

ASIA IS A BUSINESS IMPERATIVE... NOW MORE THAN EVER

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INTRODUCTION

We hope that you find the *Asian Health Newsletter* informative. In this issue we profile China's medical insurance reform and its impact on the country's medical insurance industry.

BDA is a corporate finance advisory firm which helps multinational clients to identify and execute acquisitions and JVs in Asia. We focus on the healthcare sector and are well placed to help Western companies structure mutually beneficial transactions with local partners.

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Paul DiGiacomo
General Manager

CHINA/HK

Eisai of Japan has moved the production of its two neuromuscular drugs, *Methycobal* (mecobalamin) and *Merislon* (betahistine mesylate), from its JV, **Shenyang Eisai Pharmaceutical Co Ltd**, to another JV, **Eisai (Suzhou) Pharmaceutical Co Ltd**. It will also transfer the production of some other drugs, *Neuquinon*, *Myonal* and *Selbex* from Shenyang to the Suzhou plant in the near future. (November 10, 1999)

Hainan Sundiro Pharmaceutical Co Ltd will merge with a Sino-Korean pharmaceutical venture, **Yangzhou Yiyang Pharmaceutical Co Ltd**. Yangzhou Yiyang is a 50/50 JV between **Gaoyou Grain Industry Corp** of China and **Yiyang Medicine Co Ltd** of Korea. Hainan Sundiro, Gaoyou Grain Industry and Yiyang Medicine will invest in the new JV. (November 26, 1999)

Merck KgaA of Germany has acquired a 60% equity stake in **Apotec**, a HK-based pharmaceutical company, to produce generic controlled-release formulations. Apotec has a wholly-owned pharmaceutical company in mainland China, **Zhongshan Apotec Pharmaceutical Co Ltd**. (November 11, 1999)

The New World Group of Hong Kong has reached an agreement with **LifeTech Enterprise** of the US to set up a JV, **LifeTech New World Cyberbase**. The JV will launch a US\$10m medicine portal, *LifeTechUSA.com*, that focuses on Chinese medicine, natural nutraceuticals and pharmaceutical products. It will sell a wide range of Chinese medicine and natural health foods from both the mainland and other

countries. The portal will also provide information about diseases, healthcare tips and news. (November 2, 1999)

PharmaNet Online Ltd of Australia has developed an Internet-based pharmaceutical distribution system in Shanghai. The system links 80 hospitals and 100 pharmacies to pharmaceutical distributors with an Internet-based ordering system, enabling distributors to sell drugs directly to hospitals and pharmacies online. The system will process orders worth more than US\$650m. PharmaNet Online will extend the links to more than 60,000 pharmaceutical distributors and hospitals throughout China. (November 12, 1999)

PharmaPrint Inc has signed a letter of intent with **China New Industries Investment Co Ltd** to form a JV that sells a wide range of herbal and nutritional food products in China and the Asia Pacific region, utilizing the PharmaPrint™ Process technology. PharmaPrint is a California-based developmental stage company that makes dietary supplements, functional foods and pharmaceuticals derived from natural plant extracts. PharmaPrint will hold a 51% stake in the JV. (November 9, 1999)

Quality HealthCare Asia and **E-MedAsia.com (E-Med)** will each launch a healthcare portal in Hong Kong. Quality Healthcare's *ehealthcareasia* site at www.qualityhealthcareasia.com, launched in October 1999, will target Asian consumers and healthcare professionals. E-Med's website, www.e-medasia.com, focuses mainly on the Hong Kong market. This portal is expected to go live in December 1999. E-Med is also planning to carry out a full regional launch by January 2000, with English, Chinese and Japanese language editions. (October 31, 1999)

Quintiles Transnational Corp, the US's largest contract research organization, has signed an agreement with **Shanghai Xingling Scientific and Technology Pharmaceutical Co Ltd** to conduct research on the effectiveness of *Ginkgonin*, a product derived from the ginkgo tree to treat stable angina by Shanghai Xingling. Under the agreement, Quintiles will assist Shanghai Xingling to obtain US FDA approval for its drug. (November 12, 1999)

