

SOUTH EAST ASIAN HEALTH NEWS

ISSUE 10, DECEMBER 1998

A bimonthly newsletter of developments in the pharmaceutical, hospital and medical device markets.

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INTRODUCTION

The Asian health care industry, as well as the Asian pharmaceutical companies, are going through an accelerating process of consolidation and rationalization. Unprecedented opportunities are emerging for Western companies.

We hope that you find South East Asian Health News informative. BDA is a corporate finance advisory firm that helps clients identify and execute acquisitions and JVs in South East Asia. If you think that BDA's services may be useful to you, please contact us in New York at (212) 265-5300 or in Singapore at (65) 533-8500.

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INDONESIA

Marc J Satoru Shahi, a six-month old Singaporean health-care consulting group, is in talks with Indonesian parties to form several joint ventures to provide health-care management services, which would include a managed care scheme. The health-care management services scheme would have a network of more than 300 primary clinics and a tertiary-care hospital. The scheme also plans to cover more than 300,000 members for the first year, growing to 1.5 million to 2.0 million people in six to seven years. Revenue is expected to reach S\$80m (US\$50m) in total over a five-year period. (November 25th 1998)

MALAYSIA

Faber Medi-Serve Sdn Bhd has awarded a five-year subcontract worth RM917m (US\$241m) to **Propel-Johnson Controls (M) Sdn Bhd** to carry out hospital support services for a number of government hospitals. Faber Medi-Serve, a 57% subsidiary of **Faber Healthcare Management Sdn Bhd**, is looking at various avenues to expand, including private hospitals and healthcare sectors in the ASEAN region. (November 26th 1998)

The **Health Ministry** is drafting a Managed Care Association Act for the continued development of the managed care industry. A draft of the proposed law, drawn from models used in Australia, Indonesia, the Philippines and the United States, will be submitted to the Attorney-General's office soon. Among the safety features to be included in the new legislation is a securing mechanism that would protect those enrolled under the schemes in case a managed care organization becomes insolvent. The legislation is part of the Health Ministry's plan to promote the growth of a modern health insurance industry in Malaysia. (November 22th 1998)

PHILIPPINES

Asian Hospital Inc (AHI), deemed a world class tertiary acute care hospital, is being developed in Muntinlupa City. AHI is capitalized at P1.2bn (US\$31m), with the total project investment budgeted at P3.1bn (US\$80m). **Vista Healthcare Asia Pte Ltd**, a Singaporean regional healthcare company, is in partnership with AHI to manage and run the hospital. **Chase Capital Partners Ltd** is the lead investor in the project, with a 30% stake. A group of 112 doctors has also invested in the project. AHI expects to open two more clinics next year. (November 7th 1998)

SINGAPORE

The **Centre for Drug Evaluation**, a collaboration between the **National Science and Technology Board (NSTB)** and the **Health Ministry**, has been awarded US\$6m by NSTB to form a start-up fund. The center will develop local expertise to analyze and evaluate new drugs, thus allowing for quicker testing and approval than presently available. (November 28th 1998)

Glaxo Wellcome has opened a US\$80m manufacturing plant in Jurong, bringing its total investments in Singapore to more than US\$700m. The first compound to be made at the plant will be fluticasone propionate, an active ingredient in asthma and rhinitis medicine. Other compounds to be manufactured include those for the treatment of migraine, influenza and irritable bowel syndrome. (November 28th 1998)

Life Sciences Investments (LSI), a venture capital firm capitalized at US\$20m, was established by the **Singapore Government**. LSI is jointly owned by the **Economic Development Board** and **NSTB Holdings**. LSI will make direct equity investments in projects with industry and technology partners. EDB managing director Liew Heng San indicated that LSI would look to increase the size of the fund in the near future. (November 28th 1998)

THAILAND

GE Medical Systems has moved its services headquarter in Southeast Asia from Singapore to Bangkok. Thailand has the largest installment base in medical systems and equipment, together with the largest revenues from medical systems service in the region. (November 15th 1998)

GE Medical has recently agreed to acquire **Hospitech Corp's** remaining 25% stake in Thai JV, **GE Hospitech Medical Systems**, giving GE Medical 100% ownership of the operation. It will be renamed **GE Medical Systems (Thailand) Ltd.** (October 15th 1998)

VIETNAM

Colombia Pacific Healthcare Group and **Gia Dinh People's Hospital** have commenced a US\$2.1m JV which will open a clinic offering family medicine, paediatrics, gynaecology and minor surgical services. The **Colombia-Gia Dinh International Clinic** in the Binh Thanh district will be the first American clinic to open in Ho Chi Minh City since 1975. (December 1st 1998)

REGIONAL

The **Chinese** government will be regulating drug prices as part of a package of reforms to the health care system. Prices of imported foreign pharmaceuticals will now have to be reported and licensed. Medicine imports to China have risen from US\$30m in 1975 to US\$500m in 1995. Imported drugs and those produced by foreign manufacturers hold 60% of the market in China. The new regulations are an attempt to boost investment in technology and drug development by domestic manufacturers. (December 4th 1998)

