Press Cutting

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Chi-Med plans largest Chinese biotech listing on Nasdaq
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Hutchinson China MediTech (Chi-Med) is planning to spin off its R&D drugs business in what will be the largest Chinese biotech IPO on Nasdaq. The firm's CEO Christian Hogg told *Scrip* of his ambitious exit strategy as the diversified healthcare subsidiary of Hutchison Whampoa sharply cut its full-year net loss.

Net losses for 2009 fell by more than half to $7 million as sales from its China healthcare division, which sells traditional Chinese medicines, reached $102 million, an increase of 26%. Chi-Med's total sales were $111 million, an increase of 28%.

The firm has spent the past 10 years developing its Chinese business and believes that the next 18-24 months will mark its transition from a dependency on traditional Chinese medicines towards becoming a serious biotech player.

The company's biggest transition will be the spin out of its loss-making R&D division. "Our drug R&D division is by far the most developed biotech operation in China and we are five years ahead of the next player," said Mr Hogg in an interview.

"In the next few years the R&D division will be spun out. It's an appealing target to financial and private equity investors and we'll probably do another financing round before an IPO. But we don't want significant dilution," he added.

The division has been running at an operating loss since 2005 but in the past year this fell by 35% to $9.9 million following a triple-digit increase in its research income to $4.8 million.

Chi-Med's drug business is focused on oncology and autoimmune disease and is likely to have one candidate, HMPL-004, an oral botanical candidate, entering Phase III clinical trials for Crohn's and ulcerative colitis in the US this year. Another four new chemical entities are expected to enter Phase I development within a year.

Chi-Med is in partnering discussions with several pharma firms for the compound and already counts Lilly, Ortho-McNeil-Janssen Pharmaceuticals and Merck Serono as partners.

Despite its depth in Chinese R&D, Chi-Med will shy away from becoming a contract research organisation for big pharma and will instead focus on drug development. Its strategy, particularly with its early-stage anticancers, will be to out-license candidates globally while retaining the Chinese rights.

With the Chinese government investing $124 billion during 2009-11 in building 2,000 new hospitals and expanding state sponsored health insurance programmes, Chi-Med anticipates strong growth on the back of drug reimbursement.

"In our China healthcare business, a lot of growth is driven by reimbursement. The main healthcare coverage scheme [basic medical insurance scheme] covered 24% of the population in 2008, representing a 42% increase in enrolment on 2007," said Mr Hogg.

Chi-Med has a strong presence on reimbursement lists – 90 of its drugs, most of which are generics, are listed in the National Medicines Catalogue, representing around 9% of the total listed.

Its consumer products division continued to operate at a loss for the fifth year running, losing $2.5 million, but sales edged up by 4% to $4.2 million.

Much like last year, the company hopes to be profitable in the first half but may slip towards a loss due to the seasonality of its products. In the first half of 2008, Chi-Med posted a pre-tax profit of $317,000, its first profit since the company's inception (scripnews.com, July 30th, 2009).