Roche Taishan (Shanghai) Vitamin Product Co Ltd has finished its second phase construction project. This US\$30m plant will be the biggest vitamin A plant in China, with a production capacity of over 800tpa. Roche Taishan is a JV established in 1995 between **Roche Holdings** of Switzerland and **Shanghai No. 6 Pharmaceutical Manufacturing Ltd**. Roche's total investment in China will reach US\$195m by Q4 1999. (November 1, 1999)

Xian-Janssen, a JV established in 1985 between **Janssen Pharmaceuticals** of Belgium and a local company, is increasing its registered capital of US\$12m for the construction of new projects. To date, Xian-Janssen has introduced 15 new drugs into the Chinese market. (November 10, 1999)

INDIA

Aurobindo Pharma of India has developed several new cardiovascular and psychotropic drugs and is negotiating with pharmaceutical companies in India to sell these products. Aurobindo is aiming to achieve Rup1bn (US\$23m) for its formulation sales and Rup10bn (US\$230m) for total sales in 2000. (October 26, 1999)

The **Indian Pharmaceutical Alliance (IPA)**, formed by eight research-oriented domestic pharmaceutical companies, is urging the government to move towards price management and to upgrade regulatory provisions. The members of IPA include **Dr. Reddy's Lab, Ranbaxy, Lupin, Nicholas Piramal, Cipla, Wockhardt, Alembic** and **Sun Pharmaceuticals**. (November 26, 1999)

LG Group of Korea aims to break into the Indian pharmaceutical market through **Elysium Pharmaceuticals Limited (EPL)** of Baroda, India. EPL has aligned with **Hoechst Marion Roussel Ltd (HMR)** of the US and **Rhone Poulenc India Ltd** to manufacture some of their premier brands in India. (October 20, 1999)

Novartis of Switzerland, the world's fourth largest pharmaceutical firm, will launch three new formulations in India. They include an innovative product, *Co-artem* for the treatment of malaria; *Trileptol*, for the treatment of epilepsy; and one other drug to reduce the chances of rejection of transplant organs, especially kidneys and hearts. Novartis will also launch *Simulect*, a transplant treatment compound drug; *Diovan*, a cardiac drug; *Compton*, a Parkinson's disease drug; and *Stalicks*, a diabetes drug in India. **Novartis India** recorded its half-year sales of Rup4.3bn (US\$98m), an 8.71% increase compared to the same period in 1998. (October 22, 1999)

Schroder Ventures Group has acquired a 38.5% stake in **Orchid Chemical & Pharmaceuticals Ltd** of India for Rup1.8bn (US\$41m). The funds will be used to build its marketing operations overseas, as well as to finance its R&D research for formulations and antibiotic cephalosporin projects. Orchid posted a half-year sales of Rup1.8bn (US\$41m) at the end of September 1999, a 33.21% increase from 1998's Rup1.3bn (US\$30m). (October 22, 1999)

Synpac Pharmaceuticals of the UK will invest US\$1m in **Kopran Drugs Ltd** of India. The investment will raise Kopran's total capital to Rup114.5m (US\$2.6m). Kopran Drugs produces synthetic penicillin and is aiming to boost its sales to Rup2,300m (US\$531m) by June 2000. Synpac Pharmaceuticals will supply 1,400 Mega Million Units (MMU) of penicillin G to Kopran, which makes Kopran one of the largest penicillin producers worldwide with a capacity of 4,000 MMU. These drugs will be exported to North America and the Asia Pacific by Synpac. (October 22, 1999)

