban Lan Gen granules (13 per cent. of the Group's 2005 consolidated revenue):*

While Ban Lan Gen granules are a popular TCM medicine for the treatment of colds, viral flu, fever, and respiratory tract infections in China, there are many treatment alternatives in this broad therapeutic area. The Directors estimate that the Group holds a significant share of over 30 per cent. of the Ban Lan Gen granules market in China.

**Relationship with HWL**

HWL is an international corporation listed on the Main Board of the Hong Kong Stock Exchange that had turnover of US$31 billion in 2005. As at 31 December 2005, HWL had over 200,000 employees in 53 countries worldwide in a diverse array of holdings which included: (i) the world's largest health and beauty retailing business, by number of stores, with 7,100 stores in 36 countries; (ii) the world's busiest independently owned container terminal operator, handling 51.8 million twenty-foot equivalent units (TEUs) in 2005, in 247 berths, in 42 ports, in 20 countries; (iii) a leading global telecommunications and data services business serving over 20 million customers in 17 countries; (iv) a major property and hotel development business in Asia and Europe; and (v) a major infrastructure business which, includes an approximately 85 per cent. holding in Cheung Kong Infrastructure Holdings Limited, substantial interests in Hongkong Electric Holdings Limited, Husky Energy Inc, the Toronto listed Canadian-based energy company, and multiple power-generation and distribution, water distribution, and toll-road operations around the world.

During the past 25 years, HWL has invested in numerous Chinese projects including but not limited to: (i) a joint venture between HWL and Procter & Gamble for distribution of consumer products in China; (ii) multiple container terminals; (iii) China Aircraft Services Ltd. and GAMECO, one of China's few Federal Aviation Administration-certified aircraft maintenance companies; (iv) a joint venture with Beijing Tourism Group to develop hotel and tourist businesses in China including the Beijing Great Wall Sheraton Hotel in Beijing; (v) multiple hotel projects; (vi) infrastructure projects such as the Shantou toll road and bay bridge; (vii) logistics and distribution ventures such as a China joint venture with Tibbett & Britten; (viii) Shanghai White Cat, one of east China's largest household consumer product groups; (ix) a joint venture in Dalian Ore Terminals; (x) Hutchison Optel, a manufacturer of telecommunications equipment and (xi) numerous commercial and residential property development projects.

Following the Placing, HWL, through its subsidiaries, will hold the majority of the share capital of the Company. The Directors believe that the Group will benefit from a close ongoing relationship with its major shareholder and that the strong brand image of HWL has contributed significantly to the marketing and brand building efforts of the Group to date. The Group's association with HWL has: (i) enabled it to attract high-profile partners for joint ventures, marketing and distribution, and other collaborative product development arrangements at preferential valuations; (ii) enabled it to attract and retain high-calibre staff at all levels of its management, research and development, and core sales teams; and (iii) helped the Group build its business and supported its development as a modern corporate organisation. The Directors believe that an ongoing relationship with HWL will give the Group access to experience, skills and relationships which it might not otherwise have. The use of the "Hutchison" name in the Group's corporate names and its products is subject to the terms of the Licence Agreement with HWL which is summarised in paragraph 20(c) of Part VIII of this document.

The Group has relied upon the resources and reputation of HWL in establishing its joint ventures and other operations in China and elsewhere. HWL has stated, through a letter to the Company from Hutchison China which is summarised in paragraph 20(d) of Part VIII of this document, that its current intention is that the Company will continue to be the primary vehicle through which the HWL Group will be involved in researching, developing, manufacturing and selling pharmaceuticals, health supplements and other consumer health and personal care products derived from TCM and botanical ingredients and that it will also assist the Group in identifying, developing and acquiring potential investment opportunities relevant to the Group's businesses for so long as it retains a significant interest in the Company. However, HWL has not given any binding undertaking that it will not engage in any activities that may compete with the Group.

Following Admission, Hutchison China will procure that certain non-core management services will continue to be provided to the Group pursuant to the Services Agreement, and the Group will continue to benefit from certain centralised administrative functions carried out by the HWL Group. The Services Agreement, Relationship Agreement and other agreements with members of the HWL Group are summarised in paragraph 20 of Part VIII of this document.

The Group may enter into further ordinary course arm's length agreements or arrangements with members of the HWL Group.

**Directors and Senior Management**

The following table sets forth information regarding the Company's current Directors.

| Name | Age | Position |
|---|---|---|
| Mr. Simon To | 54 | Executive Director and Chairman |
| Mr. Christian Hogg | 41 | Executive Director and Chief Executive Officer |
| Mr. Patrick Wan | 46 | Executive Director |
| Mr. Christian Salbaing | 56 | Non-executive Director |
| Ms. Edith Shih | 54 | Non-executive Director and Company Secretary |
| Mr. Stephen Yeung | 53 | Non-executive Director |
| Mr. Michael Howell | 58 | Independent Non-executive Director |
| Professor Christopher Huang | 55 | Independent Non-executive Director |
| Mr. Christopher Nash | 47 | Independent Non-executive Director |

*Mr. Simon To — Executive Director and Chairman*

Mr. To has been with Hutchison China for twenty-five years, building its business from a small trading company to a billion dollar investment group. He has negotiated major transactions with multinationals such as Procter & Gamble ("P&G"), Lockheed, Pirelli, Beiersdorf, United Airlines and British Airways.

Mr. To's career in China spans more than thirty years and he is well known to many of China's top Government leaders. Mr. To is the original founder of Hutchison's TCM business and has been instrumental in the acquisitions made to date. He received a First Class Honours Bachelor's Degree in Mechanical Engineering from Imperial College, London and an MBA from Stanford University's Graduate School of Business.

*Mr. Christian Hogg — Executive Director and Chief Executive Officer*

Mr. Hogg joined Hutchison China in 2000 and has since led all aspects of the creation, implementation and management of the Company's strategy, business, and listing. This includes the creation of the Company's start-up businesses and the acquisition and operational integration of assets that led to the formation of the Company's China joint ventures. For periods during this time, Mr. Hogg has directly managed several of the Company's subsidiaries.

Prior to joining Hutchison China, Mr. Hogg spent ten years with P&G starting in the US in Finance and then Brand Management in the Laundry and Cleaning Products Division. Mr. Hogg then moved to China to manage P&G's detergent business followed by a move to Brussels to run P&G's global bleach business. Mr. Hogg received a Bachelor's degree in Civil Engineering from the University of Edinburgh and an MBA from the University of Tennessee.

*Mr. Patrick Wan — Executive Director*

Mr. Wan joined Hutchison China in 1988 and is currently its Chief Financial Officer. Mr. Wan has been heavily involved in financial due diligence, financial integration and the financial management of the company's businesses. In addition, Mr. Wan has been responsible for setting up various Hutchison China joint ventures, group restructurings and China operations.

Prior to joining Hutchison China, Mr. Wan spent five years with Price Waterhouse as an auditor. Mr. Wan is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

*Mr. Christian Salbaing — Non-executive Director*

Mr. Salbaing is Deputy Chairman of Hutchison Whampoa (Europe) Limited, HWL's European headquarters company for its businesses in Europe. Mr. Salbaing was previously a partner at Freshfields Bruckhaus Deringer, an international law firm. Mr. Salbaing represents HWL's businesses across Europe, in particular with the European Commission and member governments and in relation to regulatory and public affairs matters. He was appointed to the ITU Telecom Board for a three year term in June 2005.

Mr. Salbaing received an LL.L degree in Civil Law from the University of Montreal and a Juris Doctor degree from the University of San Francisco in 1974. He is a member of the Bars of Quebec, California and Paris.

*Ms. Edith Shih — Non-executive Director and Company Secretary*

Ms. Shih is the Head Group General Counsel and Company Secretary of HWL. She is also an Executive Director of Hutchison Harbour Ring Limited, a company listed on the Stock Exchange of Hong Kong and of Hutchison International Limited, as well as Director and Company Secretary of numerous companies in the HWL Group. Ms. Shih has been employed by the Cheung Kong (Holdings) Limited group, the parent of HWL, from 1989 to 1991 and by HWL since 1991 and is involved in all of the group's major transactions.

Ms. Shih received a Bachelor of Science degree in Education and a Master of Arts degree from the University of the Philippines and a Master of Arts degree and a Master of Education degree from Columbia University, New York. Ms. Shih is qualified to practice law in Hong Kong, England and Wales and Victoria, Australia and is also a Fellow of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

*Mr. Stephen Yeung — Non-executive Director*

Mr. Yeung joined Hutchison China in 1994 and has been with the HWL group for over ten years. Mr. Yeung has primarily been involved in business development and project management activities in China. Prior to joining the HWL group, he had substantial experience in accounting, treasury and corporate finance with multinational corporations in Hong Kong, PRC and Canada.

Mr. Yeung received a Bachelor's degree in Accounting and Mathematics from Saint John's University, Minnesota and an MBA in Finance from the University of Toronto. Mr. Yeung is a chartered accountant registered in Canada.

*Michael Howell — Independent Non-executive Director*

Mr. Howell is currently CEO of tie (Transport Initiatives Edinburgh) Ltd., a company responsible for over £1.5 billion in transportation projects in Scotland including a new tram system and an airport rail link for Edinburgh. Mr. Howell's thirty year career has been primarily in manufacturing, distribution and transportation services where, after beginning his career at British Leyland, Mr. Howell went on to hold senior positions at Cummins Engine and General Electric in the US and Europe. Mr. Howell has held multiple directorships in both private and public companies in Europe including his pending Chairmanship of the City and Guilds of London Institute.

Mr. Howell has received a Masters degree in Economics/Engineering from Trinity College Cambridge and an MBA from both INSEAD and Harvard University.

*Professor Christopher Huang — Independent Non-executive Director*

Professor Huang is currently Professor of Cell Physiology at the University of Cambridge, UK, with over twenty years in academia and research in the field of cellular and systems physiology. He has authored over 180 publications in the form of monographs, books, papers and articles whilst pursuing collaborations with major pharmaceutical companies and holding editorships of the Biological Review and the Journal of Physiology.

Professor Huang received a Bachelor's degree in physiological sciences at The Queen's College, Oxford and medical (B.M., B.Ch., D.M.) and scientific (Ph.D., Sc.D) degrees from the Universities of Oxford and Cambridge.

*Mr. Christopher Nash — Independent Non-executive Director*

Mr. Nash was most recently chief executive of Hydrodec Group plc (listed on AIM). Mr. Nash has had a twenty-five year business career during which he was Senior Vice President and Group Head of Strategy and Corporate Finance at Global Crossing Ltd., where he also served on the management board and several divisional boards. In the mid-1990s he was Group Head of Corporate Finance at Cable & Wireless Plc., and before that a director of North West Water International Ltd.. Earlier in his career Mr. Nash worked for S.G. Warburg and Co. Ltd. and also spent a period in the venture capital sector. During his career, Mr. Nash has spent significant periods of time in Asia.

Mr. Nash received a Bachelor's degree in Civil Engineering from Imperial College, London and an MBA from Manchester Business School.

In addition to the Directors, management responsibility for the operations of the Group rests with a senior management team of six people. This team of senior managers has had supervisory responsibility for the Group's Chinese and international pharmaceutical and health supplements businesses, dealing with operational and financial issues, capital expenditure decisions and the generation, agreement and implementation of strategy across the Group. The Group's senior management team are:

| Name | Age | Position | Date Appointed |
|---|---|---|---|
| Dr. Samantha Du | 42 | Chief Scientific Officer and Executive Vice President, Hutchison China MediTech; and Managing Director, Hutchison MediPharma | 2001 |
| Mr. Robin Liu | 40 | Vice President — Finance and Administration, Hutchison China MediTech | 2001 |
| Dr. Jun Jie Zhou | 42 | General Manager, Shanghai Hutchison Pharmaceuticals | 2001 |
| Mr. Kenneth Lin | 37 | General Manager, Hutchison Healthcare | 2002 |
| Mr. Chu Yuan Li | 40 | General Manager, Hutchison Baiyunshan | 2005 |
| Ms. Sue Pei | 43 | General Manager — Investments, Hutchison China MediTech | 2004 |

*Dr. Samantha Du — Chief Scientific Officer and Executive Vice President, Hutchison China MediTech and Managing Director, Hutchison MediPharma*

Dr. Du joined Hutchison China in June 2001 as Senior Vice President and has since led all aspects of development and management of the Company's R&D strategy. In 2002, she gained HWL's approval for the establishment of Hutchison MediPharma and has built up the company to over 70 employees. Dr. Du has led the advancement of two Phase II US clinical trials; the establishment of a rich discovery portfolio in less than three years, and establishment of strategic alliances with world leading research institutions and companies. Dr. Du is a well-recognised leader in the R&D arena in China through her advisory roles to various government bodies. Dr. Du started her research career at Pfizer's Global R&D site in Connecticut and led teams that delivered multiple IND applications and NDAs for various anti-infective, cardiovascular, and metabolic medicines. Her last role at Pfizer was in the Global Strategic Operations Group where she was in charge of licensing and related mergers and acquisitions activities in the metabolic disease area.

Dr. Du received her Ph.D. in Biochemistry from the University of Cincinnati, and her B.S. and M.S. degrees in molecular biology and chemistry from Jilin University in China.

*Mr. Robin Liu — Vice President — Finance and Administration, Hutchison China MediTech*

Mr. Liu has nineteen years of finance-related experience with multinational corporations and listed companies in Hong Kong. Mr. Liu joined Hutchison China in 1994 and the Company in 2001. Since then, Mr. Liu has been responsible for group financial reporting and control, taxation, budgeting, treasury, and corporate administration. He received a Master's degree in Finance from the Curtin University of Technology, Australia and is a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants (United Kingdom).

*Dr. Jun Jie Zhou — General Manager, Shanghai Hutchison Pharmaceuticals*

Dr. Zhou joined Shanghai Hutchison Pharmaceuticals in 2001. Prior to this, Dr. Zhou worked for Sanofi Synthelabo for over 10 years rising from a Sales Representative to National Sales Director for China. Dr. Zhou holds an MBA from China Europe International Business School (CEIBS) and a Master's degree in Medicine from Xian Medical University, China.

*Mr. Kenneth Lin — General Manager, Hutchison Healthcare*

Mr. Lin joined the Group in 2002 and is currently the General Manager of Hutchison Healthcare. Prior to this, Mr. Lin was the Deputy General Manager of Tobaby, a Chinese cosmetics company. Mr. Lin started his career as Sales Representative for P&G and over a period of 6 years was promoted to the position of Division Sales Manager. Mr. Lin received an MBA from Western Sydney University, Australia, and a Bachelor's degree in Economics from Zhongshan University, China.

*Mr. Chu Yuan Li — General Manager, Hutchison Baiyunshan*

Mr. Li joined Hutchison Baiyunshan in 2005 as the General Manager. Prior to joining the company, Mr. Li held senior management positions in Guangzhou Baiyunshan, a company listed on the Shenzhen stock exchange, China during which time Mr. Li held the roles of Director of Sales, Deputy Operations Manager, and Deputy General Manager. Mr. Li received a Bachelor's degree in Chemistry from Zhongshan University, China.

*Ms. Sue Pei — General Manager — Investments, Hutchison China MediTech*

Ms. Pei has been with Hutchison China since 1992, and has been involved in various investment projects in China. These include ports, infrastructure, property, hotel, agriculture, and healthcare. Ms. Pei has served as General Manager of Hutchison China's Shenyang Time Plaza Hotel and Heilongjiang Hutchison Agriculture Development Company. She received a Bachelor's degree in English from Yanjing Overseas Chinese University and a Master's degree in Management studies from the University of Oxford.

**Employees**

The Directors believe that the Group maintains good working relationships with its employees. It has not experienced any significant labour disputes or any difficulty in recruiting staff for its operations. Each of the Shanghai Hutchison Pharmaceuticals and Hutchison Baiyunshan joint ventures in China has established a trade union organisation of the type which is common in Chinese enterprises. These union organisations coordinate social events and provide health and welfare support for employees, but do not enter into collective bargaining negotiations with management.

**Share Option Scheme**

The Directors recognise the importance of ensuring that employees are well motivated and identify closely with the success of the Group.

Accordingly, the Company has established the Scheme.

The principal terms of the Scheme are summarised in paragraph 5 of Part VIII of this document.

The Scheme will provide options over a maximum of 5 per cent. of the enlarged issued share capital of the Company after the Placing and the Hong Kong Offering which will, based on IFRS treatment of share options, have a material impact on the Company's financial performance.

**Pensions**

The Group's employees participate in various pensions schemes depending on which Group company is their employer. For each of these schemes, there is no exposure for the Company beyond paying the specified employer contributions. Further details are set out in paragraph 6 of part VIII of this document.

**Corporate Governance**

The Directors recognise the importance of high standards of corporate governance and intend that the Company, where practicable for a public company of its size and nature, will comply with the principal provisions of the Combined Code.

***The Board Structure***

Upon completion of the Placing the Board will consist of three executive directors and six non-executive directors, three of whom are independent. Different directors hold the posts of Chairman and Chief Executive. The Board considers that on appointment the Chairman is not "independent" as defined in the Combined Code. Nevertheless, the Board is satisfied as to his suitability for this role. The Board regards each of Mr.

Howell, Professor Huang and Mr. Nash as "independent" as defined in the Combined Code and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The Company has established audit and remuneration committees of the Board with formally delegated duties and responsibilities, each of which has written terms of reference.

In light of the size of the Board, the Directors do not consider it necessary to establish a nominations committee; however, this will be kept under regular review.

***The Audit Committee***

The Audit Committee is chaired by Michael Howell and its other members are Christopher Nash and Professor Huang. No members of the committee have links with the Company's external auditors. The Audit Committee will formally meet at least twice a year and otherwise as required. The Audit Committee will consider all matters relating to financial controls and reporting, internal and external audits, the scope and results of the audits, the independence and objectivity of the auditors and will keep under review the effectiveness of the Group's controls and risk management. The ultimate responsibility for reviewing and approving the annual report and accounts and interim statements remains with the Board.

***The Remuneration Committee***

The Remuneration Committee is chaired by Simon To and its other members are Michael Howell and Christopher Nash. The Remuneration Committee will consider all material elements of remuneration policy, remuneration and incentives of the Executive Directors and key employees with reference to independent remuneration research and professional advice in accordance with the Combined Code. The Remuneration Committee will meet formally at least once each year and otherwise as required and will make recommendations to the Board on the framework for executive remuneration and on proposals for the granting of share options and other equity incentives. The Board is responsible for implementing these recommendations and agreeing the remuneration packages of individual directors. No Director will be permitted to participate in discussions or decisions concerning his or her own remuneration.

The Directors intend to comply with rule 21 of the AIM Rules relating to Directors' and applicable employees' dealing in the Company's shares and, to this end, the Company has adopted an appropriate share dealing code.

**The Placing**

The Placing comprises 14,537,704 Ordinary Shares. In addition, 7,750 Ordinary Shares were taken up by Qualifying Shareholders of HWL under the Hong Kong Offering pursuant to the requirements of the Hong Kong Listing Rules, to which HWL, as a corporation listed on the Hong Kong Stock Exchange, is subject. The Hong Kong Offering closed on 8 May 2006 with acceptances received from shareholders of HWL in respect of 7,750 Ordinary Shares. The subscription of new Ordinary Shares pursuant to the Hong Kong Offering is conditional upon the Placing and Admission occurring. All the Ordinary Shares which are the subject of the Hong Kong Offering will be subscribed at the Placing Price.

The Placing comprises an offer to certain institutional investors in the UK only.

The Company, the Directors, Lazard and Panmure Gordon have entered into the Placing Agreement. Under this agreement Panmure Gordon has agreed that, subject to certain conditions, it will procure subscribers (or, failing which, subscribe itself) for the Placing Shares in each case at the Placing Price.

The Placing is conditional, *inter alia*, on Admission becoming effective and on the Placing Agreement becoming unconditional and the Placing Agreement not otherwise having terminated in accordance with its terms. A summary of certain terms and conditions of the Placing Agreement is set out in paragraph 19 of Part VIII of this document.

Admission is expected to take place and dealings in the Ordinary Shares are expected to commence on AIM on 19 May 2006. Each of these dates may be subject to change without further notice at the absolute discretion of the Company and Lazard.

The net proceeds of the Placing and the Hong Kong Offering, after deducting all related expenses, are estimated to be approximately £36.77 million.

The Placing Shares will rank *pari passu* in all respects with the existing Ordinary Shares of the Company and will carry the right to receive all dividends and other distributions declared, made or paid on or in respect of the Ordinary Shares after Admission. The Ordinary Shares will, immediately following Admission, be freely transferable under the Articles.

Allocations of Placing Shares will be determined at the discretion of Panmure Gordon after indications of interest from prospective investors have been received.

All Ordinary Shares subscribed pursuant to the Placing will be acquired at the Placing Price.

**Current Trading and Prospects**

The Company has continued to make progress since the year end and is continuing its development in line with the pattern established between 2003 and 2005. Trading in each of the operating businesses is in line with Directors' expectations. Drug research and development investment continues to increase, driven by the US and Chinese clinical trials on multiple drug candidates. Two of the China heathcare joint ventures are now profitable and the Directors expect the third, Hutchison Healthcare, to move into profitability in the short to medium term. As a result of continued revenue growth and recent licensing activity, the consumer products business has continued to reduce losses.

On 9 May 2006, the Directors of the Company approved the capitalisation of HK$575,219,920 of the amount owed as an intercompany debt by the Company to its immediate parent company, HHHL, by the issue of 36,666,665 Ordinary Shares. The Ordinary Shares are to be allotted and issued at par, credited as fully paid, to HHHL and such allotment and issue are conditional upon, but with effect immediately prior to, the Admission becoming effective. The amount capitalised is the amount outstanding to HHHL as at 31 March 2006. Since 31 March 2006, the Group has incurred further indebtedness to HHHL in respect of the Group's working capital requirements. The Directors intend to repay these amounts shortly following Admission.

**Reasons for Admission and Use of Proceeds**

The gross proceeds of the Placing and the Hong Kong Offering will be approximately £40 million. The net proceeds of the Placing and the Hong Kong Offering, expected to be approximately £36.77 million in aggregate, will be applied as follows:

- contingent on the success of the existing pipeline of drug candidates, the Company intends to use approximately £30 million to finance Hutchison MediPharma's drug research and development infrastructure and programmes during 2006, 2007 and 2008;
- approximately £2 million will be used to finance capital expenditure and working capital for expansion of the existing China healthcare business;
- approximately £3 million will be used to finance the consumer products business; and
- the balance will be used for general corporate purposes.

The Directors will continue to seek out new opportunities for acquisitions and strategic joint ventures to expand the business. The Company and Hutchison China have received multiple approaches and several possible opportunities are currently under investigation. The size of these opportunities ranges from relatively small to substantial. Any such opportunities available to the Group may be funded by internal resources of the existing China healthcare business. However, a reallocation of net proceeds or further external funding may also be required.

To the extent that the net proceeds of the Placing and the Hong Kong Offering are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed in interest-bearing deposits with banks or financial institutions.

The Directors believe that the listing will also increase the Group's international visibility, reputation and corporate profile in its industry, and that the companies within the Group will benefit from the status of being members of a listed group. The listing will provide the Company with access to capital from a broader investor base and the listing will also enable the Company to offer incentives in the form of share options over listed shares to key staff of the Group.

**Admission, Settlement and Dealing Arrangements**

The Company has entered into depositary interest arrangements to enable investors to settle and pay for interests in the Ordinary Shares through the CREST system. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. Securities issued by non-UK companies, such as the Company, cannot be held or transferred under the CREST system.

Depositary Interests or DIs allow paper stock to be dematerialised and settled electronically. The paper-based stock is transferred to a nominee company which then issues the DIs to the individual shareholder's CREST account on a one-for-one basis and provides the necessary custodial service. The DIs will be independent securities constituted under English law which can be traded and settled within the CREST system.

To give investors the choice of whether they want to hold their Ordinary Shares in certificated or uncertificated form, the Company's has chosen to adopt DIs operated by its Registrar. Accordingly investors may elect for the Company's Registrar as depositary to hold Ordinary Shares on trust for them and issue dematerialised DIs representing those underlying Ordinary Shares.

Shareholders who elect to hold their Ordinary Shares in uncertificated form through DIs will be bound by the terms of the DI Deed Poll, a summary of which is set out in paragraph 25.6 of Part VIII and which is available for inspection as set out in paragraph 27 of Part VIII of this document.

The Company's share register will show the nominee company as the holder of the Ordinary Shares, but the beneficial interest will remain with the shareholder who continues to receive substantially all the rights attaching to the Ordinary Shares as if the shareholder had been on the share register itself. The DIs will be traded and settled via the CREST system. The DIs will have the same security code (ISIN) as the underlying Ordinary Shares. Shareholders can convert their Ordinary Shares back into certificated form at any time using standard CREST procedures.

It is anticipated that permission will be given for the holding and settling of DIs through CREST starting on the date of Admission.

**Taxation**

Information regarding taxation issues affecting certain holders of Ordinary Shares and Depositary Interests is set out in paragraphs 9, 11 and 12 of Part VIII of this document. This information is however intended only as a general guide to the current tax position under Cayman Islands, Hong Kong and UK taxation law. **Investors who are in any doubt as to their tax position should consult their professional advisers immediately.**

## Introduction

This Part II describes in general terms:

- the pharmaceutical and health supplement industries in China; and
- the regulation of pharmaceuticals and related products in the US, China and the EU with particular reference to the UK.

The activities of the Group's research and development business are focussed on developing drugs for Western markets and are currently subject to regulatory controls in the US. The Group's proposed activities may also require compliance with European regulatory regimes. Compliance with the Chinese regime is also relevant in the development and production of drugs in China for use outside China. The Group expects to be subject to less burdensome regulatory requirements in some countries due to the TCM background of its potential drug candidates as explained below in this Part II.

The Group's China healthcare prescription and OTC businesses are subject to Chinese regulation both in terms of the approval of products and in terms of the market (such as inclusion of products in the Insurance Catalogue).

The consumer products business of the Group is generally subject to a more relaxed regulatory regime, compared to its other businesses, although for health supplements and herbal remedies, the regimes applicable tend to be less onerous than for pharmaceuticals.

## Overview of Global Pharmaceutical and Health Supplements Industries

The Directors believe that global expenditure on health, including pharmaceuticals and health supplements, will continue to increase and thereby fuel the Group's development plans in the US, Europe and China. IMS Health reported that global pharmaceutical sales, including sales of prescription and OTC drugs, reached US$602 billion in 2004, up from US$296 billion in 1999. It also reported that 47 per cent. of global pharmaceutical sales were in North America and 28 per cent. were in Europe.

The demand for health supplements around the world is increasing. In major markets like the US and Europe, maturing populations are seeking economical options to boost vitality and improve health, and consumers are placing an increased focus on supplementing diets and nutrition impoverished by modern processed foods and the demands of hectic lifestyles.

According to the WHO, in 2002, the US ranked first, the UK fifth and China seventh in terms of total world expenditure on health:

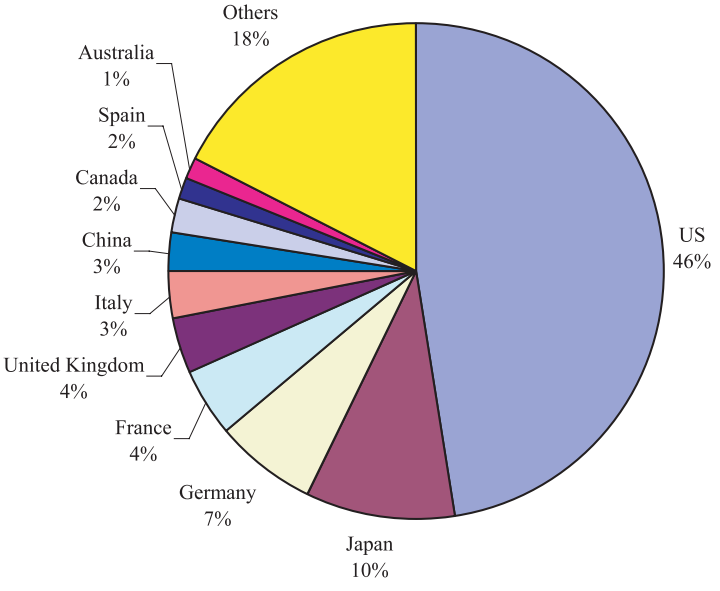


*Figure 1: World expenditure on health in 2002* (Source: WHO World Health Report 2005)

In 2002 health expenditure amounted to approximately 14.6 per cent. of GDP in the US, 7.7 per cent. in the UK and approximately 5.8 per cent. of GDP in China. Per capita spending on health in 2002 was US$5,274 in the US, US$2,031 in the UK and US$63 in China.

***Growing international awareness of TCM***

The use of complementary and alternative medicine is growing in many developed countries. Mintel International Group estimated that the global market for complementary medicines grew by 45 per cent. in real terms between 1999 and 2004. According to the WHO, in Europe, North America and other industrialised regions, over 50 per cent. of the population has used complementary or alternative medicines at least once.

Global sales of herbal medicines have increased with the growth in use of complementary and alternative medicine. In 2001, the Economist Intelligence Unit[1] estimated that herbal medicine sales worldwide were growing at the rate of 10 per cent. each year. The WHO estimated that the world market for traditional knowledge-based herbal medicines reached US$60 billion in 2002 and the World Bank estimates that it could reach US$5 trillion by the year 2050.

Greater consumer awareness, an interest in healthy lifestyles and the willingness to self-treat certain conditions has increased global demand for traditional and alternative medicines, including TCM. As China's economy has become more open to international investment, knowledge about TCM has grown, and it has become possible to discover new drugs based on treatments that have been successfully used in China in the past, particularly where conventional Western medicines are ineffective or have harmful or debilitating side effects. The initial appeal of an alternative to western medicine has been supplemented by anecdotal testimony and, increasingly, by scientific research, indicating the effectiveness of TCM treatments. Interest in the application of TCM by healthcare professionals as well as consumers has led to various countries integrating traditional remedies into their mainstream health services, for example, the use of accupuncture in the UK.

***TCM in China***

In many countries, indigenous medical practices have been supplanted by the development of Western medicine. However, in China, TCM remains a distinct branch of modern medical practice with continued strong popular support across all sections of society, all age groups and all educational backgrounds. TCM remedies are particularly used for long-term or chronic problems as well as routine ailments. Integration of TCM into the national health care system is officially promoted by the Chinese government, which has affirmed its commitment to equality of policies relating to TCM and Western medicine.

In 2002, the WHO estimated that TCM accounted for around 40 per cent. of all health care delivered in China (including mass produced pharmaceutical and health food products, services such as acupuncture and acupressure, and raw herb medications) and that TCM was used to treat roughly 200 million patients per year.

***Pharmaceutical industry in China***

*Growth of market*

Industry analysts view China as a significant growth market for pharmaceuticals.

China became the world's seventh largest pharmaceutical market in 2002, behind the US, Japan, Germany, France, the UK and Italy, and the Boston Consulting Group predicts that China may overtake the UK and Italy to become the world's fifth largest pharmaceutical market by 2010. The Economist Intelligence Unit predicts that by 2050, pharmaceutical sales in China will outstrip those in any other country.

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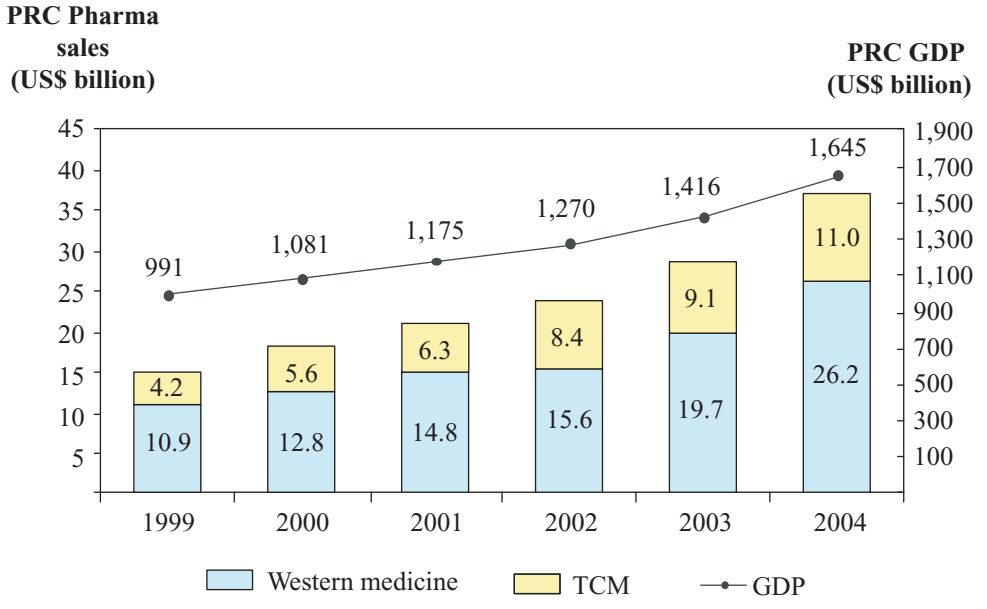
1. The Economist Intelligence Unit is the business-to-business arm of the Economist Group, which publishes the Economist Newspaper. The unit provides country, industry and management analysis.

The following graph shows details of pharmaceutical sales (by principal category) in China between 1999 and 2004, together with details of the GDP of China during the same period:




Development of the pharmaceutical market in China, 1999-2004 (Sources: Pharmaceutical sales figures from *China Pharmaceutical Statistical Yearbook 1999-2004* and other industry surveys; GDP figures from *China Statistical Yearbook 2005*).

*Overview of manufacturers*

The Chinese government began to open up the TCM market to foreign investors in 2000.

According to the China Industry Development Report 2003, in 2003 no TCM manufacturer held a dominant position in the Chinese TCM market and the top ten producers in terms of sales accounted for just over 20 per cent. of the total Chinese TCM market.

According to data published in the *Chinese Medicine Economic* journal and *Chinese Medicine Market Research* journal, in 2004 there were around 6,000 domestic and 1,700 sino-foreign joint venture pharmaceutical manufacturers in China, of which approximately 1,200 were engaged in the manufacture of TCM-based products.

TCM products available on the domestic market tend to be generic, with a large number of manufacturers producing similar types. The TCM pharmaceutical market has also tended to be regional. Products which have a high market penetration in a particular region by virtue of their history of use as a traditional remedy in that region may not necessarily be readily accepted by consumers outside that region.

The Group's best selling products face competition from several major domestic TCM manufacturers. Given the generic nature of many of these products, market positioning and brand building are key to the success of a TCM business. As advertising costs tend to be higher in bigger cities and have increased significantly in recent years, the cost of brand establishment and positioning has grown, particularly in the metropolitan markets in China. To gain a competitive advantage, the Group and many of its competitors have invested heavily in advertising and marketing in areas where the healthcare market is relatively undeveloped.

Competition from smaller manufacturers of low technology content, low priced products, which has in the past been particularly significant in the OTC segment, has decreased following the introduction of mandatory good manufacturing practice ("GMP") certification for pharmaceutical manufacturing companies in China in 2004.

*Chinese government measures*

In recent years, the Chinese government has introduced measures to improve the quality of pharmaceutical manufacturing and the efficiency of enterprises in the pharmaceutical sector, and to promote innovation and competition. In accordance with its WTO accession commitments, China has:

- opened its pharmaceutical market to increased foreign participation, including drug distribution and medical services;
- lowered tariffs on pharmaceutical products from 14 per cent. to between 5.5 and 6.5 per cent.;
- enhanced intellectual property rights in accordance with the 1995 Agreement on Trade-Related Aspects of Intellectual Property Rights; and
- started to comply with global regulatory standards guaranteeing efficiency and quality when licensing pharmaceutical producers and approving drugs.

New legislation governing the approval and registration of drugs, licensing of drug manufacturers, certification and licensing of wholesalers and retailers, quality control, intellectual property rights related to pharmaceuticals and advertising in China have been introduced in recent years as part of the government's move to improve the standards of pharmaceuticals and pharmaceutical production and sale in China. Under this new regime, pharmaceutical products must be produced in accordance with State quality requirements under the supervision of the SFDA and all pharmaceutical producers in China were required to attain GMP certification by 30 June 2004. This new legislation raises significant hurdles for smaller manufacturers that may lack the financial or operating ability to achieve and maintain certification. The Company expects that the SFDA will continue to evolve China GMP towards global GMP and increase enforcement of regulatory controls. The Directors estimate that less than 10 per cent. of Chinese TCM manufacturers meet global GMP at present.

*Social healthcare and medical insurance scheme*

In 1999, the Chinese central government, through the Ministry of Labour and Social Security, introduced an urban social medical insurance scheme and established the Insurance Catalogue. Chinese Government statistics have shown that by the end of 2003, almost 110 million people participated in the urban social medical insurance scheme.

Under the scheme, medical expenses are shared between the government, companies and employees. The government makes contributions to a social medical pooling fund, and employers nationwide are required to contribute a fixed percentage of their employees' payroll to the same pooling fund as well as to the individual medical accounts set up for each employee. Employees may claim reimbursement from their individual medical accounts for outpatient fees, medication fees and hospital costs in accordance with the relevant regulations. If the amount available in the employee's individual account is insufficient to cover the total medical expenses to be reimbursed for a calendar year, the shortfall will be covered by payments from the central pooling fund, subject to the payment of an excess by the employee in accordance with the applicable provincial rules. Employees thus have an incentive to control medical costs.

The scheme only covers the reimbursement of the cost of medicines that are admitted to the Insurance Catalogue. The Insurance Catalogue is divided into two parts: Part A and Part B. The medicines included in Part A are determined by the Chinese government for general application and local authorities may not adjust the content of that Part. The medicines included in Part B, while determined by the Chinese government authorities in the first instance, may be subject to change by local level authorities, resulting in some regional variations. The products admitted to the Insurance Catalogue are selected by the Chinese government authorities based on factors including: treatment requirements, frequency of use, effectiveness and price. Products included in the Insurance Catalogue are subject to price control by the Chinese government, as described below.

In rural areas where approximately 90 per cent. of the population does not participate in any medical insurance, the Chinese government has introduced a cooperative healthcare plan. Under this plan, which will not be fully implemented until 2010, members have to pay to join and, although the costs of expensive

medical treatments are partially reimbursed, members still have to pay the full cost of treatment for less serious illnesses. Statistics suggest that as at the end of June 2004, only 69 million rural residents were covered by the cooperative healthcare plan.

*Government control of drug prices*

Certain medicine products sold in China, primarily those included in the Insurance Catalogue and drugs whose production or trading will constitute monopolies, are subject to price control by the Chinese government. The State and provincial price administration authorities publish the maximum prices of such products. The prices of medicinal products not subject to control by the Chinese government are determined freely by the manufacturers according to market rates, subject, in certain cases, to notification to the provincial pricing authorities.

The upper limits of the prices of those products subject to control are set by the relevant authorities to allow a reasonable profit margin for pharmaceutical enterprises, after taking into account, among other things, the type and quality of the products, production costs, prices of substitute products and the extent of the manufacturer's compliance with standards of GMP. Prices for drugs with similar compositions are set on the basis of the average production cost for all manufacturers. Pharmaceutical enterprises can adjust the actual selling prices of their products provided that they do not exceed the upper limit set by the price administration authorities.

In early 2000, the Chinese Ministry of Health, the SFDA, the State Economic and Trade Commission, the State Administration of Traditional Chinese Medicine and the State Council Disciplinary Office established a pilot centralised hospital tendering system in China. Under this system, not for profit medical organisations established by county or higher level government in China are required to implement collective tender processes for the purchase of drugs. In principle, they are required to join together to organise tenders to purchase drugs in bulk. The bids are submitted in generic rather than branded names and are assessed by a committee of pharmaceutical experts who are recognised by the relevant authorities, with reference to, most importantly, drug quality, as well as other criteria including price, service and quality of the drug manufacturers. For the same type of drugs, two to three products under different brands may be selected. Competitive bidding by suppliers under the tender system is intended to reduce the retail price for the benefit of patients.

All hospitals at county level or above had to implement the tendering system by September 2004. It is intended by the Chinese government that the implementation of such a tender purchase system should be extended gradually to cover, in particular, drugs consumed in large volumes and those commonly employed for clinical uses. At present, the Directors understand that the implementation of such a tender purchase system varies between different regions of China. OTC products, which are sold mainly through retail channels, tend to be less affected by the tendering system and consequent margin pressure.

*Development of prescription and OTC drugs in China*

Before the publication of the *Trial Administrative Measures Regarding the Classification of Prescription Drugs and OTC Drugs* ("Measures") by the predecessor of the SFDA in June 1999, there was no distinction between different classifications of pharmaceuticals in China. Drugs such as poisons and anaesthetics were regulated, but all other pharmaceuticals were freely available. This caused problems as the administration of pharmaceuticals was largely ineffective and the distribution, sale and use of pharmaceuticals were abused. The Measures, which came into effect on 1 January 2000, were introduced to promote safety, efficacy and convenience in the use of medicines, by creating a framework for the administration and management of pharmaceutical products in China.

The Measures classify drugs in China according to medicine type, specification, the relevant disease or ailment that they are designed to treat, dosage and method of administration. OTC drugs are further subdivided into Class A and Class B and are administered by the State separately. Prescription drugs must be dispensed, and taken as prescribed by a practising doctor or assistant doctor. OTC drugs can be dispensed, purchased and taken by users without the need for a doctor's prescription.

Today, manufacturers of prescription and OTC drugs are also required to obtain a Drug Manufacturing Permit and to obtain approvals for the production of medicines.

*Prescription and dispensation*

At present in China, most pharmaceuticals are sold through hospitals, which it is estimated derive around 80 per cent. of their revenues from those pharmaceutical sales. Doctors both prescribe and dispense medicines. This practice has led to problems including: the over-prescription of drugs to generate income due to a lack of public funding, doctors prescribing drugs based on profit margins rather than the patient's best interests, and commissions being paid to hospitals and doctors by drug manufacturers and wholesalers.

In order to address these problems and encourage better medical and management practices in hospitals, which are still largely State-run, the Chinese government instituted a new policy in 2000 to separate prescription and dispensing of drugs and to encourage the development of retail pharmacies. Manufacturers of OTC drugs have benefited from this separation of drug prescription and dispensing. Approximately 73 per cent. of OTC products are distributed through pharmacies and the remaining 27 per cent. through drugstores, according to Euromonitor. As manufacturers of OTC drugs already make the majority of their sales through retail channels, they are likely to benefit as patients purchase more drugs directly from pharmacies rather than from hospitals.

*Distribution system*

Distribution of pharmaceuticals in China is fragmented. Pharmaceutical distribution channels have historically been under-regulated, leading to the over-pricing of drugs in demand and the circulation of counterfeit and poor quality drugs. However, pharmaceutical distributors are now required to hold a Good Supply Practice ("GSP") certificate. GSP certificates, issued by the SFDA, strengthen the quality of medicine distribution in China and promote the safe use of drugs by consumers. All Chinese pharmaceutical wholesale and retail enterprises were required to have attained a GSP certificate by 31 December 2004.

*Research and development of new products*

In 2004, there were over 200,000 researchers in China specialising in pharmaceutical research and development. China has a very competitive market for laboratory jobs that keeps research costs down, with salaries about one-third to one-fifth of the level in the US or Europe. Various multinational drug companies have entered into research collaborations with leading Chinese research institutions and universities, encouraged by significant tax incentives offered by the Chinese government and the low cost of conducting clinical trials in China.

The Directors believe that technological advances and the increased emphasis on research and development investments and higher quality products such as those produced from GAP medicinal herb planting, will lead to a consolidation of the TCM industry as manufacturers that are unable to meet industry standards cease operations. In addition, wholly foreign-owned enterprises have been permitted to trade in pharmaceutical products with effect from 11 December 2004, pursuant to China's WTO obligations. As a result, the Directors expect that consolidation in the industry will be further accelerated by increasing foreign competition and that consolidation will lead to larger TCM businesses with the scale and financial resources to compete more effectively.

***Health supplement industry in China***

The Chinese health supplement industry is highly fragmented. According to the *2005 China Health Food Industry Research Report*, in 2004 there were over 4,000 health supplement manufacturers in China, of which only 2 per cent. had a share capital in excess of RMB100 million (US$12.1 million). More than 5,000 registered health supplement products were being sold in China in 2004. In addition, more than 400 Western health supplement products had been registered as "imported health food" in China. Most health supplement products are generic which results in considerable competition between products. For example, in 2004, of all the health supplement products registered in China, 62 per cent. focused on enhancing immunity and regulating blood lipids or combating fatigue.

The health supplement industry in China is expanding rapidly. The health dietary supplement market in China was US$6.17 billion in 2004 with a growth rate of 30 per cent. per annum.

Strengthened SFDA regulations relating to health supplements, which are thought to have removed many fake and poor quality products from the market, have boosted consumer confidence in the tonics and nutritive drinks sub-sectors. The outbreak of SARS in 2003 led to increased demand for tonics, nutritive drinks and vitamins from consumers who believed that intake of these products could strengthen their immune systems.

The development of new proprietary products has not been a focus of the health supplement industry, with statistics showing that health supplement manufacturers in China as a whole spend only 1.5 per cent. of their total annual revenue on research and development. Competition has primarily been driven by: product branding and positioning, both in terms of product claims and the geographical location of the target market; product performance and functions; price; the timing of new product introductions; the ability to maintain long-term customer relationships; and sales and distribution capabilities.

**Regulatory Regime in the US**

***Regulatory Framework***

Regulation of food, drugs, dietary supplements and cosmetic products in the US is governed by the Federal Food Drug and Cosmetic Act (USC. Title 21, part 301 onwards) (the "FD&C Act") and Title 21 of the Code of Federal Regulations ("CFR"). Substances are classified according to their intended use. Amendments relating to the regulation of dietary supplements are contained in the Dietary Supplement Health and Education Act 1994.

The US Food and Drug Administration ("FDA") is responsible for ensuring the quality, safety and efficacy of pharmaceutical, dietary and cosmetic products. Within the FDA, the Center for Drug Evaluation and Research oversees the research, development, manufacturing and marketing of drugs, and the Center for Food Safety and Applied Nutrition oversees the regulation of dietary supplements.