Coats Aloe International of the US has opened its first **Taiwan** office in Taichung. With **Barbadensis Company**, a marketing firm, Coats plans to introduce a range of direct-sales aloe-derived products to consumers around the island and, eventually, across Asia. Coats' US-made, FDA-approved products include aloe jelly, ointment, cream, lotion, shampoo and various flavored and non-flavored aloe juice drinks. (October 1st 1998)

The **Covance Medicine Development Services Company** from the US will join **China Innovation Centre for Life Sciences** and major **Chinese** pharmaceutical companies to test traditional Chinese medicines for approval by the US FDA. The cooperation will help promote

traditional Chinese medicines in the US market. Covance's Beijing office and the China Innovation Centre for Life Sciences began clinical trials in October on two traditional Chinese medicines for cardiovascular diseases. (November 5th 1998)

Kao Corp and **Novartis Consumer Health**, the third largest global OTC drug manufacturer, have formed a JV in **Japan** to market and sell consumer health products. The JV will be involved mostly with OTC drugs and other consumer healthcare products. (December 7th 1998)

The **Union Health Ministry** of **India** has decided to purchase drug supplies on the open market. The Ministry had previously purchased drugs from small-scale, local manufacturers. Because of the Ministry's decision, 800 small-scale manufacturers are faced with closure. The manufacturers had been supplying about 80% of the drugs to central and state government institutions before the shift in policy. (December 14th 1998)

United Biomedical, Inc. (UBI) and the **Taiwan** government announced the establishment of **UBI-Asia**, a JV aimed at accelerating the development of Taiwan's biopharmaceuticals industry and providing UBI expanded opportunities for growth in Asia. UBI has granted Asian manufacturing, marketing and distribution rights of its products in development to UBI-Asia. (October 1st 1998)

Viva America Marketing Corp, manufacturer of health care products, claims to have grown revenues in **Hong Kong** by 10% in the last year, despite the recession. It claims that the rise in demand is attributable to Hong Kong's worsening pollution problem. Viva plans to take its products to **Australia, China, Japan** and **New Zealand**. The company also plans to join forces with the **University of Beijing** to study and develop nutrition supplement drugs and other new products. (November 30th 1998)

FOCUS:

Korean pharmaceutical firms

Korea is the 10th largest pharmaceutical market in the world and accounts for 15%-20% of the Asian (ex-Japan) pharmaceutical market. With the introduction of the product patent system in July 1987 and the opening of the domestic pharmaceutical industry to free trade, there is a **growing need to increase technological capabilities in developing new drugs by domestic pharmaceutical firms**, which currently rely heavily on foreign-branded drugs. The majority of the domestic pharmaceutical firms, however, are **weak in their R&D investment capabilities**, nor have they made significant progress in the field of specialty products such as raw materials synthesis. Instead, they are chiefly engaged in domestic oriented business and introduction of foreign commodities. For example, many Korean pharmaceutical firms still derive about 20%-30% of their revenues from tonic drinks and other OTC products.

The pharmaceutical firms are mostly family owned, having been started by pharmacists and doctors. The chaebols (major local business groups) have been prohibited from entering into the pharmaceutical business. Thus the **pharmaceutical firms tend to exist as independent businesses**.

R&D investments

There are only 56 Korean pharmaceutical firms which have their own research facilities. Their R&D investment to annual revenues ratio is less than 4%, compared with 6%-20% by their counterparts in other advanced countries. To reduce mounting royalty payments, **major domestic pharmaceutical firms have begun to**

increase their investment in R&D projects.

In order to foster the systemic institutionalization for new drugs, the Korean Good Laboratory Practice (KGLP) system has come into force. The Ministry of Health and Welfare (MOHW) also plans to continue its new drug R&D assistance project and includes the establishment of R&D assistance organizations to actively support new drug development as a priority. It calls for a total investment of W317bn (US\$264m) over an eleven-year period from 1991.

Encouraging foreign participation

The Korean government is opening up the pharmaceutical industry to foreign investments. In theory, hostile takeovers by foreigners of Korean corporations have been allowed since April 1998, and by mid-1999, restrictions on foreign ownership of land will be eliminated. In addition, all the regulations and restrictions related to foreign investment will be streamlined and incorporated into a single legal framework represented by the Foreign Investment Promotion Act.

Korean pharmaceutical products are mostly copied from Western products, though the patent laws are due to be modified within the next two years, which should reduce the issue of drug piracy. Foreign pharmaceutical players have a 5% market share in Korea, kept low by lax patent laws.

Manufacturing firms, exports and imports of pharmaceuticals

The export of domestic pharmaceuticals has maintained a steady annual growth rate of about 30% since 1985. **The export of pharmaceuticals in 1995 was valued at US\$464m, while the import amount was US\$1.3bn.** However, this trade imbalance reflects increasing imports of

finished pharmaceuticals and pharmaceutical raw materials since 1983. This is mostly a result of the import liberalization measure.