JAPAN

Ajinomoto of Japan will acquire the infusion fluid and nutritional supplement business from **Hoechst Marion Roussel (HMR)**. Ajinomoto will finance

the transaction by selling 16% of their outstanding shares in HMR. Ajinomoto will establish a new company, **Ajinomoto Pharma**, to produce its existing amino acid nutritional drugs and the products acquired from HMR. The new company will have 650 employees, 350 manufacturing representatives and is expected to come onstream in December 1999. Ajinomoto Pharma is aiming to reach sales of ¥70bn (US\$664m) in year 2000. (October 27, 1999)

Astra Japan and **Zeneca Yakuhin** are jointly promoting Astra's peptic ulcer treatment *Omepral* (omeprazole). Both companies became members of the **Astra Zeneca Group** after the merger of **Astra AB** of Sweden and **Zeneca Plc** of the UK in Q2 1999. (October 20, 1999)

Banyu Pharmaceutical Co of Japan and **Merck & Co** of the US have reached an agreement with **Kyorin Pharmaceutical Co** to further develop and sell *KRP-297*, a new diabetes drug developed by Kyorin. Banyu and Kyorin will develop and market the drug in Japan, while Merck will have exclusive rights in other countries except Japan, China, South Korea and Taiwan. Kyorin retains the right to market the drug with Merck in the US and Canada. (October 28, 1999)

Dainippon Pharmaceutical of Japan has developed *AJ-9677*, an anti-diabetic drug, and has reached a preliminary agreement with **Takeda Chemical** to conduct clinical development and marketing for *AJ-9677*. Takeda will be responsible for undertaking the development and marketing in countries except China, Japan, Taiwan and Korea. (October 28, 1999)

Doritsu Yakuhin Kogyo of Japan will merge with **Toho Pharm** on January 1, 2000. The combined entity, Toho Pharm, had sales for the year to March 1999 of ¥295bn (US\$28bn). (November 3, 1999)

Eisai Co Ltd, one of Japan's leading pharmaceutical manufacturers specializing in ethical drugs, is cooperating with US-based **Pfizer** to promote *Aricept* (donepezil hydrochloride) in Japan. Aricept is a drug for treating Alzheimer's disease, and is currently being sold in 41 countries. (October 28, 1999)

OSI Pharmaceuticals Inc, a drug research company, has renewed its R&D program with Japan's second largest pharmaceutical company **Sankyo Co Ltd** for two years. This program was established with UK-based **MRC Collaborative Centre (MRC CC)**, a UK Medical Research Council affiliate, to develop small molecule compounds to treat influenza. Under the agreement, OSI and MRC CC will receive research funding from Sankyo, and royalties on product sales. Sankyo will have the exclusive rights to all products discovered in the collaboration. (November 15, 1999)

Sankyo Co of Japan will merge two of its wholly owned US subsidiaries, **Sankyo USA Corp** and **Sankyo Pharma Inc** on December 31, 1999, to expedite decision making and tighten the relationship between pharmaceutical product development and marketing. After the merger, Sankyo USA will become a division of Sankyo Pharma. Sankyo is also setting up a JV in Shanghai to produce and sell medicines. Production is expected to begin in the year 2002. (November 1, 1999)

Suzuken of Japan has acquired a 71.7% stake in **Nakano Yakuhin**, the Tochigi-based drug wholesaler. This acquisition increases Suzuken's market share to 45.6% of the wholesale drug market in Tochigi, Gunma and Kanto prefectures. (October 27, 1999)

Taisho Pharmaceutical of Japan and **FibroGen** of the US will jointly develop human monoclonal antibodies for the treatment of fibrotic kidney disease. Taisho will be responsible for 50% of the costs of pre-clinical and clinical development outside of the Pacific Rim, and will pay royalties to FibroGen for the sales of therapeutic antibodies in Japan, China, Taiwan, Korea and Southeast Asia. FibroGen will retain commercial rights elsewhere. (October 20, 1999)

KOREA

Bayer Korea Ltd has sold its pharmaceutical manufacturing facilities in Korea to **Handok**