In June 2004 the FDA issued guidance in relation to botanical products, which are finished, labelled products that contain vegetable matter as ingredients. Botanical products are categorised types of foods, drugs, dietary supplements or cosmetics depending on their intended use. The guidance is not binding in law, but it states the FDA's current thinking when applying the regulatory regime.

***Licensing and Marketing Procedures***

*New Drug Application ("NDA")*

Manufacturers must obtain FDA approval of an NDA before marketing a new drug. After approval of an NDA is given, there are ongoing requirements for the reporting of post-marketing adverse drugs experiences. The FDA will approve an NDA after it is satisfied that the drug meets the statutory standards for safety and effectiveness, manufacturing and controls, and labelling, and, where applicable, bioequivalence. The FDA publishes an "orange book", which lists all the FDA approved products and patents that cover those products.

The process required by the FDA before a new drug may be marketed in the US generally involves:

- completion of pre-clinical laboratory and animal testing;
- submission of an investigational new drug application which must become effective before clinical trials can begin;
- performance of adequate and well-controlled human clinical trials to establish the safety and efficacy of the proposed drug product's intended use; and
- submission to and approval by the FDA of an NDA.

Pre-approval clinical testing on human subjects consists of:

- Phase I (small studies to determine toxicity and pharmacological information);
- Phase II (small studies to determine safety and efficacy); and
- Phase III (large studies to determine safety, efficacy and dosage levels).

Satisfaction of FDA pre-market approval requirements typically takes several years, and may vary depending on the complexity of the product in question.

After the FDA has approved a drug, Phase IV post-marketing studies may be conducted to collect information about the risks, benefits or adverse effects of a drug.

*Investigational New Drug Application ("IND")*

If available information is insufficient to support an NDA for a drug, the sponsor will need to develop further data. An IND is required under section 505(i) of the FD&C Act and 21 CFR part 312 (unless exempt under part 312.2(b)) when a product is studied in the US for a drug use (see section 201(g) of the FD&C Act), even if such study is intended solely for research purposes. Under part 312.22, an IND must contain sufficient information to demonstrate that the drug product is safe for testing in humans and that the clinical protocol is properly designed for its intended objectives.

*Abbreviated New Drug Application ("ANDA")*

Manufacturers of drugs that are identical, similar, or related to FDA approved drugs listed in the orange book can circumvent the time-consuming and costly NDA approval process (and the extensive animal and human clinical trials such approval requires) by filing an ANDA. The ANDA process can be used to gain marketing approval within six months.

*Marketing an Over-the-Counter (OTC) Drug Monograph*

A drug product may be marketed in the US under (i) an OTC drug monograph or (ii) an approved NDA or ANDA. A product that has been marketed in the US for a material time and to a material extent for a specific OTC drug indication may be eligible for inclusion in an OTC drug monograph codified in 21 CFR parts 331-358. The manufacturer would need to submit a petition in accordance with 21 CFR 10.30 to amend the monograph to add the substance as a new active ingredient.

OTC products that conform to a monograph can be marketed without further review by the FDA, avoiding the need to conduct clinical trials under the NDA process as described above. Under current regulations, if there is no marketing history in the US or another country for a drug product, if available evidence of safety and effectiveness does not warrant inclusion of the product in an OTC drug monograph, or if the proposed indication would not be appropriate for non-prescription use, the manufacturer must submit an NDA to obtain FDA approval to market the product for the proposed use (sections 201(p) and 505 of the FD&C Act). An NDA for a drug could seek approval for either prescription or OTC use, depending on the indication and characteristics of the product and whether it is safe for use outside of the supervision of a practitioner licensed by law to administer it.

When a final OTC drug monograph is published for a specific use of the drug, any person may market a product containing the same substance and for the same use, provided the labelling and other active ingredients (if present) are in accord with all relevant monographs and other applicable regulations. By contrast, when a product is approved under an NDA, the approval is specific to the drug product that is the subject of the application (the applicant's drug product), and the applicant may be eligible for marketing exclusivity for either 5 years (if it is a new chemical entity) or 3 years from the time of approval, even in the absence of patent protection. If a product qualifies as a new chemical entity, during the period of exclusivity, the FDA will not approve, or in some cases even review, certain competitor products unless the second sponsor conducts all studies necessary to demonstrate the safety and effectiveness of its product and submits a 505(b)(1) application. Therefore, if a person wishing to market a drug product that is not included in an existing OTC drug monograph desires marketing exclusivity for the product, the person should seek approval of an NDA rather than applying to the FDA to amend a monograph.

***Dietary Supplements***

The FDA regulates dietary supplements under a different set of regulations than those covering "conventional" foods and drug products (prescription and Over-the-Counter). The provisions of the Dietary Supplement Health and Education Act 1994 (the "DSHEA"); define dietary supplements and dietary ingredients; establish a new framework for assuring safety; outline guidelines for literature displayed where supplements are sold; provide for use of claims and nutritional support statements; require ingredient and nutrition labelling; and, grant FDA the authority to establish GMP regulations.

Under the DSHEA, dietary supplement manufacturers are responsible for ensuring that a dietary supplement is safe before it is marketed. The FDA is responsible for taking action in relation from any unsafe dietary supplement product after it reaches the market. Generally, manufacturers do not need to register their products with the FDA nor get FDA approval, before producing or selling dietary supplements. However, manufacturers must make sure that product label information is truthful and not misleading.

The FDA's post-marketing responsibilities include monitoring safety, for example, adverse event reporting, and product information, such as labelling, claims, package inserts, and accompanying literature. The Federal Trade Commission regulates dietary supplement advertising.

***Cosmetic Products***

The regulations applicable to cosmetics are stated at 21 CFR, parts 700 to 740. The FD&C Act defines cosmetics as articles intended to be applied to the human body for cleansing, beautifying, promoting attractiveness, or altering the appearance without affecting the body's structure or functions. Included in this definition are products such as skin creams, lotions, shampoos, toothpastes, deodorants, and any material intended for use as a component of a cosmetic product.

The FD&C Act prohibits the distribution of cosmetics which are adulterated or misbranded. A cosmetic is considered adulterated if it contains a substance which may make the product harmful to consumers under customary conditions of use. A cosmetic is misbranded if its labelling is false or misleading, if it does not bear the required labelling information, or if the container is made or filled in a deceptive manner.

Products that are cosmetics but are also intended to treat or prevent disease, or otherwise affect the structure or functions of the human body, are also considered drugs and must comply with both the drug and cosmetic laws and regulations. Examples of products which are drugs as well as cosmetics are hormone creams, sun-tanning preparations intended to protect against sunburn, antiperspirants that are also deodorants, and anti-dandruff shampoos.

***Botanicals***

Non-binding guidance in relation to botanical products was issued by the FDA in June 2004. The general position is that the regulatory procedures outlined above will apply in the same way as to other types of products (depending on whether the botanical is a food, dietary supplement, drug or cosmetic), but less pre-clinical information may be required in cases where there is previous human experience with the botanical product.

Botanical products are finished, labelled products that contain vegetable matter (plant materials, algae, macroscopic fungi, and combinations thereof) as ingredients. A botanical product may be a food (including a dietary supplement), a drug, or a cosmetic under the FD&C Act. Whether an article is a drug or cosmetic under the FD&C Act turns on its "intended use" as claimed by the manufacturer or distributor of the article to prospective purchasers, such as in advertising, labelling, or oral statements.

If a botanical product is intended for use in diagnosing, mitigating, treating, curing, or preventing disease, it is subject to regulation as a drug under the FD&C Act (except for a product marketed with certain authorised health claims). If a botanical product is intended to affect the structure or function of the body but does not meet the definition of a dietary supplement, or does not meet the requirements for making a structure or function claim under the FD&C Act, it is subject to regulation as a drug under the FD&C Act.

A botanical drug product may be marketed in the US under (i) an OTC drug monograph or (ii) an approved NDA or ANDA, both of which are discussed above. A botanical product that has been marketed in the US for a material time and to a material extent for a specific OTC drug indication may be eligible for inclusion in an OTC drug monograph. The manufacturer would need to submit a petition to amend the monograph to add the botanical substance as a new active ingredient. Currently there are several botanical drugs, including cascara, psyllium and senna that are included in the OTC drug monograph system.

The NDA process for a botanical product is the same as for other drug products except that ordinarily, less pre-clinical information will be required to support clinical trials under an IND where there is previous human experience with the product. Where a botanical has been marketed previously under the DSHEA regime or in another country, sufficient information may be available to support initial clinical studies under an IND without the need for standard pre-clinical testing.

The strict requirements of extensive testing at the clinical trial stage are no different for botanical products. If a product is currently marketed under the DSHEA as a health supplement, there may be little need for pilot Phase I studies. However, definitive trials to determine efficacy and safety must still be completed. The Group has benefited from these guidelines in respect of HMPL-004 where no Phase I trials were required.

Botanical drug products also have certain unique characteristics that should be taken into account in the application of FDA chemistry, manufacturing and controls ("CMC") regulations. Botanical drugs are derived from vegetable matter and are usually prepared as complex mixtures. Their chemical constituents are not always well defined. In many cases, the active constituent in a botanical drug is not identified, nor is its biological activity well characterised. Therefore, the CMC documentation that should be provided for botanical drugs will often be different from that for synthetic or highly purified drugs, whose active constituents can be more readily chemically identified and quantified. The Directors believe that the Group's focus on and expertise in TCM will be an advantage in this area.

***Labelling Requirements***

*Drugs*

Title 21 CFR part 201 sets out detailed and complex provisions that require a variety of information to be included on drug labels, including indications and contra-indications, dosage information, methods of administration and warnings.

OTC drugs are used without the supervision of a physician, so they have additional labelling requirements.

*Dietary Supplements*

The DSHEA provides for the use of various types of statements on the label of dietary supplements, although claims may not be made about the use of a dietary supplement to diagnose, prevent, mitigate, treat, or cure a specific disease (unless approved under the new drug provisions of the FD&C Act), for example, a product may not carry the claim "cures cancer" or "treats arthritis". Manufacturers may describe the supplement's effects on structure or function of the body or the "well-being" achieved by its consumption, provided these statements are substantiated and the product label carries a disclaimer stating that the claims have not been evaluated by the FDA.

Dietary supplement products must bear ingredient labelling. This information must include the name and quantity of each dietary ingredient or, for proprietary blends, the total quantity of all dietary ingredients (excluding inert ingredients) in the blend. The label must also identify the product as a "dietary supplement" (e.g., "Vitamin C Dietary Supplement"). Labelling of products containing herbal and botanical ingredients must state the part of the plant from which the ingredient is derived.

*Cosmetic Products*

The labelling requirements are codified at 21 CFR parts 701 and 740. Cosmetics bearing false or misleading label statements or otherwise not labelled in accordance with the codified requirements may be considered misbranded and may be subject to regulatory action. All label statements required by regulation must be in the English language and must be placed on the label or labelling with such prominence and conspicuousness that they are readily noticed and understood by consumers under customary conditions of purchase. Cosmetics which may be hazardous to consumers when misused must bear appropriate label warnings and adequate directions for safe use.

***Import Procedures***

Imported drugs must still have FDA approval for marketing and labelling, and there are restrictions that only allow imports from countries that have regulatory regimes similar to that of the FDA (21 USC §384).

**Regulatory Regime in China**

***Regulatory Framework***

The PRC *Pharmaceutical Products Administration Law* took effect on 1 December 2001. It sets out the basic legal framework for the administration of the production and sale of pharmaceuticals in China and covers areas including the manufacture, distribution, packaging, pricing and advertising of pharmaceutical products in China. The *Implementation Rules of the PRC Pharmaceutical Products Administration Law*, which became effective on 15 September 2002, set out detailed implementation rules with respect to the administration of pharmaceuticals in China.

The SFDA, established in 2003 as the successor to the State Drug Administration, is the primary regulatory body of the pharmaceutical industry in China. In addition to the administrative and technical supervision of research, production, circulation, application and the technology of the Chinese pharmaceutical industry, the SFDA is also responsible for co-ordinating and supervising the safety management of food products, health products and cosmetics.

The principal functions of the SFDA are:

- to monitor and supervise the administration of the pharmaceutical, medical appliances and equipment industries in China;
- to formulate and enforce administrative rules and policies concerning the supervision and administration of those industries;
- to evaluate, register and approve new, generic and imported pharmaceutical products and TCM; and
- to grant permits for the manufacture and import of pharmaceutical products and medical appliances and equipment and for the establishment of enterprises engaged in the manufacture and trading of pharmaceutical products, medical appliances and equipment.

The SFDA has a series of local branches that play an important role in the regulation of the pharmaceutical industry at provincial level, including approving pharmaceutical production enterprises and issuing licences for the production of pharmaceuticals.

***Policy of Encouragement of the Pharmaceutical Industry***

The Policy for the Nation's Industrial Technology, promulgated on 21 June 2002, confirmed the following as the focal points for development in the medical and pharmaceutical industry in China: bio-medicinal technologies; genetic engineering; vaccinations and their commercial production; Chinese medicine; development of bulk chemical pharmaceuticals; and, high and medium level medical and pharmaceutical equipment.

According to the revised Guidance for Foreign Investment Industries Catalogue, which became effective on 30 November 2004, foreign investors are encouraged by the Chinese government to invest in, amongst other things, the following areas of the medical and pharmaceutical industry in China:

- production of raw medicinal materials protected by Chinese patent or under administrative protection and import of raw chemical medicinal materials;
- production of vitamins and nicotinic acid;
- production of new anti-cancer drugs and new drugs for cardiovascular and cerebrovascular diseases;
- production of new drugs through the application of biological engineering technology;
- production of new pharmaceutical preparations and products using new administration technologies such as slow release, controlled release, targeted release, transdermal absorption, etc.;
- development and application of new pharmaceutical adjuvants;
- processing and production of TCM herbs, TCM extracts and prepared TCM (other than the processing technology for preparation of TCM for decoction); and
- production of bio-medicinal materials and products.

***Permits and licences for pharmaceutical manufacturing enterprises***

Before any manufacturer of pharmaceutical products (including TCM manufacturing enterprises) can commence the production of pharmaceutical products in China, it must obtain a Drug Manufacturing Permit ("DM Permit") from the local SFDA branch of the province, autonomous region or municipality where the manufacturer is located, for which the manufacturer must have appropriate facilities, equipment, staff and expertise. The grant of a DM Permit is subject to an inspection of the manufacturer's production premises and

facilities, hygiene environment, quality assurance systems, personnel and equipment. The DM Permit is valid for a period of five years. A manufacturer must apply for renewal of its DM Permit not later than six months prior to the date of expiration and renewal is subject to reassessment by the local SFDA branch.

After the DM Permit has been obtained, the manufacturer must also obtain a business licence from the relevant Administrative Bureau of Industry and Commerce to commence business. Details of the DM Permits held by the Group and their relevant expiry dates are set out in paragraph 22 of Part VIII of this document.

In addition to obtaining a DM Permit, the manufacturer also has to obtain a specific approval from the SFDA before commencing production of any pharmaceutical products. Details of the requirements for obtaining relevant production approvals are set out below.

***Good Manufacturing Practice***

GMP standards were originally laid down by the predecessor of the SFDA to regulate the manufacture of pharmaceutical products in China. The GMP standards, which came into effect on 1 August 1999, require pharmaceutical manufacturing enterprises in China to implement strict controls on the production of pharmaceutical products, including matters such as staff qualifications, production premises and facilities, equipment, raw materials, hygiene, production management, quality control and dealing with customer complaints. The GMP standards also require pharmaceutical manufacturing enterprises in China to obtain a GMP certificate ("GMP Certificate") for the production of pharmaceutical products in China. The manufacturer must apply for GMP certification whenever it builds, rebuilds or expands its workshops or production lines or introduces new pharmaceutical products.

Pursuant to the Notice on the Implementation of Good Manufacturing Practice issued on 24 August 1999, the predecessor of the SFDA started to implement certification for GMP compliance by requiring pharmaceutical manufacturing enterprises producing powder for injections (including freeze dried powders) to comply with GMP standards. Those producing large volume injections were required to comply with GMP standards by the end of 2000, while those producing small volume injection products were required to comply by the end of 2002. In the Notice on the Acceleration of the Supervision and Implementation of Good Manufacturing Practice issued on 12 October 2001, the predecessor of the SFDA accelerated the implementation of GMP standards and required all pharmaceutical manufacturing enterprises to comply with GMP standards and obtain GMP certification by 30 June 2004.

Pharmaceutical manufacturing enterprises without GMP certification for their products may not continue to produce them in China.

A GMP Certificate is valid for five years, or for one year in the case of a newly established pharmaceutical manufacturing enterprise. Pharmaceutical manufacturing enterprises must apply for renewal of their GMP certificates not later than six months (or in the case of a newly established pharmaceutical manufacturing enterprise, three months) prior to the date of expiration subject to reassessment by the relevant authority.

Details of the GMP certifications of the Group's manufacturing processes and their expiry dates are set out in paragraph 22 of Part VIII of this document.

***Production of modernised TCM pharmaceutical products***

The products manufactured by the Group, principally Shanghai Hutchison Pharmaceutical and Hutchison Baiyunshan, are subject to regulation as modernised TCM pharmaceutical products. Before a TCM pharmaceutical product can be sold in China, it must undergo a process of clinical testing and regulatory approval. The process of completing clinical testing and regulatory approval for a new TCM pharmaceutical product usually takes at least five years in China and therefore requires the expenditure of substantial resources. Before a new TCM pharmaceutical product can be sold in China, the manufacturer must obtain extensive data on its quality, safety and efficacy, which it must submit to the SFDA for approval. The process of developing a new modernised Chinese medicine has two stages, pre-clinical and clinical development.

*Pre-clinical development*

The first "pre-clinical" step is to develop processes for manufacturing the product candidate. For a TCM pharmaceutical product, this step often includes research on resources, processes and the preparation of TCM materials, such as sourcing the herbs from the appropriate area and cultivation conditions and determining the optimal method of reducing the herb to an effective form for administration, such as a powder, pill or

injection. The second step is conducting pre-clinical studies. Pre-clinical studies often involve laboratory evaluation of the product's characteristics and effects and animal studies to assess its initial efficacy and safety. Animal studies are required for certain pre-clinical studies, depending on the function and type of product. In China, pre-clinical studies including (if applicable) animal testing must be conducted in accordance with published SFDA guidelines.

*Clinical trials*

Clinical trials are a prerequisite to registration of a new TCM pharmaceutical product in China. These trials are conducted in four phases broadly corresponding to the four phases described under "Regulatory regime in the US" above, all of which are conducted under the supervision of the SFDA and its local branch and must be approved by the SFDA prior to commencement.

Following approval of the clinical trial plan by the SFDA, clinical trials will be carried out by a qualified institution under its supervision. Clinical trials involve the administration of the trial product to humans under the supervision of an investigator in the four phases. Each clinical trial must be approved and conducted under the auspices of the Clinical Test Agent Ethics Committee. The Committee will consider, among other things, ethical factors and the safety of human subjects. Phases I, II and III are carried out before the approval of a new pharmaceutical product. Phase IV is carried out after the pharmaceutical product has been approved. After each phase of the clinical trials is completed, the product manufacturer is required to submit the results to the SFDA. Separate approvals are not needed for each phase, and it is common for the SFDA to grant approval for Phases I to III at the same time. In theory, clinical trials are not required for applications for the registration of pharmaceutical products for which there are existing national standards in respect of the product's quality and technical requirements.

*Product approval in China*

Upon successful completion of clinical trials of a new TCM pharmaceutical product in China, the producer may apply to the SFDA for a New Pharmaceutical Certificate. Such certificates are only issued for pharmaceutical products that have not previously been marketed in China. These include products that have been invented in China or products which are introduced into China for the first time.

*Pharmaceutical Approval Number and commencement of production*

After obtaining a New Pharmaceutical Certificate for a new TCM pharmaceutical product, the manufacturer must satisfy the SFDA that it holds a valid DM Permit and meets the GMP standards. Upon approval by the SFDA, a Pharmaceutical Approval Number will be issued in respect of the product. The manufacturer is only allowed to commence production once it has obtained a Pharmaceutical Approval Number for the new TCM product. A Pharmaceutical Approval Number is valid for five years and can be renewed. There are no time limitations for applications for Pharmaceutical Approval Numbers by holders of New Pharmaceutical Certificates or for commencement of production once a Pharmaceutical Approval Number has been obtained.

*Supervision of new pharmaceutical products*

All new pharmaceutical products in China are subject to SFDA supervision for a period of two to five years, commencing on the date of production approval. The length of the supervision period in respect of a product is determined by the SFDA, by taking into account the amount of available research into and information on the safety of the product in question. During the supervision period, the manufacturer must provide the SFDA with annual reports regarding the manufacturing process, quality, stability, curative effect and adverse reactions of the protected pharmaceutical. A manufacturer may make an application within three months before the end of the supervision period to upgrade the status of its product to formal "national pharmaceutical standard" status. If no application is made or if the SFDA does not approve the application, the manufacturer's Pharmaceutical Approval Number for that product will be revoked by the SFDA and production of the product must cease.

*Production of national standard pharmaceuticals*

"National standard pharmaceuticals" are pharmaceutical products for which the Chinese government has already set technical standards as to quality and examination method. Once a product has attained the status of national standard pharmaceutical, any pharmaceutical producer with a valid DM Permit and a

Pharmaceutical GMP Certificate may apply to the SFDA for a Pharmaceutical Approval Number to produce that pharmaceutical product, provided that it is not under any current patent or other administrative protection. Details of the various types of protection afforded to TCM pharmaceutical products are set out below.

*OTC registration*

A manufacturer may apply for OTC classification for its pharmaceutical product if the product is: (i) a pharmaceutical for which national drug standards are already in existence; (ii) an OTC drug approved by the SFDA which has changed its form without changing its application, main function, dosage volume or method of ingestion; or (iii) a new compound made from active ingredients of an SFDA-approved OTC drug.

*Supplemental applications for production and advertising*

Where certain changes or modifications are proposed to a registered pharmaceutical product, including to its drug standard, curative effects or production process, the manufacturer which is the applicant or holder of the relevant registration certificate for such medicine must seek approval from the provincial level SFDA.

Under Chinese law, a pharmaceutical manufacturer must seek SFDA approval for: (i) the packaging of its pharmaceutical products; and (ii) printed and televised advertisements for its pharmaceutical products. OTC drugs may be advertised through public media, whilst prescription drugs may be advertised only in professional publications.

***Regulatory protection for TCM pharmaceutical products***

*Supervision period protection*

During the supervision period, which may be as long as five years commencing on the date of production approval for a product, the SFDA will not accept any applications from other manufacturers for permission to produce the same pharmaceutical products. This protection is available to all new pharmaceutical products.

*TCM protection*

While modernised TCM is subject to the same registration, regulation and manufacturing standards as all other pharmaceutical products in China, there are special regulatory protections available for TCM producers in China. Specifically, a manufacturer may apply to the SFDA for the classification of its TCM product as either a Class I or Class II product, depending on the innovative qualities, curative effectiveness and general characteristics of the product. Upon approval by the SFDA, a Class I or Class II TCM Protection Certificate (as the case may be) will be issued. The holder of the certificate has the right to produce the protected TCM product specified on the Certificate. During the protection period, the formulae and manufacturing processes for the protected TCM will be kept confidential.

A Class I TCM may be granted a protection period of 10, 20 or 30 years. Most Class I TCM receive a 30-year protection. The protection period for a Class I TCM may be extended in special circumstances, although each extension may not exceed the original protection period. As the system for TCM administrative protection was only introduced in 1987, procedures for extension of the Class I TCM protection period have not yet been confirmed. The majority of all protected TCM are granted Class II protection. A Class II TCM is entitled to protection for seven years. Protection may be renewed for further periods of seven years, at the discretion of the SFDA.

Manufacturers producing TCM products which are approved "new pharmaceutical products", and thus subject to mandatory supervision by the SFDA, may not apply for Class I or Class II protection until six months prior to the expiration of the supervision period. The TCM product must have attained national standard status when the application for TCM protection is made.

*General patent and trademark protection*

Patents may be applied for in China to protect the formula and production process of a new pharmaceutical product for a period of 20 years. Applications can be made to the Chinese Patent Bureau at any time during the process of development and commercialisation of a new pharmaceutical product.

***Production of health supplements***

The health supplements manufactured by the Group, principally Hutchison Healthcare, fall within the definition of "healthcare foods" for Chinese regulatory purposes. A healthcare food is one which:

- possesses special health functions or is a supplementary vitamin or mineral substance;
- is suitable for use by certain groups of people;
- has an organism adjustment function;
- is not used for the purpose of curing a disease; and
- does not pose any danger to human beings.

Producers of foods that claim to have healthcare functions must obtain a Healthcare Food Approval Certificate from the SFDA. In order to obtain such certificate, an inspection and evaluation procedure must be followed. Depending on the claims made in respect of the supplement, approval for a new healthcare food in China usually takes one to two years. An outline of the approval procedures is set out below.

*Inspection and evaluation*

After a new health supplement is developed, the first step to getting it approved in China is the submission of a sample, test information and a product research and development report to an inspection institution designated by the SFDA for tests and inspection. If the new health supplement's health functions do not fall within the scope of functions published by the SFDA, the manufacturer must conduct animal tests and human trials before such submission and submit a function research and development report instead of a product research and development report to the SFDA. The inspection institution will conduct tests on the sample and issue the following reports to the manufacturer, which it will also need to submit to the SFDA as part of its application documents:

- a Toxicology Safety Test Report;
- a Healthcare Function Test Report;
- a Functioning Ingredients and Indicative Ingredients Inspection Report;
- a Stability Test Report;
- a Hygiene Inspection Report; and
- a Stimulant and Banned Drugs Inspection Report (for products designed to alleviate fatigue, and weight loss and improve growth and development).

The manufacturer will then submit samples of its health supplement, copies of these reports and other relevant information to the local SFDA branch, which will issue a notice of acceptance or rejection within five days. If an acceptance notice is issued, the local SFDA branch will inspect the production site and take samples to test, before issuing an inspection opinion. After issuing the acceptance notice, samples will be submitted to the local SFDA for testing. The inspection institution must submit its inspection report to the SFDA, with copies sent to the manufacturer and the local SFDA branch, within 50 days.

*Product approval*

If the SFDA approves the product, it will issue a Domestically Produced Healthcare Food Approval Certificate to the manufacturer, authorising the manufacturer to produce the health supplement in China.

The Domestically Produced Healthcare Food Approval Certificate has an effective period of five years. Any amendment to the health supplements covered by a Domestically Produced Healthcare Food Approval Certificate requires approval by the local SFDA branch.

**Regulatory Regime in the UK/EU**

***Current Regulatory Framework***

The EU Pharmaceuticals Regulatory Framework currently comprises two key pieces of legislation:

(a) Council Regulation (EEC) No. 2309/93 of 22 July 1993, which sets out community procedures for the authorisation and supervision of medicinal products for human use and establishing a European Agency for the Evaluation of Medicinal Products.

This Regulation establishes the European Agency for the Evaluation of Medicinal Products (EMEA). EMEA assesses applications for marketing authorisations which are filed centrally and, when issued, are valid throughout the EU (see further below) and considers their compliance with quality, safety and efficacy requirements.

(b) Directive 2001/83/EC of the European Parliament and of the Council of 6 November 2001 on the Community Code relating to medicinal products for human use.

This Directive governs the production, marketing and distribution of medicinal products (both prescription and over the counter) within the EU including analytical, pharmaco-toxicological and clinical standards and protocols and packaging, labelling and advertising issues.

The Directive codified and consolidated in a single text the texts of seven earlier Council Directives concerning medicinal products for human use. "Medicinal products" are broadly defined to mean any substance or combination of substances:

(i) presented as having properties for treating or preventing disease in human beings; or

(ii) which may be used in or administered to human beings either with a view to restoring, correcting or modifying physiological functions by exerting a pharmacological, immunological or metabolic action, or to making a medical diagnosis.

The definition of "substance" is also very broad and, in particular, covers "any matter irrespective of origin which may be vegetable, e.g. micro-organisms, plants, parts of plants, vegetable secretions, extracts".

Some Member States, including the UK (pursuant to the Medicines Act), have implemented national legislation exempting herbal remedies from some of the requirements set out in Directive 2001/83/EC for medicinal products.

Cosmetics, which include hair care products and body care products, are governed by three separate Directives: (2003/15EC, 2003/83EC and 2003/80/EC).

Directive 2004/24/EC, which was to be implemented by member states by October 2005, amends Directive 2001/83/EC and introduces a new concept of traditional herbal medicinal products.

***Permits and Licences for Pharmaceutical Manufacturing Enterprises***

If a company manufactures or has manufactured in the EU any "medicinal product", it will first need to obtain a manufacturing authorisation issued by the relevant country of manufacture (Article 40(1) of Directive 2001/83/EC). The manufacturing authorisation will be required for both total and partial manufacture, and for the various processes of dividing up, packaging or presentation.

If a company manufactures its medicinal products in China and imports them into the EU, it will still need to obtain a manufacturing authorisation (Article 40(3) of Directive 2001/83/EC).

In the UK, these rules are implemented by the Medicines Act, 1968.

Manufacturing authorisations are granted by the national regulatory authority (the MHRA in the UK) and can generally be obtained within 90 days of application.

The holder of a manufacturing authorisation is obliged to comply with principles and guidelines of good manufacturing practice (GMP) for medicinal products (discussed below). He or she must ensure that:

(a) each batch of medicinal product manufactured and sold in the same member state of the EU has been manufactured in accordance with local manufacturing laws; and

(b) each batch of medicinal product manufactured in a third country (either in or outside the EU) and imported into an EU member state has undergone in a member state a full quantitative analysis of at least all the active substances and all the other tests and checks necessary to ensure the quality of medicinal products in accordance with the requirements of the marketing authorisation.

If the medicinal products are imported from a third country, the qualified person is relieved of these responsibilities if there is an agreement between the relevant member state and the third country to ensure that the manufacturer of the medicinal product applies standards of GMP, at least equivalent to those laid down in the Community.

For the manufacture of a product in the EU for use in clinical trials, a different form of manufacturing licence is required (Article 13 of Directive 2001/20/EC).

***Good Manufacturing Practice***

Directive 2003/94/EC lays down the principles and guidelines of GMP in respect of both medicinal products for human use and investigational medicinal products for clinical trials. Member states must ensure that manufacturers respect the principles and guidelines of GMP laid down by the Directive by means of repeated inspections.

The manufacturer must ensure that manufacturing operations are carried out in accordance with GMP and with the terms of the manufacturing authorisation. For products imported from third countries, the importer must ensure that the products have been manufactured (i) by persons duly authorised to manufacture the products; and (ii) in accordance with standards which are at least equivalent to the GMP standards laid down by the Community.

GMP standards require strict controls on the production of pharmaceutical products in respect of, among other matters, staff qualifications, production premises and facilities, equipment, raw materials, hygiene environment, production management, quality control, retention of specifications and documentation and dealing with customer complaints.

***Marketing in the EU of medicinal products***

In order to market a medicinal product in Europe, a marketing authorisation ("MA") is required in each of the Member States in which the product is to be marketed. There are presently only two ways of obtaining an MA which is valid across the EU: (i) the centralised procedure, which is for innovative products only (submitting a dossier at the EMEA which will give access to the entire EU territory); or (ii) the decentralised mutual recognition procedure ("MRP"). The MRP involves obtaining a national MA in one of the EU countries. That country becomes the Reference Member State ("RMS"), which will coordinate the recognition of the MA granted in the other EU countries selected by the MA applicant. The MRP was introduced in 1995 and became mandatory in January 1998. In order to obtain an MA, an application must be made to the competent authority supported by, in particular, the results of: (i) physico-chemical, biological or microbiological tests; (ii) pre-clinical toxicological and pharmacological tests; and (iii) clinical trials. Obtaining such extensive data on the quality, safety and efficacy of the product takes many years and requires significant expenditure.

EU legislation provides for a limited number of exceptions to the general rule that an MA must be applied for using a full application (Article 10 of Directive 2001/83/EC). In the case of a "true" generic, the applicant may be able to submit an abridged application that refers to data submitted by a previous applicant in support of its application. The benefit of an abridged application is that there is no requirement to submit the results of either toxicological or pharmacological tests or clinical trials if the applicant can demonstrate that the medicinal product is essentially similar to a medicinal product that is marketed in the Member State for which the application is made and has been authorised within the Community for a number of years such that the data exclusivity period for the previous applicant has expired. Prior to October 2005, the data exclusivity period was six or ten years depending on the Member State. Following amendments to Directive 2001/83/EC in October 2005, the exclusivity periods in every EU jurisdiction will be an eight year data exclusivity period

and a 10 year marketing exclusivity period. This is because in making the abridged application, the applicant will in effect be relying on the results from the toxicological and pharmacological tests and the clinical trials that have already been submitted for the previous MA of the drug to which the application referred.

A medicinal product is "essentially similar" to an original medicinal product where it "satisfies the criteria of having the same qualitative and quantitative composition in terms of active principals, of having the same pharmaceutical form and of being bioequivalent, unless it is apparent in the light of scientific knowledge that it differs significantly from the original product as regards safety or efficacy."

Where the medicinal product is intended for a different therapeutic use from that of the other medicinal products marketed or is to be administered by different routes or in different doses, the results of appropriate toxicological and pharmacological tests and/or of appropriate clinical trials must be provided (Article 10(1)(a)(iii) of Directive 2001/83).

The regulatory data exclusivity period does not affect patent protection. Therefore, a company manufacturing generic products will still have to wait until the expiry of the patent protecting the innovative medicinal product if it wishes to launch the generic product without the risk of being sued for patent infringement.

Unless revoked, a marketing authorisation will be valid for five years. It may then be renewed on the basis of a re-evaluation of the risk-benefit balance by the competent authority of the relevant Member State. Once renewed, the marketing authorisation is valid for an unlimited period, unless the competent authority decides, on justified grounds relating to potential adverse effects, to proceed with one additional five-year renewal.

*Non-Prescription Medicinal Products*

When a marketing authorisation is granted, the relevant regulatory authority specifies whether the medicinal product can be sold OTC, or only on prescription. OTC authorisation will not be available where the product is likely to present a danger if used without medical supervision, contains substances for which adverse reactions require further investigations or is to be administered by injection.

*Packaging and Labelling*

Directive 2001/83/EC sets out strict requirements for the labelling of the packaging and the product leaflets of medicinal products and also in relation to the advertising of medicinal products. Labelling and advertising criteria will differ depending on whether a product is prescription or non-prescription.

***Herbal Remedies***

In order to avoid the onerous requirements of EU Directive 2001/83/EC described above, a number of member states including the UK, Germany, Austria, Belgium, Italy and Spain, have made national laws which permit some exceptions for herbal remedies. For example, in the UK, section 12(2) of the Medicines Act provides that it is not necessary to obtain a marketing authorisation (and hence do the extensive clinical testing) in order to sell herbal remedies provided that: (i) the herbal remedies are sold under a designation that only specifies the plant or plants and the process and does not apply any other "brand" name to the remedy; and (ii) the herbal remedies are sold without any recommendation (whether by means of a labelled container or package or a leaflet or in any other way) as to the use of the remedy. The Sen business takes advantage of this regime.

***"Traditional herbal medicinal products"***

A new concept of "traditional herbal medicinal products" (THMPs) was introduced by Directive 2004/24/EC which was adopted in March 2004 and which was required to be implemented by member states by 30 October 2005.

Herbal products qualifying as THMPs will be subject to a simplified registration procedure compared to other medicinal products, provided that the applicant and the registration holder are established in the EU. This simplified registration is on the basis that the herbal remedy has already been used for a long time and has not demonstrated adverse effects. There is a transitional period that permits herbal products legally on the market in member states before April 2004 to remain on the market, without a THMP registration, until March 2011. Registration as a THMP, rather than as a general medicinal product, will have two key advantages:

(a) scientific evidence that needs to be provided to obtain a traditional use registration is less onerous than is currently required (and will continue to be required under the new regime) to obtain registration for other medicinal products. The same manufacturing and quality requirements will apply as for standard medicinal products, but the usual information on safety and efficacy will not be needed if this can instead be shown through a bibliographic review and expert reports concerning what is already known from the long term use of the herbal remedy; and

(b) restraints on branding and marketing of the THMP are less onerous than those imposed in relation to other medicinal products.

In order to qualify as a THMP, it must be demonstrated that the herbal medicine or a "comparable" product has been in medicinal use for 30 years (of which at least 15 years were in the EU) at the time of the application, although, in practice, regulatory authorities have indicated that they may permit some flexibility in the 15 and 30 year rules, where sufficient evidence of use can be shown. A comparable product means a product with the same active ingredient, the same or similar intended purpose and the same or similar route of administration.

There are also packaging and labelling requirements for THMPs. The labelling must state that the product is a traditional herbal medicinal product for use in specified indications exclusively based on long standing use. The package leaflet must also state that the user should consult a doctor or a qualified healthcare practitioner if the symptoms persist during the use of the product or if adverse effects not mentioned in the package leaflet occur.

The Committee for Medicinal Products for Human Use (part of the EMEA) intends to produce a list of established herbal substances for which applicants will not have to prove 30 years traditional use.

As at the date of this document the Group was engaged in utilising this regime to register various OTC medicines under the Sen brand in the UK.

***Cosmetics***

The hair care products, body wash, bath products, skin care products, and cosmetics sold or proposed to be sold by Sen Medicine Company fall within the definition of "cosmetic products" for EU Regulatory purposes.

The Cosmetics Products (Safety) Regulations (UK) 2004 (which came into effect on 11 September 2004 and implement three EC Directives on the safety of cosmetics (namely 2003/15/EC (7th Amendment), 2003/83/EC (30th Amendment) and 2003/80/EC (31st Amendment)) define a "cosmetic product" as being any substance or preparation intended to be placed in contact with various external parts of the human body. This must be with a view to cleaning them, perfuming them, changing their appearance and/or correcting body odours and/or protecting them or keeping them in good condition, except where such cleaning, perfuming, protecting, changing, keeping, or correcting is wholly for the purpose of treating or preventing disease. The regulation sets out various groups of ingredients that are prohibited in all cosmetics, prohibited for use as fragrance ingredients or may only be used subject to specified restrictions (these include ingredients known to cause allergy).

It is not necessary to obtain regulatory approval prior to marketing cosmetic products in the UK. However, cosmetic products may only be marketed if the container and package display the following information:

(a) the name or trade name and the address or registered office of the manufacturer or the supplier — being established within the EU;

(b) the date of minimum durability ("Best Before" date or a "Period After Opening" date);

(c) some means of identifying the production batch, normally a code or date;

(d) the function of the product, unless this is clear from its design and packaging; and

(e) a list of ingredients in descending order of weight, determined at the time the ingredient was added to the product.

The regulations also prohibit the marketing of cosmetic products tested on animals and prohibit animal testing.

# Fish & Richardson p.c.

Frederick P. Fish
1855-1930
W. K. Richardson 1859-1951

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May 10, 2006

The Directors
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George Town
Grand Cayman
Cayman Islands
British West Indies

The Directors
Lazard & Co., Limited
50 Stratton Street
London, W1J 8LL
United Kingdom

Dear Sirs:

We, Fish & Richardson P.C., are asked by Hutchison China MediTech Ltd. ("Hutchison" or " the Company") to report the Company's intellectual property strategy and portfolio.

Fish & Richardson P.C. is a Massachusetts professional corporation with over 320 lawyers in nine offices across the United States: Austin, Texas; Boston, Massachusetts; Dallas, Texas; Minneapolis, Minnesota; New York, New York; San Diego, California; Silicon Valley, California; Washington, DC; Wilmington, Delaware. Founded in 1878, we are one of the largest firms practicing intellectual property, litigation, and corporate law in the United States.

We have acted as one of the Company's patent counsel since 2002. Our representation is limited to matters individually referred to us by the Company and it is likely that there are matters involving or impacting the Company of which we are unaware. We understand that the Company has hired other counsel concerning certain intellectual property matters. To better demonstrate the Company's intellectual property strategy, we have mentioned in this report the Company's patent applications prepared, filed, or prosecuted by other counsel, but have not discussed them. Indeed, we have only considered the patent applications we filed and prosecuted for the Company. Thus, our report is limited only to those matters where we have been engaged by the Company to represent or advise it and where we have devoted substantive attention in the form of legal representation or consultation.

As to matters of fact (including factual conclusions and characterizations and descriptions of purpose, intention, or other states of mind), we have relied entirely upon various oral and written communications from the Company to us, some of which were made specifically in connection with this report.

Our report is based upon current statutes, rules, regulations, cases and official interpretive opinions. Subject to the limitations set forth herein, we have made such examination of law as we have deemed necessary for the purposes of expressing the opinions set forth in this report.

Our report includes the following three sections:

1. Intellectual property strategy,

2. The present portfolio of intellectual property rights, and

3. Third party rights.

## 1. INTELLECTUAL PROPERTY STRATEGY

We and the officers of the Company hold conferences on a regular basis to discuss intellectual property related issues. These issues include new research and development, claiming and patenting strategies, and commercial implications.

To our knowledge, the Company focuses on botanical drug research and development. Given the competitive nature of this field, we and the Company have devised a multi-layered intellectual property protection strategy. The first layer of the strategy aims at protecting active compounds (including herbal compounds and human metabolites of herbal compounds) and active compositions prepared from medicinal plants. Another layer aims at protecting improved formulations that contain active compounds or compositions. A further layer aims to protecting processes for economical production of active compounds or compositions. While the first layer plays a central role in the Company's intellectual property protection, the other layers provide additional protection.

We and the Company have also established an international intellectual property protection strategy. When an invention is made, the Company prepares and files, in conjunction with patent counsel, a provisional application in the United States to establish priority. Within 12 months, the Company converts the provisional application into a non-provisional application which includes improvements, if any.

For those cases where patent protection is to be pursued in different jurisdictions, an international application is filed under the Patent Cooperation Treaty ("PCT") within 12 months of filing the U.S. provisional application. The PCT system allows filing of a single application that designates a large number of member states, including most of the commercially important countries in the world. By taking advantage of the PCT system, the Company has 30 months from the priority date (i.e., the earliest filing date) to decide the foreign countries in which they would like to pursue patent protection.

In addition to PCT applications, the Company also files Taiwanese applications within 12 months of filing provisional applications to seek intellectual property protection in Taiwan, which is not a PCT member country, but is of great commercial importance.

Given the uniqueness of botanical drug development and the size of the Company, we believe that the multi-layered, international intellectual property strategy is appropriate. To date, the Company has filed numerous patent applications following this strategy. These applications have been assigned, or are believed to be assigned, to Hutchison MediPharma Enterprises Ltd. ("HMEL"), a Bahamas company solely held by Hutchison.

Further, we would like to point out that we presented both broad and narrow claims in the applications we have prepared and filed for Hutchison. This strategy is commonly used in order to obtain both strong and maximum patent protection. It is our opinion that even if only narrow claims are allowed, they would still provide sufficient protection of the Company's key technology. It is also our opinion that narrow claims are clearly patentable in view of the prior art known to us.

We have helped many clients obtain patents relating to active botanical extracts and ingredients. Some of the patents have been successfully commercialized. We are confident that we will acquire patents on all of Hutchison's applications prepared and filed by us.

Provided in the following section are the details of the individual cases in the Company's IP portfolio as of May 10, 2006.

## 2. THE PRESENT PORTFOLIO OF INTELLECTUAL PROPERTY RIGHTS

**Family 1: Patents and patent applications relating to HMPL-002**

| Country | Application/Publication No. | Filing Date | Status |
|---|---|---|---|
| China | 200410049698.2 | 6/23/2004 | Pending |
| United States | 11/156,211 | 6/17/2005 | Published |
| PCT | PCT/US2005/021457 | 6/17/2005 | Published |
| Taiwan | 94120647 | 6/21/2005 | Pending |
| China | 200410049697.8 | 6/23/2004 | Pending |
| United States | 11/156,210 | 6/17/2005 | Published |
| PCT | PCT/US2005/021564 | 6/17/2005 | Published |
| Taiwan | 94120644 | 6/21/2005 | Pending |
| United States | 11/292,322 | 12/1/2005 | Pending |

The above-listed U.S., Chinese, Taiwanese, and PCT applications are all related to HMPL-002, a compound isolated from a Chinese medicinal plant.

We prepared and filed the US, PCT, and Taiwanese applications for Hutchison. To the best of our knowledge, Hutchison, alone or with its Chinese patent attorneys, prepared and filed the two Chinese applications.

U.S. Utility Application 11/156,211, Taiwanese Application 94120647, and PCT Application PCT/US2005/021457 include claims to methods of using HMPL-002, or its analogues to treat cancers, including esophagus carcinoma, gastric adenocarcinoma, prostate carcinoma, colonic carcinoma, malignant melanoma, or Burkitt's lymphoma. These applications claim priority to U.S. Provisional Application 60/581,684, filed on July 21, 2004. HMEL is the sole assignee in the U.S. and Taiwanese applications, and is listed as the applicant in the PCT application.

U.S. Utility Application 11/156,210, Taiwanese Application 94120644, and PCT/US2005/021564 include claims to methods of using a combination of a chemotherapeutic agent and HMPL-002 or its analogues to treat esophagus carcinoma, gastric adenocarcinoma, prostate carcinoma, or lung cancer. These three applications claim priority to U.S. Provision Applications 60/581,663 and 60/634,238, filed on June 21, 2004 and December 7, 2004, respectively. HMEL is the sole assignee in the U.S. and Taiwanese applications, and is listed as the applicant in the PCT application.

U.S. Utility Application 11/292,322 benefits from the December 2, 2004 priority date of U.S. Provisional Application 60/632,703. It includes claims covering compositions of water-soluble formulations containing HMPL-002. HMEL owns this application as evidenced by the fact that it is the sole assignee.

In sum, the applications listed above were prepared and filed to pursue Hutchison's multi-layered, international intellectual property strategy. They cover (1) treatment of cancer using HMPL-002, or its analogues with or without another chemotherapeutic agent, and (2) water-soluble formulations of HMPL-002, or its analogues. Further, we have been informed by Hutchison that related research is in progress and new applications to further implement the intellectual property strategy will be prepared and filed in the near future.

