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## Eli Lilly, Shanghai firm to develop cancer drugs

### Partnership reflects China's potential for low-cost research

By JANE SPENCER

HONG KONG—A drug-development partnership between Eli Lilly & Co. of the U.S. and a Shanghai pharmaceuticals company reflects China's growing potential as a low-cost center for biotechnology research.

Yesterday, Indianapolis-based Lilly announced it will work with a unit of Hutchison China MedTech Ltd., known as **Chi-Med**, to develop drugs to treat cancer and inflammatory diseases. Lilly will hand over pre-clinical research and development on several compounds to the Chinese company. Chi-Med, which is listed on London's Alternative Investment Market, is a subsidiary of Hutchison Whampoa Ltd., the conglomerate controlled by Hong Kong billionaire Li Ka-shing.

Complete financial terms weren't disclosed, but Lilly agreed to pay US\$20 million to US\$29 million for each compound developed through the partnership, as well as an upfront fee and continuing research support. Chi-Med would get a slice of royalties from any successful drugs developed through the collaboration.

Chi-Med, whose products include a heart pill made from deer musk glands, has drawn attention from some of the world's largest pharmaceuticals companies, which are eager to tap Chi-Med's research expertise, low-cost base and library of 10,000 traditional Chinese herbal compounds that may have applications in Western medicine.

The company has struck similar partnerships with several Western companies, including a deal with

Procter & Gamble Co. to develop beauty products based on Chinese ingredients, and a partnership with Merck KGaA of Germany to develop cancer drugs. Western companies increasingly are trying to harness the cost advantages of developing pharmaceutical products in China, which includes legions of highly skilled scientists willing to work for a fraction of the salary of their U.S. counterparts.

"The Lilly deal is a sign of the quality of the work that's being done in China," says Ibraheem Mahmood of Investec Securities in London. "Big pharmaceutical companies can see there are research ca-

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[blogs.wsj.com/health](http://blogs.wsj.com/health) capabilities there, and a burgeoning pipeline of new products."

Dr. Mahmood estimates the rate at which Chi-Med burns through its capital is about a quarter of a typical European biotech firm. Running clinical trials in China is also less expensive, costing between one-quarter and one-eighth as much as in the U.S. The Chinese government is encouraging the new sector with incentives, as it tries to shift the nation's economy away from low-cost manufacturing to more sophisticated industries.

Chi-Med is the holding company for several health-care companies, including Shanghai Hutchison

Pharma, which focuses on sales of traditional Chinese herbal medicines. The company also runs a series of joint ventures in China that sell Chinese medicine treatments to the domestic market.

Hutchison MedPharma R&D Ltd., the Chi-Med unit that struck the deal with Lilly, is the company's pharmaceuticals

arm. It aims to develop new drugs for the global market based on botanical ingredients from traditional Chinese medicine. The company's management team and many of its top scientists have been recruited from top U.S. drug companies, including Pfizer Inc. and Johnson & Johnson. The company's chief executive, Christian Hogg, is a veteran of P&G.

Hutchison MedPharma is breaking ground by becoming one of the

### The Chinese company will handle the initial discovery research.

first Chinese companies to apply for U.S. Food and Drug Administration approval for a drug product. Chi-Med's treatment for intestinal inflammation is already in stage-two FDA trials. If approved, the drug would compete with J&J's \$3 billion-a-year drug Remicade. The Chi-Med drug was developed at a fraction of what it would normally cost a Western company.

The deal with Lilly doesn't involve traditional Chinese medicine. Instead, the synthetic compounds were originally identified by Lilly, but the Chinese company will handle the initial discovery research. If potential drug candidates are identified, Lilly would take the drugs through the FDA approval process.

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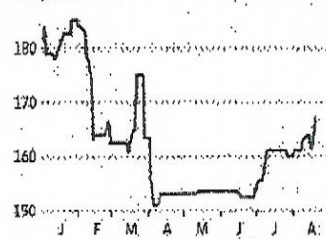


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**Hutchison China Med/Tech**

Yesterday's close: 167.5 pence, up 3.7%

190 pence



Source: Reuters