Pharmaceuticals Co and **Searle Korea Ltd** and will outsource local production. Handok Pharmaceuticals is a JV between **Handok Group** of Korea and **Hoechst** of Germany, while Searle Korea is the subsidiary of **G.D. Searle & Co** of the US. Bayer Korea also sold its manufacturing plant at Namyangju, in Kyonggi province in September 1999 to **ChemTech Research Inc**, a Korean chemical venture. (October 25, 1999)

MALAYSIA

Pharmaniaga Bhd of Malaysia will form an alliance with a US-based pharmaceutical company to produce antibiotic cephalosporin injectable products in powdered form, rather than the typical liquid form, in Q1 2000. Powdered cephalosporin injectable products are currently being imported into Malaysia from Europe and the US. Pharmaniaga will be the first company in Southeast Asia to manufacture cephalosporin in powdered form. (October 20, 1999)

SINGAPORE

Merck Sharp and Dohme, the subsidiary of US-based **Merck**, is building a pharmaceutical facility to produce its new asthma control medication, *Singulair*, in Singapore. This plant will also produce its prescription-only arthritis treatment, *Vioxx* (rofecoxib). With an initial investment of US\$300m, the facility is expected to come onstream in September 2000. (October 19, 1999)

Schering-Plough, a US-based pharmaceutical company, is planning to expand its operation in Singapore by building a research facility and a biotechnology plant there. The total investment for the two facilities is US\$125m. US\$100m will be used to build the biotechnology plant to produce a new hepatitis C drug, and the rest will be allocated to the

research facility. Schering-Plough currently has two manufacturing plants in Singapore. The total investment in Singapore after the latest injection of funds will be US\$600m. (November 5, 1999)

SciGen Ptd Ltd of Singapore has received government approval to sell a Medi-Ject needle free injector, *SciTojet*, for human growth hormone injections in Hong Kong, the Philippines, Singapore and Malaysia. *SciTojet* was developed by **Medi-Ject Corp**, SciGen's partner and the world's leading developer and marketer of needle free drug delivery systems. (November 19, 1999)

THAILAND

Bayer Thai Co, a subsidiary of **Bayer AG** of Germany, will discontinue pharmaceutical production in Thailand in an attempt to shift its strategy from operating more manufacturing sites to greater economy-of-scale production. The closing of its plant will end Bayer's local production of all pharmaceutical and over-the-counter consumer-care products. (November 9, 1999)

Beijing Tong Ren Tang Co Ltd of China and **Thailand Fu An Tang Co Ltd** will form a JV, **Beijing Tong Ren Tang (Thailand) Co Ltd** in Thailand. Thailand Fu An Tang will hold a 51% stake, while Beijing Tong Ren Tang will hold the remaining 49%. The JV will market nutritional supplements, finished TCMs, TCM beverages and cosmetic products produced by Beijing Tong Ren Tang. (October 11, 1999)

VIETNAM

3-2 and **2-9**, two State-owned pharmaceutical companies in Vietnam, will merge with **HCMC Pharmaceutical Technology Company**. The new

company will build an 11,000 square meter plant in one of the industrial parks, Tam Binh 1 or Tan Tao in Binh Chanh District. (October 19, 1999)

The Gateway Promotion (Aust) Pty Ltd plans to build a pharmaceutical plant in the northern province of Ha Tay, Vietnam in 2000. This US\$33.5m foreign-owned plant will produce 40 vitamin items and other ordinary medicines. (November 11, 1999)

FOCUS

Medical insurance reform in Mainland China

In early 1999, China introduced a new nationwide medical insurance plan to replace the former state-funded health care system. This plan is scheduled for complete implementation by the end of 1999 and will cover almost all of the country's nearly 100 million urban employees.

Under the old system, employers funded medical insurance for their urban employees. After the reform is fully implemented, **employees and employers will share the burden**. The insurance plan consists of a **general medical fund** and **personal medical insurance accounts** (including retiree personal medical insurance accounts). **Enterprises** will **contribute 6% of gross wages** to the insurance plan, of which 30% goes to personal medical insurance accounts and the remainder goes to the general medical fund. Employee benefit levels depend on age, tenure and other factors. **Employees** are required to **contribute 2% of their annual wage** into the personal medical insurance accounts.