Among the applications we have filed for Hutchison in this family, U.S. Utility Application 11/156,210 is under examination. The Examiner cited two prior art references, i.e., Linnane (U.S. Patent Application Publication 2004/0063661) and Begleiter (*Frontiers in Bioscience*, 153, 2000). According to Linnane, the side effects include muscle pain and fatigue, but not cancer. Belgeiter teaches treating cancer with compounds that are substantially different from the HMPL-002, and its analogues called for by the pending claims of this application. Thus, Linnane and Belgeiter, taken alone or in combination, do not disclose or suggest treatment of cancer with HMPL-002, and its analogues, let alone combining HMPL-002, and/or its analogues with a chemotherapeutic agent as required in the pending claims. We therefore conclude that U.S. Utility Application 11/156,210 is patentable over these two references.

Before, during, and after preparation of these applications, we and the inventors conducted independent prior art searches. We have studied the prior art documents uncovered by the searches. We are of the view that claims covering treatment of esophagus carcinoma, gastric adenocarcinoma, prostate carcinoma, colonic carcinoma, and Burkitt's lymphoma using HMPL-002 and claims covering water-soluble formulations of HMPL-002 are patentable over these prior art documents.

**Family 2: Patents and patent applications related to HMPL-004**

| Country | Application/Publication No. | Filing Date | Status |
|---|---|---|---|
| China | 200410008512.9 | 3/11/2004 | Pending |
| United States | 11/078,198 | 3/11/2005 | Published |
| Taiwan | 94107486 | 3/11/2005 | Pending |
| PCT | PCT/US2005/00831 | 3/11/2005 | Published |
| China | 200410037476.9 | 3/11/2004 | Pending |
| United States | 11/116,678 | 4/27/2005 | Pending |
| Taiwan | 94113415 | 4/27/2005 | Pending |
| PCT | PCT/US2005/014288 | 4/26/2005 | Published |
| United States (Provisional) | 60/777,887 | 2/28/2006 | Pending |

The above-listed applications were filed to pursue the multi-layered, international intellectual property strategy. Among them, we prepared and filed for Hutchison the US, PCT, and Taiwanese applications; and Hutchison, alone or with its Chinese patent attorneys, prepared and filed the two Chinese applications.

U.S. Utility Application 11/078,198, Taiwanese Application 94107486, and PCT/US2005/00831 relate to HMPL-004. These applications claim priority to U.S. Provisional Application 60/552,329, filed on March 11, 2004. Each of them includes claims to methods of inhibiting TNF$\alpha$ or IL-1$\beta$ expression or treating inflammatory bowel disease with HMPL-004 and its analogues. The U.S. application has been published as US 2005-0215628.

U.S. Utility Application 11/116,678, Taiwanese Application 94113415, and PCT/US2005/014288 relate to a plant extract containing HMPL-004. These applications all claim priority to U.S. Provisional Application 60/566,477, filed on July 21, 2004. Each of them includes claims to methods of inhibiting TNF$\alpha$ or IL-1$\beta$ expression, or treating inflammatory bowel disease with the extract.

HMEL owns all the above U.S., Taiwanese, and PCT applications as evidenced by the fact that it is the sole assignee in the US and Taiwanese applications and is the applicant in the PCT applications.

The U.S. provisional application filed on February 28, 2006 relates to a pharmaceutical plant extract formulation containing HMPL-004, which, in contact with water, gradually releases the extract into water. To the best of our knowledge, the inventors were employees of Hutchison at the time the invention covered by this application was made, and the rights in this invention are therefore vested in Hutchison.

PCT/US2005/00831 has been examined by the International Preliminary Examining Authority. The Authority acknowledges that claims 25 and 26 covering treatment of Crohn's disease or ulcerative colitis using HMPL-004 and its analogues are patentable. However, the Authority raises an anticipation issue and/or obviousness issue against the other claims of this application, relying on two references, i.e., Habtemarian (*Planta Med*. 2000, 66: 309) and Xia (*The Journal of Immunology*, 2004, 173: 4207-4217).

Habtemarian discloses that HMPL-004 inhibits intercellular adhesion molecule 1. Xia discloses that HMPL-004 inhibits NF-κB. Neither of these two references discloses or suggests that this compound inhibits TNFα or IL-1β. We are therefore confident that claims covering inhibition of expression of TNFα or IL-1β with HMPL-004 and its analogues are novel and unobvious over these two references.

PCT/US2005/014288 has also been examined by the International Preliminary Examining Authority. The Authority has acknowledged that all pending claims in this application are patentable.

Before, during, and after preparation of the above-listed applications, we and the inventors conducted independent prior art searches. It is our view that the following claims are patentable over the prior art documents uncovered by the searches: (1) claims covering inhibiting expression of TNFα or IL-1β with HMPL-004 and its analogues; (2) claims covering treating Crohn's disease or ulcerative colitis with HMPL-004 and its analogues; (3) claims covering a plant extract containing HMPL-004; and (4) claims covering a plant extract formulation containing HMPL-004.

**Family 3: Patent Application related to compounds isolated from *N.t.*, an herbal plant used in Chinese traditional medicine**

| Country | Application No. | Filing Date | Status |
|---|---|---|---|
| United States | 11/004,142 | 12/3/2004 | Published |

This invention is based on a discovery that a compound found in *N.t.* inhibits expression of both TNFα and IL-1β. Given this discovery, this compound can be used to treat TNFα related diseases or IL-1β related diseases.

A provisional application covering this invention was first filed in the United States on December 3, 2003. A year later, a corresponding U.S. utility application was filed and assigned to HMEL.

The U.S. utility application includes claims to methods of inhibiting expression of TNFα or IL-1β with this compound and its analogues. It also includes claims to methods of treating certain TNFα related diseases or certain IL-1β related diseases with a compound isolated from N.t. and its analogues. The application has been published as US 2005-0148616, but has not yet been examined.

We and the inventors conducted independent prior art searches before, during, and after preparation of this application. It is our view that claims covering the use of this compound to inhibit expression of TNFα or IL-1β or to TNFα related diseases or IL-1β related diseases are patentable over the prior art documents uncovered by the searches.

**Family 4: Patent application related to compounds isolated from an herbal plant used in Chinese traditional medicine**

| Country | Application No. | Filing Date | Status |
|---|---|---|---|
| United States | 11/269,158 | 11/8/2005 | Pending |
| United States | 11/292,321 | 12/1/2005 | Pending |

As instructed by Hutchison, we prepared and filed two U.S. applications (U.S. Utility Applications 11/269,158 and 11/292,321) relating to three compounds found in leaves of an herbal plant used in Chinese traditional medicine. U.S. Utility Application 11/269,158 claims priority to U.S. Provisional Application 60/626,171, filed on November 9, 2004; and U.S. Utility Application 11/292,321 claims priority to U.S. Provisional Application 60/632,615, filed on December 2, 2004. U.S. Utility Application 11/269,158 includes claims to methods of treating cancer with a chemotherapeutic agent and any of the three compounds and their analogues. U.S. Utility Application 11/292,321 includes claims to methods of treating certain cancers with any of the three compounds and their analogues.

HMEL owns both U.S. Utility Applications 11/269,158 and 11/292,321 as evidenced by the fact that it is the sole assignee in these two applications.

Before, during, and after preparation of these two applications, we and the inventors conducted independent prior art searches. It is our view that claims covering treating cancer with a combination of a chemotherapeutic agent and any of the three compounds and claims covering treating certain cancers with any of the three compounds are patentable over the prior art documents uncovered by the searches.

**Family 5: Patents and patent applications related to fruit extracts.**

| Country | Patent/Application No. | Filing Date | Status |
|---|---|---|---|
| China | 03145774 | 7/3/2003 | Pending |
| PCT | PCT/CN2004/00715 | 7/3/2004 | Pending |
| China | 03156433 | 8/29/2003 | Pending |
| United States | 10/930,887 | 8/30/2004 | Published |
| China | 96109637.3 | 9/11/1996 | Granted 6/14/2000 |

The above-listed U.S., Chinese, and PCT applications are all related to extracts of a fruit.

We prepared and filed U.S. Utility Application 10/930,887 for Hutchison. To the best of our knowledge, Hutchison, alone or with its other patent attorneys, prepared and filed the Chinese and PCT applications.

U.S. Utility Application 10/930,887 claims priority to U.S. Provisional Application 60/499,258, filed on August 29, 2003. It includes claims to methods of inhibiting expression of TNF$\alpha$ or IL-1$\beta$ with 5-HMF, a compound isolated from a fruit, and its analogues, and claims to methods of treating TNF$\alpha$ related diseases or IL-1$\beta$ related diseases with 5-HMF and its analogues. The assignee in this application is HMEL. This application has been published as US 2005-0124684, but has not yet been examined.

Before, during, and after preparation of this application, we and the inventors conducted independent prior art searches. We have studied the prior art documents uncovered by the searches. We are of the view that claims covering methods of inhibiting expression of both TNF$\alpha$ and IL-1$\beta$ with 5-HMF are patentable over these prior art documents.

**3. THIRD PARTY RIGHTS**

We are not aware of any third parties conducting activities that may infringe any of the patents to be issued from the above applications. Nor are we aware of any infringements relating to the exploitation of any of the patents to be issued from the above applications.

Very truly yours,

Y. Rocky Tsao, Ph.D., J.D.
Principal
Fish & Richardson P.C.

**Potential investors should carefully consider all of the information set out in this document and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any decision to acquire Placing Shares. The occurrence of any of the following risks could have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and cause the market price of the Shares to fall significantly and accordingly investors could lose part or all of their investment. The risks identified below do not necessarily comprise all those associated with an investment in the Company. Additional risks and uncertainties not presently known to the Company or the Directors or that the Company or the Directors currently deem immaterial may also adversely affect the Group's business or operations.**

## Risks Relating to the Group

### *The Group has a limited operating history*

The Group was established in 2000. Since inception, the Group has undergone a number of organisational changes, including the establishment of a number of operating joint ventures in China. Whilst the Group includes a number of well-established and reputable TCM businesses, as previously carried on by its joint venture partners in China, the Group itself is relatively new, with its operating entities continuing to undergo a process of integration to create synergies and to develop a unified business strategy for growth and expansion.

The limited operating history of the Group makes it difficult for a potential investor to evaluate the Group's business and prospects. In particular, Hutchison Baiyunshan is a recently established joint venture for which it has proved impossible to extract meaningful historical financial information for the period prior to its establishment. There can be no assurance that the operation and integration of this joint venture will proceed in accordance with the Group's plans. Potential investors should consider the business and prospects of the Group in light of the potential risks and unexpected costs and problems that it may face as a development-stage venture in an evolving industry.

Since its establishment, the Group has focused on the production and sale of TCM-based products in China and overseas as well as the research, development and commercialisation of potential product applications. While the Group has made significant progress in advancing certain of its drug candidates to clinical trials in the US, many of its drug candidates and potential products are undergoing further development as part of the commercialisation process. To date, limited revenues have been generated from the research and development arm, and the overseas retail arm of the Group's business, Sen. In particular, the business as currently carried on by the Group outside China is subject to the challenges inherent in the development of a new business venture, including (i) the need to explore and strengthen the Group's positioning in the market; and (ii) the need to obtain significant capital to support the cost of further development of the Group's present and future product applications and the commercialisation of related products.

### *The Group has incurred operating losses and such losses are expected to continue*

As certain businesses within the Group are still at a relatively early growth and development stage, their revenue and profit potential are unproven. To date, the Group as a whole has yet to make a profit and, for the year ended 31 December 2005, the Group made a loss of US$6.4 million, incurred negative cashflows from operating activities of US$13.5 million, had net current liabilities and, until the capitalisation of shareholder loans which takes effect on Admission, as referred to in paragraph 3.3 of Part VIII of this document, has net liabilities. The Group's losses and expenses have resulted principally from its drug research and development programmes. The Directors expect that the Group's net losses will continue for the short to medium term, as the Group continues to incur expenses relating to, among other things:

- the conduct of clinical trials on the Group's drug candidates;
- research and development into new product applications and the commercialisation of related products;
- the filing of patent applications and other measures taken to protect the Group's intellectual property rights;
- the establishment of partnerships with third party institutions and organisations in relation to research and development, manufacturing, sales and marketing; and

- development of the Group's distribution, sales and marketing network.

The Group may continue to incur substantial operating expenses even if its revenues increase. As a result, the extent of future losses and the timing of any future profitability of the Group are uncertain.

***The Group may not be able to maintain the same or similar rates of growth or find synergistic acquisitions in the future***

The Group has, since its establishment, enjoyed a high rate of growth in terms of its total sales. This growth has, in part, been attributable to the entry by the Group into joint ventures, the positive impact of the structural changes and development philosophies that the Group has been able to bring to these businesses and the consolidation of the established product offerings of its joint venture partners into its own portfolio. As the businesses of the Group mature, however, the rate of growth currently enjoyed by the Group may not be maintained. The Group may not be able to achieve organic growth or to find synergistic acquisition opportunities in the future. The Group's sales may also be adversely affected by factors outside its control.

***The Group is dependent on a small number of products and the China market and there can be no assurance that its marketing activities will be successful. A decrease in the level of sales of any of these products would have an adverse impact on the Group's financial position***

In the year ended 31 December 2005, the Group's total sales were approximately US$ 37.9 million. Of the Group's currently marketed products, the largest four products (by sales) generated 72 per cent. of the Group's 2005 consolidated revenue. Product sales may be affected by adverse market developments, including the market for a particular product not developing in the manner predicted by the Group, downward pressure on pricing from governments and other third parties to limit healthcare costs, increased competition and the withdrawal of a product for regulatory reasons or otherwise. In addition, the Group's current sales and marketing activities are focused on China with many of the Group's products being sold only there. While the Group will continue to engage in extensive marketing activities, sales of products may not grow as a result of such expenditure. In particular, the generic nature of many of the Group's products means that the growth of sales for these products is dependent on market positioning and brand building. Any failure to maintain or achieve anticipated increases in product sales could have a material adverse effect on the Group's financial condition, results of operations and prospects.

***The Group's historical financial condition and operations would have been different had it been operated as a stand-alone group***

The financial information included in Part V of this document has been prepared in line with the ownership structure of the Company and its subsidiaries (other than Hutchison Baiyunshan). Hutchison Baiyunshan is a recently established joint venture for which it has proved impossible to extract meaningful historical financial information for the period prior to its establishment. For further information on the presentation of the Group's financial information, please see the notes to the financial information contained in Part V of this document.

The business of the Group to date has relied on and been financed through shareholder loans from the ultimate shareholder of the Company, HWL, on terms that are not generally available in the market. HK$575,219,920 of the amounts owed to HHHL will be capitalised, conditional upon, but effective immediately prior to, Admission (as disclosed in paragraph 3.3 of Part VIII of this document). The amount capitalised is the amount outstanding to HHHL at 31 March 2006. Since 31 March 2006, the Group has incurred further indebtedness to HHHL in respect of the Group's working capital requirements. The Directors intend to repay these amounts shortly following Admission. Following the completion of the Placing, the Group may no longer rely on HWL for funding. HWL is not obliged to provide the Group with financial support and any future capital requirements of the Group beyond the funds raised from the Placing will be reliant on its ability to raise capital in the financial markets or borrow from banks. It is uncertain when any such additional funding may be required by the Group.

The financial information presented in this document may not therefore reflect what the Group's historical financial condition and results of operations would have been if it had operated as a separate group of companies instead of as a part of HWL's group of subsidiaries, and they are not necessarily indicative of the Group's future financial condition or results of operations.

***The Company's controlling shareholder may take actions that are not in, or may conflict with, the best interests of the other shareholders of the Company. There is no assurance that the benefits currently enjoyed by the Group by virtue of its association with HWL will continue to be available.***

The Company's principal indirect shareholder is HWL, which will hold approximately 71.6 per cent. of the Company's shares immediately after the Placing. HWL will remain able to influence the Company's business through its ability to control actions that require the approval of a majority of shareholders and through its representatives on the Company's board of directors. HWL is not obliged to exercise its rights as a shareholder in the best interests of the Group or of the other shareholders of the Company, and may engage in activities that conflict with such interests. If the interests of HWL conflict with the interests of the Company's other shareholders, or if HWL chooses to cause the Group's business to pursue strategic objectives that conflict with the interests of the Company's other shareholders, those shareholders could be disadvantaged by the actions that HWL chooses to pursue.

The Group has relied upon the resources and reputation of HWL in establishing its joint ventures and other operations in China and elsewhere. HWL has stated that its current intention is that the Company will continue to be the primary vehicle through which the HWL Group will be involved in researching, developing, manufacturing and selling pharmaceuticals, health supplements and other consumer health and personal care products derived from TCM and botanical ingredients and that it will also assist the Group in identifying, developing and acquiring potential investment opportunities relevant to the Group's businesses for so long as it retains a significant interest in the Company. However, HWL has not given any binding undertaking that it will not engage in any activities that may compete with the Group.

The Directors believe that the Group's association with HWL and use of certain trade marks incorporating the "Hutchison" name is key to establishing the Group's distinctive corporate and market identities. The use of these trade marks and certain domain names in the Group's corporate names and its products is subject to the terms of a licence from HWEL ("Licensor"). In the case of Hutchison Baiyunshan, this use is subject to a licence between that company and the Licensor. A summary of this licence is set out in paragraph 20(d) of Part VIII of this document. In the case of all other members of the Group, the use is subject to a licence between the Company and the Licensor which requires sub-licences to be put in place between the Company and other members of the Group (although such sub-licences have not yet been put in place). A summary of this licence is set out in paragraph 20(c) of Part VIII of this document. In particular, this licence contains stringent controls over the Group's right to use certain trade marks and domain names and contains provisions requiring the Group to: use the brand in specified ways; use the brand in conjunction with third party brands only with the Licensor's consent; adhere to certain quality control requirements; and to report any events of infringement of the intellectual property rights contained in the brands. Breach of these requirements could, in certain circumstances, require the Company to cease using the trade marks. The licence may also be terminated in certain circumstances. Where the Licensor terminates the licence as a result of Hutchison China's direct or indirect interest in the Company falling below specified levels, the relevant Group member(s) will have a transitional period of 6 months to cease use of the trade marks and domain names. For termination in other circumstances, including for a breach of the licence, no such transitional period will apply. In the event that a licence is terminated the trade marks and domain names will no longer be available to the Group, or the relevant member of the Group and the Group or the relevant member will be required to undertake rebranding of certain of its products, which may have a material adverse effect on the Group's financial condition, results of operations and prospects.

In addition, the Group currently benefits from its ongoing relationship with HWL and HWL's other subsidiaries and affiliates through HWL's global reach and relationships. There can be no assurance that HWL will continue to allow the Group to have access to such benefits in the future.

***The Group does not hold 100 per cent. of the equity interests in all of its Chinese operating companies and, as a result, does not have complete control of these companies, which may limit its ability to cause these operating companies to take actions that the Directors believe would be beneficial to the Company's shareholders***

The Group's China healthcare business consists of three equity joint ventures. The Company's indirect equity interests in these operating companies do not provide the Company with the ability to control actions that require shareholder approval. In addition, under the joint venture contracts for these entities, the consent of the directors nominated by the Group's joint venture partners is required for the passing of resolutions in relation to certain matters concerning the operations of these companies. As a result, although the Group

participates in the management, and in many cases has day to day operational control, of such operating companies, it may not be able to secure the consent of its joint venture partners to pursue activities or strategic objectives that are beneficial to or that facilitate the Group's overall business strategies. Furthermore, disagreements or disputes which arise between the Group and the joint venture partners of these operating companies may hinder the smooth operation of the Group's business or adversely affect the Group's financial condition, results of operations and prospects.

***There is no assurance that the Group's current and future research and development projects will be successful***

The successful development of TCM and Western pharmaceutical products can be affected by many factors. The unpredictability of discovery research results and the scientific risks associated with clinical trials mean that there can be no assurance that any identified drug lead will result in a viable drug candidate, or that any drug candidate will be able to demonstrate efficacy and safety of use to proceed successfully through pharmacological testing and clinical trials.

Products that appear to be promising at their early phases of research and development may fail to be commercialised for various reasons, including failure to obtain the necessary regulatory approvals for the registration or production of the products under development. In particular, the Group may not be able to obtain FDA approval in the US in relation to its drug candidates that are currently undergoing clinical trials, or be able to register these drug candidates in other places outside the US in the future.

In addition, the research and development cycle for new pharmaceutical products for which the Group may obtain product registration or approval is generally quite long. The Group's present and future research and development projects may not be successful or be completed within the anticipated timeframe or budget and the results of such research projects may not lead to viable commercial production. Even if the new products can be successfully qualified for commercial sale, there is no guarantee that they will be accepted by the market.

The Group may not be successful in marketing its products as viable alternatives to Western medicine outside China where consumers on the whole remain cautious about TCM, or in finding appropriate partners to assist the marketing and distribution of its drugs to doctors and other users outside China.

***Dependence on patents and other intellectual property***

The Group's ability to compete effectively with other companies will depend in part on its ability to obtain and maintain patent and/or trade mark protection for certain of its products and product candidates, preserve its trade secrets, defend and enforce its rights against infringement and operate without infringing the proprietary or intellectual property rights of third parties. The validity and enforceability of patents and/or trade marks may involve complex legal and factual issues resulting in a high degree of uncertainty as to the extent of the protection provided.

The Directors consider patent protection to be of the utmost importance to Hutchison MediPharma which, as at the date of this document, had been granted 1 patent and had filed over 25 further patent applications including 5 PCT applications. The enforcement of such rights in China can be difficult and there is a high risk of counterfeiting in Chinese markets. The Group may not be successful in obtaining patents based on pending patent applications or any future patent applications and the scope applied for may not be sufficient to exclude competitors or provide competitive advantages to the Group. Any patents that the Group has or may be granted may be successfully challenged and others may claim rights in the patents and other proprietary rights held by the Group. In particular, the ability to obtain patent protection for drug candidates which are derived from or based on TCM or botanical products is relatively novel and may be subject to difficulties regarding the issue of patents and the validity of patents issued. In addition, the development of pharmaceutical products may take a number of years and patents which may be granted in respect of such products may have expired or be due to expire by the time such products are commercialised.

Furthermore, others may have developed or may develop similar products, duplicate any of the Group's products, or design around any patents that the Group may obtain. The Group may have to enforce its intellectual property rights against third parties who infringe those rights or challenge patent or trade mark applications which might impact on the Group's intellectual property. Such proceedings are typically protracted with no certainty of success and normally involve significant costs and management time.

If the Group's products and product candidates are claimed under other existing patents or are otherwise claimed to be the subject of third party proprietary rights, the Group may be subject to infringement actions. There has been substantial litigation and other proceedings regarding patent and other intellectual property rights in the pharmaceutical and related industries. Since patent applications in some countries are maintained in secrecy until the issue of a patent, the Group also cannot be certain that others did not file applications for inventions covered by the Group's pending patent applications before the Group, nor can the Group be certain that it will not infringe any patents that may be issued to others on such unpublished applications. If the Group is required to defend itself against charges of patent infringement or to protect its own proprietary rights against third parties, substantial costs and significant management time and effort could be incurred regardless of whether the Group is successful. Such proceedings are typically protracted with no certainty of success. An adverse outcome could subject the Group to significant liabilities to third parties, and force it to curtail or cease the development of product candidates or the sale or licensing of products.

The Group also relies on trade secrets and non-patentable know-how that it seeks to protect, in part, by confidentiality agreements with its employees, consultants, suppliers, licensees and other contractual partners. These agreements may not represent effective protection and/or may be breached. The Group may not have adequate remedies for any such breach, and/or its trade secrets or non-patentable know-how may otherwise become known or be independently developed by competitors. Rights to trade secrets and confidential know-how are not monopoly rights and competitors may have and/or may independently develop equivalent know-how which they would be free to use.

Certain of the Group's principal TCM pharmaceutical products are currently protected by the relevant laws in China. During the relevant protection period, the SFDA will not issue a permit for the production of the same medicine to any other pharmaceutical manufacturer. These pharmaceutical products will be subject to reassessment by the SFDA upon the expiry of the relevant protection period. There can be no assurance that the Group will be able to obtain a renewal of such protection in respect of its products. Any failure by the Group to obtain or maintain such protection may have a material adverse effect on its financial condition, results of operations and prospects.

Despite the protection offered by the existing regulatory regime, as a practical matter, enforcement of the protected rights can be difficult in China, and counterfeiting of registered or certified products and associated intellectual property right infringements are commonplace. The risk of counterfeiting and infringement of the Group's intellectual property rights increases with the successful marketing and brand awareness building of generic products which do not qualify for specific pharmaceutical protection under Chinese law. The Group's business and financial performance may be adversely affected by such third party infringements.

The Group cannot therefore be certain that it will obtain, or be able to enforce, patents and other intellectual property rights in respect of its products and product candidates and failure in this respect could have a material adverse effect on the Group's financial condition, results of operations and prospects. In addition any dispute over patents and any other intellectual property rights may result in the Group being prevented from using certain intellectual property which may restrict the business of the Group and the Group may in addition be required to pay substantial damages and costs, which would have a material adverse impact on its financial condition, results of operations and prospects.

***The Group's present and future products may not satisfy the relevant present or future regulatory requirements in overseas jurisdictions for sale as pharmaceutical or healthcare products***

The pharmaceutical industry is subject to strict regulation. Part of the Group's business involves marketing herbal remedies based on TCM in Western markets, such as the UK and the US, where such remedies are not widely understood or recognised, and are in competition with established Western chemical remedies sold by large multinational drug companies. Local laws and regulations in these countries often contain stringent requirements for the approval and registration of pharmaceutical products sold in those markets. The Group may not be successful in obtaining approvals for products in these countries and this may prevent the Group from achieving its business objectives. Failure to obtain approvals for the Group's products in one country could also affect the ability of the Group to market the same or similar products in other countries.

The EU Directives (2001/83/EC and 2004/24/EC) on the marketing and registration of "medicinal products" and "traditional herbal medicinal products", for example, could potentially restrict the ability of the Group to sell its products in Europe. In particular, in the UK, the use of branding and labelling which have not received a marketing licence from the MHRA may prevent the relevant herbal products from qualifying for

the "herbal remedies" exception in Directive 2001/83/EC and being classified as a "medicinal product". This could result in the Group being compelled to apply for a marketing authorisation (and hence fulfil extensive clinical testing requirements), or being required to remove its products from the UK market altogether.

The regulatory regime in any country where the Group operates may change from time to time. Changes in any regime may affect the ability of the Group to satisfy the necessary requirements for sale of its products or may require it to remove its products from such markets altogether.

***The Group relies on certain key personnel***

The Group's senior management and key research and development personnel are experienced in different fields of research, development, production, marketing and corporate management in the pharmaceutical industry in China. As such, the Group's success is, to a certain extent, attributable to the expertise and experience of its senior management and key research and development personnel, who carry out key functions in the operations of the Group. If the Group loses the service of any of its senior management or key research and development personnel, whether though illness or death (including as a result of an epidemic) or as a result of moving employment, or if the Group fails to attract additional personnel, the Group's research capability, financial condition, results of operations and prospects may be adversely affected. While the Group places great emphasis on appropriate policies to motivate and retain its staff, it may not be able to attract and retain the staff and key personnel that it will need to achieve its business objectives on acceptable terms, or at all.

***The Group does not own all of the intellectual property rights in the brands under which it markets its products***

The Group does not own all of the intellectual property rights in the brand names that it uses to market its products. The "Baiyunshan" ("白雲山") brand, which is a key brand used by the Group on its products, has been licensed to the Group by its joint venture partner for use during the 50 year joint venture, however Guangzhou Baiyunshan has the right to terminate the licence if its interest in Hutchison Baiyunshan falls below 50 per cent.. A summary of the licence is set out in paragraph 21 of Part VIII of this document. If such licence is terminated, the Group's business, its positioning in the Chinese market and its financial condition, results of operations and prospects may be materially and adversely affected. See also the risk factor entitled *"The Company's controlling shareholder may take actions that are not in, or may conflict with, the best interests of the other shareholders of the Company. There is no assurance that the benefits currently enjoyed by the Group by virtue of its association with HWL will continue to be available."*

***The Group relies on major distributors for the sale of its products in certain regions***

The Group sells a large proportion of its products through major distributors in various regions of China. Sales to the Group's largest regional distributor accounted for approximately 11 per cent. of the Group's total gross sales for the year ended 31 December 2005. While the Group has established long-term close working relationships with many of these distributors and will continue to work to maintain and develop its relationship with them, they are not bound to the Group by long term agreements. If any of these major distributors cease to purchase the Group's products and the Group is unable to find suitable replacements the Group's business operations in the relevant market may be significantly disrupted and its revenue and profitability may be adversely affected.

***The Group relies on major suppliers for the procurement of raw materials for certain products***

The Group sources some of its principal raw materials from certain major suppliers on suppliers' standard terms. Whilst alternative sources of supply may be available, only a limited number of industry suppliers have the technical capabilities to produce certain specialised materials, or are in a position to supply particular raw materials of a quality acceptable to the Group. Although the Group will continue to review its procurement arrangements for those raw materials and work to maintain existing relationships and develop new relationships with suppliers, it does not have long term agreements with existing suppliers and may not be able to lower its dependence on its principal suppliers. Any loss of a supplier or adverse change to its relationships with its principal suppliers, may adversely affect the business, profitability, financial condition, results of operations and prospects of the Group.

***The Company does not intend to pay dividends in the foreseeable future and its ability to make dividend payments depends on factors including the earnings of the Group's operating companies, future changes in the value of the RMB, US dollar and pound sterling and foreign exchange controls***

The Company does not currently intend to, but may in the foreseeable future, pay dividends to its shareholders. The Directors currently intend to retain all of the Group's earnings to finance the development and expansion of the Group's business and therefore do not intend to declare or pay any cash dividends on the shares of the Company in the near to medium term. Except as permitted under the Companies Law and the common law of the Cayman Islands, the Company is not permitted to distribute dividends except from profits, realised or unrealised, or a reserve set aside from profits which the Directors determine is no longer needed. The Company does not currently have any retained profits or other reserve set aside to pay dividends and as at 31 December 2005 had negative reserves of US$33.7 million.

As the Company is a holding company, it has no significant operations of its own. The Company's ability to distribute dividends largely depends on earnings from its operating companies and its operating companies' ability to pay dividends out of those earnings. Unless the operating companies generate sufficient earnings and cash flows to meet their and the Company's obligations, they will not be able to remit sufficient earnings to allow the Company to pay dividends. In addition the Company does not have the unilateral right to declare or pay dividends out of its China healthcare joint ventures. There can therefore be no assurance that the Company will ever be in a position to pay dividends to its shareholders.

The Placing Shares will be issued in pounds sterling. Currently, the majority of the Group's revenues and costs are denominated in RMB, while its accounts are stated in US dollars. In addition, as the Group intends to further develop in overseas markets, a growing part of its sales will be denominated in US dollars or another foreign currency. Accordingly, the Group's profitability, asset value and its ability to pay dividends in pounds sterling could be adversely affected by foreign exchange fluctuations, including any fluctuations of the RMB to the pound sterling or US dollar or the pound sterling to the US dollar exchange rates. The Group's ability to obtain sufficient foreign currency to pay dividends on the Shares may be further affected by Chinese laws and regulations which restrict the extent to which foreign invested enterprises are permitted to convert RMB into foreign currency for repatriation and distribution of profits or dividends overseas. A summary of applicable Chinese laws and regulations is set out in paragraph 10 of Part VIII of this document. There can therefore be no assurance that the Company will ever be in a position to pay dividends to its shareholders.

***The Group's interests in jointly controlled entities are accounted for by proportionate consolidation which is in accordance with International Financial Reporting Standards ("IFRS"). It is expected that there will be significant continuing developments in IFRS and the basis of reporting the Group's interests in jointly controlled entities in future accounting periods may differ to that adopted in the preparation of the consolidated financial information presented in Part V of this document***

The International Accounting Standards Board issued a standard on transition to IFRS in June 2003. It is expected that there will be significant continuing developments in IFRS and consequently there is uncertainty about exactly what IFRS will require in future accounting periods. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation which is in accordance with IFRS. The basis of reporting the Group's interests in jointly controlled entities in future accounting periods may differ to that currently adopted in the preparation of the consolidated financial information presented in Part V of this document. The on-going development of IFRS could possibly have a material impact on the presentation of the Group's reported financial position and results, through changes with respect to proportionate consolidation. At this stage, it is not possible for the Directors to determine whether there will be a change to IFRS with respect to proportional consolidation or to determine the magnitude of an impact if there is one.

**Risks Relating to The Industry**

***The pharmaceutical industry in China is strictly regulated***

The pharmaceutical industry in China is subject to strict regulation. The regulatory regime in relation to the approval of medicines and production approvals comprises a series of regulations and administrative rules, which are subject to change at any time without prior notice or consultation. Any such change or amendment may have a significant impact on the business of the Group.

Under the current regulatory regime, all pharmaceutical manufacturing enterprises in China are required to obtain from various Chinese governmental authorities certain permits and licences, including a DM Permit, business licence and GMP certification. While the Group has obtained the requisite permits and licences and

GMP certification for the manufacture of its pharmaceutical products, these permits and licences are subject to periodic review and reassessment by the relevant Chinese regulatory authorities, and the standards of compliance applicable to the Group are subject to periodic change. Any failure by the Group to obtain such renewals, or the imposition of further compliance requirements involving additional expenditure by the Group, may have a material adverse effect on the Group's financial condition, results of operations and prospects.

***The production of TCM products relies on the supply of quality medicinal raw materials; the supply of such raw materials is dependent on weather conditions and other seasonal factors***

The principal raw materials that the Group uses in the manufacturing process of its products are medicinal herbs whose properties are related to the regions and climatic conditions in which they are grown. The Group's production relies on the supply of such medicinal herbs of suitable quality. The availability, quality and prices of these raw materials are dependent on and closely affected by weather conditions and other seasonal factors which have an impact on the yields of the harvests each year. In 2002, for example, a flood in Anhui province adversely affected Guangzhou Baiyunshan's cultivation sites for the production of Ban Lan Gen, an important medicinal herb used in its products, and the same sites remain the principal source of supply of Ban Lan Gen for the Group today.

The supply and prices of the raw materials are also subject to fluctuations according to market conditions, and any sudden increases in demand in the case of a widespread illness such as SARS or avian flu, for example, may impact the Group's costs of production. Although alternative sources of supply exist in most cases, those alternative supplies may not be of the same quality and may require the Group to expend more to extract the active ingredients on which its products are based. Fluctuations in the quantity and quality of raw materials available and market prices may therefore affect the Group's production and production costs and could adversely affect its business opportunities and/or financial condition, results of operations and prospects.

***The Group may face product liability litigation, regulatory intervention, adverse PR and business interruption as a result of any serious quality or safety issues affecting its products***

The Group's products are based on herbal extracts which have been used in Chinese medicine for centuries and the Directors therefore believe that the risk of harmful side effects from their use is low. Nevertheless, in new formulations or concentrations, or in combination with other chemical drugs or when used in new applications, they may cause such effects. In that case, the Group may face claims and/or criminal prosecutions arising from the alleged harmful effects of consumption or use of its products.

Under Chinese law, manufacturers and vendors of defective products face strict liability for any property damage or physical injury to any person caused by defective products. A consumer may therefore bring a claim against the Group even if responsibility for the relevant product defect rests primarily with a retailer of the Group's products. Similar rules operate in the UK and other Member States of the European Union, where consumers who suffer property damage or personal injury as a result of a defective product may recover compensation (subject to certain financial limits) from the producer of a product without having to prove fault on the producer's part.

As well as civil liability claims, a safety incident might lead to investigation and even prosecution by the competent regulatory authorities in China, the UK or elsewhere. By way of example, in the UK and other EU Member States, any Group member which is a producer of the product for the purposes of the relevant legislation will face express obligations to notify the regulatory authorities and take appropriate corrective action (including a full product recall) where a product poses risks to consumer health. Failure to comply with these requirements could expose the Group member to regulatory or administrative action. In the UK, product recalls are increasingly common even where the issue is one of quality rather than safety.

Moreover, any serious quality, and particularly safety incident may lead to adverse media reporting, other negative public relations consequences and business disruption.

Any such incident could have an adverse effect on the Group's financial condition, results of operations and prospects including, damage to the reputation of the Group or its brands.

***The prices of certain of the Group's products are subject to governmental price control***

The prices of certain pharmaceutical products manufactured and sold by the Group in China are subject to control by the State or provincial price administration authorities (particulars are set out in Part II of this document). If the costs of the Group's raw materials increase but an application for a corresponding increase in the price ceilings of manufactured products is not approved or, as the case may be, the price of related products controlled by the State and/or the provincial price administration authorities is not adjusted, the Group's margins may be adversely affected. At present, most of the sales of Shanghai Hutchison Pharmaceuticals and Hutchison Baiyunshan are subject to such price controls whereas those of Hutchison Healthcare are not. There can be no assurance that those products produced by the Group which are not currently subject to control by the State or provincial price administration authorities will not become subject to such control in the future or that new products produced by the Group in the future will not be subject to such control.

***The Group's manufacturing operations in China are subject to environmental laws and regulations***

The Group is required to comply with the environmental protection laws and regulations promulgated by the national, provincial and municipal governments in China. These regulations govern, among other things, the level of fees payable to government entities providing environmental services and the prescribed standards relating to the discharge of solid wastes, effluent and gases. In addition, these regulations authorise municipal governments to impose penalties on those companies not complying with the relevant requirements. Certain effluents and solid wastes are produced by the Group's businesses when extracting ingredients and processing raw materials. Whilst the Group is in compliance with current Chinese laws and regulations, stricter controls on environmental emissions and waste may be imposed in the future. Compliance with these new laws and regulations may result in additional costs being incurred by the Group, which would adversely affect its financial condition, results of operations and prospects. In addition, the Group may not be able to continue some of its business or operations at all in the event that it cannot meet such new requirements. If the Group commences manufacturing operations outside China in the future it is likely to be required to comply with similar laws and regulations in those countries.

***Factors such as higher industry standards and foreign investment may give rise to more effective competitors***

The Directors believe that consolidation of the TCM industry will be driven by technological advances, an increased emphasis on research and development and higher standards for the industry, such as GAP, GLP and GMP, together with increased foreign-ownership of industry participants. Such consolidation may lead to larger TCM businesses with the scale and financial resources to compete more effectively with the Group. If as a result of the advent of such competitors the Company is not able to maintain or increase its level of sales it could have a material adverse effect on the Group's financial condition, results of operations and prospects.

**Risks Relating to China**

***The Group relies on the Chinese market for the sale of its products***

A significant portion of the Group's revenue during the Track Record Period was derived from the Chinese market. During each year within the Track Record Period, sales of the Group's products in China accounted for over 97 per cent. of the Group's total revenue. Although the Group has continued to strive to develop new overseas markets for its products, the Directors anticipate that sales of the Group's products in China will continue to represent a significant proportion of the Group's total revenues in the near future. As a result, the Group's financial condition, results of operations and prospects may be materially and adversely affected if there is any deterioration in or disruption to economic, legal, political or social conditions in China.

***Future economic and political changes in China may adversely affect the Group's business and results of operations***

The Chinese economy was, until the mid-1980s, a totally planned economy, organised on socialist economic principles. Since the adoption of the Open-Door Policy in 1978, the Chinese government has implemented economic reforms and transformed the economy from a planned one to a market economy with socialist characteristics. These economic reforms allowed greater influence of market forces in the distribution of resources and granted enterprises greater autonomy in their operations. However, many regulations

implemented by the Chinese government are still at a preliminary stage of development. The Chinese government may implement measures from time to time that have a negative impact on the Group's operations.

***Developments in the Chinese legal system may affect the Group's business operations***

Since 1979, China has promulgated a number of laws and regulations dealing with economic matters in general and foreign investments in particular. In December 1982, China's National People's Congress amended the constitution to authorise foreign investment and protect the legal rights and lawful interests of foreign investors in China. Since then, the trend of legislation has been to enhance significantly the protection afforded to foreign investors and to allow more effective control by foreign investors in foreign investment enterprises in China. Nevertheless, despite significant improvements in the legal system, it is not comprehensive. The enforcement of existing laws may be uncertain and sporadic and the implementation and interpretation of such laws may be inconsistent.

***Preferential tax treatments enjoyed by foreign invested enterprises may be abolished***

Certain members of the Group, being foreign invested enterprises, currently enjoy preferential tax rates and tax holidays in China that are not available for domestic enterprises. The Chinese government is currently in the process of reforming its enterprise income tax system, with plans to complete the process in the near future. It plans to replace the existing system with a unified enterprise income tax rate for both domestic Chinese companies and foreign invested enterprises. There have also been reports that the existing preferential tax policy and many of the other tax incentives currently enjoyed by foreign invested enterprises will be abolished. Although it is possible that any preferential tax policy may be grandfathered in respect of existing foreign invested enterprises, there can be no assurance that the Chinese entities within the Group will be able to continue to enjoy the preferential tax treatments currently afforded to foreign-invested enterprises in China. While the timing and scope of the reforms remain uncertain, the Group's operating results, financial condition, results of operations and prospects will be significantly and adversely affected if its overall tax rate is significantly increased.

***Certain members of the Group may be subject to double taxation***

Certain members of the Group have undertaken business activities in regions of China where they are not registered for business or tax purposes, some of which may be sufficient to establish a taxable presence in those regions. As a result, local tax authorities could demand registration and payment of local taxes. Any such additional tax payments to these local tax authorities may not be creditable or eligible to be refunded in the regions where the relevant members of the Group are registered, giving rise to the possibility of double taxation.

***Certain promotional items provided to customers have not been treated as subject to value added tax***

A member of the Group has provided promotional items to customers which have not been treated as subject to value added tax. The relevant Chinese tax authority may require value added tax to be paid on these items.

***China's WTO commitments have a significant impact on the market***

China became a member of the WTO in December 2001 and in consequence, is expected to lower the tariffs which it imposes on imported pharmaceutical products. This will lower the selling price of imported pharmaceutical products, and may increase their price competitiveness against the Group's products. This may adversely affect the Group's financial condition, results of operations and prospects.

***Government controls over currency conversion may adversely affect the Group's financial condition and results of operations as well as affect its ability to pay dividends in foreign currencies***

Foreign exchange transactions, including principal payments in respect of foreign currency denominated obligations, continue to be subject to foreign exchange controls in the PRC. Payments, such as dividend payments, interest payments and trade expenditures, may be made in foreign currencies without government approval, apart from certain procedural requirements. Any changes to the PRC government's policy to restrict access to foreign currencies for such transactions could limit our ability to convert Renminbi into foreign currencies.

Under the PRC's existing foreign exchange regulations, our operating subsidiaries and jointly controlled entities in the PRC will be able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. However, the PRC government may take measures in the future to restrict access to foreign currencies. We may not be able to pay dividends or other amounts in foreign currencies if the PRC government restricts access to foreign currencies for current account transactions.

**Risks Relating to the Ordinary Shares**

***If an active trading market for the Ordinary Shares does not develop, the price of the Ordinary Shares may suffer and may decline below the Placing Price***

The Company has applied to list the Ordinary Shares on AIM. To date, there has been no public market for the Company's shares. An active public market in the Ordinary Shares may not develop or be sustained after the Placing. Accordingly, investors may not be able to resell their Ordinary Shares at or above the Placing Price or at all and there can be no assurance that the market price of the Ordinary Shares will not decline below the Placing Price.

The securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of the Ordinary Shares.

***The market price for the Ordinary Shares may be volatile***

The market price for the Ordinary Shares may be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in the Company's periodic operating results;
- announcements of new products by the Group or its competitors;
- changes in financial estimates by securities analysts;
- conditions in the pharmaceuticals industry;
- changes in the economic performance or market valuations of other companies involved in the pharmaceuticals industry;
- announcements by the Group's competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in key personnel employed by the Group; or
- potential litigation.

In general, market prices of shares of companies producing pharmaceuticals have been and continue to be extremely volatile. Volatility in the price of the Ordinary Shares may be caused by factors outside the Company's control and may be unrelated or disproportionate to its operating results.

***You may face difficulties in protecting your interests because the Company is incorporated under Cayman Islands law and these laws may provide less protection to minority shareholders than the laws of England***

The Company's corporate affairs are governed by the Memorandum and Articles and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in England. Such differences may mean that the Company's minority shareholders may have less protection than they would have under the laws of England. It is notable, for example, that there are no pre-emption rights applicable to the issue of new shares under Cayman Islands law although certain pre-emption rights are currently provided for in the Company's Articles. A summary of certain important provisions of Cayman Islands law and the Memorandum and Articles is set out in Part VIII of this document. In addition, by virtue of its country of incorporation, the Company is not subject to the provisions of the City

Code on Takeovers and Mergers nor, as it will not be listed in Hong Kong, will it be subject to the Code on Takeovers and Mergers in Hong Kong and therefore investors will not be afforded the various protections conferred by those rules.

***Subscribers of the Ordinary Shares in the Placing and the Hong Kong Offering will experience immediate and substantial dilution and may experience further dilution if the Company issues additional Ordinary Shares in the future***

The Placing Price will be higher than the Company's pro forma net tangible book value per Ordinary Share. Therefore, subscribers of the Ordinary Shares in the Placing and the Hong Kong Offering will experience an immediate dilution in net tangible book value of US$2.976 per Ordinary Share.

In order to expand the Company's business, the Company may consider offering and issuing additional Ordinary Shares or equity-linked securities in the future. Subscribers of Ordinary Shares in the Placing and the Hong Kong Offering may experience further dilution in the net tangible book value per Ordinary Share of their Ordinary Shares if the Company issues additional Ordinary Shares or equity-linked securities in the future.

## (A) Accountants' Report

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers LLP**
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London
WC2N 6RH

The Directors
Hutchison China MediTech Limited
Ugland House, P.O. Box 309
George Town, Grand Cayman
Cayman Islands
British West Indies

Lazard & Co., Limited
50 Stratton Street
London
W1J 8LL

10 May 2006

Dear Sirs

**Hutchison China MediTech Limited**

We report on the financial information for the three years ended 31 December 2005 set out on pages 80 to 115. This financial information has been prepared for inclusion in the AIM admission document dated 10 May 2006 (the "Admission Document") of Hutchison China MediTech Limited (the "Company") on the basis of the accounting policies set out in note 2 to the financial information. This report is required by item 20.1 of Annex I to the PD Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

**Responsibilities**

The directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards ("IFRS").