Below we have profiled several of the leading listed companies in the Korean pharmaceutical sector.

1. CHOONG WAE PHARMACEUTICAL CORPORATION

Summary - Established in 1953, the company is one of South Korea's largest pharmaceutical manufacturers. It has recently entered the PCS parts business in a venture with LG Telecom.

Product range - Products include intravenous solutions, antibiotics and anti-cholesterol drugs.

Structure - Choong Wae has four local subsidiaries.

Financials - 1997 revenue for the company was W195bn (US\$157m).

2. DAEWOONG PHARMACEUTICAL CO LTD

Summary - The company is a general pharmaceutical manufacturer which has a minority interest in a JV with RP Scherer of the US called Korea RP Scherer Co. Daewoong's other subsidiaries include Daewoong Lily Pharmaceutical Co and Daewoong Chemical Co.

Product range - Products include pharmaceutical preparations for the cardiovascular and nervous system. Also produces anaesthetics, antirheumatics, chemotherapeutic agents, endocrines, antiseptics and immunological preparations.

Structure - Major shareholders of the company

include Yoon Young Hwan (Chairman) 8.55%, Daewoong Foundation 13.91% and Daewoong Chemical Co 9.65%.

Financials - Revenue for the year ended March 31st 1998 was W143bn (US\$118m).

3. DONG-A PHARMACEUTICAL CO LTD

Summary - The company, established in 1949, is one of the biggest volume pharmaceutical producers in South Korea. Since 1997, it has diversified into cable TV and advertising, though pharmaceuticals remains its core business. Dong-A divested Dong-A Bitoech, its domestic biotech subsidiary, Dong-A Fujisawa, its Japanese JV, and Myungmi Cosmetics in mid 1998.

Product range - Products include cold remedies, medical equipment and Bacchus (tonic drink). Bacchus accounts for 40% of the firm's operating revenue.

Structure - Dong-A has five subsidiaries based in South Korea.

Financials - Revenue for 1997 was W505bn (US\$407m).

4. DONG SHIN PHARMACEUTICAL CO LTD

Summary - The company, established in 1970, produces 250 different types of medical products.

Product range - Products include albumin injections, vaccines, hepatitis treatments, health drinks and nutritional supplements.

Financials - The company's revenue for 1997 was W63bn (US\$50m).

5. KOREA GREEN CROSS CORP.

Summary - The company was established in 1967. It manufactures and exports plasma fractions, microbiological products, enzyme products, diagnostics, OTC and ethical products. The company also produces medical devices and supplies.

Products - Products include plasma fractions, biological medicines, general medicines, urinary enzyme preparations, raw materials for pharmaceuticals, carbohydrates, proteins, eupeptics and albumins.

Structure - Korea Green Cross has one subsidiary in China.

Financials - 1997 revenue for the firm was W203bn (US\$164m).

6. KWANG DONG PHARMACEUTICAL CO LTD

Summary - The company, established in 1973, is primarily engaged in the production of oriental herbal medicines and pharmacies.

Product range - Kwang Dong manufactures Chungshimwon, Ssangwhatang, Kiungwhan and Koprang, an anti-cancer drug.

Structure - Kwang Dong (Chairman) owns 38% of issued stock.

Financials - 1997 revenue for Kwang Dong was W92bn (US\$74m).

7. IL DONG PHARMACEUTICAL

Summary - The company primarily manufactures OTC drugs and is also involved

in the environmental business.

Structure - Related companies include Maxon Electronics 30.28% and Uni Communications 99.83%.

Financials - 1997 revenue was W102bn (US\$85m).

8. IL YANG PHARMACEUTICAL

Summary - The company's principle activities include production of pharmaceuticals and health foods. Il Yang's other subsidiaries include Hanbo Medical Co, Il Yang America Co and Il Yang International Co.

Product range - The company's other products include medical drinks.

Structure - Major shareholders include Chung Hyung Sik (Chairman) 16.7%; others 83.3%.

Financials - 1997 revenue was W132bn (US\$110m).

9. YUHAN CORPORATION

Summary - The company, established in 1926, is one of the leading pharmaceutical companies in South Korea.

Products - The company produces medical products (mostly gastrointestinal remedies), detergents, toothbrushes, animal remedies and sanitary goods. Pharmaceutical products account for 62% of 1997 revenues.

Structure - Yuhan has three subsidiaries based in South Korea.

Financials - 1997 revenue was W205 (US\$166m).

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Business Development Asia is a corporate finance advisory firm which assists US companies in expanding their businesses in South East Asia. BDA specializes in the health industry and helps clients to find local business and has senior advisors in Bangkok, Jakarta, Kuala Lumpur and Manila. For further information on BDA's services or on any of the articles in this newsletter, please contact Euan Rellie or Charles Maynard, through our New York office, or Andrew Huntley in Singapore.

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