

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

# ASIAN HEALTH NEWSLETTER

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

## CONTENTS

|   |   |
|---|---|
| INTRODUCTION .....                            | 1 |
| CHINA / HONG KONG .....                       | 1 |
| INDIA .....                                   | 2 |
| INDONESIA .....                               | 3 |
| JAPAN .....                                   | 3 |
| KOREA .....                                   | 4 |
| MALAYSIA .....                                | 4 |
| PHILIPPINES .....                             | 5 |
| SINGAPORE .....                               | 5 |
| TAIWAN .....                                  | 5 |
| THAILAND .....                                | 6 |
| VIETNAM .....                                 | 6 |
| FOCUS: Medical devices industry in China .... | 6 |

## INTRODUCTION

We hope that you find the *Asian Health Newsletter* informative. In this issue we profile the medical devices industry in China.

BDA is a corporate finance advisory firm which helps multinational clients to identify and to 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.

If you think that BDA's services may be useful to you, please contact me at [erellie@bdallc.com](mailto:erellie@bdallc.com).

Euan Rellie  
Managing Director

## CHINA/HK

**Citic Pacific Ltd** of Hong Kong will acquire **Swire Loxley** for an undisclosed amount and rename the company **DCH Healthcare Products**. Swire Loxley, a division of **Swire Pacific Ltd** of Hong Kong, is one of the leading pharmaceutical, healthcare products and medical equipment distributors in Hong Kong. It also has extensive operations in China. (March 6, 2000)

**Dr. Reddy's Laboratories (DRL)** of India will form a JV with an unnamed Chinese company, to establish a manufacturing and marketing unit for DRL's formulations and major brands in China. This will be DRL's first move to penetrate the Chinese market. DRL has sales of Rs230m (US\$5.3m) in its international formulations business. (March 14, 2000)

**Guilin Shenlong Healthcare Products Co** and **Liuzhou Steel (Group) Co** have formed a JV, **Guilin Huanuowei Genetic Pharmaceutical Co Ltd**, in Guangxi Province. The US\$7.8m JV is the largest genetic engineering production center in Southwest China. (February 16, 2000)

**Jade Fine Chemicals**, a 60:40 JV between **Rhodia** of France and **Ube Industries** of Japan, started full-scale operation of guaiacol, a raw material for pharmaceuticals at its new production facility located in Wuxi, Jiangsu Province. Rhodia will supply the raw material, catechol, and Ube will supply catalysts. The US\$15m facility has a production capacity of 4,000tpa. (March 17, 2000)

**PharmaNet Online Ltd**, a healthcare e-commerce company based in Sydney, Australia, plans to work on a project with the local Chinese

government and private enterprises to establish an electronic network to improve pharmaceutical distribution in China. It also plans to register directly its 25% equity stake in PharmaNet China in order to convert it to a Sino-foreign JV. (March 10, 2000)

**Shanghai Ajinomoto Amino Acid Co**, a JV formed between **Ajinomoto Co** of Japan and two Chinese government-affiliated companies, began full-scale production of ten types of amino acids for use in pharmaceuticals, including intravenous drip applications. Ajinomoto holds a 60% equity stake in the US\$17m JV. Annual production is slated to reach 800tpa. Approximately 70% of the output will be sold locally, and the rest will be exported to Japan, Korea and Taiwan. (March 2, 2000)

**Shenzhen Neptunus Bioengineering Co Ltd** has acquired **Shenzhen Neptunus Pharmaceuticals Co Ltd** in the hope of broadening its product lines and doubling its sales. Neptunus Pharmaceutical, established in 1989, produces 40 drugs, 13 of which have been listed in state essential drugs lists. (February 16, 2000)

**Shenzhen Shengang Enterprise (Group) Co Ltd** has formed a JV, **Shengang Jinan University Biotechnology Development Co**, with **Guangzhou Jinan University** in Shenzhen, to produce aFGF skin care products and bFGF eye drops. Shenzhen Shengang invested US\$1.2m in the venture, while Jinan University will provide the technology. (March 6, 2000)