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the circumstances of Hutchison China MediTech Limited, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at the dates stated and of its losses, cash flows and changes in equity for the years then ended in accordance with the basis of preparation set out in note 2(a) to the financial information and in accordance with IFRS as described in note 2 to the financial information.

**Declaration**

For the purposes of paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

PricewaterhouseCoopers LLP
*Chartered Accountants*

## (B) Financial Information

### Consolidated Income Statements

| | Notes | For the year ended 31 December 2003 *US$'000* | 2004 *US$'000* | 2005 *US$'000* |
|---|---|---|---|---|
| **Sales** | 5 | 13,588 | 17,502 | 37,861 |
| Cost of sales | | (5,272) | (5,894) | (14,615) |
| **Gross profit** | | 8,316 | 11,608 | 23,246 |
| Selling expenses | | (10,258) | (10,907) | (18,200) |
| Administrative expenses | | (6,926) | (6,978) | (10,837) |
| Other operating income | 6 | 1,873 | 1,327 | 465 |
| Other operating expenses | 6 | (5,730) | (1,955) | (402) |
| **Operating loss** | 7 | (12,725) | (6,905) | (5,728) |
| Finance costs | 8 | (285) | (364) | (496) |
| Share of results of associate | 17 | (63) | (53) | (7) |
| **Loss before taxation** | | (13,073) | (7,322) | (6,231) |
| Taxation credit/(charge) | 10 | 34 | (53) | (141) |
| **Loss for the year** | | (13,039) | (7,375) | (6,372) |
| Attributable to: | | | | |
| Equity holder of the Company | | (9,969) | (6,721) | (6,777) |
| Minority interests | | (3,070) | (654) | 405 |
| | | (13,039) | (7,375) | (6,372) |
| Loss per share attributable to equity holders of the Company during the year – Basic and diluted in US$ | 11 | (0.195) | (0.131) | (0.132) |

The notes on pages 84 to 115 are an integral part of this consolidated financial information.

**Consolidated Balance Sheets**

| | Notes | As at 31 December 2003 *US$'000* | 2004 *US$'000* | 2005 *US$'000* |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 14 | 11,694 | 13,322 | 22,012 |
| Leasehold land prepayments | 15 | 1,736 | 1,700 | 4,085 |
| Intangible assets | 16 | 5,294 | 3,415 | 6,810 |
| Investment in associate | 17 | 799 | 746 | – |
| Deferred income tax assets | 18 | 174 | 121 | – |
| | | 19,697 | 19,304 | 32,907 |
| **Current assets** | | | | |
| Inventories | 19 | 2,308 | 2,728 | 8,678 |
| Trade receivables | 20 | 4,843 | 5,549 | 12,864 |
| Other receivables and prepayments | | 1,403 | 230 | 1,299 |
| Amounts due from related parties | 27 | 61 | 1,195 | 1,517 |
| Cash and cash equivalents | 24(e) | 3,189 | 16,274 | 5,617 |
| | | 11,804 | 25,976 | 29,975 |
| **Total assets** | | 31,501 | 45,280 | 62,882 |
| **Equity** | | | | |
| **Capital and reserves attributable to the Company's equity holder** | | | | |
| Share capital | 21 | – | – | – |
| Reserves | | (20,648) | (27,399) | (33,670) |
| | | (20,648) | (27,399) | (33,670) |
| **Minority interests** | | 100 | – | 408 |
| **Total equity / (deficits)** | | (20,548) | (27,399) | (33,262) |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade payables | 22 | 3,915 | 1,699 | 3,938 |
| Other payables and accruals | | 4,053 | 3,885 | 3,641 |
| Amounts due to related parties | 27 | 44,081 | 59,864 | 81,180 |
| Short term bank loans | 23 | – | 7,231 | 7,385 |
| **Total liabilities** | | 52,049 | 72,679 | 96,144 |
| **Total equity and liabilities** | | 31,501 | 45,280 | 62,882 |

The notes on pages 84 to 115 an integral part of this consolidated financial information.

**Consolidated Statements of Changes in Equity**

| | Attributable to equity holder of the Company | | | | |
|---|---|---|---|---|---|
| | **Share capital** *US$'000* (Note 21) | **Exchange reserve** *US$'000* | **Accumulated losses** *US$'000* | **Minority interests** *US$'000* | **Total** *US$'000* |
| As at 1 January 2003 | – | (107) | (10,678) | 1,431 | (9,354) |
| Currency translation differences | – | 106 | – | (4) | 102 |
| Loss for the year | – | – | (9,969) | (3,070) | (13,039) |
| Capital injected by minority shareholder of a subsidiary | – | – | – | 3,465 | 3,465 |
| Deemed disposal of a subsidiary | – | – | – | (1,722) | (1,722) |
| As at 31 December 2003 | – | (1) | (20,647) | 100 | (20,548) |
| As at 1 January 2004 | – | (1) | (20,647) | 100 | (20,548) |
| Currency translation differences | – | (30) | – | – | (30) |
| Loss for the year | – | – | (6,721) | (654) | (7,375) |
| Capital injected by minority shareholder of a subsidiary | – | – | – | 392 | 392 |
| Deemed disposal of a subsidiary | – | – | – | 162 | 162 |
| As at 31 December 2004 | – | (31) | (27,368) | – | (27,399) |
| As at 1 January 2005 | – | (31) | (27,368) | – | (27,399) |
| Currency translation differences | – | 468 | – | – | 468 |
| Loss for the year | – | – | (6,777) | 405 | (6,372) |
| Capital injected by minority shareholder of a subsidiary | – | – | – | 3 | 3 |
| Reserves transferred to income statement upon disposal of a subsidiary | – | 38 | – | – | 38 |
| As at 31 December 2005 | – | 475 | (34,145) | 408 | (33,262) |

The notes on pages 84 to 115 are an integral part of this consolidated financial information.

**Consolidated Cash Flow Statements**

| | Notes | For the year ended 31 December 2003 *US$'000* | 2004 *US$'000* | 2005 *US$'000* |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash used in operations | 24(a) | (8,995) | (9,763) | (13,080) |
| Interest received | | 17 | 54 | 104 |
| Interest paid | | (285) | (364) | (496) |
| Income tax paid | | – | – | (20) |
| Net cash outflow from operating activities | | (9,263) | (10,073) | (13,492) |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment | | (4,387) | (3,020) | (1,781) |
| Purchase of intangible assets | | (5,426) | (20) | – |
| Net capital injection in the formation of jointly controlled entities | 24(c) | – | – | (11,675) |
| Disposal of a subsidiary | 24(d) | – | – | (14,518) |
| Net cash used in investing activities | | (9,813) | (3,040) | (27,974) |
| **Cash flows from financing activities** | | | | |
| Amount due to immediate holding company | 24(b) | 16,649 | 18,610 | 25,072 |
| Amount due to minority shareholder of a subsidiary | 24(b) | – | – | 5,253 |
| New short term bank loans | 24(b) | – | 7,231 | 317 |
| Repayment of short term bank loans | 24(b) | – | – | (302) |
| Capital injected by minority shareholder of a subsidiary | | 3,465 | 392 | 3 |
| Net cash generated from financing activities | | 20,114 | 26,233 | 30,343 |
| **Net increase/(decrease) in cash and cash equivalents** | | 1,038 | 13,120 | (11,123) |
| Cash and cash equivalents at beginning of year | | 2,141 | 3,189 | 16,274 |
| Exchange difference | | 10 | (35) | 466 |
| **Cash and cash equivalents at end of year** | 24(e) | 3,189 | 16,274 | 5,617 |

The notes on pages 84 to 115 are an integral part of this consolidated financial information.

## NOTES TO THE FINANCIAL INFORMATION

### 1 General information

Hutchison China MediTech Limited 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 pharmaceutical research and development. The Group has manufacturing plants in Guangzhou and Shanghai in the People's Republic of China (the "PRC") and sells mainly in the PRC and the United Kingdom (the "UK").

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. On 4 August 2005, the Company changed its name from Hutchison Global MediTech Limited to Hutchison China MediTech Limited.

The consolidated financial information is presented in thousands of US Dollars ("US$'000"), unless otherwise stated, and has been approved for issue by the Board of Directors on 25 April 2006.

### 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### *(a) Basis of preparation*

The Company has a financial year end date of 31 December. The financial information for the financial years ended 31 December 2003, 2004 and 2005 is based on the audited consolidated non-statutory financial statements of Hutchison China MediTech Limited and its subsidiaries. The consolidated financial information is prepared under International Financial Reporting Standards ("IFRS") and the historical cost convention as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (if any).

The consolidated financial information has been prepared in accordance with those IFRS, including International Accounting Standards and Interpretations adopted by the International Accounting Standards Board ("IASB"), that are required to be applied for the year ended 31 December 2005.

The Group has not early adopted the following new Standards or Interpretations that have been issued but are not yet effective. The directors anticipate that the adoption of these Standards or Interpretations in future periods will have no material impact on the financial statements of the Group.

| | |
|---|---|
| IAS 1 (Amendment) | Present of Financial Statements: Capital Disclosures. |
| IAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures. |
| IAS 21 (Amendment) | Net Investment in a Foreign Operation. |
| IAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intra-group Transactions. |
| IAS 39 (Amendment) | The Fair Value Option. |
| IAS 39 and IFRS 4 (Amendment) | Financial Guarantee Contracts. |
| IFRS 1 and IFRS 6 (Amendment) | First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources. |
| IFRS 7 | Financial Instruments: Disclosures. |
| IFRIC 4 | Determining whether an Arrangement contains a Lease. |
| IFRIC 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds. |
| IFRIC 6 | Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment. |
| IFRIC 7 | Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies. |
| IFRIC 8 | Scope of IFRS 2. |
| IFRIC 9 | Reassessment of Embedded Derivatives. |

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial information, are disclosed in Note 4.

Notwithstanding that the Group has been loss making during the financial years ended 31 December 2003, 2004 and 2005 (the "Relevant Periods") and has a capital deficiency as at 31 December 2003, 2004 and 2005, the consolidated financial information has been prepared on a going concern basis as the Company is a wholly-owned subsidiary of Hutchison Whampoa (China) Limited ("HWCL") and Hutchison Healthcare Holdings Limited ("HHHL"), an intermediate holding company and immediate holding company respectively, during the Relevant Periods and is able to obtain sufficient support from HWCL and HHHL to meet its liabilities as and when they fall due and to enable the Group to continue its business in the foreseeable future.

***(b) Consolidation***

*(i) Subsidiaries*

Subsidiaries are all entities (including special purpose entities, if any) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired and contingent liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, including any contingent liabilities assumed, the difference is recognised directly in the income statement (Note 2(h)(i)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the equity attributable to the Company's equity holders therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of the respective entities' changes in equity since the date of the combination. The interests of minority shareholders in the acquiree are initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

*(ii) Associates*

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent. and 50 per cent. of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long term interests that in substance form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(iii) Jointly controlled entities*

Jointly controlled entities are joint ventures in respect of which a contractual arrangement is established between the participating ventures 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 proportionate consolidation. Under this method, the Group combines its share of the joint venture's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements 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.

*(iv) Gain or loss on disposal*

The gain or loss on the disposal of a subsidiary, an associate or a jointly controlled entity, or part thereof, represents the difference between the proceeds of the sale or dilution (where applicable) and the change in the Group's share of its net assets of the relevant subsidiary, associate or jointly controlled entity together with the carrying amount of goodwill and any related accumulated exchange reserve.

***(c) Segment reporting***

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

***(d) Foreign currency translation***

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities 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 its principal subsidiaries and jointly controlled entities is Renminbi ("RMB") whereas the consolidated financial statements are presented in US Dollars, which is the Company's presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Exchange differences arising on retranslation of non-monetary items carried at fair value are included in the income statement except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case any exchange component of those gains or losses are recognised directly in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholder's equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

***(e) Property, plant and equipment***

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). 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 the cost less accumulated impairment losses for property, plant and equipment over their estimated useful lives. The principal annual rates are as follows:

| | |
|---|---|
| Leasehold buildings | 20 – 30 years |
| Leasehold improvements | 3 – 5 years |
| Plant and equipment | 10 years |
| Furniture and fixtures, other equipment and motor vehicles | 4 – 5 years |

The useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date. 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(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

***(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 prepayments***

Leasehold land prepayments are 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 prepayments is calculated on a straight-line basis over the period of the land use rights.

***(h) Intangible assets***

*(i) 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 and contingent liabilities of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing (Note 2(i)). Each of those cash-generating units represents the Group's investment in each operation by each primary reporting segment (Note 2(i)).

*(ii) Trademarks and patents*

Trademarks and patents have a definite useful life 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.

*(iii) 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 be a success 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 from the commencement of the commercial production of the product on a straight-line basis over the period of expected benefit, not exceeding five years.

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.

***(i) Impairment of assets***

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units").

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

***(j) 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 labour, 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.

### *(k) 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 receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. 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.

### *(l) Cash and cash equivalents*

Cash and cash equivalents include cash in hand and deposits held at call with banks.

### *(m) 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 the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### *(n) 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 financial statements. However, if the deferred income tax arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associate and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### *(o) 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 staff costs.

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

### *(p) Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### *(q) 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 lease.

***(r) Borrowing costs***

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed as incurred.

***(s) Revenue recognition***

Revenue comprises the fair value for the sales of goods, net of value added tax and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

*(i) Sales of goods – wholesale*

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.

*(ii) Sales of goods – retail*

Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction. Such fees are included in selling expenses.

*(iii) Interest income*

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

**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, liquidity risk and cash flow interest rate risk. The use of financial derivatives to hedge certain risk exposures is governed by the Group's policies approved by the Board of Directors. The Group does not use derivative financial instruments for speculative purposes.

*(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 RMB and UK pound sterling. The Group has not used any forward contracts or currency borrowings to hedge its exposure as foreign currency risk is considered minimal.

The Group's short term bank loans and amount due to its immediate holding company are denominated in RMB and Hong Kong dollars respectively. The Group generates RMB from sales in the PRC to meet its liabilities denominated in RMB and repayable within one year.

Approximately US$227,000, US$142,000 and US$200,000 cash and cash equivalents as at 31 December 2003, 2004 and 2005 respectively are denominated in UK pound sterling. During the past few years, the UK pound sterling has experienced a significant level of fluctuation against US Dollars and this is the major reason for the significant exchange differences recognised by the Group during the Relevant Periods. The directors are of the opinion that foreign exchange risk of cash and cash equivalents and other monetary assets denominated in RMB and Hong Kong dollars is minimal as RMB and Hong Kong dollars against US Dollars have been comparatively stable in the past. Since July 2005, the RMB has experienced certain appreciation. The directors are of the opinion that such appreciation did not have any material adverse impact on the Group's net assets.

*(ii) Credit risk*

The Group has no significant concentration 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. Sales to retail customers are settled in cash or by major credit cards. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision (if any) for uncollectible trade and other receivables has been made in the financial information.

*(iii) Liquidity risk*

The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, payment of related debts and payment for research and development expenses. The Group finances its working capital requirements through a combination of funds generated from operations, short term bank loans and loans and advances from holding companies.

The Group commenced operations in 2001 and is still in a start-up stage. The Group has been operating with a working capital deficit. Historically, the Group's operations have been funded mainly by its holding companies. The directors believe that cash from operations and short term bank borrowings will be sufficient to meet the Group's operating cash flow. Due to the dynamic nature of the underlying businesses, the Group treasury aims at maintaining flexibility in funding by keeping credit lines available. The directors believe that the Group has obtained sufficient general credit facilities from PRC banks for financing capital commitments in the near future and for working capital purposes.

*(iv) Cash flow and fair value interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents, details of which are disclosed in Note 24(e). The Group's exposure to changes in interest rates is mainly attributable to its current borrowings, details of which are disclosed in Note 23. The current borrowings 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.

***(b) Accounting for derivative financial instruments***

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. During the Relevant Periods, the Group did not enter into any derivative financial instruments.

***(c) Fair value estimation***

The carrying amounts of the Group's current financial assets, including cash and cash equivalents, trade receivables, other receivables, prepayments, and current financial liabilities, including trade payables, other payables, accruals, short term borrowings and amounts due from/to related parties, approximate to their fair values due to their short maturity dates.

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 available to the Group for similar financial instruments.

## 4 Critical accounting estimates and judgements

Estimates and judgements used in preparing the consolidated financial information are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

***(a) Useful lives of property, plant and equipment***

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. Management will revise the depreciation charge where useful lives are different to those previously estimated, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

***(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(i). The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. The

value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates (Note 16(a)). Detailed sensitivity analyses have been performed and management is confident that the carrying amount of the relevant assets will be recovered in full.

***(c) Deferred income tax***

The Group has significant tax losses carried forward not recognised as deferred income tax assets. 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 income tax assets in the period in which such determination is made.

## 5 Segment information

The Group's activities can be categorised into three main areas:

– China Healthcare: comprises the development, manufacture, distribution and sale of TCM pharmaceuticals and health supplements and is carried out by three operating joint ventures in China: Hutchison Baiyunshan, Shanghai Hutchison Pharmaceuticals and Hutchison Healthcare.

– Consumer Products: relates to TCM-based consumer products and services sold through Sen retail stores.

– Drug research and development: relates mainly to pharmaceutical research and development activities of Hutchison MediPharma Limited, but also includes head office costs.

**Primary reporting format — business segments**

| | As at and for the year ended 31 December 2003 | | | |
|---|---|---|---|---|
| | **China Healthcare** *US$'000* | **Consumer Products** *US$'000* | **Drug Research and Development** *US$'000* | **Total** *US$'000* |
| **OPERATING RESULTS** | | | | |
| Sales | 13,317 | 271 | — | 13,588 |
| Operating loss | (8,502) | (2,351) | (1,872) | (12,725) |
| Finance costs | | | | (285) |
| Share of results of associate | (63) | — | — | (63) |
| Loss before taxation | | | | (13,073) |
| Taxation credit | | | | 34 |
| Loss for the year | | | | (13,039) |
| **ASSETS** | | | | |
| Segment assets | 26,729 | 2,082 | 1,717 | 30,528 |
| Investment in associate | 799 | — | — | 799 |
| Deferred income tax assets | | | | 174 |
| Total assets | | | | 31,501 |
| **LIABILITIES** | | | | |
| Segment liabilities | 13,631 | 2,401 | 1,146 | 17,178 |
| Unallocated liabilities | | | | 34,871 |
| Total liabilities | | | | 52,049 |
| **OTHER SEGMENT ITEMS** | | | | |
| Capital expenditure (Notes 14 and 16) | 8,844 | 193 | 776 | 9,813 |
| Depreciation (Note 14) | 725 | 270 | 117 | 1,112 |
| Amortisation (Notes 15 and 16) | 670 | — | — | 670 |
| Provision for impairment of intangible assets (Note 16) | 5,654 | — | — | 5,654 |

| | As at and for the year ended 31 December 2004 | | | |
|---|---|---|---|---|
| | **China Healthcare** *US$'000* | **Consumer Products** *US$'000* | **Drug Research and Development** *US$'000* | **Total** *US$'000* |
| **OPERATING RESULTS** | | | | |
| Sales | 17,009 | 493 | — | 17,502 |
| Operating loss | (3,905) | (857) | (2,143) | (6,905) |
| Finance costs | | | | (364) |
| Share of results of associate | (53) | — | — | (53) |
| Loss before taxation | | | | (7,322) |
| Taxation charge | | | | (53) |
| Loss for the year | | | | (7,375) |
| **ASSETS** | | | | |
| Segment assets | 39,084 | 2,201 | 3,128 | 44,413 |
| Investment in associate | 746 | — | — | 746 |
| Deferred income tax assets | | | | 121 |
| Total assets | | | | 45,280 |
| **LIABILITIES** | | | | |
| Segment liabilities | 6,237 | 2,726 | 3,004 | 11,967 |
| Unallocated liabilities | | | | 60,712 |
| Total liabilities | | | | 72,679 |
| **OTHER SEGMENT ITEMS** | | | | |
| Capital expenditure (Notes 14 and 16) | 1,151 | 138 | 1,751 | 3,040 |
| Depreciation (Note 14) | 899 | 301 | 235 | 1,435 |
| Amortisation (Notes 15 and 16) | 285 | — | — | 285 |
| Provision for impairment of intangible assets (Note 16) | 1,650 | — | — | 1,650 |

| | As at and for the year ended 31 December 2005 | | | |
|---|---|---|---|---|
| | **China Healthcare** *US$'000* | **Consumer Products** *US$'000* | **Drug Research and Development** *US$'000* | **Total** *US$'000* |
| **OPERATING RESULTS** | | | | |
| Sales | 37,176 | 685 | — | 37,861 |
| Operating profit/(loss) | 583 | (1,295) | (5,016) | (5,728) |
| Finance costs | | | | (496) |
| Share of results of associate | (7) | — | — | (7) |
| Loss before taxation | | | | (6,231) |
| Taxation charge | | | | (141) |
| Loss for the year | | | | (6,372) |
| **ASSETS** | | | | |
| Segment assets | 56,926 | 2,834 | 3,122 | 62,882 |
| **LIABILITIES** | | | | |
| Segment liabilities | 17,076 | 4,333 | 4,459 | 25,868 |
| Unallocated liabilities | | | | 70,276 |
| Total liabilities | | | | 96,144 |
| **OTHER SEGMENT ITEMS** | | | | |
| Capital expenditure (Notes 14 and 16) | 647 | 845 | 289 | 1,781 |
| Depreciation (Note 14) | 1,266 | 315 | 512 | 2,093 |
| Amortisation (Notes 15 and 16) | 226 | — | — | 226 |

*Secondary reporting format — geographical segments*

| | As at and for the year ended 31 December 2003 | | |
|---|---|---|---|
| | **PRC** *US$'000* | **UK** *US$'000* | **Total** *US$'000* |
| Sales | 13,317 | 271 | 13,588 |
| Operating loss | (10,430) | (2,295) | (12,725) |
| Segment assets | 29,245 | 2,082 | 31,327 |
| Deferred income tax assets | | | 174 |
| Total assets | | | 31,501 |
| Capital expenditure (Notes 14 and 16) | 9,620 | 193 | 9,813 |

| | As at and for the year ended 31 December 2004 | | |
|---|---|---|---|
| | **PRC** *US$'000* | **UK** *US$'000* | **Total** *US$'000* |
| Sales | 17,009 | 493 | 17,502 |
| Operating loss | (6,056) | (849) | (6,905) |
| Segment assets | 42,958 | 2,201 | 45,159 |
| Deferred income tax assets | | | 121 |
| Total assets | | | 45,280 |
| Capital expenditure (Notes 14 and 16) | 2,902 | 138 | 3,040 |

| | As at and for the year ended 31 December 2005 | | |
|---|---|---|---|
| | **PRC** *US$'000* | **UK** *US$'000* | **Total** *US$'000* |
| Sales | 37,176 | 685 | 37,861 |
| Operating loss | (4,470) | (1,258) | (5,728) |
| Segment assets | 60,048 | 2,834 | 62,882 |
| Capital expenditure (Notes 14 and 16) | 936 | 845 | 1,781 |

## 6 Other operating income and expenses

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Other operating income: | | | |
| Interest income | 19 | 98 | 175 |
| Management fee income | — | 1,092 | — |
| Gain on deemed disposal of a subsidiary (Note 30) | 1,722 | — | — |
| Net gain on disposal of a subsidiary (Note 24(d)) | — | — | 195 |
| Net foreign exchange gains (Note 9) | 132 | 137 | 95 |
| | 1,873 | 1,327 | 465 |
| Other operating expenses: | | | |
| Loss on deemed disposal of a subsidiary | — | (162) | — |
| Impairment loss on intangible assets (Note 16) | (5,654) | (1,650) | — |
| Other | (76) | (143) | (402) |
| | (5,730) | (1,955) | (402) |

## 7 Operating loss

Operating loss is stated after charging the following:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| **Charging:** | | | |
| Auditors' remuneration | 55 | 60 | 104 |
| Amortisation of intangible assets recognised in administrative expenses (Note 16) | 633 | 249 | 154 |
| Amortisation of leasehold land prepayments (Note 15) | 37 | 36 | 72 |
| Cost of inventories recognised as expense | 3,723 | 4,156 | 13,260 |
| Depreciation on property, plant and equipment (Note 14) | 1,112 | 1,435 | 2,093 |
| Loss on disposal of property, plant and equipment | 48 | 45 | 11 |
| Operating lease rentals in respect of land and buildings | 544 | 538 | 690 |
| Research and development expense | 597 | 1,158 | 2,048 |
| Employee benefits expense (Note 13) | 5,298 | 5,173 | 7,680 |
| Write-off of intangible assets (Note 16) | 5 | — | — |

## 8 Finance costs

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Interest expense on amounts due to joint venture partners of jointly controlled entities (Note 27) | 285 | 214 | 134 |
| Interest expense on short term bank loans | — | 150 | 362 |
| | 285 | 364 | 496 |

## 9 Net foreign exchange gains

The exchange differences credited to the income statement are as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Other operating income (Note 6) | 132 | 137 | 95 |

## 10 Taxation (credit)/charge

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Current tax | — | — | 20 |
| Deferred income tax (Note 18) | (34) | 53 | 121 |
| Taxation (credit)/charge | (34) | 53 | 141 |

(a) The Group had no assessable profit in Hong Kong and the UK for the Relevant Periods.

(b) Pursuant to the relevant PRC income tax rules and regulations, special income tax rates of 15% and 27% have been granted respectively to Hutchison MediPharma Limited as a foreign invested enterprise which is engaged in research and development activities, and to Hutchison Healthcare Limited, Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited and Shanghai Hutchison Pharmaceuticals Limited as foreign investment production enterprises.

(c) As approved by the tax authorities, certain subsidiaries of the Group and jointly controlled entities, which qualify as foreign investment production enterprises, are entitled to a two year exemption from income taxes followed by a 50 per cent. reduction in income taxes for the following three years, commencing from their first cumulative profit-making year net of losses carried forward.

(d) The tax (credit)/charge on the Group's loss before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to results of the consolidated companies as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Loss before taxation | (13,073) | (7,322) | (6,231) |
| Tax calculated at the domestic tax rate of respective companies | (4,768) | (1,999) | (1,413) |
| Effect of preferential tax rate | 486 | 228 | 538 |
| Effect of tax holiday | 34 | (85) | (700) |
| Expenses not deductible for tax purposes | 2,290 | 945 | 62 |
| Tax losses for which no deferred income tax asset was recognised | 1,924 | 964 | 1,654 |
| Tax (credit)/charge | (34) | 53 | 141 |

The weighted average applicable tax rates were 36.5%, 27.3% and 22.7% for the years ended 31 December 2003, 2004 and 2005 respectively. The fluctuation in the weighted average applicable tax rates arose because of the changes in the relative profitability of the Group's operations in different tax jurisdictions.

## 11 Loss per share

The calculation of the basic loss per ordinary share of US$1 each has been based on the loss for the Relevant Periods and on 51,212,121 shares respectively for each period.

The number of shares to be used in the calculation of loss per share is based on the number of ordinary shares in issue immediately following the capitalisation of the amounts due to HHHL (Note 28(b)) and the Placing and Hong Kong Offering, which is conditional on Admission and which will be dependent on the final Placing Price and the final number of ordinary shares that will be offered.

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Loss attributable to equity holders of the Company | (9,969) | (6,721) | (6,777) |
| Number of US$1 ordinary shares in issue in thousands | 51,212 | 51,212 | 51,212 |
| Basic and diluted loss per share (in US$) | (0.195) | (0.131) | (0.132) |

There is no dilutive effect on the loss per share as the Company has no dilutive potential shares.

## 12 Directors' emoluments

During the Relevant Periods, there were no emoluments paid or payable by the Company to the directors of the Company.

Details of emoluments paid and payable to the directors of the Company by HWCL, in respect of their services rendered for managing the business of the Group during the Relevant Periods are as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Fees | — | — | — |
| Other emoluments: | | | |
| Basic salaries, housing allowances, other allowances and benefits in kind | 355 | 390 | 427 |
| Contributions to pension schemes | 17 | 17 | 18 |
| | 372 | 407 | 445 |

## 13 Employee benefits expense

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Wages, salaries and bonuses | 4,118 | 4,005 | 6,016 |
| Pension costs — defined contribution plans | 309 | 345 | 381 |
| Staff welfare | 871 | 823 | 1,283 |
| | 5,298 | 5,173 | 7,680 |

## 14 Property, plant and equipment

| | Buildings situated in the PRC under medium term leases *US$'000* | Leasehold improvements *US$'000* | Plant and equipment *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 2003 | 3,737 | 936 | 4,176 | 1,185 | 265 | 10,299 |
| Exchange differences | — | 69 | — | 35 | — | 104 |
| Additions | — | 120 | 4 | 849 | 3,414 | 4,387 |
| Disposals | — | (43) | (21) | (11) | — | (75) |
| Transfers | — | — | 4 | 59 | (63) | — |
| As at 31 December 2003 | 3,737 | 1,082 | 4,163 | 2,117 | 3,616 | 14,715 |
| Accumulated depreciation | | | | | | |
| As at 1 January 2003 | 225 | 97 | 1,362 | 248 | — | 1,932 |
| Exchange differences | — | 2 | — | 2 | — | 4 |
| Charge for the year | 185 | 235 | 355 | 337 | — | 1,112 |
| Disposals | — | (8) | (19) | — | — | (27) |
| As at 31 December 2003 | 410 | 326 | 1,698 | 587 | — | 3,021 |
| Net book value | | | | | | |
| As at 31 December 2003 | 3,327 | 756 | 2,465 | 1,530 | 3,616 | 11,694 |
| Cost | | | | | | |
| As at 1 January 2004 | 3,737 | 1,082 | 4,163 | 2,117 | 3,616 | 14,715 |
| Exchange differences | — | 73 | — | 42 | — | 115 |
| Additions | — | 81 | 5 | 517 | 2,417 | 3,020 |
| Disposals | — | — | (213) | (25) | — | (238) |
| Transfers | 3,548 | 1,358 | 855 | 211 | (5,972) | — |
| As at 31 December 2004 | 7,285 | 2,594 | 4,810 | 2,862 | 61 | 17,612 |
| Accumulated depreciation | | | | | | |
| As at 1 January 2004 | 410 | 326 | 1,698 | 587 | — | 3,021 |
| Exchange differences | — | 16 | — | 11 | — | 27 |
| Charge for the year | 312 | 299 | 378 | 446 | — | 1,435 |
| Disposals | — | — | (183) | (10) | — | (193) |
| As at 31 December 2004 | 722 | 641 | 1,893 | 1,034 | — | 4,290 |
| Net book value | | | | | | |
| As at 31 December 2004 | 6,563 | 1,953 | 2,917 | 1,828 | 61 | 13,322 |
| Cost | | | | | | |
| As at 1 January 2005 | 7,285 | 2,594 | 4,810 | 2,862 | 61 | 17,612 |
| Exchange differences | 279 | (62) | 177 | 5 | 6 | 405 |
| Capital injection in the formation of a jointly controlled entity by a joint venture partner | 4,882 | 66 | 3,257 | 496 | 32 | 8,733 |
| Additions | 14 | 611 | 88 | 719 | 349 | 1,781 |
| Disposal of a subsidiary | — | — | — | (83) | — | (83) |
| Disposals | — | — | (24) | (53) | — | (77) |
| Transfers | 52 | — | 201 | 47 | (300) | — |
| As at 31 December 2005 | 12,512 | 3,209 | 8,509 | 3,993 | 148 | 28,371 |
| Accumulated depreciation | | | | | | |
| As at 1 January 2005 | 722 | 641 | 1,893 | 1,034 | — | 4,290 |
| Exchange differences | 41 | (30) | 45 | (4) | — | 52 |
| Charge for the year | 514 | 509 | 524 | 546 | — | 2,093 |
| Disposal of a subsidiary | — | — | — | (10) | — | (10) |
| Disposals | — | — | (18) | (48) | — | (66) |
| As at 31 December 2005 | 1,277 | 1,120 | 2,444 | 1,518 | — | 6,359 |
| Net book value | | | | | | |
| As at 31 December 2005 | 11,235 | 2,089 | 6,065 | 2,475 | 148 | 22,012 |

## 15 Leasehold land prepayments

The Group's interests in leasehold land prepayments represent prepaid operating lease payments and the movements during the Relevant Periods are as follows:

| | *US$'000* |
|---|---|
| Cost | |
| As at 1 January 2003 | 1,773 |
| Amortisation (Note 7) | (37) |
| As at 31 December 2003 and 1 January 2004 | 1,736 |
| Amortisation (Note 7) | (36) |
| As at 31 December 2004 and 1 January 2005 | 1,700 |
| Exchange differences | 86 |
| Capital injection in the formation of a jointly controlled entity by a joint venture partner | 2,371 |
| Amortisation (Note 7) | (72) |
| As at 31 December 2005 | 4,085 |

## 16 Intangible assets

| | Goodwill *US$'000* (Note (a)) | Trademarks and patents *US$'000* (Notes (a) and (b)) | Total *US$'000* |
|---|---|---|---|
| Cost | | | |
| As at 1 January 2003 | 2,418 | 4,520 | 6,938 |
| Additions | — | 5,426 | 5,426 |
| Written-off (Note 7) | — | (5) | (5) |
| As at 31 December 2003 | 2,418 | 9,941 | 12,359 |
| Accumulated amortisation and impairment | | | |
| As at 1 January 2003 | — | 778 | 778 |
| Amortisation charge (Note 7) | — | 633 | 633 |
| Impairment loss (Note 16(b)) | — | 5,654 | 5,654 |
| As at 31 December 2003 | — | 7,065 | 7,065 |
| Net book value | | | |
| As at 31 December 2003 | 2,418 | 2,876 | 5,294 |
| Cost | | | |
| As at 1 January 2004 | 2,418 | 9,941 | 12,359 |
| Additions | — | 20 | 20 |
| As at 31 December 2004 | 2,418 | 9,961 | 12,379 |
| Accumulated amortisation and impairment | | | |
| As at 1 January 2004 | — | 7,065 | 7,065 |
| Amortisation charge (Note 7) | — | 249 | 249 |
| Impairment loss (Note 16 (b)) | — | 1,650 | 1,650 |
| As at 31 December 2004 | — | 8,964 | 8,964 |
| Net book value | | | |
| As at 31 December 2004 | 2,418 | 997 | 3,415 |
| Cost | | | |
| As at 1 January 2005 | 2,418 | 9,961 | 12,379 |
| Exchange difference | — | 287 | 287 |
| Additions (Note 24(c)) | 3,456 | — | 3,456 |
| As at 31 December 2005 | 5,874 | 10,248 | 16,122 |
| Accumulated amortisation and impairment | | | |
| As at 1 January 2005 | — | 8,964 | 8,964 |
| Exchange difference | — | 194 | 194 |
| Amortisation charge (Note 7) | — | 154 | 154 |
| As at 31 December 2005 | — | 9,312 | 9,312 |
| Net book value | | | |
| As at 31 December 2005 | 5,874 | 936 | 6,810 |

Note:

(a) Goodwill is allocated to Shanghai Hutchison Pharmaceuticals Limited ("SHPL") and Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited ("Hutchison Baiyunshan"), jointly controlled entities, to the extent of US$2,418,000 and US$3,456,000 respectively.

The Group's pharmaceutical business commenced commercial operations in 2001 and in accordance with initial business plans, start-up losses have been expected as the businesses develop. For the purposes of impairment reviews, the recoverable amount of goodwill and other intangible assets are 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. Cash flow projections beyond the five-year period are extrapolated using the estimated growth rates stated below. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget.

Key assumptions used for value-in-use calculations for goodwill are as follows:

| | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|
| Gross margin | 50-63% | 50-64% | 50-64% | 50-65% | 50-65% |
| Growth rate | 15% | 15% | 15% | 15% | 15% |
| Discount rate | 8% | 8% | 8% | 8% | 8% |

Key assumptions used for value-in-use calculations for other intangible assets are as follows:

| | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|
| Gross margin | 63% | 64% | 64% | 65% | 65% |
| Growth rate | 15% | 15% | 15% | 15% | 15% |
| Discount rate | 8% | 8% | 8% | 8% | 8% |

These assumptions have been used for the analysis of each cash-generating unit within the business segment. Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. The growth rates used are consistent with the industry growth forecasts. Management estimates the discount rate using pre-tax rates that reflect market assessments of the time value of money and the specific risks relating to the relevant cash-generating units. 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.

(b) Impairment losses are recognised in respect of certain trademarks for traditional Chinese medicine and healthcare products of Hutchison Healthcare Limited as sales of the relevant products are below budget and management estimated that the carrying amounts of these assets have exceeded their recoverable amounts as determined based on value-in-use calculations.

## 17 Investment in associate

| | **As at 31 December** | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| At beginning of the year | 862 | 799 | 746 |
| Share of loss | (63) | (53) | (7) |
| Disposal | — | — | (739) |
| At end of the year | 799 | 746 | — |

Particulars of the associate of the Group are set out in Note 30.

## 18 Deferred income tax assets

Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The movements in deferred income tax assets in respect of tax losses carried forward are as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| At beginning of the year | 140 | 174 | 121 |
| Credited/(charged) to the income statement (Note 10) | 34 | (53) | (121) |
| At end of the year | 174 | 121 | — |

Deferred income taxes are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses to be carried forward against future taxable income. These unrecognised tax losses will expire in the following years:

| | As at 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| No expiry date | 4,389 | 5,584 | 7,506 |
| 2006 | 609 | 609 | 609 |
| 2007 | 6,009 | 6,009 | 6,009 |
| 2008 | 6,228 | 6,228 | 6,228 |
| 2009 | — | 3,737 | 3,737 |
| 2010 | — | — | 5,747 |
| | 17,235 | 22,167 | 29,836 |

The potential deferred income tax assets in respect of the above tax losses which have not been recognised in the financial information amounted to US$4,707,000, US$5,671,000 and US$7,325,000 as at 31 December 2003, 2004 and 2005 respectively.

## 19 Inventories

| | As at 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Raw materials | 536 | 557 | 2,561 |
| Work in progress | 496 | 498 | 2,600 |
| Finished goods | 1,276 | 1,673 | 3,517 |
| | 2,308 | 2,728 | 8,678 |

As at the respective balance sheet dates, no inventories were carried at net realisable value.

## 20 Trade receivables

| | As at 31 December | | |
|---|---|---|---|
| | 2003 *US$'000* | 2004 *US$'000* | 2005 *US$'000* |
| Trade receivables from third parties | 3,631 | 4,555 | 10,380 |
| Trade receivables from related parties (Note 27) | 1,212 | 994 | 2,484 |
| | 4,843 | 5,549 | 12,864 |

All trade receivables are due within one year from the respective balance sheet dates.

The carrying value of trade receivables approximates their fair values due to the short term maturity.

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

## 21 Share capital

| | As at 31 December | | |
|---|---|---|---|
| | 2003 *US$* | 2004 *US$* | 2005 *US$* |
| Authorised: | | | |
| 50,000 shares of US$1 each | 50,000 | 50,000 | 50,000 |
| Authorised, issued and fully paid: | | | |
| 2 shares of US$1 each | 2 | 2 | 2 |

The Company was incorporated on 18 December 2000 with an initial authorised share capital of US$50,000, divided into 50,000 shares with par value of US$1 each. On the date of incorporation, 2 shares of US$1 each were allotted and issued to HHHL, both of which were credited as fully paid.

## 22 Trade payables

| | As at 31 December | | |
|---|---|---|---|
| | 2003 *US$'000* | 2004 *US$'000* | 2005 *US$'000* |
| Trade payables due to third parties | 2,092 | 1,265 | 3,493 |
| Trade payables due to related parties (Note 27) | 1,823 | 434 | 445 |
| | 3,915 | 1,699 | 3,938 |

All trade payables are due within one year from the respective balance sheet dates.

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

## 23 Short term bank loans

| | As at 31 December | | |
|---|---|---|---|
| | 2003 *US$'000* | 2004 *US$'000* | 2005 *US$'000* |
| Short term bank loans carrying interest at floating rates | — | 7,231 | 7,385 |
| Weighted average effective interest rate | — | 5.26% | 4.92% |

The short term bank loans are unsecured and denominated in RMB. The carrying amount of the short term bank loans approximates their fair values.

## 24 Notes to consolidated cash flow statements

### *(a) Reconciliation of loss for the year to net cash used in operations*

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Loss for the year | (13,039) | (7,375) | (6,372) |
| Adjustments for: | | | |
| Taxation | (34) | 53 | 141 |
| Share of results of associate | 63 | 53 | 7 |
| Amortisation of intangible assets | 633 | 249 | 154 |
| Amortisation of leasehold land prepayments | 37 | 36 | 72 |
| Depreciation on property, plant and equipment | 1,112 | 1,435 | 2,093 |
| Loss on disposal of property, plant and equipment | 48 | 45 | 11 |
| Impairment charge on intangible assets | 5,654 | 1,650 | — |
| Write-off of intangible assets | 5 | — | — |
| Interest income | (19) | (98) | (175) |
| Interest expense | 285 | 364 | 496 |
| (Gain)/loss on deemed disposal of a subsidiary | (1,722) | 162 | — |
| Net gain on disposal of a subsidiary | — | — | (195) |
| | (6,977) | (3,426) | (3,768) |
| Changes in working capital: | | | |
| – increase in inventories | (4) | (368) | (2,375) |
| – increase in trade receivables | (2,027) | (617) | (5,257) |
| – (increase)/decrease in other receivables and prepayments and amounts due from related parties | (316) | 263 | (1,172) |
| – increase/(decrease) in trade payables | 1,750 | (2,267) | (1,279) |
| – (decrease)/increase in other payables and accruals and amounts due to related parties | (1,421) | (3,348) | 771 |
| Cash used in operations | (8,995) | (9,763) | (13,080) |

### *(b) Analysis of changes in financing during the Relevant Periods:*

*(i) Amount due to immediate holding company*

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| At the beginning of the year | 18,222 | 34,871 | 53,481 |
| New loans received | 16,649 | 18,610 | 25,072 |
| Disposal of a subsidiary (Note 24(d)) | — | — | (15,662) |
| At the end of the year | 34,871 | 53,481 | 62,891 |

*(ii) Amount due to minority shareholder of a subsidiary*

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| At the beginning of the year | — | — | — |
| New loans received | — | — | 5,253 |
| At the end of the year | — | — | 5,253 |

*(iii) Short term bank loans*

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| At the beginning of the year | — | — | 7,231 |
| Exchange difference | — | — | 139 |
| New loans received | — | 7,231 | 317 |
| Repayment of loans | — | — | (302) |
| At the end of the year | — | 7,231 | 7,385 |

***(c) Formation of jointly controlled entities***

| | For the year ended 31 December | |
|---|---|---|
| | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** |
| Share of net assets contributed by joint venture partners in the formation of jointly controlled entities | | |
| Non-current assets | — | 11,104 |
| Cash and cash equivalents | 1,772 | — |
| Other current assets | — | 5,658 |
| Current liabilities | — | (6,735) |
| Non-current liabilities | — | (1,808) |
| | 1,772 | 8,219 |
| Cash contribution injected by the Group in the formation of jointly controlled entities | 1,772 | 11,675 |
| Goodwill (Note 16) | — | 3,456 |
| Analysis of the net outflow in respect of the formation of jointly controlled entities: | | |
| Cash contribution injected | 1,772 | 11,675 |
| Cash acquired | (1,772) | — |
| | — | 11,675 |

During the years ended 31 December 2004 and 2005, the Group formed Beijing Tongrentang Hutchison Pharmaceuticals Investment Company Limited and Hutchison Baiyunshan as jointly controlled entities respectively.

Goodwill arising from the formation of Hutchison Baiyunshan is attributable to the anticipated profitability of the distribution of the company's products in the market and the anticipated future operating synergies. In the formation of the jointly controlled entity, certain licenses which arose from legal or contractual rights were being injected into the business by the joint venture partner. Such intangible assets cannot be reliably measured separately from goodwill because these licenses cannot be sold other than as part of the sale of a business as a whole. Consequently, the value of this intangible forms part of the goodwill arising from the formation of the jointly controlled entity.

***(d) Disposal of a subsidiary***

| | **For the year ended 31 December** |
|---|---|
| | **2005** |
| | ***US$'000*** |
| Net liabilities disposed of: | |
| Cash | 14,518 |
| Property, plant and equipment | 73 |
| Prepayments and other receivables | 118 |
| Investment in associate | 739 |
| Accruals and other payables | (19) |
| Amount due to immediate holding company | (15,662) |
| Exchange reserve | 38 |
| | (195) |
| Net gain on disposal (Note 6) | 195 |
| | — |
| Satisfied by: | |
| Cash received (see below) | — |
| Analysis of the net outflow in respect of the disposal: | |
| Cash disposed of | 14,518 |
| Cash consideration (see below) | — |
| | 14,518 |

During the year ended 31 December 2005, the Group disposed of a wholly owned subsidiary, Hutchison China Medicine Investment Limited, to United Epoch Limited, a fellow subsidiary, at its original investment cost of US$1. Hutchison China Medicine Investment Limited is an investment holding company which holds 50% interests in Tong Ren Tang Hutchison (H.K.) Pharmaceutical Development Company Limited and 49% interests in Beijing Tongrentang Hutchison Pharmaceuticals Investment Company Limited, an associate and a jointly controlled entity of the Group respectively.

***(e) Cash and cash equivalents***

| | **As at 31 December** | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Bank balances and cash | 3,189 | 16,274 | 5,617 |

(i) As at 31 December 2003, 2004 and 2005, approximately US$2,962,000, US$16,132,000 and US$5,417,000 respectively of the Group's cash and cash equivalents were denominated in RMB and deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations in respect of foreign exchange control promulgated by the PRC government.

(ii) The weighted average effective interest rates on deposits with banks as set out in note (i) above were 0.71%, 1.01% and 1.47% as at 31 December 2003, 2004 and 2005 respectively.

