

# Press Cutting

Client: Hutchison China Meditech

Publication: Dow Jones

Date: 20 August 2007

## **2nd UPDATE: Hutchison Chi-Med Shrs Rise On Tie Up With Lilly**

640 words

20 August 2007

09:08

[Dow Jones International News](#)

English

(c) 2007 Dow Jones & Company, Inc.

(This updates an article published at 1118 GMT, adding comments from the chief executive and background.)

By Jason Douglas

Of DOW JONES NEWSWIRES

LONDON (Dow Jones)--Shares in Hutchison China MediTech Limited (HCM.L) rose Monday after it announced it has partnered with Eli Lilly and Company (LLY.US) to discover and develop oncology and inflammation drugs.

Hutchison, which already has deals with Merck KGAA (MRK.F) and Proctor & Gamble Co (PG.US) to explore potential therapeutic applications of compounds derived from traditional Chinese medicine, will use its China-based R&D subsidiary Hutchison MediPharma to perform preclinical work for a number of early-stage Lilly drug molecules. Lilly will provide technical advice and will file applications to bring any new drugs to clinical trial.

Hutchison will receive an undisclosed upfront payment from Lilly and annual R&D support fees, as well as potential milestone payments of between \$20 million and \$29 million per successful candidate. It is also in line to receive a slice of the royalties of any drug brought to market and has the option to continue to develop any compounds Lilly rejects.

Shares in HCM were up 6 pence or 3.72% at 167.5 pence at 1030 GMT Monday in a higher London market. HCM floated on AIM at 275 pence per share in May last year.

HCM Chief Executive Christian Hogg told Dow Jones Newswires in an interview that this is the first time the biotech firm has done something unrelated to traditional Chinese medicine.

Its Merck and Proctor & Gamble deals involve screening traditional Chinese medicines for activity in certain areas. With P&G it's beauty care and with Merck it's oncology.

Hogg said the pre-clinical work for Lilly will involve in-vivo and in-vitro work, modifying Lilly's chemical compounds to make them safer and more effective and moving them through the discovery phase.

"It's all based on speed and we get milestones for getting them through quickly," he said. "We've shown them we are able to replicate what they are able to do but to do it at a faster rate."

Hogg credited HCM's speed to its team of more than 140 researchers and the greater support for research, particularly animal experiments, from China's government. Cost is also a factor, he said.

But Hogg added HCM is not planning to make testing other companies' drugs a big part of its business.

"We have taken a portfolio approach with these deals but we have our own internal studies. We have a phase II study on ulcerative colitis and a cancer drug, and we have six of our own pre-clinical candidates we are developing in house. About half our activity and effort is on these kind of collaborations."

Lilly vice president of discovery research William Chin said Hutchison is a leader in China's R&D arena. "We believe Hutchison has the strategic interest and capabilities to advance these Lilly molecules," he added in a statement.

Panmore Gordon & Co analyst Savvas Neophytou said in a note that investment in Chinese biopharmaceuticals is an attractive extension of healthcare investing.

"The decision by Lilly to allow HCM to develop several of its molecules validates the high standard of the company's capabilities and scientific expertise."

He added the annual payments the company stands to receive will partly underwrite its R&D costs, meaning its \$20 million to \$29 million milestone payments are relatively risk-free.

Panmore rates HCM buy and has a target price of 300 pence for the stock.