**Tianjin Zhongxin Pharmaceutical Group** has formed a US\$15m JV, **Tianjin Shin Poong Pharmaceutical Co Ltd**, with **Korean Shin Poong** in Tianjin. The JV uses production and quality inspection technology from the US, Europe, Japan and Korea, and manufactures cephalosporin powder injections and nonsteroid antiinflammatory drugs. (February 16, 2000)

**Wai Kee Holdings Ltd** of Hong Kong has formed a JV with **LG Group** and **Medidas** of Korea to develop an online pharmaceutical business. The US\$15m JV will launch a Chinese-medicine portal in June 2000. The company also plans to sell Chinese pharmaceutical products to hospitals and institutions

online. **Medidas**, the Korean listed Internet medicine firm, and **Wai Kee** each hold a 45% equity stake in the JV and **LG** holds 10%. (March 9, 2000)

**Zhejiang Haizheng Group** has established a pharmaceutical hi-tech R&D center, **The Zhejiang Pharmaceutical Hi-Tech Research Center**, to conduct research and development on chemical drugs, TCM and natural drugs. Total investment in the center was RMB50m (US\$5.6m). (March 17, 2000)

China has developed a policy to allow Sino-foreign JV drugstores on a trial basis, according to the **Ministry of Public Health**. Foreign partners must have annual sales of US\$2bn for three consecutive years and US\$200m in assets a year prior to application. For wholesalers, the financial requirement is a minimum of US\$2.5bn of sales for three consecutive years and assets of US\$300m for a year. In addition, these companies need to be economically competent, have strong marketing and management experience and own their sales networks. They should also be able to promote export of locally-made products. (March 22, 2000)

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## INDIA

**Dr. Reddy's Laboratories (DRL)** has proposed a merger with **Chemnor Drugs** of India. This merger is expected to raise revenues by 15% - 18% once completed. In a separate announcement, DRL has announced its intention to take over **American Remedies**. DRL's sales are expected to increase significantly following the addition of American Remedies' sales force. (March 16, 2000)

**Morepen Laboratories**, India's leading generic manufacturer of loratadine, the non-sedative antihistamine, has received significant orders from European countries. It is expected to receive more orders from Canada and West European countries by the end of 2000. (March 16, 2000)

**Orchid Chemicals and Pharmaceuticals Ltd** of India will acquire the bulk drugs unit of **Ajanta**

**Pharma** for Rs210m (US\$4.8m). Ajanta Pharma will use the proceeds to establish overseas JVs and to finance its research and development initiatives. (March 16, 2000)

**P Rajarathinam and Associates** of India will acquire a majority stake in **Chemox Laboratories** and **Chemox Chemicals** from S.N. Aggarwal and his associates, who together hold a 55% equity stake. The production site for these two companies in Ankleshwar was closed in 1999. (March 16, 2000)

**Ranbaxy Laboratories** of India intends to cooperate with a foreign company to jointly develop the molecule trade named *Clafirinast*. The company has been discussing this opportunity with five foreign companies and has not yet reached an agreement. Ranbaxy has also filed an Investigational New Drug (IND) application for *RBx4638*, a new asthma molecule. (March 30, 2000)

**Shantha Biotechnics**, a Hyderabad-based pharmaceutical company, has signed an agreement with **Pfizer India** to co-market Shantha's *Shanvac B*, a hepatitis B vaccine. Pfizer will market the drug under a new name, *Hepashield*. In addition to the marketing agreement, Pfizer will also work with Shantha to generate clinical data on the first indigenously-developed recombinant DNA vaccine for hepatitis B. (March 24, 2000)

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## INDONESIA

**PT Indofarma**, an Indonesian state-owned pharmaceutical company, will sell some of its shares through an IPO in June 2000. The company hopes that the funds raised through the IPO will be enough to pay off its debt of Rp170bn (US\$24.2m) and to finance business expansion. Indofarma reported revenues of Rp340bn (US\$48.4m) in 1999. (March 7, 2000)

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## JAPAN

**Asahi Chemical Industry (Asahikasei)** has signed a licensing agreement with **SmithKline Beecham (SKB)** of the UK to develop and to market an obesity and diabetes drug, *AZ40140*. Under the agreement, SKB will have an exclusive license to develop and to commercialize the drug throughout Asia, except in Japan, Taiwan, Korea and China where the companies will undertake joint marketing. Asahikasei will receive payments for product development and royalties on sales. In addition, SKB has granted Asahikasei the co-marketing rights for *Avantia*, SKB's drug for the treatment of non-insulin dependent diabetes mellitus. (March 13, 2000)