## 25 Commitments

### *(a) Capital commitments*

The Group had the following capital commitments not provided for at the respective balance sheet dates:

| | As at 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Property, plant and equipment | | | |
| Authorised but not contracted for | — | — | — |
| Contracted but not provided for | 211 | — | 165 |
| | 211 | — | 165 |

### *(b) Operating lease commitments*

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

At the respective balance sheet dates, the future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases are as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Not later than one year | 323 | 472 | 636 |
| Later than one year and not later than five years | 511 | 355 | 1,136 |
| Later than five years | — | — | 1,816 |
| | 834 | 827 | 3,588 |

## 26 Jointly controlled entities

The Group has interests in several jointly controlled entities. Particulars of the jointly controlled entities of the Group are set out in Note 30. The following amounts represent the Group's share of the assets and liabilities, and sales and results of the jointly controlled entities. They are included in the balance sheets and income statements:

| | As at and for the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| **Assets** | | | |
| Non-current assets | 11,746 | 11,945 | 26,277 |
| Current assets | 5,025 | 20,563 | 21,568 |
| | 16,771 | 32,508 | 47,845 |
| **Liabilities** | | | |
| Non-current liabilities | 3,136 | 3,133 | 12,084 |
| Current liabilities | 9,389 | 9,846 | 15,893 |
| | 12,525 | 12,979 | 27,977 |
| Net assets | 4,246 | 19,529 | 19,868 |
| Income | 8,621 | 11,005 | 28,509 |
| Expenses | (8,831) | (10,438) | (26,068) |
| (Loss)/profit after income tax | (210) | 567 | 2,441 |
| Proportionate interests in a jointly controlled entity's commitments | 211 | — | 101 |

There are no contingent liabilities relating to the Group's interests in jointly controlled entities and these jointly controlled entities do not have any material contingent liabilities.

## 27 Significant related party transactions

The Group is controlled by HHHL (a company incorporated in the British Virgin Islands), which owns 100% of the Company's shares. The ultimate holding company of the Company is Hutchison Whampoa Limited, a company incorporated and listed in Hong Kong.

The major related parties that had transactions with the Group were as follows:

| **Name of related parties** | **Relationship with the Company** |
|---|---|
| HWCL | An intermediate holding company |
| HHHL | The immediate holding company |
| Cascade Trading Limited | A fellow subsidiary |
| Hutchison Whampoa Enterprises Limited | A fellow subsidiary |
| United Epoch Limited | A fellow subsidiary |
| Shanghai Traditional Chinese Medicine Co., Ltd. ("STCM") | A joint venture partner of a jointly controlled entity |
| Shanghai Lei Yun Shang Pharmaceuticals Co. Ltd. | A subsidiary of STCM |
| Shanghai Huayu Pharmaceuticals Co., Ltd. | A subsidiary of STCM |
| Ningxia Dyne Pharmaceuticals Co., Ltd. | A minority shareholder of a subsidiary |
| Masson Holdings Co., Ltd. | A minority shareholder of a subsidiary |
| Bestchosen Limited | A minority shareholder of a subsidiary |
| Guangzhou Baiyunshan Pharmaceuticals Holdings Co., Ltd. | A joint venture partner of a jointly controlled entity |

The following transactions were carried out with related parties during the Relevant Periods:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| **Revenues:** | | | |
| *Sales of goods* | | | |
| — Shanghai Lei Yun Shang Pharmaceuticals Co., Ltd. | 3,001 | 5,733 | 5,304 |
| — Shanghai Traditional Chinese Medicine Co., Ltd. | 151 | 42 | — |
| — Cascade Trading Limited | 150 | 1,079 | 2,109 |
| **Expenses:** | | | |
| *Purchase of goods and raw materials* | | | |
| — Shanghai Huayu Pharmaceuticals Co., Ltd. | 548 | 817 | 858 |
| — Ningxia Dyne Pharmaceuticals Co., Ltd. | 615 | 338 | 9 |
| — Masson Holdings Co., Ltd. | 652 | 443 | 672 |
| *Sub-contracting charges* | | | |
| — Ningxia Dyne Pharmaceuticals Co., Ltd. | — | 44 | 39 |
| — Masson Holdings Co., Ltd. | 187 | 394 | 910 |
| *Interest expense* | | | |
| — Shanghai Traditional Chinese Medicine Co., Ltd. | 285 | 214 | 134 |
| *Rebate expenses* | | | |
| — Shanghai Lei Yun Shang Pharmaceuticals Co., Ltd. | 91 | 332 | 192 |
| *Rental expense for property, plant and equipment* | | | |
| — Masson Holdings Co., Ltd. | 5 | 22 | 26 |
| *Consultancy fee* | | | |
| — HWCL | 156 | 153 | 140 |
| — Masson Holdings Co., Ltd. | 23 | 23 | 24 |
| *Technology fee* | | | |
| — Masson Holdings Co., Ltd. | 76 | 123 | 210 |
| *Disposal of a subsidiary* | | | |
| — United Epoch Limited (Note 24(d)) | — | — | — |
| **Other items not recognised in income statements** | | | |
| *Key management compensation borne by HWCL* | | | |
| — Wages, salaries and bonus | 761 | 538 | 643 |
| — Pension costs - defined contribution plans | 49 | 27 | 29 |
| — Other employee benefits | 112 | 112 | 119 |
| *Other administrative expenses borne by HWCL* | 1,207 | 995 | 1,137 |

These transactions were entered into at terms agreed with these related parties in the ordinary course of the Group's business.

| | As at 31 December | | |
|---|---|---|---|
| | 2003 | 2004 | 2005 |
| | *US$'000* | *US$'000* | *US$'000* |
| **Balances with related parties included in:** | | | |
| *Trade receivables from related parties (Note 20):* | | | |
| — Shanghai Lei Yun Shang Pharmaceuticals Co., Ltd. | 1,158 | 936 | 2,484 |
| — Shanghai Traditional Chinese Medicine Co., Ltd. | 53 | — | — |
| — Cascade Trading Limited | 1 | 58 | — |
| | 1,212 | 994 | 2,484 |
| *Amounts due from related parties:* | | | |
| — Shanghai Lei Yun Shang Pharmaceuticals Co., Ltd. | 11 | — | — |
| — Shanghai Traditional Chinese Medicine Co., Ltd. | — | 957 | — |
| — HWCL | 50 | 238 | — |
| — Guangzhou Bai Yun Shan Pharmaceuticals Holdings Co., Ltd. | — | — | 1,517 |
| | 61 | 1,195 | 1,517 |
| *Trade payables due to related parties (Note 22):* | | | |
| — Shanghai Traditional Chinese Medicine Co., Ltd. | 971 | — | — |
| — Shanghai Huayu Pharmaceuticals Co., Ltd. | 439 | — | 174 |
| — Ningxia Dyne Pharmaceuticals Co., Ltd. | 112 | 288 | 271 |
| — Masson Holdings Co., Ltd. | 301 | 146 | — |
| | 1,823 | 434 | 445 |
| *Amounts due to related parties:* | | | |
| — Hutchison Whampoa Enterprises Limited | 1,084 | 1,084 | 1,103 |
| — HHHL (Note 28(b)) | 34,871 | 53,481 | 62,891 |
| — HWCL (Note 28(b)) | 2,780 | 4,139 | 7,273 |
| — Shanghai Traditional Chinese Medicine Co., Ltd. (see note below) | 3,887 | 509 | 53 |
| — Ningxia Dyne Pharmaceuticals Co., Ltd. | 298 | 140 | 85 |
| — Masson Holdings Co., Ltd. | 168 | 52 | 60 |
| — Cascade Trading Limited | 993 | 459 | — |
| — Guangzhou Bai Yun Shan Pharmaceuticals Holdings Co., Ltd. | — | — | 4,462 |
| — Bestchosen Limited | — | — | 5,253 |
| | 44,081 | 59,864 | 81,180 |

Note:

Except for the above amount due to Shanghai Traditional Chinese Medicine Co., Ltd. which carries interest at a weighted average rate of 5.5% per annum, balances with related parties are unsecured, interest-free and repayable on demand (also see Note 28(b) for the amounts due to HHHL). The carrying values of balances with related parties approximate their fair values due to their short term maturity.

## 28 Subsequent events

The following events took place subsequent to 31 December 2005 and up to the date of this report:

***Changes to the share capital of the Company which are contingent upon admission***

**(a)** On 9 May 2006, the authorised share capital of the Company was increased from US$50,000 to US$75,000,000 by the creation of 74,950,000 shares of US$1 each.

**(b)** Subsequent to the year end, all amounts due to HWCL, including the balance outstanding as at 31 December 2005 of US$7,273,000, has been assigned by HWCL to HHHL. On admission of the Company's ordinary shares to AIM, 36,666,665 ordinary shares of US$1 each were allotted and issued to HHHL by way of capitalisation of amounts due to HHHL of HK$575,219,920. These new shares ranked *pari passu* in all respect with the then existing shares.

**(c)** ***Grant of share options***

On 4 June 2005, the Company conditionally adopted a share option scheme (the "Share Option Scheme") pursuant to which the Board of Directors of the Company may, at its discretion, offer any employees and directors (including executive and non-executive directors other than independent non-executive directors) of the Company and the Group options to subscribe for shares of the Company. As of 31 December 2005, options representing approximately 3.9% of the issued share capital of the Company upon admission were conditionally granted to a director and certain employees of the Group under the Share Option Scheme which are exercisable within a period of ten years from the offer date subject to vesting on the first, second and third anniversaries of the listing of the Company's shares on AIM.

As at admission there were outstanding options under the Share Option Scheme over ordinary shares of the Company representing approximately 3.9 per cent. of the issued ordinary share capital as at admission, at an exercise price per share which is the same proportion of the Placing Price as the loan capitalisation amount referred to in paragraph (b) above is of the market capitalisation of the Company on Admission at the Placing Price.

Of the total amount of such options granted, options over ordinary shares representing 1.5 per cent. of the issued ordinary share capital as at Admission were granted for nil consideration to a director of the Company at the exercise price referred to in the previous paragraph and with an exercise period of 10 years.

## 29 Ultimate holding company

The Company's directors regard Hutchison Whampoa Limited, a company incorporated and listed in Hong Kong, as being the ultimate holding company of the Company.

## 30 Particulars of subsidiaries, associate and jointly controlled entities

During the Relevant Periods, the Group has interests in the following principal subsidiaries, associate and jointly controlled entities which, in the opinion of the directors, were significant to the results for the Relevant Periods or formed a substantial portion of the Group at the respective balance sheet dates:

| Name | Place of establishment and operation/ date of establishment | Registered/ paid up capital | Equity interest attributable to the Group | | | Type of legal entity | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | As at 31 December | | | | |
| | | | 2003 | 2004 | 2005 | | |
| **Subsidiaries** | | | | | | | |
| Hutchison Chinese Medicine Investment Limited (Formerly known as Hutchison China Investments Holding Ltd) (note 1) | The British Virgin Islands 4 April 1996 | US$1 | 100% | 100% | —[1] | Limited liability company | Investment holdings |
| Hutchison Healthcare Limited (note 2) | The PRC 27 February 2001 | RMB166,250,000 | 66.67%[2] | 67.97% | 67.97% | Limited liability company | Manufacture and distribution of healthcare products |
| Hutchison MediPharma Limited | The PRC 30 September 2002 | US$3,000,000 | 100% | 100% | 100% | Limited liability company | Research and development of pharmaceutical products |
| Sen Medicine Company Limited | UK 27 February 2002 | £1,000 | 100% | 100% | 100% | Limited liability company | Retail and distribution of traditional Chinese medicine based consumer products |
| **Associate** | | | | | | | |
| Tong Ren Tang Hutchison (H.K.) Pharmaceutical Development Company Limited (note 1) | Hong Kong 10 February 1999 | HK$15,000,000 | 50% | 50% | —[1] | Limited liability company | Trading of traditional Chinese medicine products |
| **Jointly controlled entities** | | | | | | | |
| Shanghai Hutchison Pharmaceuticals Limited | The PRC 30 April 2001 | RMB88,000,000 | 50% | 50% | 50% | Limited liability company | Manufacture and distribution of traditional Chinese medicine products |
| Beijing Tongrentang Hutchison Pharmaceuticals Investment Company Limited (note 1) | The PRC 29 June 2004 | US$30,000,000 | — | 49% | —[1] | Limited liability company | Investment holdings |
| Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited | The PRC 12 April 2005 | RMB200,000,000 | — | — | 50% | Limited liability company | Manufacture and distribution of traditional Chinese medicine products |

Notes:

1 These companies have not commenced operations and have been disposed of by the Group during the year ended 31 December 2005 (Note 24(d)).

2 During the year ended 31 December 2003, a capital injection in cash amounting to US$3,465,000 was made by a then third party to the company. Consequently, the Group's attributable interest in the company was diluted from 80% to 66.67% and a corresponding gain on deemed disposal amounting to US$1,722,000 (Note 6) was recognised by the Group.

## PART VI — UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET ASSETS OF THE GROUP

Set out below is an unaudited pro forma statement of consolidated net assets of the Group which has been prepared to show the effect on the financial position of the Group of the capitalisation of the amounts due to HHHL, the immediate parent company of the Company, (the "Capitalisation"), and the Placing and Hong Kong Offering and admission to AIM as if they had taken place on 31 December 2005. The unaudited pro forma statement of consolidated net assets has been prepared, on the basis of the notes set out below, for illustrative purposes only and, because of its nature, it addresses a hypothetical situation and does not, therefore, represent the Group's actual financial position following the Capitalisation, the Placing and the Hong Kong Offering and admission to AIM.

| | | Adjustments | | |
|---|---|---|---|---|
| | **At 31 December 2005** *(Note 1)* *US$'000* | **Capitalisation of loans** *(Note 2)* *US$'000* | **Proceeds from the Placing** *(Note 3)* *US$'000* | **Group pro forma net assets** *US$'000* |
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 22,012 | — | — | 22,012 |
| Leasehold land prepayments | 4,085 | — | — | 4,085 |
| Intangible assets | 6,810 | — | — | 6,810 |
| | 32,907 | — | — | 32,907 |
| **Current assets** | | | | |
| Inventories | 8,678 | — | — | 8,678 |
| Trade receivables | 12,864 | — | — | 12,864 |
| Other receivables and prepayments | 1,299 | — | — | 1,299 |
| Amounts due from related parties | 1,517 | — | — | 1,517 |
| Cash and cash equivalents | 5,617 | — | 68,326 | 73,943 |
| | 29,975 | — | 68,326 | 98,301 |
| **Total assets** | 62,882 | — | 68,326 | 131,208 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade payables | 3,938 | — | — | 3,938 |
| Other payables and accruals | 3,641 | — | — | 3,641 |
| Amounts due to related parties | 81,180 | (74,203) | — | 6,977 |
| Short term bank loans | 7,385 | — | — | 7,385 |
| **Total liabilities** | 96,144 | (74,203) | — | 21,941 |
| **Net assets/(liabilities)** | (33,262) | 74,203 | 68,326 | 109,267 |

Notes:

1. The net liabilities of the Group as at 31 December 2005 have been extracted without material adjustment from the historical financial information of the Group set out in Part V of this document.

2. Pursuant to a board resolution passed on 9 May 2006, the directors approved the issue of 36,666,665 ordinary shares of US$1 each, credited as fully paid, to HHHL by way of capitalisation of loans of HK$575,219,920 due to HHHL as at 31 March 2006. The capitalisation of the loans is conditional on (but effective immediately prior to) the admission to AIM of the Company. Further information on the capitalisation of loans is set out in paragraph 3.3 of Part VIII.

   An adjustment has been made to reduce amounts due to related parties by US$74.203 million (equivalent of HK$575,219,920 using an exchange rate of HK$1=US$0.129, being the exchange rate prevailing on 9 May 2006).

3. An adjustment has been made to reflect the net proceeds from the Placing and the Hong Kong Offering of approximately US$68.326 million, after estimated issue costs of US$5.99 million using an exchange rate of £1=US$1.858. It is assumed that all estimated issue costs are directly attributable to the proposed Placing and the Hong Kong Offering and will be deducted from share premium.

4. No account has been taken of trading or other transactions of the Company and its subsidiary undertakings since 31 December 2005 other than as included above.

## The Placing

*(a) The Placing and the Hong Kong Offering*

The Placing comprises 14,537,704 Ordinary Shares being offered to certain institutional investors in the UK only. 109,194 Ordinary Shares were offered to Hong Kong shareholders of HWL under the Hong Kong Offering pursuant to the requirements of the Hong Kong Listing Rules, to which HWL, as a corporation listed on the Hong Kong Stock Exchange is subject. The Hong Kong Offering closed on 8 May 2006 with acceptances received from shareholders of HWL in respect of 7,750 Ordinary Shares. The 101,444 Ordinary Shares not taken up by shareholders of HWL under the Hong Kong Offering have been included in the Placing. The acquisition of new Ordinary Shares pursuant to the Hong Kong Offering is conditional upon the Placing and Admission occurring. All the Ordinary Shares the subject of the Hong Kong Offering will be acquired at the Placing Price.

*(b) Underwriting and allocation*

The Ordinary Shares allocated in the Placing have been underwritten, subject to certain conditions, at the Placing Price by Panmure Gordon. Allocations will be determined at the discretion of Panmure Gordon after indications of interest from prospective investors have been received.

All Ordinary Shares subscribed pursuant to the Placing will be acquired at the Placing Price. The ISIN number for the Ordinary Shares is KYG4672N1016. It is expected that Admission will take place and unconditional dealings in the Ordinary Shares as represented by DIs will commence on AIM at 8.00 a.m. (London time (BST)) on 19 May 2006.

The Company, Hutchison China, HHHL, Lazard and Panmure Gordon have entered into the Placing Agreement. Under this agreement, Panmure Gordon has agreed that, subject to certain conditions, it will procure subscribers for (or failing which, subscribe itself) for the number of Ordinary Shares that are the subject of the Placing in each case at the Placing Price.

Further details of the terms of the Placing Agreement are set out in paragraph 19 of Part VIII of this document.

*(c) CREST and Depositary Interests*

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. Securities issued by non-UK companies such as the Company cannot be held or transferred under the CREST system.

It is therefore proposed that, with effect from Admission, Ordinary Shares may be delivered, held and settled in CREST by means of the creation of DIs representing such Ordinary Shares. Under arrangements put in place by the Company, Ordinary Shares will be transferred to an account of the Depositary or its nominated custodian and the Depositary will issue DIs to participating members representing the underlying Ordinary Shares, which will be held on trust for the DI Holders. The DIs will be created pursuant to and issued on the terms of the DI Deed Poll, as executed by the Depositary in favour of the DI Holders from time to time. A summary of the DI Deed Poll is set out in paragraph 25.6 of Part VIII of this document.

The DIs will be independent securities under English law and will be held on a register maintained by the Depositary. The DIs will have the same security code as the underlying Ordinary Shares which they represent and will not require a separate admission to AIM. Each DI will be treated as one Ordinary Share for the purposes of determining, for example, eligibility for any dividends. Any payments received by the Depositary, as holder of the underlying Ordinary Shares, will, pursuant to the DI Deed Poll, be passed on to each DI Holder noted on the DI register as the beneficial owner of the relevant underlying Ordinary Shares.

Participation in CREST is voluntary and Placees who wish to hold share certificates may do so. They will not, however, then be able to settle their dealings in shares through CREST and will have their holdings recorded on the Company's share register in Jersey. If a Placee elects to hold new Ordinary Shares in certificated form, a definitive certificate for the new Ordinary Shares is expected to be dispatched to such Placee by first class post on or around 26 May 2006.

Notwithstanding any other provision of this document, Panmure Gordon reserves the right to settle allocations of new Ordinary Shares in certificated form in place of DIs if it wishes to do so. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST), or on the part of the facilities and/or systems operated by the Registrar in connection with CREST.

*(d) Lock-up arrangements*

Pursuant to the Placing Agreement, the Company has agreed that, subject to certain exceptions, during the period of 365 days after the date of Admission it will not, without the prior agreement of Panmure and Lazard (which, after 180 days from Admission, will not be unreasonably withheld), directly or indirectly, issue or grant any options in respect of, or otherwise dispose of, any Ordinary Shares.

In addition, HHHL, which immediately following Admission is expected to hold approximately 71.6 per cent. of the Ordinary Shares, and Hutchison China have agreed that, subject to certain exceptions, they will not, without the prior agreement of Panmure and Lazard, during the period of 180 days after the date of Admission, directly or indirectly, sell or grant any options in respect of, or otherwise dispose of, any Ordinary Shares.

Further details of these arrangements are set out in paragraph 19 of Part VIII of this document.

**Terms and Conditions of the Placing**

*(a) General*

These terms and conditions apply to persons who agree to subscribe for new Ordinary Shares under the Placing.

Each person to whom these terms and conditions apply, as described above, who confirms its agreement to Panmure Gordon (on behalf of itself and as agent of the Company) to subscribe for new Ordinary Shares (which may include Panmure Gordon or its nominee(s)) (a "Placee"), hereby agrees with each of Panmure Gordon, the Registrar and the Company to be bound by these terms and conditions and that these are the terms and conditions upon which Ordinary Shares will be issued under the Placing. Each of such persons shall, without limitation, be deemed to have confirmed its agreement as above once Panmure Gordon has notified such person of (i) the Placing Price and (ii) its allocation and Panmure Gordon has so notified the Registrar on behalf of the Company.

*(b) Placees*

This document is being solely issued to and directed at persons who are (i) qualified investors within the meaning of directive 2003/71/EC and any relevant implementing measures (the "Prospectus Directive") and (ii) who have professional experience in matters relating to investments who fall within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or are persons falling within article 49 ("High net worth companies, unincorporated associations, etc") of the Order (all such persons together being referred to as "Relevant Persons"). Any acquisition of or application by such persons for Ordinary Shares should only be made on the basis of the information contained in this document.

*(c) Terms of the Placing*

Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM and it is expected that such trading in the Ordinary Shares will commence on 19 May 2006. Upon payment therefor in accordance with these terms and conditions the new Ordinary Shares will be credited as fully paid and will rank in full for all dividends and other distributions declared, made or paid on or after their date of issue and otherwise *pari passu* in all respects with the existing issued Ordinary Shares.

The Placing and the Placees' participation in the Placing are conditional on the Placing Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms. The Placing Agreement is conditional upon, inter alia, Admission occurring by not later than 8.00 a.m. BST on 19 May 2006 (or such later time and/or date as Panmure Gordon, Lazard, the Company and the Directors may agree, not being later than 8.00 a.m. on 26 May 2006).

Panmure Gordon and Lazard may in their absolute discretion agree to extend the time for the satisfaction of any of the conditions of the Placing Agreement (provided that such time may not be extended beyond 8.00 a.m. on 26 May 2006). In the event that any such extension is agreed, Panmure Gordon will inform the Placees at the earliest opportunity and all subsequent dates mentioned in this document will be adjusted appropriately.

Acceptance by Panmure Gordon of any offer by a Placee to acquire Ordinary Shares in the Placing (as evidenced by Panmure Gordon's notification to such Placee of the Placing Price and its allocation as described above) incorporating the terms and conditions set out herein will give rise to a binding irrevocable commitment on the part of such Placee, subject to the conditions set out below, to acquire and pay for the relevant number of Ordinary Shares which is not capable of termination or rescission by the Placee at any time or in any circumstances except fraud. This does not affect any other rights such Placee may have. All such obligations are entered into by the Placee with Panmure Gordon in its capacity as agent for the Company and are therefore directly enforceable by the Company.

*(d) Placing Agreement*

Panmure Gordon and Lazard have the right to terminate the Placing Agreement by notice in writing to the Company (in their absolute discretion, following consultation with the Company where practicable) if, inter alia, at any time on or before Admission: (i) any of the representations, warranties or undertakings contained in the Placing Agreement has been breached; or (ii) it comes to the notice of Panmure Gordon or Lazard that the Admission Document contains certain misstatements or is the subject of certain omissions which Panmure Gordon or Lazard reasonably considers to be material in the context of the Placing.

By offering and agreeing to subscribe for Ordinary Shares, each Placee agrees that any exercise by Panmure Gordon or Lazard of any rights or discretions (including, without limitation, any right to terminate the Placing Agreement or to waive or extend any condition in the Placing Agreement) shall be within Panmure Gordon's or Lazard's absolute discretion and that neither Panmure Gordon nor Lazard shall have any liability to any Placee whatsoever in connection with any decision to exercise or not to exercise any such right. Each Placee agrees that it has no rights against Panmure Gordon, Lazard, the Company or any of their respective directors or employees under the Placing Agreement pursuant to the Contracts (Rights of Third Parties) Act 1999. If the Placing Agreement does not become unconditional, or is terminated in accordance with its terms prior to Admission, the Placing will not proceed and the Placee's rights and obligations will cease and no claims will be capable of being made by the Placee in respect of the Placing and any payments made by the Placee will be returned as soon as possible thereafter without interest.

*(e) Settlement*

Placees may elect to acquire Ordinary Shares under the Placing either in certificated form or in uncertificated form in the form of DIs. Panmure Gordon reserves the right to settle allocations of new Ordinary Shares in certificated form in place of DIs if it wishes to do so. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST), or on the part of the facilities and/or systems operated by the Registrar in connection with CREST.

*(f) Overseas shareholders*

By accepting any offer incorporating the terms and conditions contained in this Part VII, each Placee represents and warrants to Panmure Gordon (for itself and as agent of the Company) that, if the laws of any place outside the UK are applicable to the Placee's agreement to subscribe for Ordinary Shares and/or acceptance thereof, it:

- is entitled to acquire the Ordinary Shares under the laws and regulatory requirements of all relevant jurisdictions which apply to it;
- has fully observed such laws and requirements and obtained all governmental and other consents which may be required thereunder and complied with all necessary formalities (save as set out below);
- will pay any issue or other taxes due thereunder;
- agrees that the offer and sale of the Ordinary Shares have been made to it in an "offshore transaction" as such term is defined in Regulation S under the United States Securities Act of 1933, as amended (the "Securities Act"); and

- has not taken any action which will or may result in the Company or Panmure Gordon acting in breach of any regulatory or legal requirements of any territory in connection with the Placing or the Placee's acceptance of the terms and conditions herein.

The Ordinary Shares have not been and will not be registered under the Securities Act, or under the securities law of any state of the United States, nor have they been qualified for sale under the securities legislation of any province or territory of Canada and the relevant exemptions are not being obtained from the securities commission of any province of Canada and, accordingly, the Ordinary Shares may not be offered or sold (directly or indirectly) and will not qualify for sale within the United States or Canada or to, or for the account or benefit of, any person or corporation in (or with a registered address in) the United States or Canada.

In addition, until 40 days after the commencement of the Placing, an offer or sale of Ordinary Shares within the United States by any dealer (whether or not participating in the Placing) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration, or in a transaction not subject to registration, under the Securities Act.

No document in relation to the Placing has been, or will be lodged with, or registered by, The Australian Securities and Investments Commission and no registration statement has been, or will be, filed with the Ministry of Finance of Japan in relation to the Placing or the Ordinary Shares. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold in or into Australia or Japan.

Due to restrictions under relevant securities laws, no offer is being made to persons who have registered addresses in, or who are residents of, the Republic of Ireland or South Africa. Accordingly the Ordinary Shares may not, directly or indirectly, be offered or sold in or into the Republic of Ireland or South Africa.

The Ordinary Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the Cayman Islands.

*(g) Tax*

The Ordinary Shares (which term, for the avoidance of doubt, specifically includes the Depositary Interests here) will be issued free of all expenses and free of all stamp duty and stamp duty reserve tax ("SDRT") unless stamp duty or SDRT is chargeable on the issue of Ordinary Shares to the Placee under any of sections 67 and 93 (Depositary Receipts) or sections 70 or 96 (Clearance Services) of the Finance Act 1986. In summary, these sections can apply if the Placee's business is or includes issuing depositary receipts or the provision of clearance services or acting as agent or nominee for a person whose business is or includes issuing depositary receipts or the provision of clearance services. No stamp duty or SDRT is expected to arise under those sections on issue of the Ordinary Shares to the Depositary for the purposes of issuing the Depositary Interests. By accepting these terms and conditions the Placee confirms and warrants that these sections will not apply to the issue of Ordinary Shares to it and accordingly any stamp duty or SDRT which may arise as a result of such confirmation and warranties being breached will be entirely for the Placee's account and neither the Company nor Panmure Gordon will have any liability in respect thereof.

*(h) Agreement to subscribe for Ordinary Shares*

Conditional on (i) Admission occurring on or prior to 19 May 2006 (or such later date as Panmure Gordon and the Company may agree (not being later than 26 May 2006)) and (ii) the confirmation mentioned under paragraph (a) above (the "Confirmation"), each Placee agrees to become a member of the Company and agrees to subscribe for such number of Ordinary Shares, or to acquire Depositary Interests in respect thereof, as is set out in the Confirmation, as more particularly described below, at the Placing Price, under the Placing in accordance with the terms and conditions set out in this document (including this Part VII). To the fullest extent permitted by law, each Placee acknowledges and agrees that it will not be entitled to exercise any remedy of rescission at any time. This does not affect any other rights such Placee may have.

*(i) Payment for Ordinary Shares*

Each Placee undertakes to pay the Placing Price for the Ordinary Shares issued to such Placee in such manner as shall be directed by Panmure Gordon.

In the event of any failure by any Placee to pay the Placing Price as so directed by Panmure Gordon, Panmure Gordon may, at its absolute discretion, terminate the placing commitment with the Placee in which event the monies payable on acceptance of the allotment will, if paid, be returned without interest and at the sole risk of the Placee to the account of the drawee bank from which they were originally debited. Alternatively, if Ordinary Shares have already been allotted to the Placee, Panmure Gordon may (at its absolute discretion as to the manner, timing and terms) sell such Ordinary Shares on behalf of the Placee and hold the proceeds of sale (net of expenses including, without limitation, any stamp duty or SDRT payable on the transfer of such shares, and all amounts payable by the Placee pursuant to the terms and conditions set out in this document in respect of the acquisition of such Ordinary Shares) or an amount equal to the Placee's original payment (whichever is the lower) on trust for the Placee. Neither Panmure Gordon nor the Company nor any other person shall be responsible for, or have any liability for any loss, expenses or damage incurred by the Placee arising as a result.

*(j) Representations and warranties*

By receiving this document and agreeing to subscribe for Ordinary Shares, each Placee is deemed to have irrevocably represented, warranted and undertaken to each of Panmure Gordon (in each case for itself and as agent of the Company) and Lazard that:

(i) it and/or each person on whose behalf it is subscribing for (in whole or in part) Ordinary Shares in the Placing or to whom it allocates its Ordinary Shares in whole or in part:

  (1) has the capacity and authority and is entitled to enter into and perform its obligations as a subscriber for Ordinary Shares and will honour such obligations; and

  (2) has fully observed all laws of all relevant jurisdictions and obtained all necessary governmental or other consents in either case which may be required in relation to the subscription by it of Ordinary Shares;

(ii) it is not a person who is resident in, or a citizen of, the United States, Canada, Australia, the Republic of South Africa, the Republic of Ireland, Japan or the Cayman Islands (or an agent or nominee of such a person) or a corporation, partnership or other entity organised under the laws of any such jurisdiction (or an agent or nominee of such a person) and is acquiring the Ordinary Shares in an offshore transaction in accordance with Regulation S under the Securities Act;

(iii) it is a Relevant Person;

(iv) in agreeing to subscribe for Ordinary Shares it has received and read this document and has not relied on and is not relying on any information, representation or warranty relating to the Placing, the Ordinary Shares or the Company other than as contained in this document and it has not relied on, and is not relying on, any representation or warranty or agreement by Panmure Gordon, Lazard or the Company or any of their respective directors, employees or agents or any other person and each Placee agrees that none of Panmure Gordon, Lazard, the Company or any of their respective directors, employees, agents or any other person will have any liability for any such other information, representation, warranty or agreement;

(v) it acknowledges and agrees that the Ordinary Shares have not been and will not be registered under the Securities Act or under the securities laws of any state of the United States, that the relevant clearances have not been and will not be obtained from the Securities Commission of any province of Canada and that the Ordinary Shares have not been and will not be registered under the securities laws of Australia, the Republic of South Africa, the Republic of Ireland, Japan or the Cayman Islands and, therefore, the Ordinary Shares may not be, subject to certain exceptions, directly or indirectly, offered or sold in the United States, Canada, Australia, the Republic of South Africa, the Republic of Ireland, Japan or the Cayman Islands;

(vi) it acknowledges and agrees that neither it nor any affiliate, nor any person acting on its or any affiliate's behalf, has offered, sold, taken up, renounced, transferred or delivered or will offer, sell, take up, renounce, transfer or deliver directly or indirectly any Ordinary Shares within the United States, Canada, Australia, the Republic of South Africa, the Republic of Ireland, Japan or the

Cayman Islands or offer, sell, take up, renounce, transfer or deliver in favour of a resident of Canada, Australia, the Republic of South Africa, the Republic of Ireland, Japan or the Cayman Islands;

(vii) it has not made, and will not make, an offer of any Ordinary Shares to the public in any member state of the European Economic Area which has implemented the Prospectus Directive (each a "Relevant Member State") in circumstances that would require a prospectus to be published or registered in the Relevant Member State and it has not taken any action that would require the registration of a prospectus in a Relevant Member State;

(viii) it is not, and is not applying as nominee or agent for, a person which is, or may be, mentioned in any of sections 67, 70, 93 and 96 of the Finance Act 1986 (depositary receipts and clearance services);

(ix) it acknowledges and agrees in connection with its participation in the Placing that neither Panmure Gordon nor Lazard is acting for it in relation to the Placing or otherwise and that neither Panmure Gordon nor Lazard will have any duties or responsibilities to it for providing the protections afforded to such person's customers or for advising it with regard to the Placing or the Ordinary Shares;

(x) it irrevocably appoints any director of Panmure Gordon as its agent for the purpose of executing and delivering to the Company and/or its registrars any documents on its behalf necessary to enable it to be registered as the holder of any of the Ordinary Shares offered to it;

(xi) it is entitled to subscribe for the Ordinary Shares under the laws of all relevant jurisdictions which apply to it and that it has fully observed such laws and obtained all such governmental and other guarantees and other consents which may be required thereunder and complied with all necessary formalities and none of Panmure Gordon, Lazard, the Company or any of their respective affiliates, officers or directors will infringe any laws as a result of such Placee's rights and obligations under such Placee's agreement to acquire Ordinary Shares or under the Articles;

(xii) if the Placee is a natural person, he is not under the age of majority (18 years of age in the UK) on the date of the agreement to acquire Ordinary Shares;

(xiii) to the extent that a Placee is subscribing for Ordinary Shares on behalf of a third party,

(1) such Placee has carried out applicable procedures to verify the identity of such third party for the purposes of the Money Laundering Regulations 2003 (the "Regulations");

(2) such Placee has complied fully with its obligations pursuant to the Regulations; and

(3) such Placee will provide Panmure Gordon on demand with any information it might require for the purposes of verification under the Regulations;

(xiv) it is aware of, has complied with and will comply with its obligations in connection with money laundering under the Proceeds of Crime Act 2002; and

(xv) it has complied with and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the subscription of Ordinary Shares in, from, or otherwise involving the UK.

Each Placee is deemed to acknowledge and understand that Panmure Gordon, Lazard and the Company will rely upon the truth and accuracy of the foregoing representations, warranties and acknowledgements.

In the case of a person who confirms to Panmure Gordon on behalf of a Placee an agreement to subscribe for Ordinary Shares and/or who authorises Panmure Gordon to notify the Placee's name to the Registrar as mentioned under paragraph (a) above, that person represents and warrants that he has authority to do so on behalf of the Placee.

*(k) Supply and disclosure of information*

If the Company or Panmure Gordon or any of their agents requests any information about a Placee's agreement to subscribe for Ordinary Shares, such Placee must promptly disclose it to such person.

*(l) Miscellaneous*

The rights and remedies of Panmure Gordon, Lazard, the Company and the Registrar under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them and the exercise or partial exercise of one will not prevent the exercise of others.

On application, each Placee may be asked to disclose in writing or orally to Panmure Gordon: (a) if he is an individual, his nationality; or (b) if he is a discretionary fund manager, the jurisdiction in which the funds are managed or owned.

All documents will be sent at the Placee's risk. They may be sent by post to such Placee at an address notified to Panmure Gordon.

Each Placee agrees to be bound by the Articles (as amended from time to time) and the DI Deed Poll (as described in paragraph 25.6 of Part VIII of this document) once the Ordinary Shares which such Placee has agreed to subscribe for have been issued to such Placee or the Depositary.

The contract to acquire Ordinary Shares and the appointments and authorities mentioned in this Part VII will be governed by, and construed in accordance with, the laws of England. For the exclusive benefit of Panmure Gordon, Lazard, the Company and the Registrar, each Placee irrevocably submits to the exclusive jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against a Placee in any other jurisdiction.

In the case of a joint agreement to subscribe for Ordinary Shares, references to a Placee in these terms and conditions are to each of such Placees and such Placees' liability is joint and several.

Panmure Gordon and the Company expressly reserve the right to modify the terms and conditions of the Placing at any time before a Placee's agreement to acquire Ordinary Shares becomes binding in accordance with paragraph (a) above.

**Anti-Money Laundering Legislation**

(a) As part of the Company's responsibility for the prevention of money laundering, the Company will require a detailed verification of the applicant's identity and the source of payment. Depending on the circumstances of each application, a detailed verification might not be required where:

(i) the applicant is a recognised financial institution which is regulated by a recognised regulatory authority and carries on business in a country listed in Schedule 3 of the Cayman Islands Money Laundering Regulations (a "Schedule 3 Country");

(ii) the application is made through a recognised intermediary which is regulated by a recognised regulatory authority and carries on business in a country recognised in a Schedule 3 Country. In this situation the Company may rely on a written assurance from the intermediary that the requisite identification procedures on the applicant for business have been carried out; or

(iii) the subscription payment is remitted from an account (or joint account) held in the applicant's name at a bank in the Cayman Islands or a bank regulated in a Schedule 3 Country. In this situation the Company may require evidence identifying the branch or office of the bank from which the monies have been transferred, to verify that the account is in the name of the applicant and to retain a written record of such details.

(b) The Company reserves the right to request such information as is necessary to verify the identity of an applicant. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Company will refuse to accept the application and the relevant subscription monies.

(c) If any person who is resident in the Cayman Islands has a suspicion that a payment to the Company (by way of subscription or otherwise) contains the proceeds of criminal conduct, that person is required to report such suspicion pursuant to The Proceeds of Criminal Conduct Law (as amended).

(d) By subscribing, applicants consent to the disclosure by the Company of any information about them to regulators and others upon request in connection with money laundering and similar matters both in the Cayman Islands and in other jurisdictions. References in this part to the Company include any agent of the Company.

References in paragraphs (a) to (d) above of this section ("Anti-Money Laundering Legislation") to the Company include any agent of the Company.

## 1. Responsibility

The Directors (whose names and business addresses appear on page 6 of this document) declare that, having taken all reasonable care to ensure that such is the case, the information contained in this document is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. All the Directors accept individual and collective responsibility for the Company's compliance with the AIM Rules.

## 2. Incorporation and activities

2.1 The Company was incorporated and registered in the Cayman Islands as an exempted company with limited liability on 18 December 2000 as Hutchison Global MediTech Limited under the Companies Law (2000 Revision Chapter 22) with registered number CR-106733. By a special resolution passed on 28 July 2005, the Company changed its name to Hutchison China MediTech Limited.

2.2 The principal legislation under which the Company operates is the Companies Law (2004 Revision) of the Cayman Islands. The liability of the Company's members is limited.

2.3 The registered office of the Company is at Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. The Company's head office is at 21/F, Hutchison House, 10 Harcourt Road, Hong Kong and its telephone number is +852 2121 8200.

2.4 The principal activity of the Company is that of a holding company.

## 3. Share capital

3.1 Set out below are details of the authorised and issued share capital of the Company as it will be immediately following Admission:

| Authorised Number | Authorised Amount | | Issued Number | Issued Amount |
|---|---|---|---|---|
| 75,000,000 | US$75,000,000 | Ordinary Shares of US$1each | 51,212,121 | US$51,212,121 |

3.2 Upon incorporation, the authorised share capital of the Company was US$50,000 divided into 50,000 ordinary shares of US$1 each, two of which were issued fully paid to the subscriber to the Memorandum.

3.3 The following changes have taken place in the authorised and issued share capital of the Company since incorporation:

Pursuant to written resolutions of the Company passed on 9 May 2006 and conditional on (but effective immediately prior to) Admission taking place not later than 19 May 2006 (or such later date as the Company and Panmure Gordon may agree);

(a) the authorised share capital of the Company was increased from US$50,000 to US$ 75,000,000 by the creation of 74,950,000 Ordinary Shares;

(b) HK$575,219,920 of loans due from the Company to HHHL was capitalised in consideration for the issue of 36,666,665 Ordinary Shares to HHHL;

(c) the Directors were generally and unconditionally authorised pursuant to article 12 of the Articles to allot Ordinary Shares:

(i) up to a maximum aggregate nominal value of US$36,666,665 for the purposes of the loan capitalisation referred to in paragraph (b) above;

(ii) up to a maximum aggregate nominal value of US$14,545,454 for the purposes of the Placing and the Hong Kong Offering;

(iii) otherwise than pursuant to sub-paragraphs (i) and (ii) above, to a maximum aggregate nominal value of US$17,100,000.

(d) the Directors were empowered pursuant to article 12 of the Articles to allot the Ordinary Shares referred to in paragraph (c) above as if articles 12(3) to 12(7) of the Articles did not apply to the allotment, provided that other than in connection with a rights issue or other pre-emptive offer, or the matters referred to in sub-paragraph (c)(i) and (ii) above, should not exceed an aggregate nominal value of US$2,561,000.

The authorities referred to in paragraphs (c) and (d) above expire on the earlier of 15 months from the date of adoption of the resolution or, if earlier, the conclusion of the Annual General Meeting of the Company to be held in 2007.

3.4 Save as disclosed in this Part VIII, no share or loan capital of the Company has been issued or is now proposed to be issued, fully or partly paid up, either for cash or a consideration other than cash.

3.5 The Company does not have in issue any security not representing share capital and there are no outstanding convertible securities issued by the Company.

3.6 The Group has not issued any authorised debentures.

3.7 The Placing Shares will rank *pari passu* in all respects with the existing Ordinary Shares in the capital of the Company including the right to receive dividends or other distributions hereafter declared, paid or made on the ordinary share capital of the Company.

## 4. Memorandum and Articles

### 4.1 Memorandum

The principal objects of the Company are set out in clauses 3 and 4 of its Memorandum (which is available for inspection at the address specified in paragraph 27 of this Part VIII). The Company has unrestricted power and authority to carry out any object not prohibited by law, subject to the following:

(a) the Company is not permitted to carry on, without first acquiring the relevant licence, the business of a bank or trust company; the business of an insurance company or broker; or the business of company management; and

(b) the Company may not trade in the Cayman Islands except in furtherance of the business of the Company carried on outside the Cayman Islands.

### 4.2 Articles

The Articles adopted, conditionally upon Admission, pursuant to a written resolution of the Company passed on 9 May 2006 include provisions to the following effect:

### 4.3 Meetings

4.3.1 An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. Notice of every general meeting shall be given to all the members other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the Company's auditors for the time being.

4.3.2 Notwithstanding that a meeting is called by shorter notice periods than those mentioned above, it shall be deemed to have been duly called, if it is so agreed (i) in the case of a meeting called as an annual general meeting by all the members entitled to attend and vote at the meeting; (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

4.3.3 No business other than the appointment of a chairman shall be transacted at any general meeting unless a quorum is present at the commencement of business, but the absence of a quorum shall not preclude the appointment of a chairman which shall not be treated as part of the business of the meeting.

4.3.4 Two of the members present in person or by proxy representing not less than one-third in nominal value of the total issued voting shares shall be a quorum.

4.3.5 A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting or at any relevant general meeting of any class of the members. Such duly authorised representative shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were the Company's individual member.

4.3.6 The quorum for a separate general meeting of the holders of a separate class of the Company's shares is described in "Modification of Rights" below.

**4.4 Special and ordinary resolutions**

4.4.1 Pursuant to the Articles, a special resolution must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given.

4.4.2 A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

4.4.3 An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**4.5 Voting rights attaching to the Shares**

4.5.1 Subject to any special rights or restrictions as to voting for the time being attached to any Shares, at any general meeting every member who is present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person or by proxy (or, in the case of a member being a corporation, by its duly appointed representative) shall have one vote for each Share of which such member is the holder.

4.5.2 No member shall be entitled to vote or be reckoned in a quorum, in respect of any Share, unless such member is registered as a shareholder at the applicable record date for that meeting and all calls or instalments due by such member to the Company have been paid.

4.5.3 There are no restrictions imposed by Cayman Islands law or the Articles on the rights of the members to hold or vote their Shares by reason of where they reside. The Articles, however, provide that the Company is not obliged, when making or granting any allotment of, offer of, option over or disposal of Shares or issuing Shares in satisfaction wholly or in part of a dividend declared, to make or make available any such allotment, offer, option or shares to the members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the Company's opinion, be unlawful or impracticable.

**4.6 Pre-emption rights**

Unless the Company by special resolution directs otherwise, any new Equity Shares (being any share in the capital of the Company other than shares which as respects dividends carry a right to participate only up to a specified amount in a distribution) will be offered for subscription to the holders of the Equity Shares in such proportions as equal (as nearly as possible) the proportion of Equity Shares held by them respectively at that time. For such purposes, all Equity Shares will be treated as one class of Share. Any shares not taken up following such offer will be at the disposal of the Directors who may allot, grant options over or otherwise dispose of them to such persons at such times and generally on such terms as they think fit. However:

(a) no shares will be issued at a discount;

(b) no shares will be issued more than three months after the end of the period for acceptance of the last offer of such Shares; and

(c) no shares will be issued on terms which are more favourable than those on which they were offered to the members.

The foregoing provisions do not apply to a particular allotment of Equity Shares if these are, or are to be, wholly or partly paid up otherwise than in cash or to allotments to be made pursuant to an employee share scheme but otherwise will apply to all Equity Shares of the Company which may be created from time to time.

**4.7 Liquidation rights**

4.7.1 Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company is wound up and the assets available for distribution among the members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst those members in proportion to the amount paid up at the commencement of the winding up on the shares held by them, respectively and (ii) if the Company is wound up and the assets available for distribution among the members as such shall be insufficient to repay the whole of the paid-up capital, these assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up at the commencement of the winding up on the shares held by them, respectively.

