

Lilly, China Firm to Develop Drugs

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 said it will work with a unit of Hutchison China Med-Tech Ltd., known as Chi-Med, to develop drugs to treat cancer and inflammatory diseases. Lilly will hand over preclinical 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.

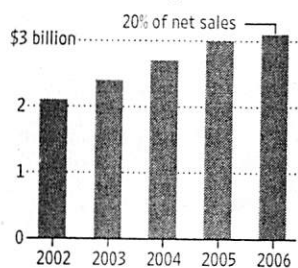
Complete financial terms weren't disclosed, but Lilly agreed to pay \$20 million to \$29 million for each compound developed through the partnership, as well as an upfront fee and continuing research support. Chi-Med would get a slice of royalties from any successful drugs developed through the collaboration.

Chi-Med has drawn the attention of some of the world's largest pharmaceuticals companies, which are eager to tap Chi-Med's

Looking East

Drug makers such as Eli Lilly are partnering with Chinese firms in hopes of outsourcing expensive research-and-development work

Eli Lilly's R&D expenditures:



Source: the company

research expertise and low-cost base. 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 capabilities there, and a burgeoning pipeline of new products."

Chi-Med, whose products include a heart pill made from deer musk glands, also offers a library of 10,000 traditional Chinese herbal compounds that may have applications in Western medicine. 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 U.S. Food and Drug Administration approval process.

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.

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