**Boehringer Ingelheim** of Germany has increased its stake in **SSP**, a Japanese pharmaceuticals group, to 36% from 19.6% for ¥24.5bn (US\$225m). Its holdings now exceed the 33.4% required for a blocking stake, allowing the shareholders to veto certain moves. (February 17, 2000)

**Dainippon Pharmaceutical** has granted **Takeda Chemical** the exclusive rights to develop and to market *AJ-9677*, an antidiabetic drug, in all countries except Japan, China, Taiwan and Korea. The drug is a novel agent for the treatment of non-insulin dependent diabetes mellitus. Dainippon Pharmaceutical is conducting Phase I clinical trials in Japan. (March 8, 2000)

**Metabasis Therapeutics** of the US will extend by one year a coordinated study with Japan's **Sankyo** on a gluconeogenesis inhibitor for the treatment of diabetes. Any new compounds resulting from the venture will undergo clinical trials in the US by Metabasis. Sankyo, which holds a 46% equity stake in Metabasis, will have exclusive marketing rights once the drug is marketed. (March 17, 2000)

**Millennium Pharmaceuticals Inc**, the US drug R&D company, has extended its joint discovery and development collaboration agreement with **Kyowa Hakko Kogyo Co Ltd** of Japan to April 2001. Under the agreement, Kyowa will have the marketing rights

in Asia for products developed by Millennium and Kyowa, while **Warner Lambert** of the US will have marketing rights in the rest of the world. Millennium will receive royalties on worldwide sales, licensing fees, research funding and milestone payments. (March 22, 2000)

**Sankyo**, Japan's second largest pharmaceutical group, withdrew its diabetes drug, *Noscal*, from the domestic market after 63 deaths were proven to be associated with the toxicity of the drug in the US. The withdrawal of *Noscal*, launched under the brand name *Rezulin* in 1997, will reduce Sankyo's sales by ¥20bn (US\$190m) in 2001. (March 23, 2000)

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## KOREA

**Bayer AG** of Germany has sold its Korean pharmaceutical plant to **ChemTech Research**, a Korean chemical venture. Instead of manufacturing in Korea, the company will continue production at its plant in Indonesia which will supply customers in Korea, Malaysia and Thailand. (March 8, 2000)

**LG Chemical Ltd** of Korea is hoping to form a partnership with an international company to manufacture and to market a new antibiotic drug. It is in negotiations with several international pharmaceutical companies and is expected to license the drug to a partner. In addition, LG Chemical will set up a US\$91m fund to invest in the life science sector to support ten venture companies and university laboratories around the world. (March 22, 2000)

**MediPark**, Korea's first Internet community for medical professionals, will launch a web site [www.medipark.net](http://www.medipark.net), to help doctors, academics and professionals in the biotech industry to exchange information and to improve health care services. The site will provide news, lectures, seminars and various tools for medical professionals. (March 18, 2000)

**Rhein Biotech**, the Dutch biotechnology company, has acquired an 80% equity stake in **Green Cross**

**Vaccine Corp (GCVC)**, the subsidiary of **Green Cross Corp** of Korea, for Eur100m (US\$105m). The acquisition will make Rhein Biotech one of the world's largest manufacturers of hepatitis B vaccines and one of Europe's top five biotechnology companies. Green Cross Corp will acquire a 20% equity stake in Rhein Biotech. (March 13, 2000)

**Samsung Group** and several of its affiliates will form a new bioengineering business. With initial investment of W100bn (US\$90m) from **Samsung Electronics** and related affiliates, the new company will focus on bio-chips, biomedicine and bio-environment businesses. It is expected that Samsung Group will invest W2tr (US\$1.8bn) in the new company by year 2005. (March 24, 2000)

Korea has revised its law to allow corporations to operate pharmacies starting from July 1, 2000, in order to encourage competition. The current law allows only licensed pharmacists to operate pharmacies. (March 14, 2000)