4.7.2 If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide among the members in specie or in kind the whole or any part of the Company's assets (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members.

4.7.3 The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any assets, shares or other securities upon which there is a liability.

**4.8 Modification of rights**

4.8.1 Except with respect to share capital (as described below) and the location of the registered office, alterations to the Company's Memorandum and Articles may only be made by special resolution.

4.8.2 Subject to the Companies Law, all or any of the special rights attached to Shares of any class (unless otherwise provided for by the terms of issue of the shares of that class) may be varied, modified or abrogated either with the consent in writing of the holders

of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall apply *mutatis mutandis* to every such separate general meeting, but so that the quorum for the purposes of any such separate general meeting other than an adjourned meeting shall be a person or persons together holding (or represented by proxy) on the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

4.8.3 Every holder of Shares of the class shall be entitled on a poll to one vote for every such share held by such holder and that any holder of shares of that class present in person or by proxy may demand a poll. At an adjourned meeting of such holders, two holders present in person or by proxy (whatever the number of Shares held by them) shall be a quorum.

4.8.4 The special rights conferred upon the holders of any class of Shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such Shares, be deemed to be varied by the creation or issue of further Shares ranking *pari passu* therewith.

**4.9 Alteration of capital**

4.9.1 The Company may from time to time by ordinary resolution:

(a) increase the Company's capital by such sum, to be divided into Shares of such amounts, as the resolution shall prescribe;

(b) consolidate and divide all or any of the Company's share capital into shares of a larger amount than the Company's existing shares;

(c) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law;

(d) sub-divide the Company's shares or any of them into shares of a smaller amount than is fixed by the Memorandum and Articles, subject nevertheless to the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such subdivision, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with, the others as the Company has power to attach to unissued or new shares; and

(e) divide shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares, attach to the shares respectively as preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination in general meeting may be determined by the directors.

4.9.2 The Company may, by special resolution, subject to any confirmation or consent required by the Companies Law, reduce the Company's share capital, or any capital redemption reserve in any manner authorised by law.

**4.10 Transfer of Shares**

4.10.1 Subject to such of the restrictions of the Articles as may be applicable, any of the members may transfer all or any of his or her shares by an instrument of transfer in the usual or common form or in such other form prescribed by a stock exchange on which the Company's shares are listed or in any other form which the directors may approve.

4.10.2 The directors may decline to register any transfer of any share which is not paid up or on which the Company has a lien. The directors may also decline to register any transfer of any share unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of share;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) the shares concerned are free from any lien in favour of the Company; and

(e) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

4.10.3 If the directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

4.10.4 The registration of transfers may, on notice being given by advertisement in one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as the directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as the directors may determine.

**4.11 Share repurchase**

The Company is empowered by the Companies Law and the Articles to purchase the Company's own shares subject to certain restrictions. The directors may only exercise this power on the Company's behalf, subject to the Companies Law, the Company's Memorandum and Articles and to any applicable requirements imposed from time to time.

**4.12 Dividends**

4.12.1 Subject to the Companies Law, in a general meeting the Company may declare dividends in any currency but no dividends shall exceed the amount recommended by the directors. Dividends may be declared and paid out of the Company's profits, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared out of the share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

4.12.2 Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on that share; and (ii) all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

4.12.3 The directors may also pay any dividend which is payable on any shares half-yearly or on any other dates whenever the Company's position, in the opinion of the directors, justifies such payment.

4.12.4 The directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by such member to the Company on account of calls, instalments or otherwise.

4.12.5 No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

4.12.6 In respect of any dividend proposed to be paid or declared on the Company's share capital, the directors may resolve and direct that:

(a) such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof if the directors so determine) in cash in lieu of such allotment; or

(b) the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the directors may think fit.

4.12.7 The directors may also, with the sanction of the members in general meeting, resolve in respect of any particular dividend that, notwithstanding the foregoing, it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right of members to elect to receive such dividend in cash in lieu of such allotment.

4.12.8 Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent by mail addressed to the holder at his registered address, or addressed to such person and at such addresses as the holder may direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company.

4.12.9 Any dividend unclaimed after a period of six years from the date of declaration of such dividend may be forfeited by the Company's board of directors and, if so forfeited, shall revert to the Company.

4.12.10 Whenever the directors or the members in general meeting have resolved that a dividend be paid or declared, the directors may further resolve that such dividend be satisfied by direct payment or satisfaction wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe for the Company's securities or securities of any other company, and where any difficulty arises with regard to such distribution, the directors may settle it as they think expedient, and in particular may issue fractional certificates or authorise any person to sell and transfer any fractions or may ignore fractions altogether, and may fix the value for distribution purposes of any such specific assets and may determine that cash payments shall be made to any of the members upon the footing of the value so fixed in order to adjust the rights of the parties and may vest any such specific assets in trustees as may seem expedient to the directors.

**4.13 Untraceable shareholders**

4.13.1 The Company is entitled to sell any share of a member who is untraceable, provided that:

(a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years;

(b) the Company has not during that time or before the expiry of the three-month period referred to in paragraph (d) below received any indication of the whereabouts or existence of the member or person entitled to such shares by death, bankruptcy or operation of law;

(c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and

(d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in newspapers in the manner stipulated by the Articles, giving notice of its intention to sell these shares, and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention.

4.13.2 The net proceeds of any such sale shall belong to the Company and when the Company receive these net proceeds the Company shall become indebted to the former member for an amount equal to such net proceeds.

**4.14 Board of directors**

*General*

4.14.1 The Company is managed by a board of directors which must consist of not less than two members. One-third of the directors are subject to retirement from office by rotation at each general meeting. All the directors who were appointed by the Company's board must retire at the next annual general meeting. Retiring directors are eligible for re-election.

4.14.2 Meetings of the board of directors may be convened at any time deemed necessary by any members of the board of directors. Advance notice of a meeting is not required if all the directors are present or represented at the meeting concerned and consent to the holding of such meeting.

4.14.3 A meeting of the board of directors shall be competent to make lawful and binding decisions if any two members of the board of directors are present or represented. At any meeting of the directors, each director, be it by his presence or by his alternate, is entitled to one vote.

4.14.4 Questions arising at a meeting of the board of directors are required to be decided by simple majority votes of the members of the board of directors present or represented at the meeting. In the case of a tie vote, the chairman of the meeting shall have a second or deciding vote. The Company's board of directors may also pass resolutions without a meeting by the written consent of three quarters of the board.

4.14.5 Under Cayman Islands law, the directors have a duty of loyalty and must act honestly and in good faith and in the Company's best interests. The directors also have a duty to exercise the care, diligence, and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duties to the Company, the directors must ensure compliance with the Memorandum and Articles and the class rights vested thereunder in the holders of shares. A shareholder may in certain circumstances have rights to damages if a duty owed by the directors is breached.

*Borrowing powers*

4.14.6 The directors may exercise all the powers to raise or borrow money, to mortgage or charge all or any part of the Company's undertaking, property and assets (present and future) and uncalled capital and, subject to the Companies Law, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company's or of any third party.

*Compensation*

4.14.7 The ordinary remuneration of the directors is determined by the board, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the directors in such proportions and in such manner as the Company's board may agree or, failing agreement, equally, except that any director holding office for part only of the

period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of the Company's shares or of the Company's debentures or otherwise in connection with the discharge of their duties as directors.

4.14.8 Any director who, by request, goes or resides abroad for the Company's purpose or who performs services which in the opinion of the board go beyond the ordinary duties of a director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a director. An executive director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/ or gratuity and/ or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a director.

4.14.9 The board may establish or concur or join with other companies (being the Company's subsidiary companies or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any director or ex-director who may hold or have held any executive office or any office of profit with the Company or any of the Company's subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

4.14.10 The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex- employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*Conflicts of interest*

4.14.11 A director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested and if he does so vote, his vote will not be counted and he will not be counted in the quorum of that resolution of the board. However, this prohibition shall not apply to any of the following matters, namely:

(a) any contract or arrangement for the giving by the Company or any of the Company's subsidiaries to such director or his associate(s) of any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of the Company's subsidiaries;

(b) any contract or arrangement for the giving by the Company or any of the Company's subsidiaries of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of the Company's subsidiaries for which the director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(c) any contract or arrangement concerning an offer of the Company's shares or debentures or other securities by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the director or his associate(s) is or are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(d) any contract or arrangement in which the director or his associate(s) is/are interested in the same manner as other holders of the Company's shares or debentures or other securities or those of any of the Company's subsidiaries by virtue only of his/their interest in the Company's shares or debentures or other securities;

(e) any contract or arrangement concerning any other company in which the director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the director and/or his associate(s) is/are beneficially interested in five per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(f) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to directors, their associates and the Company's employees or those of any of the Company's subsidiaries and does not provide in respect of any director, or their associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

**4.15 Disclosure of interests in shares**

The provisions of sections 198 (Obligation of disclosure), 199 (Interests to be disclosed), 200 (Percentage level in relation to notifiable interests), 202 (Particulars to be contained in notification), 203 (Notification of family and corporate interests), 207 (Interests in shares by attribution), 208 (Interests in shares which are to be notified) and 209 (Interests to be disregarded) of the Companies Act 1985 (as amended) are incorporated into the Articles by reference and accordingly the disclosure obligations set out therein apply to the Shareholders.

**5. The Hutchison China MediTech Limited Share Option Scheme**

5.1 The Company operates the Scheme under which certain directors and employees of the Company and its subsidiaries may be granted options ("Options") to acquire Shares. The Scheme will be administered by the Board (which where appropriate includes the remuneration committee of the Board). As at Admission there were outstanding Options ("Initial Options") under the Scheme over Shares representing approximately 3.9 per cent. of the issued ordinary share capital as at Admission at an exercise price which is equal to the same proportion of the Placing Price as the loan capitalisation amount referred to in paragraph (b) to Note 28 of Part V of this document is of the market capitalisation of the Company on Admission at the Placing Price.

**5.2 Eligibility**

Any director (other than an Independent Non-executive Director) or employee of the Company or an associated company is eligible to participate. Actual participation is at the discretion of the Board.

**5.3 Exercise price**

The exercise price for each Share under Options granted after Admission will be no less than the higher of the nominal value of a Share at the date of grant and the market value of a Share at the date of grant, as derived from AIM.

**5.4 Exercise of Options**

5.4.1 Initial Options granted to persons nominated by the Company as "founders" (one of whom, Christian Hogg, is a Director) will vest as follows: as to 50 per cent. on the first anniversary of Admission, and 25 per cent. on each of the following two anniversaries.

Other Initial Options will vest as follows: 33.33 per cent. on each of the first three anniversaries of Admission.

5.4.2 Any Options granted after Admission will normally be exercisable to the extent vested within the period of 10 years after the date of grant. Vesting conditions will be determined by the Board at the time of grant.

5.4.3 Options may also be exercised to the extent vested where employment ceases due to the participant's death, injury, disability, redundancy, retirement at normal retirement age or earlier with the agreement of the Board, on the participant's employing company or business ceasing to be within the Group, or if employment ceases for any other reason, other than for cause. If employment is terminated for cause, all Options (whether vested or unvested) will lapse unless the Board otherwise determines in its absolute discretion).

5.4.4 Shares issued under the Scheme rank equally with the Company's existing issued Shares, save that they will not qualify for any dividends or other distributions by reference to a record date prior to the date of exercise of the Option.

5.4.5 Options may be cancelled at any time by the Board in consideration for the payment of an amount equal to the fair market value of the Options.

**5.5 Performance Target**

5.5.1 The Board may in individual cases impose objective performance conditions which must be satisfied before Options can be exercised. Having granted Options and set performance conditions, the Board may at its discretion vary performance conditions, to the extent permitted by applicable law. The Initial Options are not subject to any performance targets.

5.5.2 The Board may at its sole discretion determine, in relation to any grant of Options, that the holder will not be entitled to dispose of or otherwise transfer the Shares issued pursuant to the exercise of any such Options for a minimum holding period specified at the time of grant.

**5.6 Individual participation limit**

No eligible person may be granted an Option if as a result the total number of Shares over which that eligible person holds options granted in the previous twelve months, when added to the number of Shares the subject of the proposed grant, would exceed 1 per cent. of the issued ordinary share capital of the Company on that date.

**5.7 Overall limits**

5.7.1 The total number of Shares issued or issuable pursuant to Options granted under all employees' share schemes of the Company must not in aggregate exceed 5 per cent. of the Shares in issue on the date of Admission. However, the Board may "refresh" and recalculate the limit by reference to the issued share capital of the Company then prevailing with the approval of shareholders of HWL if required under the Hong Kong Listing Rules in general meeting, provided that the total number of Shares issued and issuable pursuant to the exercise of Options may not exceed 10 per cent. of the issued ordinary share capital on the date of the approval of the "refreshed" limit.

5.7.2 Options may be granted in excess of the limit above with the approval of shareholders of the Company in general meeting and by shareholders of HWL if required under the Hong Kong Listing Rules.

5.7.3 Notwithstanding the above, under no circumstances may Options be outstanding over more than 10 per cent. of the Company's issued ordinary share capital at any time.

**5.8 Grant of Options**

Options may not be granted under the Scheme during a close or prohibited period. Without further shareholder approval, the Scheme will terminate ten years following its adoption, but without prejudice to Options outstanding at the time.

**5.9 Income tax and social security contributions**

The Scheme contains provisions that will ensure that any income tax and social security contributions that arise as a result of the exercise of Options will be payable by the participant.

**5.10 Takeovers or scheme of arrangement**

In the event of a general offer for the shares in the Company, whether by way of takeover or scheme of arrangement, the Company shall use all reasonable endeavours to procure that such offer is extended to all option holders on the same terms as those applying to shareholders. Options may be exercised up until the closing date of any such offer (or the record date for entitlements under a scheme of arrangement) and will lapse thereafter. Options may also be exercised on a winding up.

**5.11 Variation of share capital**

In the event of a variation of share capital by way of capitalisation, rights issue, sub-division, consolidation or reduction of share capital or otherwise, then the number of Shares subject to a subsisting Option and the price payable on exercise may be adjusted, subject to confirmation from the Company's auditors or independent financial adviser appointed by the Board that the adjustment is in their or its opinion fair and reasonable.

**5.12 Alterations to the Scheme**

The Board may alter the Scheme, but amendments to the material advantage of participants cannot take effect without shareholder approval.

**5.13 Pension rights**

None of the benefits which may be received under the Scheme are pensionable. Options are not transferable.

**5.14 Termination of the Scheme**

The Scheme will automatically terminate on the tenth anniversary of its adoption. The Board may terminate the Scheme at any time by resolving that no further Options shall be granted under the Scheme.

**6 Pensions**

The Group's employees participate in various pensions schemes depending on which Group company is their employer. For the joint venture companies based in the PRC (as listed in paragraph 14 of Part VIII), the pension schemes are state operated into which the relevant employer pays an employer's contribution. The contribution rates are set by the relevant PRC local government entity and vary depending on the local provinces. The PRC schemes are government guaranteed and there is no exposure for the Company beyond paying the specified employer contributions. Hong Kong based employees have the choice either to participate in the Hutchison Provident Fund pension scheme, or the Hong Kong Government operated mandatory provident fund each of which are defined contribution schemes and in each case the Company has no exposure beyond paying the specified employer contribution.

## 7. Directors' and other interests

7.1 Save as disclosed in this Part VIII, none of the Directors has any interest in the share capital of the Company or of any of its subsidiaries nor does any person connected with the Directors (within the meaning of section 346 of the 1985 Act) have any such interest, whether beneficial or non-beneficial.

7.2 As at the date of this document, the following options have been granted to the Directors under the Scheme conditionally upon Admission at an exercise price which is equal to the same proportion of the Placing Price as the loan capitalisation amount referred to in paragraph (b) to Note 28 of Part V of this document is of the market capitalisation at the Placing Price:

| Director | Number of Ordinary Shares under option | Exercise period |
|---|---|---|
| Christian Hogg[(1)] | 1.5 per cent. of enlarged share capital | 10 years |

All of the above options have been granted for nil consideration.

Note

(1) These options are "founder" options and accordingly vest as described in paragraph 5.4 of this part VIII.

7.3 As at the date of this document and so far as the Directors are aware, the only persons who are or will be interested, directly or indirectly, in three per cent. or more of the issued share capital of the Company are (and following Admission are expected to be) as follows:

| | As at the date of this document | | Following Admission | |
|---|---|---|---|---|
| Shareholder | Number of ordinary shares | Percentage of issued share capital | Number of ordinary shares | Percentage of issued share capital |
| HHHL[(1)] | 2 | 100 per cent. | 36,666,667[(2)] | 71.6 per cent. |

Notes:

(1) HHHL is a private company registered in the British Virgin Islands and carries on business as a holding company. HHHL is an indirect wholly owned subsidiary of HWL which is registered in Hong Kong. The Company has entered into agreements with HWL regulating the HWL Group's relationship with the Company. Further details of the Relationship Agreement and the Services Agreement are disclosed at paragraph 20 of this Part VIII.

(2) This shareholding includes 36,666,665 Ordinary Shares arising by way of capitalisation of amounts due to HHHL of HK$575,219,920. Further details relating to the capitalisation of these loans are disclosed at paragraph 3.3 of this Part VIII. The amount capitalised is the amount of loans outstanding at 31 March 2006. Since 31 March 2006, the Group has incurred further indebtedness to HHHL in respect of the Group's working capital requirement since 31 March 2006. The directors intend to repay these amounts shortly following Admission.

7.4 Save as disclosed in this Part VIII, the Company is not aware of any persons who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

7.5 Save as disclosed in paragraph 5 and paragraph 7.2 of this Part VIII, no share or loan capital of the Company or any of its subsidiary undertakings is under option or agreed conditionally or unconditionally to be put under option.

7.6 No Director has or has had any interest, direct or indirect, in any assets which have been acquired by, disposed of by, or leased to, any member of the Group or which are proposed to be acquired by, disposed of by, or leased to, any member of the Group.

7.7 There are no outstanding loans granted by any member of the Group to any Director nor are there any guarantees provided by any member of the Group for the benefit of any Director.

7.8 Save as described in this Part VIII, no person has at any time within the 12 months preceding the application for Admission, entered into any contractual arrangements to receive, directly or indirectly, from the Company or any other member of the Group on or after Admission any fees, securities in the Company or any other benefit to the value of £10,000 or more.

7.9 The details of those companies and partnerships of which the Directors are, or have at any time during the five years prior to the date of this document been, directors or partners are as follows:

**Simon To — Current directorships and partnerships**

Actionfirm Limited
Aircraft Engineering Investments Limited
An Ping No. 1 Limited
An Ping No. 10 Limited
An Ping No. 11 Limited
An Ping No. 2 Limited
An Ping No. 3 Limited
An Ping No. 4 Limited
An Ping No. 5 Limited
An Ping No. 6 Limited
An Ping No. 7 Limited
An Ping No. 8 Limited
An Ping No. 9 Limited
Barribeth Limited
Beijing Tongrentang Hutchison Pharmaceuticals Investment Company Limited
Cavendish Hotels (Holdings) Limited
China Aircraft Services Limited
China Southern Airlines Company Limited
Concord Investments Company Limited
Dishforth Holdings Limited
Doncaster International Limited
Dragon Strong Assets Limited
E-S Pacific Development and Construction Company Limited
European Radial Tyre Market Development Corporation S.a r.l.
European Radial Tyre Technology Development Corporation S.a r.l.
Fruitful Assets Limited
Gillespie Limited
Gordonvale International Limited
Great Wall Hotel Joint Venture of Beijing
Guangzhou Aircraft Maintenance Engineering Company Limited
Hcapital Enterprises Limited
Heilongjiang Hutchison Whampoa Agricultural Development Co. Ltd.
Hejihuangpu Commerce Holdings Limited
Hhealth Enterprises Limited
HIT (Berth 2) Limited
HIT Enterprises Limited
HIT Holdings Limited
HIT Investments Limited
Hong Kong Concord Holdings Limited
Hong Kong Daily Chemical Industry Products Limited
Hong Kong Jet Modellers Association Limited
Hong Kong Model Engineering Club Limited
Hutchison Aircraft Maintenance Investment Limited
Hutchison BYS (Guangzhou) Holding Limited
Hutchison Capital China Fund Limited
Hutchison Capital Holdings Limited
Hutchison CCF Investments Limited
Hutchison China Infrastructure Management Company Limited
Hutchison China MediTech (BVI) Limited
Hutchison China MediTech (HK) Limited
Hutchison China MediTech Enterprises (Bahamas) Limited
Hutchison China MediTech Limited
Hutchison Chinese Medicine (Guangzhou) Investment Limited
Hutchison Chinese Medicine (Overseas) Investment Limited
Hutchison Chinese Medicine (Shanghai) Investment Limited
Hutchison Chinese Medicine Holding Limited
Hutchison Chinese Medicine Investment Limited
Hutchison Concord Limited
Hutchison Energy (International) Limited
Hutchison Healthcare Holdings Limited
Hutchison Healthcare Limited
Hutchison Logistics Services Limited
Hutchison MediPharma (Hong Kong) Limited
Hutchison MediPharma Enterprises Limited
Hutchison MediPharma Investment Limited
Hutchison MediPharma Limited
Hutchison Oil (International) Limited
Hutchison Optel Telecom Technology Co., Limited
Hutchison Ports Dalian Limited
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Hutchison Ports Yantian Investments Limited
Hutchison Ports Yantian Limited
Hutchison Whampoa (China) Commerce Limited
Hutchison Whampoa (China) Limited
H-V Investment & Development Company Limited
Kingdom Development S.A.
Lasotage Park Limited
Motivational Investments Limited
Pioneer Leader Limited
Pioneer Top Investments Limited
Rhythm Developments Limited
Robust International Limited
Sen Medicine Company (Hong Kong) Limited
Sen Medicine Company Limited
Sen Medicine Company, Inc.
Shang Ping Investments Limited
Shanghai Container Terminals Limited
Shanghai Hutchison Pharmaceuticals Limited
Shanghai Hutchison White Cat Company Limited
Shenyang Hotel Holdings Limited
Shenyang Limited
Shenzhen International Holdings Limited
Sigma Enterprises Limited
South China International Aircraft Engineering Company Limited
Time Plaza Shenyang Limited
Tong Ren Tang Hutchison (H.K.) Pharmaceutical Development Company Limited
Toolkit Investments Limited
United Epoch Limited
Zhuhai International Container Terminals (Gaolan) Limited
Zhuhai International Container Terminals (Jiuzhou) Limited

**Simon To — Past directorships and partnerships**

Beijing Tourism Development Company Limited (incorporated in the Cayman Islands)
Beijing Tourism Development Company Limited
Cheung Kong Hutchison Highway Investment Limited
Cheung Kong Hutchison Shantou Bay Bridge Limited
Clairol (China) Limited
Durran International Limited
Geelong International Limited
Glenfer Group Limited
Hutchison Friendship Department Store (Guangzhou) Company Limited
Joust International Limited
Lorne International Limited
Mangere International Limited
Outram Limited
Priceline International Limited
Procter & Gamble (Chengdu) Limited
Procter & Gamble (China) Limited
Procter & Gamble (Guangzhou) Limited
Procter & Gamble (Shanghai) International Trade Company Limited
Procter & Gamble Detergent Co., Ltd., Beijing
Procter & Gamble Manufacturing (Tianjin) Co. Ltd.
Procter & Gamble Personal Cleansing (Tianjin) Ltd.
Procter & Gamble-Hutchison Limited
Total Energy Resources (Hong Kong) Limited
Total Energy Services (Hong Kong) Limited
Total Hutchison Energy (Asia) Limited
Total Hutchison Energy Limited
Wormholt Limited

**Christian Hogg — Current directorships and partnerships**

Beijing Tongrentang Hutchison Pharmaceuticals Investment Company Limited
Hutchison BYS (Guangzhou) Holding Limited
Hutchison China MediTech (BVI) Limited
Hutchison China MediTech (HK) Limited
Hutchison China MediTech Enterprises (Bahamas) Limited
Hutchison Chinese Medicine Holding Limited
Hutchison Healthcare Limited
Hutchison MediPharma (Hong Kong) Limited
Hutchison MediPharma Limited
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Sen Medicine Company (Hong Kong) Limited
Sen Medicine Company Limited
Shanghai Hutchison Pharmaceuticals Limited
Shanghai Hutchison White Cat Company Limited
Tong Ren Tang Hutchison (H.K.) Pharmaceutical Development Company Limited

**Patrick Wan — Current directorships and partnerships**

Beijing Tongrentang Hutchison Pharmaceuticals Investment Company Limited
Gordonvale International Limited
Great Wall Hotel Joint Venture of Beijing
Guangzhou Aircraft Maintenance Engineering Company Limited
Hcapital Enterprises Limited
Heilongjiang Hutchison Whampoa Agricultural Development Co. Ltd.
Hhealth Enterprises Limited
Hutchison Energy (International) Limited
Hutchison MediPharma (Hong Kong) Limited
Hutchison Oil (International) Limited
Hutchison Optel Telecom Technology Co., Limited
H-V Investment & Development Company Limited
Motivational Investments Limited
Nanjing Zhong Nan Communication Equipment Co. Ltd.
Robust International Limited
Sen Medicine Company Limited
Shanghai Hutchison White Cat Company Limited
Shenyang Hotel Holdings Limited
Shenyang Limited

**Patrick Wan — Past directorships and partnerships**

Cavendish Hotels (Holdings) Limited
Hutchison China MediTech (HK) Limited
Time Plaza Shenyang Limited

**Christian Salbaing — Current directorships and partnerships**

3 Italia S.p.A.
A. S. Watson (BVI) Holdings Limited
A. S. Watson Group (Asia Pacific) Holdings Limited
A. S. Watson Group (PRC) Holdings Limited
A. S. Watson Group (Europe) Holdings Limited
A.S. Watson Group (Middle East) Holdings Limited
A.S. Watson Group Holdings Limited
A. S. Watson Turkey I (BVI) Limited
A.S. Watson Turkey II (BVI) Limited
A.S. Watson Turkey III (BVI) Limited
A. S. Watson Turkey IV (BVI) Limited
Advanced Technology And Consulting Limited
AL-Amin Investments Limited
Alexiou Enterprises Limited
Alpha Prime Limited
Amber International Holdings Inc.
Apex Horizon Limited
Apex United Developments Limited
Array Holdings Limited
AS Watson (France No. 2) SAS
Asian Telecommunication Investments (Mauritius) Limited
Auditorium Investments 1 S.a r.l.
Auditorium Investments 2 S.a r.l.
Auditorium Investments 3 S.a r.l.
Bahamas Resorts Finance (A) Limited
Ballston Profits Limited
Barnston Developments Limited
Baulkham Limited
Bernard Hill Limited
Best Praise Investments Limited
Bestmiles Properties Limited
Binion Investment Holdings Limited
Binion Overseas Investment Limited
Blue Beard Enterprises Limited
Bright Ample Investments Limited
Bright Shine Developments Limited
Brooker Properties Limited
Browland Limited
Campbelton Limited
Carmelite Investments Limited
CCII (Mauritius), Inc.
Cenwell Limited
Certwell Limited
CGP India Investments Ltd
CGP Investments (Holdings) Limited
Charming Dragon Limited
Chemosino Limited
Choice Brilliant Limited
Choice Forward Limited
Choicewell Limited
City Palace Limited
Cobbleford Limited
Colonial Nominees (BVI) Limited
Conversant Limited
Convoys Investment S.a r.l.
Copthorne International Investment Limited
Cottage Enterprises Limited
Cowfold Limited
Cyber Economy Holdings Limited
Daisy Wheel Limited
Deep Fortune Limited
Dizin Heights Limited
Durran International Limited
Eagle Reach Limited
Eagle Sky Limited
Edgeware Services Limited
Elverston Limited
Essex Dragon Limited
Euro Pacific Securities Ltd.
Evergreen Oak Limited
Flitwick Investments Limited
Forest Sky Limited
Forthcoming Era Limited
Fortress (Middle East) Limited
Fortune Bright Enterprises Limited
Fulsome Limited
Gamma Enterprises Limited
Gateway Direct Limited
Giant Grace Resources Limited
Glenfer Group Limited
Gloria Chain Limited
Gold Gear Limited
Gold Season Investments Limited
Gravatt Investments Limited
Great Preston Limited
Great Winwick Limited
H3G S.p.A.
Hanaball Limited
Happy Merry Limited
Harbour Plaza Hotel Enterprises (Bahamas) Limited
Harbour Plaza Hotel Enterprises Limited
Harbour Plaza Hotel Management (China) Limited
Heroway Developments Limited
Hi3G Access AB
Hi3G Access Norway AS
HI3G Denmark ApS
HI3G Denmark Holdings ApS
Hip Kei Limited
Hoddinott Limited
Holodeck Limited
Homeland Enterprises Limited
HOMF Europe Limited
HOMF UK Limited
Hong Kong Daily Chemical Industry Products Limited
Hornington Limited
HPH Investments (BVI) Limited
Husky Oil China Limited
Husky Oil Holdings Limited
Hutchison 3G Austria GmbH
Hutchison 3G Austria Investments S.a r.l.
Hutchison 3G Italy Investments S.a r.l.
Hutchison 3G Poland Investments S.a r.l.
Hutchison 3G Sweden Investments S.a r l.
Hutchison 3G UK Investments S.a r.l.
Hutchison Aircraft Maintenance Investment Limited
Hutchison Bahamas Capital Limited
Hutchison BYS (Guangzhou) Holding Limited
Hutchison Call Centre Holdings Limited

**Christian Salbaing — Current directorships and partnerships *(continued)***

Hutchison China MediTech (BVI) Limited
Hutchison China MediTech Enterprises (Bahamas) Limited
Hutchison Chinese Medicine (Overseas) Investment Limited
Hutchison E-Commerce (Bahamas) Enterprises Limited
Hutchison E-Commerce Enterprises Limited
Hutchison E-Commerce International Limited
Hutchison E-Commerce Services (International) Limited
Hutchison Energy E-Commerce (China) Limited
Hutchison Energy E-Commerce Limited
Hutchison Europe Telecommunications S.a r.l.
Hutchison Global Communications (US) Limited
Hutchison Global Communications Investment Holding Limited
Hutchison Global Communications Investments Limited
Hutchison Harbour Ring Enterprises (Bahamas) Limited
Hutchison Harbour Ring Enterprises Limited
Hutchison Harbour Ring Investments Limited
Hutchison Infrastructure Holdings Limited
Hutchison International Finance S.a r.l.
Hutchison MediPharma Enterprises Limited
Hutchison MediPharma Investment Limited
Hutchison Mobile Communications Limited
Hutchison OMF Limited
Hutchison Port Holdings (BVI) Limited
Hutchison Port Holdings (Luxembourg) S.a r.l.
Hutchison Telecommunications (India) Limited
Hutchison Telecommunications Holdings (USA) Limited
Hutchison Telecommunications PCS (USA) Limited
Hutchison Tele-Services (India) Holdings Limited
Hutchison Teleservices Holdings Limited
Hutchison Teleservices Overseas Limited
Hutchison Westminster S.a r.l.
Hutchison Whampoa (Europe) Limited
Hutchison Whampoa 3G Content S.a r.l.
Hutchison Whampoa 3G IP S.a r.l.
Hutchison Whampoa 3G Procurement S.a r.l.
Hutchison Whampoa Enterprises (Bahamas) Limited
Hutchison Whampoa Enterprises Limited
Hutchison Whampoa Europe Investments S.a r.l.
Hutchison Whampoa Finance (03/13) Limited
Hutchison Whampoa Finance (05) Limited
Hutchison Whampoa Finance (06) Limited
Hutchison Whampoa International (00/03) Limited
Hutchison Whampoa International (03/13) Limited
Hutchison Whampoa International (03/33) Limited
Hutchison Whampoa International (06) Limited
Hutchison Whampoa Services Limited
Hutchison Whampoa Three G Content (Bahamas) Limited
Hutchison Whampoa Three G Enterprises (Bahamas) Limited
Hutchison Whampoa Three G IP (Bahamas) Limited
HWDC Investments Limited
i. Tech Holdings Limited
Intellitrade Limited
Jade Arch Investment Limited
Jupiter Gold Limited
Kanab Plains Limited
Kingdom Development S.A.
Knebworth Limited
Kuwata Limited
Lake Haven Limited
Light Power Telecommunications Ltd.
Loch Gal Resources Limited
Lorne International Limited
Loudella Limited
Lustrous Pearl Limited
Marionnaud Parfumeries SA
Marketform Limited
Mastercraft Limited
Masterland Investment LimitedMedempire Investments Limited
Medismart Limited
Merry Maker Limited
Mesas Plains Limited
Mobilvest Morgania Wave Limited
Network Travel Enterprises Limited
New Hercules Limited
New Millennium Corp.
Newscott Investments Limited
NMH Holdings Limited
North Cerney Limited
Novel Point Limited
Novel Sphere Limited
Ommaney Limited
Option Perfect Limited
Oxford Palace Limited
Pacific Peacock Limited
Pantrasonic Resources Limited
Pearl Charm Limited
Pearl Treasure Limited
Pedder Developments Limited
Perfect Source Limited
PMW Agency Group Limited
PMW Holdings Limited
PMW Investments Limited
PMW Licensing Limited
PMW Product Licence Group Limited
PMW Sourcing Group Limited
Prime Metals Ltd.
Primetek Holdings Limited
Primetronix Limited
Promising Land International Inc.
Puttney Investments Limited
Qiana Investments sp. z o.o.
Qualiview Limited
Rainbow Luck Limited
Rallycross Developments Limited
Right Light Limited
Robust Connection Limited
Rushbrook Limited
Sabara Enterprises Limited
Sandalwood Group Limited
Saxlingham Enterprises Limited
Seapilot Developments Limited
Seasonal Profits Limited
Sen Medicine Company, Inc.
Senex Investments Limited
Shine Century Limited
Shrewd Century Limited

**Christian Salbaing — Current directorships and partnerships *(continued)***

Silkyway Limited
Sinian Heights Limited
Sixpence Holdings Limited
Sky Trinity Investments Limited
Smart Rainbow Limited
Smart Smith Limited
South China International Aircraft Engineering Company Limited
Sparkle Hall Limited
Sparkle Victory Limited
Star Advanced Limited
Success Horizons Limited
Suitland Limited
Sunmerica Limited
Sunrise City Limited
Swingfield Developments Limited
Tacocity Limited
Tactwood Investments Limited
Thamesway Investments Limited
Three Enterprises, S.L.
Tinsel Town Resources Limited
tom. com enterprises Limited
Total Vision Limited
Trans Crystal Limited
Transisland Investments Limited
True Ample Developments Limited
Truehero Assets Limited
Trumpington Limited
Ultimate Pioneer Limited
Union Faith (Lincoln) Ltd.
Union Faith Canada Investment Limited
Upper Speed Limited
Vanda International Holdings (BVI) Limited
Vidiator (Hong Kong) Limited
Vidiator (Korea) Inc.
Vidiator Enterprises Inc.
Vidiator Technology (US) Inc.
Warmglow Limited
Warrander Insurance Company Limited
Wastell Limited
Watson Enterprises (Bahamas) Limited
Watson Enterprises Limited
Watsons Personal Care Stores (Middle East) Limited
Watson's Wine Cellar (Singapore) Holdings Limited
Willesden Limited
Willpower Developments Limited
Winfield Profits Limited
Wise Method Limited
Wood Newton Limited
World Diversity Limited
WPCS (Philippines) Holdings B.V.
Yachting Investments Limited
Yue Shun Limited
Zeedane Investments Limited

**Christian Salbaing — Past directorships and partnerships**

A. S. Watson (France) SNC
Hutchison 3G Ireland Investments S.a.r.l.
PMW Retail Group Limited
Telesystem International Wireless Inc.

**Edith Shih — Current directorships and partnerships**

3 Global Services Private Limited
3 Hong Kong Limited
3 Italia S.p.A.
3 Limited
A. S. Watson (Europe) Investments S.a r.l.
A.S. Watson (Health & Beauty Continental Europe) B.V.
A.S. Watson Guzellik ve Bakim
A. S. Watson (Property Continental Europe) B.V.
A.S. Watson Turkey I (BVI) Limited
A.S. Watson Turkey II (BVI) Limited
A. S. Watson Turkey III (BVI) Limited
A.S. Watson Turkey IV (BVI) Limited
Abundant Glory Limited
Actionfirm Limited
Aircraft Engineering Investments Limited
Alpha Metrics Limited
Ambridge Investments Limited
Americas Shipyard SA/NV
Anovio Holdings Limited
Aqaba Terminal Services Limited
Armery Limited
AS Watson (France No. 2) SAS
Asia Port Services Limited
Aztec Villa Resources Limited
Bajacorp., S.A. de C.V.
Bapema Limited
Beautifloral Limited
Beijing Tongrentang Hutchison Pharmaceuticals Investment Company Limited
Bellard Limited
Berwell Holdings Limited
Best Fortune S.a r.l.
Best Full Resources Limited
Best Month Profits Limited
Best Oasis Holdings Limited
Best People Resources Limited
BFKT (Thailand) Ltd.
BigboXX.com Limited
Birdwood Developments Limited
Birrong Limited
Brett International Holdings Limited
Brightease Profits Limited
Brillant Charter Investment Limited
BVI Concord Holdings Limited
Cactus Holdings Limited
Calcraft Limited
Cape Fortune B.V.
Centiflex Investments Limited
Caseright Limited
Cayley Property Management (Beijing) Limited
Cayley Property Management (Chongqing) Limited
Cayley Property Management (Guangzhou) Limited
Centiflex Investments Limited
Central America Shipyard SA/NV
China Aircraft Services Limited
Chivaland Limited
Chung Kiu Telecommunications (China) Holdings Limited
Cicero Investments Limited
Classic Diamond Limited
Classic Outlook Investments Limited
Clivedon Limited
CLK Limited
Coastal Work Logistics Limited
Colonial Nominees (BVI) Limited
Colonial Nominees Limited

**Edith Shih — Current directorships and partnerships *(continued)***

Commercial Computing Limited
Container Security Inc.
Creator Limited
Daisy Hill Limited
Darwin Investments Limited
Dawning Company Limited
Deal Magic Inc.
Deal Market Resources Limited
Deep Amuse Limited
Deroma Limited
Dessingburn Limited
Dolphin Blue Limited
Domain Five Enterprises Limited
Domain One Enterprises Limited
Doncaster International Limited
Dongguan Laguna Verona Property Management Company Limited
Dontech Limited
Dorgali Corporation N.V.
Double Glory Investments Limited
Dovecote Limited
DPBB (Thailand) Ltd.
Drew Investments Limited
Drogas A/S
Easewin Company Limited
Easterhouse Limited
EBIS One Enterprises Limited
EBIS Two Enterprises Limited
Eckstein Resources Limited
Edgeware Profits Limited
Elite New Profits Limited
Ensemable Limited
Entreport Holdings Limited
E-S Pacific Development and Construction Company Limited
Etablissements A. Pasquasy N.V.
Everup Profits Limited
Fable Investment B.V.
Fallsgreen Enterprises S.A.
FCP Holdings Limited
Felixstowe Port Container Services Limited
Felixstowe Tank Developments Limited
Festive Gain Limited
Firerose Limited
Five Continents Investments Inc.
Floata Consolidation Limited
Floata Holdings Limited
Floata International B.V.I. Limited
Focus Will Developments Limited
Fortress Domain Enterprises Limited
Fortress Hill Development Company Limited
FortWay Finance Limited
Fortune Paradise Limited
Freeport Container Port Limited
Freeport Development Company Limited
Full Target Limited
GDH (BVI) Limited
GDH Investments S.a r.l.
Geelong International Limited
Gennimity Limited
Giantfield Resources Limited
Glitter Sun Limited
Global Cargo (Thailand) Limited
Glorypro Resources Limited
Gobalwide Resources Limited
Golden Mind Profits Limited
Golden Winner Resources Limited
Grand Business Management Limited
Great Wall Hotel Joint Venture of Beijing
Greatrait Holdings Limited
Guangzhou Aircraft Maintenance Engineering Company Limited
Guangzhou Bruckner City Properties Co., Ltd.
H3G (Thailand) Co., Ltd.
H3G S.p.A.
Happy Lion Ventures Ltd.
Happy Magic Enterprises Inc.
Harbour Plaza Chongqing Co., Ltd.
Harbour Plaza Golf Club Limited
Harbour Plaza Hotel Enterprises (Bahamas) Limited
Harbour Plaza Hotel Enterprises Limited
Harbour Plaza Marketing Inc.
Harbour Plaza Purchasing Inc.
Harwich International (Holdings) Limited
Harwich International Port Limited
Hazelwood Green Limited
Hcapital Enterprises Limited
Heather Profits Limited
Heilongjiang Hutchison Whampoa Agricultural Development Co. Ltd.
Hejihuangpu Commerce Holdings Limited
Hhealth Enterprises Limited
Hillstar Assets Limited
Hillwatch Limited
HIT (Berth 2) Limited
HIT Enterprises Limited
HIT Finance Limited
HIT Holdings Limited
HIT Information Services (Hong Kong) Limited
HIT Information Services Limited
HIT Investments Limited
HIT Technical Services Limited
Holly Dat Finance S.A.
Homeway Company Ltd.
Hongkong International Terminals Limited
Hongkong IT Consultants Limited
Hongkong Technical Consulting Limited
Hongkong Technical Services Limited
Hot Trail Limited
HPH Domain Names Limited
HPH E.Commerce Limited
HPH Investments (Belgium) SA/NV
HPH Properties Limited
HPH Secretarial Services Limited
HPS (Shanghai) Limited
HTIL (Thailand) Co., Ltd.
HTIL Info Systems Private Limited
HubPort Investment Holdings Limited
Huming Limited
Husky Oil Holdings Limited
Hutch 3G Enterprises Sweden AB
Hutch Enterprises (Thailand) Co., Ltd.
Hutch Enterprises Sdn. Bhd.
Hutch Info Systems Private Limited
Hutchison (Bermuda) Limited
Hutchison 3G Enterprises (Thailand) Co., Ltd.
Hutchison 3G Enterprises S.a r.l.
Hutchison 3G Enterprises Sweden AB
Hutchison 3G Ireland Limited
Hutchison 3G UK Holdings Limited
Hutchison 3G UK Limited
Hutchison Atlantic Limited
Hutchison China MediTech (BVI) Limited
Hutchison China MediTech (HK) Limited
Hutchison China MediTech Enterprises (Bahamas) Limited
Hutchison Chinese Medicine (Guangzhou) Investment Limited

**Edith Shih — Current directorships and partnerships *(continued)***

Hutchison Chinese Medicine (Shanghai) Investment Limited
Hutchison Commercial Broadcasting Limited
Hutchison Communications (Australia) Pty. Limited
Hutchison Delta Finance Limited
Hutchison Delta Ports Holdings Limited
Hutchison Delta Ports Investment Limited
Hutchison Delta Ports Limited
Hutchison E-Commerce (Bahamas) Enterprises Limited
Hutchison E-Commerce Enterprises Limited
Hutchison E-Commerce Limited
Hutchison Enterprises (Chongqing) Limited
Hutchison Enterprises Five Limited
Hutchison Enterprises Four Limited
Hutchison Enterprises Limited
Hutchison Enterprises One Limited
Hutchison Enterprises Seven Limited
Hutchison Enterprises Six Limited
Hutchison Enterprises Three Limited
Hutchison Enterprises Two Limited
Hutchison Estate Service & Agency (Shanghai) Ltd.
Hutchison Freeport Holdings Limited
Hutchison Freeport Investments Limited
Hutchison GlobalCentre Limited
Hutchison Harbour Ring Asia Pacific Limited
Hutchison Harbour Ring Holdings Limited
Hutchison Harbour Ring Hong Kong Limited
Hutchison Harbour Ring Limited
Hutchison Harbour Ring Solutions Limited
Hutchison Harbour Ring Technology Investments Limited
Hutchison Harcourt Limited
Hutchison Healthcare Limited
Hutchison Hotels (Holdings) Limited
Hutchison Inland Container Depots Limited
Hutchison International Finance (03/08) Limited
Hutchison International Finance (BVI) Limited
Hutchison International Finance Limited
Hutchison International Limited
Hutchison International Ports Enterprises (Bahamas) Limited
Hutchison International Ports Enterprises Limited
Hutchison International Pty. Limited
Hutchison Korea Terminals Limited
Hutchison Logistics (BVI) Limited
Hutchison Logistics (China) Limited
Hutchison Logistics (HK) Limited
Hutchison Logistics Limited
Hutchison MediPharma Enterprises Limited
Hutchison MediPharma Limited
Hutchison MultiMedia Services (Thailand) Limited
Hutchison Network Services London Limited
Hutchison Network Services UK Limited
Hutchison Oil (International) Limited
Hutchison Optel Telecom Technology Co., Limited
Hutchison Port Holdings (Belgium) SA/NV
Hutchison Port Holdings Limited
Hutchison Ports (Bahamas) Holdings Limited
Hutchison Ports (Bahamas) Limited
Hutchison Ports (Belgium) SA/NV
Hutchison Ports (Europe) Limited
Hutchison Ports Iran: Limited
Hutchison Ports (Panama), S.A.
Hutchison Ports (Thailand) Limited
Hutchison Ports (UK) Finance plc
Hutchison Ports (UK) Limited
Hutchison Ports Antilles N.V.
Hutchison Ports Baja SA/NV
Hutchison Ports China Limited
Hutchison Ports Dalian Limited
Hutchison Ports Development Limited
Hutchison Ports Egypt Limited
Hutchison Ports Espana S.a r.l.
Hutchison Ports Huizhou Aotou Limited
Hutchison Ports Huizhou Land Limited
Hutchison Ports Huizhou Limited
Hutchison Ports Huizhou Phase I Limited
Hutchison Ports Indonesia Limited
Hutchison Ports Indonesia Pte Ltd
Hutchison Ports Jakarta Pte Limited
Hutchison Ports Jiangmen Investment Limited
Hutchison Ports Jiangmen Limited
Hutchison Ports Management Limited
Hutchison Ports Mexico, S.A. de. C.V.
Hutchison Ports Myanmar Limited
Hutchison Ports Nanhai Investment Limited
Hutchison Ports Nanhai Limited
Hutchison Ports Netherlands B.V.
Hutchison Ports Netherlands S.a r. l.
Hutchison Ports Ningbo Limited
Hutchison Ports Philippines Limited
Hutchison Ports Poland S.a r.l.
Hutchison Ports Pudong Investment Limited
Hutchison Ports Pudong Limited
Hutchison Ports Russia Limited
Hutchison Ports Sea-Rail SA/NV
Hutchison Ports Shanghai Limited
Hutchison Ports Shantou Investment Limited
Hutchison Ports Shantou Limited
Hutchison Ports South China Limited
Hutchison Ports Technical Services Limited
Hutchison Ports Turkey B.V.
Hutchison Ports Waigaoqiao Limited
Hutchison Ports Xiamen Investment Limited
Hutchison Ports Xiamen Limited
Hutchison Ports Yangshan Limited
Hutchison Ports Yantian Investments Limited
Hutchison Ports Yantian Limited
Hutchison Ports Zhuhai (Gaolan) Investment Limited