The plan includes maximum and minimum payment schedules which will depend on the actual medical expenses and average local annual income.

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If an individual's medical bill is less than 10% of the local annual average income, the bill is paid for through the personal insurance accounts. Larger medical bills, ones that are equal to 10% to 4 times the local annual average income, are paid for through both the personal medical insurance accounts and the general fund.

China's new health care insurance plan does not cover medical bills larger than 4 times of the local annual average income. As a result, patients must settle bills of this size out of pocket or through a commercial insurance provider.

Under the reformed insurance plan, retirees will still enjoy virtually free medical care. Their former employers remain responsible for paying into the general medical fund and the personal medical insurance accounts. Dependent family members, in contrast, are not technically covered under the new system, although in the short run they will continue receiving their 50% coverage until the reforms are completely implemented.

The Ministry of Labor and Social Security (MOLSS) will be expected to supervise and manage the collection of insurance premiums, personal accounts, central funds, pension insurance premium and unemployment insurance premium. However, the government has not decided which government agency will administer the system and control the assets.

The reforms have shifted much of the burden of medical care from the state to employers and individual families. As a result, **families will increasingly resort to private insurers** in circumstances when they are not covered in the new system. This new climate yields an opportunity for commercial insurance companies to enter the market to meet the new demand. However, the degree to which an average Chinese citizen would use commercial insurance is limited as the annual premium of commercial medical insurance amounts to one fifth of their annual average salary.

The following paragraphs describe western and local medical insurance providers in China.

Medical insurance providers in Mainland China

AGF French International Insurance Co Ltd of France is a major European insurer and the first French insurer to enter the Shanghai market in 1996. It cooperates with local Chinese insurance companies to provide **health insurance**, life insurance, credit insurance and space industry insurance.

AXA Minmetals Assurance Co Ltd is a JV between **AXA** and a state-owned enterprise, **China Minmetals Group**. AXA has a controlling stake in the JV with 51% ownership. AXA Minmetals offers **health insurance**, as well as life insurance, endowment insurance, accident insurance, will write policies on endowment insurance and whole life insurance. It has 6 sales offices in China, one each in Beijing, Shanghai, Guangzhou, Wuhan, Chengdu and Dalian. AXA is a leading French insurance company that provides life, accident and fire insurance, pension products and selected financial services. It also offers reinsurance, investment, banking and real estate management activities. AXA has operations throughout Europe, North America and Asia. In Asia, AXA has offices in China, Hong Kong, Indonesia, Japan, Malaysia, Korea, Singapore, Taiwan, Thailand and Vietnam. 1998 sales were US\$75bn.

Deutsche Krankenversicherung AG (DKV) of Germany is the largest professional **health insurance** company in Europe. It established an office in Shenzhen in February 1999.

Groupama-GAN is France's second largest insurer. Its products include life and nonlife insurance, with 1998 sales of US\$12bn. Groupama-GAN established a **health insurance** branch in both Hong Kong and China in the H2 1999. Groupama-GAN is also planning to set up a life insurance JV later this year in Tianjin, China.

Hongli Health Insurance Co is a Canadian-based company that has formed a JV with **China Chemical Import and Export Corp**. This was the first Sino-foreign **health insurance** company formed in China.

New China Life Insurance Co Ltd was established in September 1996 and is the third largest insurance company in Beijing. The company generated sales in 1998 of RMB1.2bn (US\$143m). It offers long life and **health insurance**, child's insurance, employees welfare insurance, education allowance insurance, fixed term insurance and pension insurance.

Tai Kang Life Insurance Co Ltd is a state owned insurance company that offers **health insurance**.

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists US companies to expand their businesses in Asia. BDA specializes in the health industry and helps clients to find local business partners and has senior advisors in Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul and Shanghai. 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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