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## MALAYSIA

**Apex Healthcare Berhad (AHB)**, a leading Malaysian pharmaceutical company which produces antibiotics, cough mixtures, antiviral, antihypertensive and antifungal drugs, will be listed on the Second Board of the Kuala Lumpur Stock Exchange in May 2000. AHB plans to use the proceeds to invest in R&D, e-commerce and to improve its production processes. AHB had a pre-tax profit of RM8.8m (US\$2.3m) in 1999. (April 3, 2000)

**Neways**, one of the largest manufacturers of cosmetics and personal care products in the US, will launch a new product, *Biogevity*, in Malaysia in the hope of expanding its direct sales business there. Biogevity

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is an anti-aging supplement that was launched in the US in 1998 and sells around 30,000 units per year. In Malaysia, Neways sells 70 products through 45,000 distributors and is expected to increase its distributor network by 1,000 during 2000. (March, 2000)

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## PHILIPPINES

**The Industrial Technology Development Institute of the Department of Science and Technology (ITDI)** has signed an MOU with **Drugmakers Laboratories Inc** of to produce carrageenan capsules to be used in drugs or medicinal agents. Under the agreement, ITDI will develop carrageenan capsules while Drugmakers will provide the facilities for the production. (February 25, 2000)

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## SINGAPORE

**3M** of the US has established a S\$23m (US\$13.4m) R&D center in Singapore to provide product modification, design and development and engineering support in Asia. **3M Singapore**, its Singaporean subsidiary, plans to triple its output in 2000. (March 6, 2000)

**Mabuhay Holdings Corporation (MHC)** of the Philippines has acquired three million shares of Series A preferred stock from **Ezyhealth Asia Pacific Pte Ltd (Ezyhealth)** of Singapore for S\$1m (US\$0.6m). It has also entered into a non-binding MOU with Ezyhealth to form a 49:51 JV to promote an Internet portal in the Philippines. Ezyhealth runs a medical web site, ezyhealth.com, which provides information about medicine, healthcare, fitness and beauty. (March 6, 2000)

**Popular Holdings Ltd, MediaCorp Interactive Pte Ltd** and **NCB Holdings Pte Ltd** have formed a JV, **Chinese88.com**, a Chinese language Internet portal.

The portal will provide information such as news and entertainment, and services like email, online shopping and Chinese pharmaceutical and traditional medicine advice. MediaCorp holds an 80% equity stake in the JV, while Popular Holdings and NCB Holdings each hold 10%. (March 10, 2000)

**SembCorp Logistics (SembLog) Ltd, Parkway Group Healthcare (PGH) Pte Ltd** of Singapore and **Onemedhub.com Pte Ltd** of Singapore have formed a JV, **MedElog Ptd Ltd**, to improve efficiency and to reduce costs for the healthcare industry in Singapore. The JV will provide supply chain management services, incorporating e-business technology to hospitals, polyclinics, clinics and other healthcare service providers. It is expected to come onstream this month. MedElog has an authorized capital of S\$10m (US\$5.3m) and a paid-up capital of S\$0.5m (US\$0.3m). SembLog has a 50% equity stake in the JV, PGH holds 30% and Onemedhub 20%. (March 10, 2000)

**Sysmex Singapore Pte Ltd** will build a US\$570,000 reagent production facility in Singapore in June 2000 to produce hematological diagnostic reagents. The new plant will also host a service laboratory and a training center. Sysmex expects to serve the Australian and New Zealand markets from Singapore and to open liaison offices in the Philippines and Vietnam in April 2000. (March 25, 2000)

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## TAIWAN

**ScinoPharm** of Taiwan, a producer of active pharmaceutical ingredients (API), is building the world's largest non-branded API facility in Tainan, Taiwan. The facility will produce 30 products once it comes onstream, and aims to develop 30-40 new compounds in the next two years. **The Taiwan Government Development Fund** holds a 25% equity stake in ScinoPharm, while the **President Group** holds 33%. (March 6, 2000)

## THAILAND

**3M Thailand**, a subsidiary of **Minnesota Mining and Manufacturing Co** of the US, plans to launch and to distribute 20 new products in Thailand through **Amway Corp**, in the hope of boosting sales by 21% in 2000. It will also introduce ten new drug-making machines, five dental products and two consumer items into the Thai market this year. 3M Thailand has eight business groups and distributes 5,000 products, which amounts to 10% of the products 3M distributes worldwide. (March 6, 2000)