**Edith Shih — Current directorships and partnerships *(continued)***

Hutchison Ports Zhuhai (Gaolan) Limited
Hutchison Ports Zhuhai (Jiuzhou) Port Operations Limited
Hutchison Ports Zhuhai Limited
Hutchison Property Service & Agency (Shenzhen) Limited
Hutchison Seaports Limited
Hutchison Telecommunications (Malaysia) Limited
Hutchison Telecommunications (Thailand) Co., Ltd.
Hutchison Telecommunications Lanka (Private) Limited
Hutchison Telecommunications Limited
Hutchison Tele-Services (India) Holdings Limited
Hutchison Three G (One) Enterprises Limited
Hutchison Westminster Limited
Hutchison Westport Investments Limited
Hutchison Westports Limited
Hutchison Whampoa (China) Commerce Limited
Hutchison Whampoa 3G Enterprises (Macau) Limited
Hutchison Whampoa Agents (UK) Limited
Hutchison Whampoa Agents (US) Inc.
Hutchison Whampoa Agents Limited
Hutchison Whampoa Enterprises (Bahamas) Limited
Hutchison Whampoa Enterprises (Isle of Man) Limited
Hutchison Whampoa Enterprises (US) Inc.
Hutchison Whampoa Enterprises Limited
Hutchison Whampoa International (01/11) Limited
Hutchison Whampoa Project Management Limited
Hutchison Whampoa Properties (Beijing Chaoyang) Limited
Hutchison Whampoa Properties (Chongqing Nanan) Limited
Hutchison Whampoa Properties (Guangzhou Liwan) Limited
Hutchison Whampoa Properties (Shanghai) Gubei Limited
Hutchison Whampoa Properties (Shenzhen Baoan) Limited
Hutchison Whampoa Properties (Zhuhai) Company Limited
Hutchison Whampoa Three G Enterprises (Bahamas) Limited
Hutchison Whampoa Three G IP (Bahamas) Limited
Hutchison Wireless Enterprises (Thailand) Co., Ltd.
Hutchison Yantian Railway Limited
Hutchison-Priceline Enterprises Limited
Hutchison-Priceline Enterprises One Limited
Hutchison-Priceline Limited
HWL Finance (BVI) Limited
ICAVE Holdings (Belgium) SA/NV
ICI Paris XL (Luxembourg) S.A.
ICI Paris XL Nederland B.V.
IIHC Limited
IIHC Pakistan Limited
IIHC South Asia Limited
International Mega Flow Limited
International Shipyard SA/NV
Intrawood Limited
Joinpower Holdings Ltd.
Joust International Limited
Kaford Investment Company Limited
Keensen Limited
Keycentral Developments Limited
Kinmount Investments Limited
King Concord Investment Limited
KMT Terminal Holdings Limited
Konhall Investment Limited
Kruidvat B.V.B.A.
Kruidvat Retail B.V.
Kruidvat Superdrug B.V.
Langer Holdings Limited
Lazaro Cardenas Holdings, S.A. de C.V.
Leader Step Company Limited
Leading Edge Logistic & Cargo Services Limited
Legend Container Line Limited
Lego Consolidator and Warehouse Company Limited
LINE (UK) Limited
Licose International Limited
Logistics Information Network Enterprise (HK) Limited
Logistics Information Network Enterprise (UK) Limited
Logistics Information Network Enterprise Limited
Lucrative Paradise Limited
Managesmart Limited
Mancetter Limited
Mangere International Limited
Maple West Limited
Maritime Transport Services Limited
Market Power Limited
Max Crystal Limited
Mayeswood Limited
Metro Broadcast Corporation Limited
Metrotime Profits Limited
Mexico Shipyard SA/NV
Mid-Stream Holdings (H.K.) Limited (BVI)
Mid-Stream Holdings (HK) Limited (HK)
Million Choices Limited
Moonstruck Company Limited
More Choice Resources Limited
Mosgen Limited
Mr. Juicy Enterprises Limited
MTS (Holdings) Limited
MTS Trustees Limited
Multi-Metro Limited
Myanmar International Terminals Thilawa Limited
Myanmar International Terminals Thilawa Private Limited
Nagano Limited
Needbury Investments Limited
New World Associates S.A.
Nice View Profits Limited
Oasis Hope Limited
Ocean Deep Investment Holdings Limited
Ocean East Investment Holdings Limited
Ocean Vast Investment Holdings Limited
Oman International Container Terminal L.L.C.
Opportunity Window Limited
Oregon Investments Limited
Orient-Triumph Investments Limited
Overath Limited
Pacific Port Investment Holdings Limited
Pacific Property (Beijing) Limited
Pacific Property (Shanghai) Ltd.
Pacific Property (Shenzhen) Limited
Palliser Investments Limited
Palmerston Limited

**Edith Shih — Current directorships and partnerships *(continued)***

Panama Ports Company, S.A.
Parbelux N.V.
Parfumerie Ici Paris XL N.V.
Patton Profits Limited
Pearl Spirit Limited
Penler Enterprises Limited
Perfect Tune Limited
Perfect Win Profits Limited
Pioneer Top Investments Limited
PKNS (Thailand) Ltd.
PNS Enterprises Limited
PNS Enterprises One Limited
Pocket Angel Limited
Pointo Enterprises Limited
Polar Sky Resources Limited
Port of Felixstowe Limited
Port of Felixstowe Services Limited
Port of Felixstowe Transport Services Limited
Portsnportals Enterprises (Bahamas) Limited
Portsnportals Enterprises Limited
Priceline International Limited
Prime Glory Profits Limited
PT. Hutchison CP Telecommunications
Qingdao Pacific Plaza Property Management Company Limited
Qingdao Sihe Property Development Co., Ltd.
Rainbow Luck Limited
Repute International Limited
Retirement Nominees Limited
Rhine Rise Limited
Richmond Investments Limited
Robust Connection Limited
Romma Success Limited
Roton Finance Inc.
Sakoma (HK) Limited
Sandiville Limited
Sarm Management (Thailand) Co., Ltd.
Seaports Management B.V.
Seasonal Logistics Limited
See-saw Investments Limited
Shang Ping Investments Limited
Shanghai Hehui Property Development Co., Ltd.
Shanghai Hutchison White Cat Company Limited
Shanghai Sparkling Drinking Water Co., Ltd.
Shanghai Westgate Mall Co., Ltd.
Shanghai Xin Hui Property Development Co., Ltd.
Shenzhen Hutchison Whampoa CATIC Properties Limited
Shepherd Investments Limited
Sigma Enterprises Limited
SJBG (Thailand) Limited
South Port Investment Holdings Limited
Step West Resources Limited
Strategic Visions Limited
Success One Developments Limited
SupplyLINE Limited
SupplyLINE Logistics (USA) Inc.
Tebury Limited
Tevako Investments Limited
Thamesport (London) Limited
The Felixstowe Dock and Railway Company
The Grand Bahama Airport Company Limited
Three Enterprises, S.L.
Three Info Systems Private Limited
Three Limited — (Macau)
Three Limited
Three Management (Thailand) Co., Ltd.
Three Management Pty Ltd
Throughput Investments Limited
Tong Ren Tang Hutchison (H.K.) Pharmaceutical Development Company Limited
Topjoy Assets Limited
TransHub Limited
TransPayment Limtied
Transport Community Limited
Transportation Community Network Limited
Tre Management Services AB
Treelane Limited
Tricon Associates Inc.
True Destiny Limited
True Instance Limited
Umford Limited
Union Faith Energy (HK) Limited
Universal Consolidation Management Limited
Vanda Systems & Communication (UK) Limited
Victory Capital Developments Limited
Victoryrise Profits Limited
Vidiator (Hong Kong) Limited
Vidiator (Korea) Inc.
Vidiator (Netherlands) B.V.
Vidiator Enterprises Inc.
Vidiator Technology (US) Inc.
Viewsun Company Limited
Vizell Equities S.A.
Wah Fai Tractors Service Company Limited
Walton Container Terminal Limited
Walton Estates Limited
Watson Enterprises (Bahamas) Limited
Watson Enterprises (HK) Limited
Watson Enterprises Limited
Watsons Personal Care Stores (Philippines), Inc.
Watson's Personal Care Stores (Taiwan) Co., Limited
Watson's The Chemist (Taiwan) Investments Limited
Watson's Wine Cellar (Singapore) Holdings Limited
Watson's Wine Cellar (Singapore) Pte. Ltd.
Wattrus Limited
Wealthy Man Profits Limited
Whampoa Limited
Whitlingham Limited
Wide Ocean Limited
Widecon Holdings Limited
Win World Corporation
Winfast Investments Limited
WMM Three Enterprises Sdn. Bhd.
WMM Three Services AB
Wordflex Limited
WPCS (Management) B.V.
WPCS (Taiwan) Holdings B.V.
Yanlock Limited
Yanter Services Limited
Yarrum Holdings N.V.
Zimboton Investment Inc.

**Edith Shih — Past directorships and partnerships**

A. S. Watson (Europe) Finance B.V.
A.S Watson (Europe) Holdings B.V
A.S. Watson European Investments S.a.r.l.
AS Watson (France) SNC
Baliwood Limited
Bayswater Developments Limited
Beijing Tourism Development Company Limited (incorporated in the Cayman Islands)
Beijing Tourism Development Company Limited
Braintech Limited
Computer And Technologies Solutions Limited
Durran International Limited
Glenfer Group Limited
Helier Investissements S.A.
Hanny Holdings Limited (Alternate Director)
Hutchison 3G Ireland Limited
Hutchison Friendship Department Store (Guangzhou) Company Limited
Hutchison PC (Japan) Limited
Hutchison Telecommunications (Amsterdam) B.V.
Hutchison Whampoa Properties (Chongqing Jiangbei) Limited
Hutchison Whampoa Properties (Xian) Limited
Kingdom Development S.A.
Lorne International Limited
Maritime Haulage Limited
Powwow Danmark A/S
Powwow Deutschland GmbH
Powwow Italy S.r.l.
Powwow Verwaltungs GmbH
Powwow Water N.V.
Shanghai Helian Property Development Co., Ltd.
Shanghai Ya Hui Property Development Company Limited
Shenzhen Hutchison Whampoa Guanlan Properties Limited
Sparkle Victory Limited
Targetmart Limited
Tegor Limited
Time Plaza Shenyang Limited
Total Energy Resources (Hong Kong) Limited
Total Energy Services (Hong Kong) Limited
Total Hutchison Energy (Asia) Limited
Union Faith B.V.
Watsons Water (Denmark) Holdings A/S
Whizz-Work Holdings Limited
Wing On Travel (Holdings) Limited (Alternate Director)

**Stephen Yeung — Current directorships and partnerships**

Hutchison Optel Telecom Technology Co., Limited
Motivational Investments Limited
Toolkit Investments Limited

**Christopher Nash — Current directorships and partnerships**

Martrix Energy G3 LLP
Matrix Energy G4 LLP
Matrix Energy Italy 15 LLP
Quorum 5&6 EZ Syndicate
Regent Capital EZ Viking Syndicate
Regent Capital EZ Lighthouse Syndicate
Regent Capital Eurocentral No 1 Syndicate

**Christopher Nash — Past directorships and partnerships**

Global Marine Systems Limited
Geoconference Limited
Global Crossing Bidco Limited
Global Crossing Holdco Limited
Global Crossing Intermediate UK Holdings Limited
Global Crossing (UK) Internet Services Limited
Global Crossing (UK) Telecommunications Limited
Global Crossing (UK) Telecommunications Networks Limited
Encorebase Limited
Bondrush Limited
Hydrodec Group plc

**Michael Howell — Current directorships and partnerships**

Transport Edinburgh Limited
Hunter Hayes Limited
Clothworkers' Foundation
Arlington Capital Management (CI) Limited
Westinghouse Airbrake Technology Corporation (trading as Wabtec Inc.)

**Michael Howell — Past directorships and partnerships**

BV Nederlanse Kogellager Import NKI
Eurosourceonline UK Ltd
FPT Group Ltd
FPT (UK) Limited
FPT International BV
FPT International Limited
FPT Holdings Limited
FPT Employee Benefit Trust Ltd
RHP Kogellagers Nederland BV
WYKO Antriebstechnik GmbH
WYKO Andrijiftechnik BV
WYKO International Ltd
WYKO Transmissions SA/ Aandrijvingen NV

**Professor Christopher Huang — Current directorships and partnerships**

AW Boon Haw Foundation (UK) Limited

7.10 At the date of this document no Director:

(a) has any unspent convictions in relation to any indictable offences; or

(b) has been bankrupt or entered into an individual voluntary arrangement; or

(c) was a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or

(d) has been a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or

(e) has had his assets the subject of any receivership or has been a partner of a partnership at the time of or within 12 months preceding any assets thereof being the subject of a receivership; or

(f) has been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

**8. Directors' service agreements, letters of appointment and emoluments**

8.1 Christian Hogg has a service agreement with the Company. Details of this service agreement are set out below:

| Director | Effective Date | Notice period | Salary per annum |
|---|---|---|---|
| Christian Hogg | 1 May 2006 | 3 months | HK$2,765,200(1)(2) |

Notes:

(1) includes fee payable pursuant to the contract described in paragraph 8.2 below;

(2) includes basic and non-pensionable salary and guaranteed bonus but excludes discretionary bonus.

8.2 Each of the Executive Directors have entered into letters of appointment dated 21 April 2006 with the Company as directors of the Company in the terms described in paragraph 8.4 below save that the annual fee shall be £12,500. In addition to these agreements, Christian Hogg has also entered into the service agreement described below. Additional fees are payable, on terms set out in the Services Agreement which is summarised in paragraph 20(a) of this Part VIII, to Hutchison China for the services of Simon To (HK$1,360,000) and Patrick Wan (HK$544,000).

8.3 Mr Hogg has a service agreement dated 21 April 2006 pursuant to which he is appointed as Chief Executive Officer of the Company. The effective date of the appointment is 1 May 2006 and continues until 3 months' notice in writing is given by either party. Mr Hogg receives an annual basic salary of HK$2,119,200 (of which HK$1,422,000 is basic salary and HK$697,200 is non-pensionable salary) and is entitled to a bonus of HK$474,000 which is paid in December of each year. Mr Hogg's bonus is a guaranteed minimum of HK$474,000 per annum in addition to which a discretionary element is paid. In 2005, Mr. Hogg's total bonus (discretionary and guaranteed) was HK$1,200,000. Mr Hogg is also entitled to:

- the use of a pool car for business travel purposes;
- membership of the Hutchison Provident Fund into which the Company will contribute 10 per cent. of Mr. Hogg's basic salary;
- membership of the Hutchison Group Medical Scheme;
- personal accident insurance;

- leave travel allowance each year of up to 5 economy class return tickets;
- 24 days holiday; and
- sick pay for 3 months at full pay (basic salary plus non-pensionable salary), 4/5 pay for one month and then half pay for 2 months at the Company's discretion.

Mr. Hogg is also entitled to be reimbursed reasonable expenses in line with the Company's policy from time to time. The agreement contains provisions requiring Mr. Hogg to devote his full time and attention to the Company's business and not to accept outside appointments without the Company's consent. The agreement contains confidentiality and a non-compete and non-solicitation covenant which lasts for 12 months after termination of the agreement. Repatriation costs may be payable on termination of Mr. Hogg's employment with the Company. These are limited to HK$135,210 if the contract is terminated within 5 years. After this time this amount increases progressively in accordance with the Company's relocation policy.

8.4 Each of the Non-executive Directors have entered into letters of appointment dated 21 April 2006 with the Company as non-executive directors of the Company which, in respect of the Independent Non-executive Directors only, are conditional on Admission. The letters provide for:

(a) an initial fixed term of 12 months from 1 January 2006 and shall automatically renew for successive 12 month periods unless terminated by written notice given by either party;

(b) a fee of £30,000 per annum in respect of Mr. Howell, Professor Huang and Mr. Nash and £12,500 per annum in respect of Mr. Salbaing, Ms. Shih and Mr. Yeung. These fees shall be reviewed annually by the Board;

(c) the Company is to reimburse each Non-executive Director in full for all reasonable out of pocket expenses which he properly incurs in the course of performing his duties as a Non-executive Director of the Company;

(d) each Non-executive Director is subject to a confidentiality undertaking without limitation in time;

(e) each Non-executive Director agrees to consult the Board in the event of any conflict of interest;

(f) the appointment of each Non-executive Director can be terminated by the Company without notice and without payment of compensation in the event that the Non-executive Director accepts a position with or acquires interests in another company without prior Board approval, which in the Board's reasonable opinion, is likely to give rise to a material conflict of interest with the Non-executive Director's position as a director of the Company.

8.5 Save as disclosed in paragraphs 8.1 to 8.4 of this Part VIII, there are no existing or proposed service agreements, letters of appointment or other arrangements between any of the Directors and the Company which cannot be terminated by the Company without payment of compensation within 12 months.

8.6 There are no arrangements under which any Director has waived or agreed to waive future emoluments nor have there been any such waivers of emoluments during the financial year immediately preceding the date of this document.

## 9. Cayman Islands law and taxation

### 9.1 Cayman Islands Mutual Funds Law

The Company falls outside the definition of a "Mutual Fund" in terms of the Mutual Funds Law (2003 Revision) of the Cayman Islands (as amended) and accordingly is not regulated in terms of that law.

### 9.2 Certain Cayman Islands Tax Considerations

9.2.1 Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council of the Cayman Islands:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of 20 years from 18 December 2000.

9.2.2 The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

9.2.3 There are no exchange control regulations or currency restrictions in the Cayman Islands.

9.2.4 No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

9.2.5 There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

### 9.3 Cayman Islands Company Law

9.3.1 The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2000 Revision Chapter 22) (the "Companies Law"). Cayman Islands law distinguishes between those companies that are owned predominantly by Cayman Islands' residents, and which are commonly known as local companies, and those that are owned predominantly by non-residents, which are referred to as exempted companies. A Cayman Islands exempted company:

(a) is a company that conducts its business mainly outside of the Cayman Islands;

(b) is exempted from certain requirements of the Companies Law, including the filing of an annual return of its shareholders with the Registrar of Companies;

(c) does not have to make its register of shareholders open to inspection; and

(d) may obtain an undertaking against the imposition of any future taxation.

9.3.2 Set out below is a summary of certain provisions of Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

*Operations*

9.3.3 As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

*Share capital*

9.3.4 The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

9.3.5 No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

9.3.6 The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

9.3.7 The Articles include certain protections for holders of special classes of shares, which require their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

*Financial assistance to purchase shares of a company or its holding company*

9.3.8 Subject to all applicable laws, a company may give financial assistance to directors and employees of the company, its subsidiaries, its holding company or any subsidiary of such holding company.

9.3.9 Further, subject to all applicable laws, a company may give financial assistance to a trustee for the acquisition of shares in the company or shares in any such subsidiary or holding company to be held for the benefit of employees of the company, its subsidiaries, any holding company of the company or any subsidiary of any such holding company (including salaried directors).

9.3.10 There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

*Purchase of shares and warrants by a company and its subsidiaries*

9.3.11 Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares.

9.3.12 However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

9.3.13 A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds. Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

*Dividends and distributions*

9.3.14 With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see the "Dividends" section above for further details).

*Protection of minorities*

9.3.15 The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

9.3.16 In the case of a company (not being a bank) having a share capital divided into shares, the courts may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and to report thereon in such manner as the courts shall direct.

9.3.17 Any shareholder of a company may petition the courts which may make a winding up order if the courts are of the opinion that it is just and equitable that the company should be wound up. Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

*Management*

9.3.18 The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

*Accounting and auditing requirements*

9.3.19 A company shall cause proper books of account to be kept with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

9.3.20 Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

*Exchange control*

9.3.21 There are no exchange control regulations or currency restrictions in the Cayman Islands.

*Loans to directors*

9.3.22 There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

*Inspection of corporate records*

9.3.23 Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles.

9.3.24 An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

*Winding up*

9.3.25 A company may be wound up by either an order of the courts or by a special resolution of its members. The courts has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the courts, just and equitable to do so.

9.3.26 A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

9.3.27 For the purpose of conducting the proceedings in winding up a company and assisting the courts, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the courts may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the courts shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The courts may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the courts.

9.3.28 In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

9.3.29 Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

9.3.30 As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

*Reconstructions*

9.3.31 There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting shareholder would have the right to express to the courts his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

*Compulsory acquisition*

9.3.32 Where an offer is made by a company for the shares of another company and, within four calendar months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within 2 months after the expiration of the said four calendar months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the courts of the Cayman Islands within one month

of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer in order to unfairly force out minority shareholders.

*Indemnification*

9.3.33 Cayman Islands law does not limit the extent to which a Company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

## 10. Chinese law

### Foreign exchange control

10.1 The PRC's foreign exchange control system is regulated by three sets of provisions. On 28 December 1993, the People's Bank of China ("PBOC"), with the authorisation of the State Council, issued the Notice to Further Reform of the Foreign Exchange Control System, which became effective on 1 January 1994. Other main regulations and implementation measures include the PRC Foreign Exchange Control Regulations, which became effective on 1 April 1996, were promulgated by the State Council on 29 January 1996 and amended on 14 January 1997, and the Regulations on Foreign Exchange Settlement, Sale and Payments, which were promulgated by the PBOC on 20 June 1996 and became effective on 1 July 1996 and contain detailed provisions regulating the settlement, sale and payment of foreign exchange by domestic enterprises, individuals, economic organisations and social organisations in the PRC. The PBOC publishes, on each business day, the Renminbi exchange rate against other major foreign currencies. Such rate is set by reference to the previous days' trading price of Renminbi/major foreign currencies on the inter-bank foreign exchange market.

10.2 In general, all organisations and individuals within the PRC are required to sell their recurrent foreign exchange earnings to designated banks unless they have received a specific waiver. Foreign invested enterprises, on the other hand, are permitted to retain a certain percentage of their recurring foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

10.3 At present, the PRC government is relaxing its control over foreign exchange. Enterprises that require foreign exchange for recurring activities such as trading and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents. In addition, where an enterprise requires foreign exchange for the payment of dividends, such as the distribution of profits by a foreign invested enterprise to its foreign investor, then, subject to the due payment of taxes on such dividends, the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks.

10.4 Despite the relaxation of foreign exchange control over current account transactions, the approval of the State Administration of Foreign Exchange is still required before an enterprise may receive a foreign currency loan, provide a foreign exchange guarantee, make an investment outside the PRC or enter into any other capital account transaction that involves the purchase of foreign exchange.

10.5 When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate.

## 11. UK taxation

11.1 The following statements are intended only as a general non-exhaustive guide to certain aspects of current UK tax law and to what is understood to be the current practice of HM Revenue & Customs (the UK taxation authority). Unless expressly stated otherwise, they relate to persons who are resident or (if individuals) ordinarily resident in the UK for UK tax purposes and who are the absolute beneficial owners of Ordinary Shares or DIs and any dividends paid in respect of them, in circumstances where any dividends paid are regarded for UK tax purposes as that person's own income and not the income of some other person.

11.2 The comments below may not apply to certain classes of shareholder or holders of DIs such as dealers in securities, insurance companies, trusts and trustees, collective investment schemes, persons connected with the Company and shareholders or holders of DIs who hold their Ordinary Shares or DIs in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or, in the case of a company, through a permanent establishment). Moreover certain specific tax consequences which are not dealt with below may apply to any shareholders or holders of DIs in the Company which control or hold, either alone or together with one or more associated or connected persons, directly or indirectly at least five per cent. of the shares and/or voting rights in the Company. This does not purport to be a complete analysis or listing of all the potential tax consequences of acquiring and holding Ordinary Shares and/or DIs and should not be treated as such. **Any person who is in any doubt as to his or her tax position or who is subject to tax in any jurisdiction other than the UK is strongly recommended to consult his or her own professional advisers. This summary is based upon UK law and HM Revenue & Customs practice, all as currently in effect and all subject to change at any time, possibly with retrospective effect**.

### 11.3 Taxation of dividends

11.3.1 Holders of Ordinary Shares or DIs who are resident in the UK for UK tax purposes will generally be liable to UK income tax or corporation tax, as applicable, on the gross amount of any dividends paid to them by the Company. Dividends received by such holders who are within the charge to UK corporation tax will generally be taxed at the prevailing UK corporation tax rate. An individual holder will generally be chargeable to UK income tax on dividends received from the Company at the current rate of 10 per cent. or, to the extent that the amount of the gross dividend when treated as the top slice of his or her income exceeds the threshold for higher rate tax, at the current rate of 32.5 per cent.

11.3.2 An individual holder of Ordinary Shares or DIs who is resident but not domiciled in the UK for UK tax purposes or who is resident but not ordinarily resident in the UK for UK tax purposes may claim to be liable to UK income tax only to the extent that dividends paid by the Company are remitted or deemed to be remitted to the UK.

### 11.4 Disposal of Ordinary Shares or DIs

11.4.1 A disposal of Ordinary Shares or DIs by a holder who is (at any time in the relevant UK tax year) resident or, in the case of an individual, ordinarily resident in the UK for UK tax purposes may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains, depending on the holder's circumstances and subject to any available exemption or relief.

11.4.2 A holder who is an individual and who is only temporarily neither resident nor ordinarily resident in the UK, may, under anti-avoidance legislation, still be liable to UK tax on any capital gain realised (subject to any available exemption or relief). Such holder may also be subject to foreign taxation on any gain under local law although such foreign tax may be allowable as a deduction in the computation of the gain for UK tax purposes.

**11.5 Anti-avoidance**

11.5.1 The attention of individual holders of Ordinary Shares or DIs who are ordinarily resident in the UK is drawn to the provisions of sections 739 to 745 of the UK Income and Corporation Taxes Act 1988 (the "Taxes Act"). These provisions are aimed at preventing the avoidance of income tax by individuals through transactions resulting in the transfer of assets or income to persons (including companies) resident or domiciled abroad.

11.5.2 More generally, the attention of holders of Ordinary Shares or DIs is also drawn to the provisions of sections 703 to 709 of the Taxes Act, which give powers to HM Revenue & Customs to cancel tax advantages derived from certain transactions in securities.

**11.6 Stamp duty and stamp duty reserve tax ("SDRT")**

11.6.1 No stamp duty or SDRT should arise in respect of the issue of new Ordinary Shares to the Depositary.

11.6.2 No SDRT should arise in respect of an agreement to transfer Ordinary Shares provided, amongst other things, that they are not registered in a register maintained in the UK by or on behalf of the Company. The Company currently does not envisage that any such register will be maintained in the UK. No stamp duty will arise on a transfer on sale of Ordinary Shares provided that the instrument of transfer is not executed in the UK and does not relate to any property situate, or to any matter or thing done or to be done, in the UK.

11.6.3 Assuming that the DIs are not themselves issued to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services or issuing depositary receipts, no stamp duty or SDRT should arise in respect of the issue of DIs by the Depositary.

11.6.4 An unconditional agreement to transfer DIs will normally give rise to a charge to SDRT at a rate which is currently 0.5 per cent. of the consideration (other than in the case of a transfer to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services or issuing depositary receipts). It is not expected that an instrument subject to UK stamp duty would ordinarily be required in respect of such a transfer.

**11.7 Close companies**

It is possible that the Company and any of its non-UK resident subsidiaries would, prior to and/or following the Placing, be close companies if they were UK resident. In addition, any UK resident subsidiaries of the Company may be close companies. As a result, certain transactions entered into by the Company or other members of the Group may have tax implications for holders of Ordinary Shares. Shareholders should consult their own professional advisers on the potential impact of the close company rules.

**12. Hong Kong taxation**

12.1 The following statements are intended only as a general non-exhaustive guide to certain aspects of current Hong Kong tax law for persons who acquire and hold Ordinary Shares and/or DIs. The comments below may not apply to certain classes of shareholder or holders of DIs, such as tax exempt entities, certain insurance companies, dealers in securities, persons liable for alternative minimum tax and persons who hold Ordinary Shares and/or DIs in connection with certain financial transactions including some hedging transactions. Moreover certain specific tax consequences which are not dealt with below may apply to any shareholders or holders of DIs in the Company which own, or are deemed to own, at least ten per cent. of the voting shares of the Company.

12.2 This summary does not address any aspects of Hong Kong taxation other than income taxation, taxation of capital gains and estate duty. This does not purport to be a complete analysis or listing of all the potential tax consequences of acquiring and holding Ordinary Shares and/or

DIs and should not be treated as such. **Any person who is in any doubt as to his or her tax position is strongly recommended to consult his or her own professional advisers. This summary is based upon Hong Kong tax law as currently in effect, which is subject to change at any time, possibly with retrospective effect**.

**12.3 Taxation of dividends**

Based on what is understood to be the current practice of the Hong Kong Inland Revenue Department (the Hong Kong taxation authority), no tax (including withholding tax) will be payable in Hong Kong in respect of dividends paid by the Company to holders of Ordinary Shares or DIs.

**12.4 Taxation of capital gains**

No tax will be imposed in Hong Kong in respect of capital gains on a disposal of Ordinary Shares or DIs. Trading gains arising on a disposal of Ordinary Shares or DIs by persons carrying on a trade, profession or business in Hong Kong will, where such gains are derived from or arise in Hong Kong from such trade, profession or business, be chargeable to Hong Kong profits tax at the current rate of 17.5 per cent. for corporations and a maximum rate of 16 per cent. for individuals.

**12.5 Estate duty**

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished estate duty in respect of deaths occurring on or after 11 February 2006.

**13. The Company and its subsidiaries**

The Company acts as the holding company of the Group, the principal activity of which is researching, developing, manufacturing, and selling pharmaceuticals, health supplements and other consumer health and personal care products derived from TCM and botanical ingredients. The Company will, on Admission, have the principal subsidiaries listed below, all of which are wholly owned (directly or indirectly) by the Company:

| Name | Place of incorporation | Principal activity |
|---|---|---|
| Hutchison MediPharma Investment Limited | British Virgin Islands | Holding company |
| Hutchison Chinese Medicine (Shanghai) Investment Limited | British Virgin Islands | Holding company |
| Pioneer Leader Limited | British Virgin Islands | Holding company |
| Hutchison Chinese Medicine (Overseas) Investment Limited | British Virgin Islands | Holding company |
| Hutchison MediPharma Enterprises Limited | Bahamas | Research and development of pharmaceutical products |
| Hutchison MediPharma (Hong Kong) Limited | Hong Kong | Research and development of pharmaceutical products |
| Hutchison MediPharma Limited<br>和記黃埔醫藥(上海)有限公司 | PRC | Research and development of pharmaceutical products |
| Sen Medicine Company, Inc. | United States | Dormant |
| Sen Medicine Company Limited | England & Wales | Retail and wholesale of TCM products and services |

| Name | Place of incorporation | Principal activity |
|---|---|---|
| Sen Medicine Company (Hong Kong) Limited | Hong Kong | Retail and wholesale of TCM products and services |
| Hutchison Chinese Medicine Holding Limited | British Virgin Islands | Holding company |
| Hutchison China MediTech (HK) Limited | Hong Kong | Management services company |
| Hutchison China MediTech (BVI) Limited | British Virgin Islands | Group treasury company |
| Hutchison China MediTech Enterprises (Bahamas) Limited | Bahamas | Company holding Group intellectual property |

**14. Joint venture companies**

The Company (directly or indirectly) owns shares in the following joint venture companies, all of whose businesses are described further in Part I of this document:

| Name | Place of incorporation | Percentage held | Principal activity |
|---|---|---|---|
| Shanghai Hutchison Pharmaceuticals Limited 上海和黃藥業有限公司 | PRC | 50 per cent. held by Hutchison Chinese Medicine (Shanghai) Investment Limited | Manufacture and sale of TCM products |
| Hutchison Healthcare Limited 和黃健寶保健品有限公司 | PRC | 68 per cent. held by Pioneer Leader Limited | Manufacture and sale of healthcare products |
| Hutchison BYS (Guangzhou) Holding Limited | British Virgin Islands | 75 per cent. held by Hutchison Chinese Medicine Holding Limited | Holding company |
| Hutchison Chinese Medicine (Guangzhou) Investment Limited | British Virgin Islands | 100 per cent. held by Hutchison BYS (Guangzhou) Holding Limited | Holding company |
| Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited 廣州白雲山和記黃埔中藥有限公司 | PRC | 50 per cent. held by Hutchison Chinese Medicine (Guangzhou) Investment Limited | Manufacture and sale of TCM products |

Details of the agreements governing these joint venture arrangements are disclosed in paragraph 21 of this Part VIII.

Save as disclosed in this Part VIII, there are no investments in progress which are significant.

## 15. Intellectual property

Details of all material intellectual property owned or licensed by the Group is set out in the Patent Agent's Report at Part III of this document.

## 16. Working capital

The Directors are of the opinion, having made due and careful enquiry and taking into account the net proceeds of the Placing and the Hong Kong Offering receivable by the Company, that the working capital available to the Group is sufficient for its present requirements, that is, for at least the next 12 months from the date of Admission.

## 17. Significant change

Save for capitalisation of the amounts referred to in paragraph 3.3(b) of Part VIII, there has been no significant change in the financial or trading position of the Group since 31 December 2005, the date to which the financial information set out in Part V of this document was prepared.

## 18. Litigation

18.1 Save as disclosed in this paragraph 18 of Part VIII, no member of the Group is involved in any governmental, legal or arbitration proceedings which are having or may have a significant effect on the Group's financial position or profitability nor, so far as the Company is aware, are any such proceedings pending or threatened by or against any member of the Group.

18.2 As part of the joint venture arrangements disclosed below, Pioneer Leader Limited entered into a capital increase and assets transfer agreement with Ningxia Dyne Pharmaceutical Industry Company Limited and Beijing Dyne Pharmaceutical Industry Company Limited, (together the "Respondents") on 29 August 2003 and 28 October 2003 relating to the purchase by Hutchison Healthcare Limited of certain assets of the Respondents. Under the terms of the agreement, the Respondents gave certain undertakings as to the profits arising from the sale of their products over a four year period. The Respondents' products made losses in the first 18 months of that period, which were of a magnitude that Hutchison Healthcare Limited did not believe it would be possible to realise the profits promised by the Respondents. Hutchison Healthcare Limited made a claim of RMB 45 million (approximately £2.9 million) together with their costs from the Respondents. The arbitrator's decision was given in August 2005 pursuant to which the claim was rejected (as was the Respondents' counterclaim). Each party was ordered to pay its own costs. In summary, the arbitrator held that it could not make a decision as to whether the undertakings given by the Respondents in respect of the profits arising from the sale of their product had been breached as the relevant period to which the undertakings applied (four years) had not yet expired. During the course of the arbitration and subsequent discussions, the Respondents have made certain allegations relating to the Group's conduct and compliance with the terms of the joint venture arrangements which the directors believe are unfounded.

## 19. Placing Agreement

Pursuant to an agreement (being the Placing Agreement) dated 10 May 2006 and made between (1) Lazard; (2) Panmure Gordon; (3) the Company; (4) Hutchison China; and (5) HHHL, Panmure Gordon has agreed, subject to the fulfilment of certain conditions, to procure subscribers for (or, failing which, itself to subscribe for) the Placing Shares at the Placing Price. Such conditions include Admission taking place not later than 8.00am on 19 May 2006 (or such later time and/or date as Panmure Gordon, Lazard, the Directors and the Company may agree, being not later than 8.00am on 26 May 2006). Under the terms of the Placing Agreement:

(a) the Company has agreed to pay Panmure Gordon by way of commission such percentage of the amount equal to the Placing Price multiplied by the number of Placing Shares (together with applicable VAT) as is calculated in accordance with the following provisions:

(i) if the Valuation is less than £100 million, 4 per cent.;

(ii) if the Valuation is between £100 million and £120 million, 4.5 per cent.;

(iii) if the Valuation is over £120 million, 5 per cent..

For these purposes "Valuation" means the market capitalisation of the Company at Admission at the Placing Price excluding the Placing Shares and the Hong Kong Offering Shares;

(b) the Company has also agreed to pay Panmure Gordon and Lazard certain costs and other expenses of and incidental to the Placing and/or the application for Admission;

(c) certain representations and warranties have been given to Panmure Gordon and Lazard by the Company and Hutchison China. In addition, the Company and Hutchison China have given certain indemnities to Panmure Gordon and Lazard;

(d) Panmure Gordon and Lazard may terminate the Placing Agreement in certain circumstances prior to Admission, including as a result of breach of representations, warranties or undertakings in the Placing Agreement, if they become aware of certain misstatements in or omissions from this document, the occurrence of certain material changes in the condition (financial or otherwise) of the Group and certain changes in market and economic conditions;

(e) the Company has undertaken that, for a period of 365 days from the date of Admission, it will not, without the prior written consent of Panmure Gordon and Lazard (which, after 180 days from the date of Admission, will not be unreasonably withheld) directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or issue of, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares or enter into any transaction with the same economic effect as, or agree to do, any of the above, except in respect of any Ordinary Shares issued or sold pursuant to the Placing;

(f) each of HHHL and Hutchison China has agreed that, for a period of 180 days from the date of Admission, it will not, without the prior written consent of Panmure Gordon and Lazard, directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or issue of, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares or enter into any transaction with the same economic effect as, or agree to do, any of the above, except that these restrictions shall not prohibit it from: (a) transferring Ordinary Shares (or an interest therein) to certain connected persons provided that, prior to any such transfers, the relevant transferee agrees to be bound by restrictions on equivalent terms to the undertaking described in this paragraph; (b) accepting a general offer made to all holders of issued and allotted Ordinary Shares for the time being (other than Ordinary Shares held or contracted to be acquired by the offeror or its associates) on terms which treat all such holders alike; and (c) executing and delivering an irrevocable commitment or undertaking to accept a general offer as is referred to in sub-paragraph (b) above.

**20. Contracts with other HWL Group companies**

The following contracts with members of HWL Group (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group and contain provisions under which members of the Group have obligations or entitlements which are material to the Group at the date of this document:

(a) the Services Agreement, dated 21 April 2006 but effective conditional on Admission, pursuant to which Hutchison China agrees to provide or to procure that any of its holding company and their respective subsidiaries ("HWCL Group") shall provide services including, among others, legal and regulatory services, company secretarial support services, tax and internal audit services, shared use of accounting software systems and related services, general management services, lease of office space, participation in the HWL Group's pension, medical and insurance plans, participation in the HWL Group's procurement projects with third-party vendors/ suppliers, other staff benefits and staff training services, and group functions and activities. The Company will pay a fee to the HWCL Group for the provision of such services,

which is payable monthly in arrears and settled within 30 days after receipt of a written invoice from the relevant member of the HWCL Group to the relevant member of the Group. The Services Agreement will continue, unless terminated by either party by giving three months' written notice;

(b) the Relationship Agreement, dated 21 April 2006 but effective conditional on Admission, pursuant to which the Company and Hutchison China enter into certain obligations with a view to ensuring that the Company is capable of carrying on its business independently of the HWL Group. The agreement provides, inter alia, that all transactions between any member of the Group and the HWL Group will be on an arm's length basis, on normal commercial terms and in a manner consistent with the AIM Rules. Hutchison China agrees that, so long as it holds shares (either directly or indirectly) which in aggregate entitle Hutchison China to cast at least 50 per cent. of the votes eligible to be cast on a poll vote at a general meeting of the Company, Hutchison China shall procure that at least one member of the Board is independent of HWL. The Relationship Agreement provides that the approval of the Board shall be required for any transaction between any member of the Group and the HWL Group and that in approving any such transaction, the Board must consist of at least one director who is independent of HWL. Hutchison China will procure that each member of the Hutchison China Group will not exercise its voting rights and powers so as to amend the memorandum or articles in a manner which is inconsistent with, or would undermine the terms of, the Relationship Agreement. The Relationship Agreement continues until the first to occur of: the shares of the Company ceasing to be traded on AIM; or HWL Group individually or collectively ceases to hold at least 30 per cent. of the shares of the Company. The Relationship Agreement is governed by the laws of England.

(c) the Licence Agreement between the Company and HWEL ("**Licensor**") dated 21 April 2006, effective conditional on Admission.

Pursuant to this agreement, the Licensor grants to the Company the non-exclusive, non-transferable royalty-free right to use the "Hutchison", "Chi-Med" and "China MediTech" brands in their various forms (the "Brands") and associated trademarks worldwide during the term of this agreement.

The licence is granted by the Licensor in connection with the research, manufacture, development and sale of pharmaceuticals, health supplements and other consumer health and personal care products derived from TCM and botanical ingredients including any services offered in the support of the provision of such products and services. In addition to the Brands, the Company is permitted to (i) use, reproduce and adapt Brands related materials (ii) use and employ domain names incorporating the Brands; and (iii) grant sub-licences to affiliates (being companies in which, directly or indirectly, it owns 50% or more of the issued or voting share capital or otherwise controls or has the power to control its affairs) on notice to the Licensor provided that the Licensor has a right to terminate any sub-licence immediately at any time if a sub-licensee ceases to be an affiliate or is in breach of the terms of the sub-licence.

In the event that the Licensor is of the opinion that the Company is engaging in activities which are not reasonably ancillary to its TCM business, the parties shall review the terms of the agreement and assess whether it is appropriate for the Company to continue to use the Brands. If the parties are unable to agree on fair commercial arm's length terms for continuing to use the Brands within one month from the date on which the Licensor gives notice to review such terms, the Licensor has the right to terminate the agreement.

The agreement contains provisions on quality control pursuant to which the Company is obliged to use the Brands and related materials in compliance with the brand guidelines, industry best practice and other quality directives issued by the Licensor from time to time. Pursuant to the agreement, the Company assigns all intellectual property rights including future copy rights in any adaptation and Brands related material to the Licensor (subject to any third party rights).

Under the agreement, the Licensor has given warranties as to its right to grant the rights provided under the agreement and, to the best of its knowledge, the non-infringement of any third party intellectual property rights by the use of the Brands. In addition, the agreement contains certain obligations on the Licensor to protect the Brands at its own expense.

The Company is under an obligation to report to the Licensor any likely, actual or suspected infringements or demands in the territory in respect of the intellectual property rights in the brand and brand related materials. The Licensor will decide whether or not and which party is to bring or defend any claim or action in respect of any such infringements on the basis that the costs are to be shared between the Company and the Licensor in such proportion as the Licensor determines taking into consideration the views of the Company and other permitted users who are affected.

The Company has agreed to indemnify the Licensor against all liabilities and costs incurred in connection with any breach of the agreement and any claim or proceeding in connection with the use of the Brands or use or adaptation of Brands related materials by the Company or its sub-licensees in breach of the agreement.

The Licensor may terminate the Licence Agreement (or any sub-licence) if, amongst other things, the Company fails to comply with the relevant quality criteria, commits a material breach, or within twelve months after a change in control of the Company or the aggregate direct or indirect shareholding of HWL in the Company being reduced to less than 50 per cent. or 40 per cent. or 30 per cent. or 20 per cent..

On termination of the Licence Agreement, the Company (and any sub-licensees) must immediately cease using the Brands including an obligation to withdraw from sale any products bearing the Brands. Where the licence is terminated following a change in HWL's aggregate direct or indirect shareholding in the Company (as described in (iv) above), the licence provides for a transitional period of 6 months during which the Company can continue to use brand related materials and to continue using any relevant corporate name, trading style or domain name registrations.

The Licence Agreement is the licence pursuant to which the Group will sub-licence the Brands and associated trade marks to the Joint Ventures (other than Hutchison Baiyunshan which will use such name and trade marks pursuant to the licence agreement described at paragraph (d) below) and any other ventures it may enter into in the future.

(d) HWEL has granted a royalty free licence to use the Hutchison name and associated trademarks to Hutchison Baiyunshan. The licence has a term equal to the operational period of the joint venture but may be terminated by the licensor if (amongst other things) (i) Hutchison Baiyunshan is in breach of the terms of the licence and fails to remedy that breach within 30 days of notice; (ii) the joint venture agreement terminates; (iii) the Company's interest in Hutchison Baiyunshan falls below 50%.

(e) A letter dated 21 April 2006 pursuant to which Hutchison China confirms that HWL's current intention is that the Company will continue to be the primary vehicle through which the HWL Group will be involved in researching, developing, manufacturing and selling pharmaceuticals, health supplements and other consumer health and personal care products derived from TCM and botanical ingredients. Hutchison China also confirms that HWL will also assist the Company in identifying, developing and acquiring potential investment opportunities relevant to the Company's businesses for so long as HWL retains a significant interest in the Company. The letter is a statement of HWL's current intentions and is not legally binding. Accordingly, HWL has not given any binding undertaking that it will not engage in activities which may compete with the Company. Hutchison China confirms that it has been authorised by HWL to make the statements contained in the letter and that its contents have been approved by HWL.

(f) The Group also has an ordinary course arm's length distribution agreement for distribution of certain of the Company's products with a member of the HWL Group. The Group may enter into further arm's length agreements or arrangements with members of the HWL Group in the future.

