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Hutchison China, Lilly to Develop Cancer Treatments (Update3)

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(Adds other research deals in sixth and seventh paragraph.)

By Kari Lundgren and Chris Elser

Aug. 20 (Bloomberg) -- Hutchison China MediTech Ltd., a developer and retailer of traditional Chinese remedies, will work with Eli Lilly & Co. on treatments for cancer and inflammation.

Lilly will pay Hong Kong-based Hutchison as much as \$29 million for each potential drug discovered during the partnership, in addition to yearly research support fees, Hutchison said in a statement today. Indianapolis-based Lilly also will make an upfront payment of an undisclosed amount.

The agreement is the first research partnership made between Hutchison and a U.S.-based company. As many as a third of multinational drugmakers want to expand in Asia in an effort to control costs, according to a PricewaterhouseCoopers survey released Aug. 8. In the past year, both GlaxoSmithKline Plc and Novartis AG have announced multimillion-dollar plans for research facilities in Shanghai.

The deal represents a ``major validation" for Hutchison,

also known as Chi-Med, Ibraheem Mahmood, an analyst with Investec, said in a note to investors. The agreement shows ``that it is possible to build world-class research capability in China and that Chi-Med has been the first to achieve this," he said. Mahmood rated the company a ``buy."

Hutchison shares rose 6 pence, or 3.7 percent, to 167.5 pence at 2:43 p.m. in London, valuing the company at 85.8 million pounds (\$170.4 million). Lilly shares fell 36 cents to \$55.45 at 10:16 a.m. in New York Stock Exchange composite trading.

Since listing on London's alternative investment market in May last year, Chi-Med has signed two major partnership agreements. The first to develop health and beauty products with Procter & Gamble Co. and the second with Merck KGaA to research anti-cancer drugs derived from natural products. Shares have declined 14 percent this year.

The company is majority owned by Hutchison Whampoa Ltd., a holding company chaired by billionaire Li Ka-shing, Asia's richest man. Hutchison's wholly owned subsidiary, Hutchison MediPharma R&D Ltd., will be responsible for identifying and selecting the treatment candidates.

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