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## VIETNAM

**Central Pharmaceutical Materials Co 1, Medical Import-Export Co 2 and Central Pharmaceutical Products Enterprise 3**, all affiliated with the **Vietnam Pharmaceutical Corporation (Vinapharm)**, will be equitized in 2000. Five other affiliates of Vinapharm, including the **Chemical Pharmaceutical Enterprise, Medical Import-Export Co 1, the Pharmaceutical Packaging Co, Pharmaceutical Materials Co 2 and Pharmaceutical Materials Co 3** are in the process of being equitized. (March 22, 2000)

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## FOCUS

### Medical Devices Industry in China

The medical devices industry in China has been experiencing rapid growth since the implementation of economic reform in 1979. Total output is expected to reach RMB32bn (US\$3.6bn) for 2000. Considered the largest developing country in the world, with a population of 1.2 billion and a rapidly developing economy, China's demand for more advanced technologies and foreign medical devices

continues to rise. China currently has 330 units of MRIs, 2,300 sets of CTs, 300 Linear Accelerators, 2,500 Color Ultrasonic-B units and 13 Gamma-knives.

**Domestic production** - China has 2,900 medical device manufacturers. Most of these companies are state-owned, medium to small-sized enterprises, each with less than 400 employees. They are highly competitive at the low to mid-technology level and produce wide application medical devices with an emphasis on mechanical and electronic integration. However, they lack advanced manufacturing and management expertise where foreign companies can play a big role. China is pushing reorganization and consolidation to improve efficiency, and is introducing new technology through JVs with foreign partners and through technology transfers.

Of the 47 categories of products, China is focusing on manufacturing **electronic medical, optical, ultrasonic and laser systems, biomedical analysis instruments, medical radioisotopes, radiation equipment, surgical devices, medical and hygienic macro molecular and rubber products and artificial organs**. County level and small to medium-sized hospitals are the major users of these products.

**Imports** – China imports 45% (US\$500m) of its medical devices from the US (**GE** and **HP**), Japan (**Shimadzu** and **Toshiba**), Germany (**Siemens**), France, Italy, Israel, Singapore, Sweden and Denmark. The US holds the largest market share of 17% and is considered to possess the highest level of advanced technology, superior quality but at high prices. Japan, on the other hand, is known for best combining technology with affordability, and Germany has a reputation for providing the most reliable products and best after-sales services.

Foreign medical devices manufacturers are active in all 23 provinces and 5 autonomous regions in China. They focus on three biggest markets – Beijing, Shanghai and Guangzhou, where they are still trying to develop a sales base before moving to less developed cities. Among all imported products, **high end, electromedical diagnostic and imaging equipment** are the most popular in China, followed

by **surgical appliances and disposables, dental equipment and supplies, hospital inpatient care products and laboratory equipment.**

China has more than 200,000 health facilities, including 60,000 hospitals. These hospitals are either local government-owned, military or state-owned enterprises. They are the end users for most of the imported products. University medical centers, medical research facilities, specialized hospitals and clinics could also be the end users.

**Market entry** – The State Drug Administration of China (SDAC) regulates the import and the sales of medical devices in China. Foreign manufacturers first are required to register their products, then to pass the safety inspection codes determined by the designated agencies (SDAC or MOL, the Ministry of Labor). The registration for inspection costs US\$10,000 to US\$15,000 per product. In addition to product registration, foreign companies have to finance Chinese technicians to inspect the products on site. It is common practice for foreign importers

to submit their products for additional testing outside of the regulatory process.

**Distribution and sales channels** – foreign companies are not allowed to sell or trade directly into China. They need to use agents and/or distributors initially to enter the market. However, foreign companies usually take on a more active role in marketing their products and in training marketing staff. Alternative modes of entry include establishing a representative office, setting up a Chinese subsidiary, forming a JV with a local company or transferring technology to Chinese companies.

**Conclusion** - The Chinese medical devices market is an attractive market for foreign companies to enter, with increasing awareness by locals towards hygiene, and a greater demand for state-of-the-art Western equipment in replacement of outdated local technology. Low-cost manufacturing and an improved regulatory environment will also spur foreign players to enter the market.

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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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