## 21. Material contracts

The following are the only Contracts (not being contracts entered into in the ordinary course of business) which have been entered into within the two years preceding the date of this document by members of the Group and which are, or may be, material to the Group or which have been entered into at any time by members of the Group and which contain provisions under which members of the Group have obligations or entitlements which are material to the Group as at the date of this document:

(a) the Placing Agreement referred to in paragraph 19 of this Part VIII;

(b) as disclosed in this Part VIII, the Group is party to the following joint venture arrangements:

(i) Shanghai Hutchison Pharmaceuticals was established on 30 April 2001 as a joint venture company pursuant to a joint venture agreement made between: (1) Shanghai Medicine Company Limited; and (2) Hutchison Chinese Medicine Shanghai dated 6 January 2001. The joint venture arrangement is for 50 years from 30 April 2001 and was established for the purposes of the manufacture, research and development of prepared Chinese medicine in the form of injections, tablets, granules, oral liquids and capsules, and sale of self-manufactured products. Hutchison Chinese Medicine (Shanghai) agreed to make a cash contribution of RMB 44 million to Shanghai Hutchison Pharmaceuticals and lent a long-term interest-free shareholder loan amounting to RMB 26 million repayable on 31 December 2007. The agreement provides for not less than 80 per cent. of net profits of Shanghai Hutchison Pharmaceuticals to be distributed between the parties, unless the board determines otherwise. Other than certain permitted transfers to companies within respective shareholders' group, prior consent is required from the non-transferring shareholder for the transfer, sale or disposal of any equity interest in Shanghai Hutchison Pharmaceuticals and the non-transferring shareholders has a right of pre-emption on any transfer, sale or disposal of any interests in Shanghai Hutchison Pharmaceuticals. Pre-emption rights lapse upon the expiration of three months from the date of written notice by the transferring party. The terms of sale to any third party shall not be more favourable to those offered to the other joint venture party. Shanghai Hutchison Pharmaceuticals' board comprises six directors and Hutchison Chinese Medicine (Shanghai) has the right to appoint three of these. The agreement contains standard confidentiality provisions which survive termination of the joint venture agreement. If any of the parties goes into liquidation, winding up or receivership, or its business assets are detained, acquired or occupied, the other party can give notice to such party to terminate the agreement; such termination becomes effective after 30 days of giving of such notice. The agreement can also terminate if all or part of the assets of the joint venture company are subject to requisition by the Chinese government. Furthermore, the agreement can be terminated non-defaulting party having given 60 days notice for rectification if the defaulting party fails to effect such rectification. On 5 July 2001, the parties entered into an agreement requesting the transfer of certain real properties with an aggregate value of approximately RMB 992,000 from Shanghai Medicine Company Limited to Shanghai Hutchison Pharmaceuticals;

(ii) Hutchison Healthcare was established on 27 February 2001 as a joint venture company. According to its joint venture agreement dated 29 December 2000, as amended on 2 September 2002, 29 August 2003 and 28 October 2003, Hutchison Healthcare's current shareholders are (1) Guangzhou Mei Cheng Stock Company Limited (now called Masson Group Stock Company Limited); (2) Pioneer Leader Limited and (3) Ningxia Dyne. The joint venture arrangement is for 50 years from 27 February 2001 and was established for the purposes of the scientific research, development, manufacture and processing of healthcare food, sale of self-manufactured products, provision of related technology consultancy and technical services. Pioneer Leader Limited made a capital contribution of RMB 113 million in cash to Hutchison Healthcare pursuant to the joint venture agreement. Pioneer Leader Limited has made the following loans to Hutchison Healthcare: (i) on 28 August 2003, US$4,077,622.86 (renewed on 30 August 2004 and

23 August 2005); (ii) on 1 January 2005, US$2,000,000 and (iii) on 28 May 2005, US$3,437,008.40. After taking the capital for development in two years into account, the profits shall be distributed between the parties to the greatest extent possible. Other than certain permitted transfers to companies within the respective shareholders group, prior consent is required from the non-transferring shareholders for the transfer, sale or disposal of any equity interest in Hutchison Healthcare and the non-transferring shareholders have a right of pre-emption on any transfer, sale or disposal of any interests in Hutchison Healthcare. Pre-emption rights lapse upon the expiration of 30 days from the date of written notice by the transferring party. The terms of sale to any third party shall not be more favourable to those offered to the other joint venture party. Hutchison Healthcare's board comprises six directors and Pioneer Leader Limited has the right to appoint four of these. The agreement contains standard confidentiality provisions which survive termination of the joint venture agreement. If any of the parties goes into liquidation or receivership, or there is a change of control as a result of any takeover, merger or acquisition of a party by a third party, the other parties can give notice to such party to terminate the agreement and such termination becomes effective after 30 days of giving of such notice. The agreement can also terminate if all of the main assets of the joint venture company are subject to requisition by the Chinese government. On 28 December 2002, Hutchison Healthcare purchased certain registered trademarks and registered patents from Ningxia Dyne and Beijing Dyne Pharmaceutical Industry Company Ltd. for a consideration of RMB 28.75 million. On this date Ningxia Dyne and Bio-engineering Co., Ltd. also entered into a materials supply contract with Hutchison Healthcare and gave certain warranties to the other parties regarding the profits resulting from the sale of such materials. A breach of these warranties can result in Ningxia Dyne's shareholding in Hutchison Healthcare being reduced to zero. See the summary set out in paragraph 18.2 of this Part VIII; and

(iii) Hutchison Baiyunshan was established in May 2005 as a joint venture company pursuant to a joint venture agreement dated 12 April 2005 made between: (1) Guangzhou Baiyunshan Pharmaceutical Stock Company Limited; and (2) Hutchison Chinese Medicine (Guangzhou) Investment Limited dated 28 November 2004. The joint venture arrangement is for 50 years from 12 April 2005 and was established for the purposes of the manufacture, processing, research and development and sales of pharmaceutical products, health food, health products and Chinese medicine materials. Hutchison Chinese Medicine (Guangzhou) Investment Limited agreed to make a capital contribution of RMB 100 million to Hutchison Baiyunshan and to lend to it an interest-free shareholder's loan amounting to RMB 72.5 million in aggregate within three months of the grant of its business licence. Profits shall be divided as determined by the Board. Other than certain permitted transfers to companies within a shareholders' group, prior consent is required from the non-transferring shareholders for the transfer, sale or disposal of any equity interest in Hutchison Baiyunshan and the non-transferring shareholders have a right of pre-emption on any transfer, sale or disposal of any interests in Hutchison Baiyunshan. Pre-emption rights lapse upon the expiration of three months from the date of written notice by the transferring party. The terms of sale to any third party shall not be more favourable to those offered to the other joint venture party. Hutchison Baiyunshan's board comprises six directors and Hutchison Chinese Medicine (Guangzhou) Investment Limited has the right to appoint three of these. The agreement contains standard confidentiality provisions which survive termination of the joint venture agreement. If any of the parties goes into liquidation or receivership, or the key assets of the business are acquired by a third party, the other party can give notice to such party to terminate the agreement. The agreement can also terminate if all of the main assets of the joint venture company are subject to requisition by the Chinese government. Guangzhou Baiyunshan Pharmaceutical Company Limited has granted a royalty free licence to use the Baiyunshan name and associated trademarks to Hutchison Baiyunshan. The licence has a term equal to the operational period of the joint venture but may be terminated by the licence if (amongst other things) (i) Hutchison Baiyunshan is in breach of the terms of the licence and fails to remedy that breach within 30 days of notice; (ii) the joint venture agreement terminates; (iii)

Guangzhou Baiyunshan Pharmaceutical Company Limited's interest in Hutchison Baiyunshan falls below 50 per cent.. Guangzhou Baiyunshan Pharmaceutical Stock Company Limited has transferred its equity interest in Fu Yang Baiyunshan Ban Lan Gen Technology Development Co., Ltd and has agreed that it will transfer its equity interest of its joint venture, Bozhou Baiyunshan Pharmaceutical Co., Ltd to Hutchison Baiyunshan. These two joint venture companies are producers/ suppliers of Ban Lan Gen and they currently supply Hutchison Baiyunshan under the terms of a supply agreement; and

(c) the agreement referred to in paragraph 20(e) above.

(d) a nominated adviser agreement dated 10 May 2006 between (1) the Company and (2) Lazard by which Lazard is appointed as nominated adviser to the Company for the purposes of the AIM Rules on and from Admission. The agreement is terminable forthwith on written notice to be given by either party. Lazard will receive a fee of £30,000 per annum plus VAT and expenses incurred, such fee to be paid in advance on the commencement and each anniversary of the agreement. The Company gives various undertakings, covenants and an indemnity to Lazard including, inter alia, that the Company undertakes to comply with the AIM Rules.

(e) a nominated broker agreement dated 10 May 2006 between (1) the Company and (2) Panmure Gordon by which Panmure Gordon is appointed as nominated broker to the Company for the purposes of the AIM Rules on and from Admission. The agreement is terminable on 7 days' written notice given by either party. Panmure Gordon will receive a fee of £40,000 per annum plus VAT and expenses incurred, such fee to be paid in advance in 4 equal instalments commencing 1 January 2007. The Company gives various undertakings, covenants and an indemnity to Panmure Gordon including, inter alia, that the Company undertakes to comply with the AIM Rules.

**22. Permits and certificates**

22.1 PRC law provides that pharmaceutical manufacturing enterprises (including TCM manufacturing enterprises) in the PRC should obtain a DM Permit from the SFDA. The DM Permit issued to Hutchison Baiyunshan on 1 January 2006 is valid until 31 December 2010. The DM Permit issued to Shanghai Hutchison Pharmaceuticals on 1 January 2006 is valid until 31 December 2010.

22.2 A company engaged in the production of pharmaceuticals is required under PRC law to obtain a Drugs GMP Certificate from the SFDA. The GMP Certificate issued to Hutchison Baiyunshan on 25 December 2003 is valid until 26 December 2008 and permits Hutchison Baiyunshan to manufacture tablets, granules, pills, capsules, powders, oral solution, syrup, concentrated decoctions and medicinal teas. The GMP Certificate issued to Shanghai Hutchison Pharmaceuticals on 22 June 2004 permits Shanghai Hutchison Pharmaceuticals to manufacture tablets and pills. Shanghai Hutchison Pharmaceuticals also holds a GMP Certificate issued on 12 November 2002 which permits it to manufacture a small volume of parenteral or oral solutions.

**23. Basis of information on drug candidates and potential market sizes**

**23.1 Assumptions and qualifications relating to the data on Ulcerative Colitis and Crohn's disease contained in this document.**

Part I contains information relating to Ulcerative Colitis, Crohn's disease and the market potential for treatments of these disorders. That information is subject to the following assumptions and qualifications which may affect the interpretation of the information contained herein:

(a) Prevalence and incidence of the diseases:

(i) Because Crohn's disease is not a reportable disease, the prevalence and incidence in the population has never been precisely determined.

(ii) The data on IBD prevalence or incidence rates are estimates and available data tends to be over 5 years old.

(iii) Prevalence and incidence are higher in Caucasians and data provided is primarily from studies in those groups.

(iv) The prevalence and incidence data available is wide ranging and several papers all cross reference each other and even the most recently published papers reference data from old studies.

(b) Drugs prescribed to treat UC and CD:

Many drugs used to treat ulcerative colitis and Crohn's disease are not approved specifically for this indication, but are routinely prescribed to treat those conditions. This document includes the drugs that are commonly prescribed for UC and CD, as listed in practice guidelines in the literature. There may be others but they aren't referred to in the literature as commonly prescribed drugs and so have been excluded from the information and statistics contained herein.

(c) Drugs in clinical trials:

Drug candidates that are in Phase II or III clinical trials in the US have been included in this document, any that are in trial in other regions have not been included. Products that have failed in clinical trials or for which trials have been terminated are not included in the table of drug candidates in clinical trials.

(d) Treatment of UC and CD and associated costs:

(i) The aim of management of Crohn's disease and ulcerative colitis is to induce remission. Therapeutic recommendations depend upon the disease location, severity and complications. They are individualised according to symptomatic response and tolerance to medical intervention. Anti-inflammatory drugs are used for mild-moderate disease, corticosteroids are prescribed for moderate-severe disease (although newer milder formulations such as Entocort EC have fewer side effects and are prescribed for mild-moderate also) and anti-TNF drugs used in the most severe cases when other treatments have failed (as they are expensive and have significant side effects).

(ii) The mainstay treatment for inflammatory bowel disease is mesalamine (5-ASA) products. Pentasa (mesalamine) held a 17.6 per cent. share of the US mesalamine market in 2002.

(iii) Asacol is the most prescribed 5-ASA in the US for UC.

(iv) As the number of courses of treatment to induce remission, the length of treatment and the combination of drugs used will vary by patient according to severity of disease and tolerance of medication etc, the annual cost of treating UC and CD patients is not possible to calculate. Therefore the cost of one course of treatment of each of the primary drug types has been estimated by using practice guidelines and drug dosing guidelines available in the literature. Certain assumptions have been used to calculate the cost of one course of treatment.

(v) The drugs that treatment costs have been estimated for were selected for inclusion based on treatment guidelines of 5-ASA-Corticosteroids-Immuno-modulators as ramp up of treatment options. The most commonly prescribed brand of each drug category have been considered (where this information was available). Some treatment options are to combine different drug types and this has not been considered when providing treatment course prices.

(vi) The treatment options that have been included are those prescribed to induce remission. Many of the drugs, or combinations therein, are prescribed for long term use to assist with maintenance of remission, but factors such as patient tolerance to and benefit from those drugs, are considered in remission maintenance and have not been covered.

(vii) Treatment prices given are based on average whole sale prices of the drug only (taken from the Red Book, Pharmacy's Fundamental Reference, 2005 Edition). The cost of hospital stays for IV administered drugs such as Remicade and Solu-Medrol are not included in the statistics quoted in this document, but will clearly increase the cost associated with those treatment courses and should be considered when comparing costs of treatment options.

**23.2 Assumptions and qualifications relating to the data on NSCLC and head and neck cancer contained in this document.**

Part I contains information relating to NSCLC and head and neck cancer and the market potential for treatments of these disorders. That information is subject to the following assumptions and qualifications which may affect the interpretation of the information contained herein:

(a) Prevalence and incidence of the diseases:

(i) The American Cancer Society states that approximately 87 per cent. of lung cancers are non-small cell. Therefore, the number of patients with NSCLC was calculated as 87 per cent. of the total number of lung cancer patients.

(ii) The American Cancer Society includes cancer of the oral cavity (including tongue and mouth), pharynx and larynx in its definition of head and neck cancer, which are the cancers that have been used for the purpose of the information in this document.

(b) Drugs in clinical trials:

(i) Drug candidates that are in Phase II or III clinical trials in the US have been included, any that are in trials in other regions have not been included in the information in this document. Products that have failed in clinical trials or for which trials have been terminated are not included in the table of drug candidates in clinical trials.

(ii) In many cases, multiple clinical trials are in progress for the drugs, either separately or in combination with each other, often in different phases and for different oncology indications.

(iii) Although Iressa has been withdrawn in Europe, US clinical trials of Iressa for use as a radiosensitiser are still current and are actively recruiting patients.

(c) Treatment of head and neck cancer and NSCLC and associated costs:

(i) It has not been possible to find a figure for how many head and neck patients are treated with radiotherapy. The information in this document uses a figure of 80 per cent. for NSCLC which correlates with the number of patients in stages III-IV. Following NCI and NICE guidelines stating that 'most' head and neck cancer patients have radiotherapy at some stage in treatment, it has also been assumed that 80 per cent. of head and neck patients receive radiotherapy for the purposes of calculation. It has also been assumed that of those 80 per cent. of patients all stages of head and neck cancer receive radiotherapy.

(ii) Where drugs are available from multiple companies, the company given is generally considered to be one of the larger suppliers. Any pricing information refers to the brand name indicated produced by that company. Prices given are

based on the average wholesale price of the drug (taken from the Red Book, Pharmacy's Fundamental Reference, 2005 Edition). In some cases, cheaper alternatives are also available from other suppliers.

(iii) The treatment cost per patient was estimated by multiplying the dosage of the drug(s) used in each trial by the cost of the drug(s) and the average body surface area (1.7 $m^2$). The majority of the drugs listed are available in 100mg batches, but some are not available in this size; some drugs are only available in much smaller or much larger units. Therefore, we have calculated the cost of these other drugs based upon other batch sizes, which ignores any differences in dosage requirements between drugs. All prices may vary between states and as a result of bulk purchase.

**24. General**

24.1 The accounting reference date of the Company is 31 December.

24.2 The total amount being raised by the Company through the Placing and the Hong Kong Offering is approximately £40 million. The total costs and expenses of, or incidental to, the Placing, the Hong Kong Offering and Admission, all of which are payable by the Company, are estimated to be approximately £3.23 million. The expected net proceeds of the Placing and the Hong Kong Offering, after deduction of such costs and expenses, are approximately £36.77 million. No expenses of the Placing are being specifically charged to subscribers or acquirers under the Placing.

24.3 The Placing has been fully underwritten, subject to the terms and conditions of the Placing Agreement referred to in paragraph 19 of this Part VIII, by Panmure Gordon which is regulated in the UK by the Financial Services Authority and which is registered in England and Wales under number 1742592 and whose registered office is at 155 Moorgate, London EC2M 6XB United Kingdom.

24.4 There are no specified dates on which entitlements to dividends payable by the Company arise.

24.5 PricewaterhouseCoopers LLP is a member firm of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its written consent to the inclusion in this document of its name and the report set out in Part V of this document in the form and context in which it is included and has authorised the contents of that part of this document which comprises its report for the purposes of Schedule Two of the AIM Rules.

24.6 Lazard has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

24.7 Panmure Gordon has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

24.8 Fish & Richardson P.C. has given and has not withdrawn its written consent to the inclusion in this document of its name and the report set out in Part III of this document in the form and context in which it is included and has authorised the contents of that part of this document which comprises its report for the purposes of Schedule Two of the Aim Rules.

24.9 Cambridge Consultants Limited has given and not withdrawn its consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which it appears.

24.10 Save in connection with the application for Admission, none of the Ordinary Shares has been admitted to dealings on any recognised investment exchange and no application for such admission has been made and it is not intended to make any other arrangements for dealings in the Ordinary Shares on any such exchange.

## 25. CREST and depositary arrangements

25.1 The Ordinary Shares are in registered form. It is proposed that, with effect from Admission, Ordinary Shares may be delivered, held and settled in CREST by means of the creation of dematerialised depository interests representing such Ordinary Shares. Pursuant to a method under which transactions in international securities may be settled through the CREST system, the Depository will issue dematerialised depository interests representing entitlements to Ordinary Shares, known as Depository Interests or "DIs". The DIs will be independent securities constituted under English law which may be held and transferred through the CREST system.

25.2 The DIs will be created pursuant to, and issued on the terms of a deed poll executed by, the Depository on 26 April 2006 in favour of the holders of the DIs from time to time (the "Deed Poll"). The Deed Poll is summarised in paragraph 25.6 below. Prospective holders of DIs should note that they will have no rights in respect of the underlying Ordinary Shares or the DIs representing them against CRESTCo Limited or its subsidiaries.

25.3 Ordinary Shares will be transferred or issued to an account for the Depository held by its nominated custodian (the "Custodian"). The Depository shall pass on, and shall ensure that the Custodian passes on, to the holder of DIs all rights and entitlements which the Depositary or Custodian receives in respect of the Ordinary Shares such as any such rights or entitlements to cash distributions, to information to make choices and elections, and to attend and vote at general meetings.

25.4 The DIs will have the same security code (ISIN) as the underlying Ordinary Shares and will not require a separate application for admission to trading on AIM.

25.5 The depositary services and custody agreement is summarised in paragraph 25.7 below and the share registrar agreement is summarised in paragraph 25.8 below.

25.6 **Deed Poll**

25.6.1 The DIs will be created pursuant to and issued on the terms of a deed poll executed by Computershare Investor Services Plc in favour of the holders of the DIs from time to time (the "DI Deed Poll"). Prospective DI Holders should note that they will have no rights against CRESTCo Limited or its subsidiaries in respect of the underlying Ordinary Shares or the DIs representing them. The Deed Poll contains, inter alia, provisions to the following effect which are binding upon the DI Holders:

(a) Ordinary Shares will be issued to an account of the Depositary or the Custodian and the Depositary will issue DIs to participating members of CREST.

(b) Each DI will be treated as one Ordinary Share for the purpose of determining, for example, eligibility to instruct the Depositary to vote and for any dividends. The Depositary will pass on to holders of DIs any stock, cash benefits or offers received by it as holder of Ordinary Shares on trust for such DI Holder. DI Holders will also be able to receive from the Depositary notices of meetings of holders of Ordinary Shares and other information to make choices and elections issued by the Company to its shareholders.

(c) The Depositary will hold (itself or through the Custodian), as bare trustee, the underlying Ordinary Shares issued by the Company and all and any rights and other securities, property, offers and cash attributable to the underlying Ordinary Shares pertaining to the DIs for the benefit of the holders of the DIs. The Depositary will re-allocate securities or distributions allocated to the Registrar or the Custodian *pro rata* to the Ordinary Shares held for the respective accounts of the holders of DIs but will not be required to account for fractional entitlements arising from such re-allocation.

(d) Holders of DIs warrant, inter alia, that the Ordinary Shares transferred or issued to the Depositary or Custodian on behalf of the Depositary or Custodian are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company's constitution or any contractual obligations, law or regulations and indemnify the Depositary from any liability as a consequence of the breach of such warranty.

(e) The Depositary and any Custodian must pass on to DI Holders all rights and entitlements received by the Depositary or the Custodian in respect of the underlying securities. Rights and entitlements to offers, to cash distributions, to information, to make choices and elections and to attend at meetings shall, subject to the DI Deed Poll, be passed on in the form which they are received together with amendments and additional documentation necessary to effect such passing-on. If arrangements are made which allow the holder to take up rights in the Company's securities requiring further payment, the holder must put the Depositary in cleared funds before the relevant payment date or other date notified by the Depositary if it wishes the Depositary to exercise such rights.

(f) A DI Holder may, after receipt of any notice of meeting, instruct the Depositary (no later than the relevant cut-off date set by the Depositary for this purpose) as to the exercise of the voting rights attaching to the underlying Ordinary Shares that the Depositary holds on behalf of the DI Holder. If the Depositary does not receive any voting instructions by such date from the DI Holder the Depositary will not vote in respect of such underlying Ordinary Shares.

(g) The Depositary will be entitled to cancel DIs and treat the holders as having requested a withdrawal of the underlying Ordinary Shares in certain circumstances including where a DI Holder fails to furnish to the Depositary such certificates or representations as to material matters of fact, including his identity, as the Registrar deems appropriate, exposes the Depositary/ Custodian to any taxation or regulatory disadvantage, the DI Holder is in breach of any applicable law, rule or obligations or has ceased or suspended its membership of CREST for any reason. The effect of such cancellation is, subject to making good any loss or expenses suffered by the Depositary/ Custodian pursuant to the indemnity mentioned above, that the Depositary/ Custodian will transfer the underlying Ordinary Shares to the DI Holder and cancel the relevant DIs. The relevant Ordinary Shares will then be held in a certificated form and will not be eligible for trading in CREST.

(h) The DI Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary shall not be liable to any DI Holder or any other person for liabilities in connection with the performance or non-performance of obligations under the DI Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Depositary shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Furthermore, the Depositary's liability to a DI Holder will be limited to the lesser of (a) the value of the shares and other deposited property properly attributable to the DIs to which the liability relates and (b) that proportion of £5,000,000 which corresponds to the portion which the amount the Depositary would otherwise be liable to pay to the DI Holder bears to the aggregate of the amounts the Depositary would otherwise be liable to pay to all holders in respect of the same act, omission or, if there are no such amounts, £5,000,000.

(i) The Depositary is entitled to charge holders of DIs fees and expenses for the provision of its services under the DI Deed Poll. The holders of DIs are required to agree and acknowledge with the Depositary that SDRT will be payable on

agreements to transfer the DIs. As mentioned in paragraph 11.6 of this Part VIII, as at the date of this document, the applicable rate of SDRT is usually 0.5 per cent. of the consideration in respect of the relevant transfer.

(j) Each DI Holder is liable to indemnify the Depositary and any Custodian (and their agents, officer and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the DI Deed Poll so far as they are related to the property held for the account of DIs held by that holder, other than those resulting from the wilful default, negligence or fraud of the Depositary, or the Custodian, or any agent if such Custodian or agent is a member of the Depositary's group or if, not being a member of the same group, the Depositary shall have failed to exercise reasonable care in the appointment and continued use of such Custodian or agent.

(k) The Depositary may terminate the DI Deed Poll by giving 90 days' notice. During such notice period DI Holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the Depositary must, among other things, deliver the deposited property in respect of the DIs to the relevant DI Holder or, at its discretion, sell all or part of such deposited property. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the DI Deed Poll *pro rata* to holders of DIs in respect of their DIs. The indemnity by DI Holders in favour of the Depositary or Custodian will survive termination of this deed.

(l) The Depositary or the Custodian may require from any holder information as to the capacity in which DIs are or were owned and the identity of any other person with or previously having any interest in such DIs and the nature of such interests and evidence or declarations of nationality or residence of the legal or beneficial owners of DIs and such information as is required for the transfer of the relevant Ordinary Shares to the DI Holders. DI Holders agree to provide such information requested and consent to the disclosure of such information by the Depositary or Custodian to the extent necessary or desirable to comply with their legal or regulatory obligations. Furthermore, to the extent that the Company's constitution requires disclosure to the Company of, or limitations in relation to, beneficial or other ownership of the Company's securities, the DI Holders are to comply with the Company's instructions with respect thereto.

(m) It should also be noted that DI Holders may not have the opportunity to exercise all of the rights and entitlements available to holders of the Ordinary Shares including, for example, the ability to vote on a show of hands. In relation to voting, it will be important for DI Holders to give prompt instructions to the Depositary to vote the underlying shares on their behalf.

(n) Copies of the DI Deed Poll will be available to the public free of charge at the offices of Lazard at the address set out on page 6 of this document and at the registered office of the Company's English subsidiary, Sen Medicine Company Limited, Hutchison House, 5 Hester Road, Battersea, London SW11 4AN from the date of this document until one month after Admission.

**25.7 Depositary Interest – Terms of Depositary Services and Custody Services Agreement**

25.7.1 The terms of the depository services and custody services agreement dated 10 May 2006 between the Company and the Depositary (the "Depositary Agreement") relate to the Depositary's appointment as Depositary and Custodian in relation to the Ordinary Shares.

25.7.2 Subject to earlier termination, the Depositary is appointed for a fixed term of two years and thereafter until terminated by either party giving no less than 6 months' notice.

25.7.3 The depositary services and custody services include the issue to a CREST member of Depositary interests in uncertificated form and cancellation of Depositary Interests, maintaining the DIs register, receiving and registering dividend payment instructions, issued by holders of DIs, and other services described or provided for in the Deed Poll. It is anticipated that the Depositary will appoint Computershare Company Nominees Limited, a company within its own group, as Custodian. The Company is obliged to pay an annual fee of £4,000 in respect of the depositary services and custody services in addition to certain transactional fees in relation to the DIs.

25.7.4 The Company indemnifies the Depositary on demand against all loss suffered or incurred by the Depositary as a result of or in connection with the performance by the Depositary of its obligations under the agreement save for any loss arising as a result of fraud, negligence, default or as a result of a breach by the Depository of the terms of the agreement.

25.7.5 Subject to certain limitations, the Depositary agrees to indemnify the Company and its officers and employees from and against any loss which they may incur as a result of or in connection with the fraud, negligence or default of the Depositary or any of its officers, employees, agents or sub-contractors. The aggregate liability of the Depositary to the Company over any 12 month period shall not exceed four times the amount of fees payable to it in any 12 month period in respect of a single claim or in the aggregate.

25.7.6 In the event of termination, the parties agree to phase out the Depositary's operations in an orderly manner and the Depositary shall deliver to the Company (or as it may direct) all documents and other records relating to the DIs which are in its possession and which are the property of the Company.

**25.8 Share Register – Terms of Share Registrar Agreement**

25.8.1 The terms of the registrar agreement dated 10 May between the Company and the Registrar (the "Registrar Agreement") under which the Company appoints the Registrar to maintain the Company's branch share register in Jersey and provide certain other services as are summarised below.

25.8.2 The Registrar will perform various services in its capacity as Registrar, including amongst others maintenance of the register in Jersey; maintenance of dividend instruction records; certification and registration of share transfers; preparation and despatch of dividend warrants; supplying to the Company, as soon as reasonably practicable, all necessary information so that the main register be open for inspection at the registered office of the Company; and arranging for the provision of facilities for the holding of general meetings including the distribution of ballot papers in the event of a poll, and the provision of scrutineers of any vote, if required.

25.8.3 For the provision of its services, the Company will pay the Registrar a minimum annual fee of £4,500, plus out-of-pocket expenses, for registers with less than 500 shareholders and £6,000 per annum plus out of pocket expenses for registers with more than 500 shareholders in addition to other related expenses. The agreement can be terminated by either party on the giving of six months' written notice, on an insolvency event occurring in relation to the other party or at any time by notice in writing if either party commits a material breach of its obligations.

25.8.4 The Registrar and its officers and employees shall not be liable to the Company for any loss sustained by the Company as a result of loss, delay, misdelivery or error in transmission of any letter or electronic communication or if any document accepted by the Registrar is later proved to be forged or otherwise defective or erroneous provided that the Registrar shall remain liable for any loss arising as a result of fraud, gross negligence or wilful default by the Registrar.

## 26. Endangered Species

A number of TCM products use ingredients derived from animal sources, as well as herbs and other plants. China has enacted a series of laws and regulations to protect endangered species, including acceding to CITES, promulgating laws to protect and control wildlife medicinal materials, and to protect precious wildlife plants and animals. Under the Source Protection and Management Regulations on Wildlife Medicinal Material (promulgated in 1987) ("Wildlife Medicinal Material Regulations"), protective measures have been adopted for use of wildlife medicinal materials, in particular for those species that are highly endangered or on the verge of extinction. Currently, all traffic in panthera tigris and some rhinoceros unicornis have been completely banned. The use of certain other endangered species, such as Saiga Tatarica Linnaeus (Russian Saiga) and Manis Pentadactyla Linnaeus (Chinese Pangolin) as ingredients of drugs has been highly restricted. Any person using ingredients for drugs derived from wildlife that are protected under the CITES is required to produce proofs showing the legitimate source and to comply with the provisions of the Wildlife Medicinal Material Regulations and other relevant laws and regulations. PRC law also currently prohibits using any plant or animal protected by the State and any product made from them as raw material for healthcare products. All companies within the Group have complied with the aforesaid laws and regulations concerning endangered species in China and none of the Group's products rely on any endangered species on the CITES list.

## 27. Documents available for inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of DLA Piper Rudnick Gray Cary UK LLP at 3 Noble Street, London EC2V 7EE United Kingdom for a period of 14 days from the date of this document:

(a) the Memorandum and Articles of the Company;

(b) the report relating to the Group prepared by PricewaterhouseCoopers LLP in Part V of this document;

(c) the patent report prepared by Fish & Richardson P.C. as set out in Part III of this document;

(d) the rules of the Share Option Scheme referred to in this Part VIII;

(e) the Directors' service contracts and letters of appointment referred to in this Part VIII;

(f) the letters of consent referred to in this Part VIII; and

(g) the DI Deed Poll referred to in paragraph 25.6 of this Part VIII.

Dated 10 May 2006

The following definitions apply throughout this document, unless the context requires otherwise:–

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| **"HK$" or "Hong Kong Dollars"** | Hong Kong dollars, the lawful currency of Hong Kong |
| **"RMB"** | Renminbi Yuan, the lawful currency of the PRC |
| **"US$" or "US Dollars"** | US dollars, the lawful currency of the United States |
| **"£"** | United Kingdom pounds sterling |
| **"1985 Act"** | the Cayman Islands Companies Act 1985 |
| **"Accountants' Report"** | the report prepared by PricewaterhouseCoopers LLP, which is contained in Part V of this document |
| **"Admission"** | admission of the Ordinary Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules |
| **"AIM"** | the Alternative Investment Market, a market operated by the London Stock Exchange |
| **"AIM Rules"** | the rules for companies governing admission to and trading on AIM, published by the London Stock Exchange |
| **"Articles"** | the Articles of Association of the Company |
| **"Board"** | the directors of the Company whose names appear on page 6 of this document |
| **"BST"** | British summer time |
| **"CAGR"** | compound annual growth rate |
| **"China" or "PRC"** | the People's Republic of China, not including the Hong Kong Special Administrative Region, Taiwan and the Macau Special Administrative Region |
| **"Combined Code"** | the Combined Code on Corporate Governance published by the Financial Reporting Council |
| **"Companies Law"** | Companies Law (2004 Revision Act) of the Cayman Islands |
| **"Company" or "Chi-Med"** | Hutchison China MediTech Limited (和黃中國醫藥科技有限公司), a company incorporated in the Cayman Islands |
| **"CREST"** | the computer based system and procedures which enable title to securities to be evidenced and transferred without a written instrument administered by CRESTCo Limited |
| **"Depositary"** | Computershare Investor Services plc |
| **"Depositary Interests" or "DIs"** | the depositary interests in uncertificated form representing Ordinary Shares issued to a holder on the terms of the DI Deed Poll described in paragraph 25 of Part VIII of this document |

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| **"DI Deed Poll"** | the trust deed poll under which the Depositary issues DIs to holders representing an interest in the underlying Ordinary Shares and holds the corresponding Ordinary Shares as bare trustee for the DI Holders |
| **"DI Holder"** | the holder of a DI issued pursuant to the DI Deed Poll |
| **"Directors"** | the Executive Directors, the Non-executive Directors and the Independent Non-executive Directors |
| **"DSHEA"** | Dietary Supplement Health and Education Act 1994 |
| **"EBITDA"** | earnings before interest, tax and depreciation |
| **"EMEA"** | the European Medicines Evaluation Agency |
| **"EU"** | the European Union |
| **"Executive Directors"** | Simon To, Christian Hogg and Patrick Wan |
| **"FDA"** | the Food and Drug Administration of the US |
| **"Group"** | the Company, its subsidiaries and the Joint Ventures |
| **"Guangzhou Baiyunshan"** | Guangzhou Baiyunshan Pharmaceuticals Stock Company Limited (廣州白雲山製藥股份有限公司), a company incorporated in the PRC |
| **"HHHL"** | Hutchison Healthcare Holdings Limited |
| **"Hong Kong"** | Hong Kong Special Administrative Region of the PRC |
| **"Hong Kong Offering"** | the preferential offering of Ordinary Shares to Qualifying Shareholders |
| **"Hong Kong Offering Shares"** | such number of new Shares of the Company, with a value not exceeding HK$5 million at the Placing Price, as are taken up under the Hong Kong Offering |
| **"Hong Kong Stock Exchange"** | The Stock Exchange of Hong Kong Limited |
| **"Hutchison Baiyunshan"** | Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (廣州白雲山和記黃埔中藥有限公司), a company incorporated in the PRC |
| **"Hutchison China"** | Hutchison Whampoa (China) Limited, a company incorporated in Hong Kong |
| **"Hutchison Chinese Medicine"** | Hutchison Chinese Medicine (Overseas) Investment Limited, a company incorporated in the British Virgin Islands |
| **"Hutchison Chinese Medicine Shanghai"** | Hutchison Chinese Medicine (Shanghai) Investment Limited, a company incorporated in the British Virgin Islands |
| **"Hutchison Healthcare"** | Hutchison Healthcare Limited (和黃健寶保健品有限公司), a company incorporated in the PRC |
| **"Hutchison MediPharma"** | Hutchison MediPharma Limited (和記黃埔醫藥(上海)有限公司), a company incorporated in the PRC |

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| **"HWEL"** | Hutchison Whampoa Enterprises Limited, a company incorporated in the British Virgin Islands |
| **"HWL" or "Hutchison"** | Hutchison Whampoa Limited, a company incorporated in Hong Kong |
| **"HWL Group"** | HWL and its subsidiaries, excluding (unless the context otherwise requires) the Group |
| **"ICH guidelines"** | guidelines published by the International Conference on Harmonisation |
| **"IFRS"** | International Financial Reporting Standards |
| **"Independent Non-executive Directors"** | Michael Howell, Professor Christopher Huang and Christopher Nash |
| **"Insurance Catalogue"** | the State Basic Medical Insurance Catalogue issued by the PRC Ministry of Labour and Social Society. A description of the Chinese social healthcare and medical insurance scheme is set out in Part II of this document |
| **"Joint Ventures"** | Hutchison Baiyunshan, Shanghai Hutchison Pharmaceuticals and Hutchison Healthcare |
| **"Lazard"** | Lazard & Co., Limited |
| **"LG H&H"** | LG Household & Health Care, Ltd |
| **"Licence Agreement"** | the licence agreement between the Company and HWEL dated 21 April 2006 |
| **"London Stock Exchange"** | London Stock Exchange plc |
| **"Masson Group"** | Masson Group Stock Company Limited (美晨集團股份有限公司), a company incorporated in the PRC |
| **"Memorandum"** | the Memorandum of Association of the Company |
| **"MHRA"** | the Medicines and Healthcare Products Regulatory Agency of the United Kingdom |
| **"NCI"** | Natural Cancer Institute |
| **"Ningxia Dyne"** | Ningxia Dyne Pharmaceutical Industry Company Limited (寧夏達因藥業有限公司), a company incorporated in the PRC |
| **"Non-executive Directors"** | Christian Salbaing, Edith Shih and Stephen Yeung and the Independent Non-executive Directors |
| **"Option"** | an option granted under the Scheme |
| **"Ordinary Shares" or "Shares"** | ordinary shares of US$1 each in the capital of the Company including, unless the context otherwise requires, such shares as represented by DIs |
| **"Panmure Gordon"** | Panmure Gordon (Broking) Limited |
| **"PBOC"** | the People's Bank of China |

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| **"Patent Agent's Report"** | the independent report from Fish & Richardson P.C. which appears in Part III of this document |
| **"Placees"** | subscribers for the Ordinary Shares pursuant to the Placing |
| **"Placing"** | the proposed placing of Ordinary Shares on behalf of the Company at the Placing Price as described in Part VII of this document |
| **"Placing Agreement"** | the placing agreement between the Company, Hutchison China, HHHL, Lazard and Panmure Gordon dated 10 May 2006 |
| **"Placing Price"** | 275p per Ordinary Share |
| **"Placing Shares"** | the 14,537,704 Ordinary Shares to be issued by the Company pursuant to the Placing including any Ordinary Shares which were the subject of the Hong Kong Offering but were not subscribed for pursuant to that offering |
| **"Prospectus Rules"** | the prospectus rules published by the Financial Services Authority |
| **"Qualifying Shareholders"** | shareholders of HWL whose names appear on the register of members of HWL at 4.00 pm (Hong Kong time) on 25 April 2006, other than those whose addresses are outside Hong Kong and who are entitled to receive one or more Ordinary Shares under the Hong Kong Offering |
| **"Relationship Agreement"** | the relationship agreement dated 21 April 2006 between Hutchison China and the Company |
| **"Scheme"** | the share option scheme conditionally approved and adopted by the then shareholder of the Company on 4 June 2005, the principal terms of which are summarised in the section headed 'Share Option Scheme' in Part VIII of this document |
| **"SDRT"** | stamp duty reserve tax |
| **"Sen"** | Sen Medicine Company Limited, a company incorporated in England and Wales |
| **"Services Agreement"** | the services agreement dated 21 April 2006 between Hutchison China and Hutchison China MediTech (HK) Limited, a wholly owned subsidiary of the Company |
| **"SFDA"** | the State Food and Drug Administration of China |
| **"Shanghai Hutchison Pharmaceuticals"** | Shanghai Hutchison Pharmaceuticals Limited (上海和黃藥業有限公司), a company incorporated in China |
| **"Shanghai Medicine"** | Shanghai Medicine Company Limited (上海市藥材有限公司), a company incorporated in China |
| **"Tongrentang"** | Beijing Tongrentang Hutchison Pharmaceuticals Investment Company Limited, (北京同仁堂和記醫藥投資有限公司), a company incorporated in China |
| **"Track Record Period"** | the 3 years ended 31 December 2005 |
| **"UK"** | United Kingdom of Great Britain and Northern Ireland |

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| **"United States" or "US"** | the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia |
| **"WHO"** | the World Health Organisation |
| **"WTO"** | the World Trade Organisation |

A glossary of scientific terms and abbreviations used in this document appears in the next section of this document.

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| **"angina pectoris"** | severe pain in the chest, and often also the arms and neck, due to inadequate blood supply to the heart muscles |
| **"assay"** | a specific biological test for a drug candidate during the screening process |
| **"auto-immune"** | pertaining to, caused by or characterised by auto-immunity, the production or presence within the body of auto-antibodies |
| **"cholangitis"** | inflammation of the bile duct |
| **"cholecystitis"** | inflammation of the gallbladder |
| **"CITES"** | Convention on International Trade in Endangered Species |
| **"CMC"** | chemistry, manufacturing and control |
| **"Crohn's Disease" or "CD"** | chronic inflammatory disease of the gastro-intestinal tract |
| **"cytokine"** | small protein molecules that are the core of communication between immune system cells, and between those cells and cells belonging to other tissue types |
| **"cytokine inhibitor"** | a cytokine-specific substance inhibiting the biological activities of specific cytokines |
| **"DHA"** | Docosahexaenoic Acid, an essential fatty acid |
| **"DM Permit"** | drug manufacturing permit |
| **"DMPK"** | drug metabolism and pharmacokinetics |
| **"DRQA"** | Direct RNA quantitation assay |
| **"Enzyme"** | a protein that catalyses a biological reaction |
| **"EGFR"** | Epithelial growth factor receptor |
| **"EPA"** | Eicosapentanoic Acid, an essential fatty acid |
| **"GAP"** | Good Agricultural Practices, a collection of best practice principles for production and post-production processes for herbal materials, including cultivation and collection of plants, primary processing of plant material (e.g., drying), packaging in bulk and storage; including standarised management and quality control measures, protecting resources of wild medicinal materials and observing the principle of maximum sustainable production; certification of GAP is overseen by the SFDA |
| **"genomics"** | the scientific study of genomes |
| **"GLP"** | Good Laboratory Practice, a collection of best practice guidelines concerned with the organisational process and the conditions under which laboratory studies are planned, performed, monitored, recorded, and reported. |

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| **"GMP"** | Good Manufacturing Practices, a collection of best practice guidelines for the manufacture of drugs and medical devices; Chinese GMP standards came into effect in 1999, implementing strict controls on staff qualification, production premises and facilities, equipment, hygiene environment, production management and quality control; certification of GMP is overseen by the SFDA; all pharmaceutical manufacturing enterprises were required to hold GMP certification by 30 June 2004 |
| **"GSP"** | Good Supply Practice, the requirements for the supply of Pharmaceutical Products in the PRC issued by the local PRC drug regulatory department of the people's government of the province, autonomous region or municipality |
| **"Her2"** | Her-2, an oncogene |
| **"high throughput screening"** | in-vitro screening of large numbers of compounds through the use of automated machinery, and highly automated systems which can screen thousands of compounds per hour, identifying those with a desired chemical or biological response |
| **"hypoxic"** | deficient in oxygen |
| **"IND"** | Investigational New Drug |
| **"IBD"** | Inflammatory bowel disease |
| **"inflammatory cytokine"** | cytokine involved in inflammation of tissue |
| **"informatics"** | the discipline of science which investigates the structure and properties of scientific information |
| **"in-vitro"** | literally, "in glass"; a biological or biochemical process occurring outside a living organism |
| **"lipids"** | any of a large group of fats and fat-like compounds (including oils, waxes and steroids) which occur in living organisms, and are soluble in certain organic solvents but only sparingly soluble in water |
| **"M.D."** | Doctor of Medicine |
| **"MMPs"** | Matrix Metalloproteinases |
| **"MTD"** | maximum tolerated dose |
| **"NDA"** | New Drug Application |
| **"NSCLC"** | non-small cell lung cancer |
| **"off-label"** | clinical uses outside the approved indications |
| **"oncology"** | the study of tumours |
| **"OTC"** | over-the-counter |

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| **"p38 MAPK"** | mitogen-activated protein kinase |
| **"PCT"** | Patent Cooperation Treaty, which provides a unified procedure for filing patent applications to protect inventions in 128 member states worldwide, including the PRC, the US, the UK, Canada and Australia |
| **"periodontitis"** | an inflammatory reaction of the tissues surrounding a tooth (periodontium), usually resulting from the extension of gingival (gum) inflammation (gingivitis) into the periodontium |
| **"pharmacokinetic"** | the process by which a drug is absorbed, distributed, metabolised and eliminated by the body |
| **"Phase I", "Phase II" and "Phase III"** | US Food and Drug Administration mandated stages for testing of drugs in clinical studies on human subjects; only drugs which have successfully completed all three phases may be approved for marketing:<br><br>*Phase I* involves initial investigation of a drug's pharmacological effects in humans<br><br>*Phase II* involves clinical studies investigating the effectiveness of the drug<br><br>*Phase III* involves expanded clinical trials investigating the drug's effectiveness and safety |
| **"proinflammatory"** | tending to cause inflammation |
| **"radiosensitiser"** | a substance used to increase the sensitivity of an organism or tissue to ionising radiation |
| **"rheumatoid arthritis"** | a chronic inflammatory disease in which there is destruction of joints |
| **"SARS"** | Severe Acute Respiratory Syndrome |
| **"semi-synthetic"** | a combination of natural and synthetic processes |
| **"STAT3"** | signal transducer and activator of transcription 3 |
| **"synthetic single chemical entity drug"** | a xenobiotic, i.e., synthetic, drug |
| **"Taxol"** | trade name of Paclitaxel, a drug used in the treatment of cancer |
| **"TCM"** | the traditional system of medicine developed in China whereby individualised prescriptions or formulae, based mostly on herbal ingredients, are used to harmonise, rejuvenate and revitalise the body system to restore its natural health, and includes any modernised medicine products based on prescriptions of traditional Chinese medicine theory, developed through the use of modern medical science and technology and produced using modern production technologies, quality controls and science based techniques |

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| **"tinnitus"** | a sensation of ringing or buzzing in the ears |
| **"tumour"** | an abnormal mass of tissue that results from excessive cell division which may be either benign (meaning not cancerous), or malignant (meaning cancerous) |
| **"tyrosine kinase"** | an enzyme that catalyses the phosphorylation of tyrosine (a non-essential amino acid) residues in proteins |
| **"UC"** | ulcerative colitis |
| **"VEGFR"** | vascular endothelial growth factor receptor |

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