

ASIAN HEALTH NEWSLETTER

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CHINA/HK

AXA-Minmetals Assurance, the local Chinese JV of French insurer **AXA Group**, has obtained licenses to operate in Shanghai and Guangzhou. AXA-Minmetals Assurance is selling individual life and unit-linked policies to mainlanders through 1,300 agents. The firm would also like to sell group life, medical and pension policies in the future. Currently, only 2.2% of China's population has life insurance, compared with 69% in Hong Kong. (May 30, 2002)

Boehringer Ingelheim of Germany has invested US\$41m to create **Boehringer Ingelheim Shanghai Pharmaceuticals Co Ltd**, a JV located in Pudong, Shanghai with local pharmaceutical company **Shanghai Sine Pharmaceutical Co Ltd**. **Boehringer Ingelheim** holds 95% of the ownership. The new factory will be the core base for **Boehringer Ingelheim** to supply medicines and chemical reagents to China as well as to strengthen its production network in Japan, Indonesia, Korea and Taiwan. The annual production capacity of the new factory will be 150 million tablets, 6 million doses of aerosol, 10 million bottles of oral liquid and 12 million unit vials. (May 13, 2002)

Dragon Pharmaceuticals Inc of Canada has acquired the remaining 25% of equity interest in **Nanjing Huaxin Bio-pharmaceutical Co Ltd**, an integrated biotech company with a GMP-certified production facility located in Nanjing, China, for US\$14m. Combined with the 75% interest acquired in 1999, **Dragon** now owns 100% of **Huaxin**. The acquisition will allow **Dragon** to meet the growing demand for its commercially available therapeutic protein, **Epoetin-Alfa (EPO)**, and expedite the development of other pipeline products. (May 1, 2002)

INTRODUCTION

We hope you find the *Asian Health Newsletter* informative.

BDA is a corporate finance advisory firm which helps multinational clients to identify and to execute acquisitions, JVs and divestments in Asia. We focus on the health sector and are well placed to advise international companies.

If you think that BDA's services may be useful to you, please contact me at erellie@bdallc.com.

Euan Rellie
Managing Director

DSM Group of the Netherlands has formed a JV with Chinese pharmaceutical companies **Hayao Group** and **Zhangjiakou Pharma Factory**. Hayao is one of China's leading pharmaceutical makers and major antibiotics producers and Zhangjiakou Pharma is one of the leading antibiotics manufacturers in China. The JV, **Zhangjiakou Diha Pharmaceutical Company**, will produce semi-synthetic penicillin. Hayao and DSM will equally contribute US\$5m, holding 37% of the company each. The JV will use the patent technology of DSM to produce 6-APA, a medicinal intermediate, as well as semi-synthetic penicillins series, providing bulk drugs for Hayao's core products like ampicillin and amoxicillin. (April 24, 2002)

GlaxoSmithKline of the US/UK has invested US\$145m to establish a new production factory in Suzhou Industrial Zone. The factory focuses on producing anti-hepatitis Heptodin (lamivudine) which used to be imported to China. The factory has an annual capacity of 800 million tablets of Heptodin. The locally produced Heptodin will be priced 10% lower than imported ones. Due to its unique treatment effect, favorable side effects profile and convenience in administration, Heptodin has become one of the best selling drugs in China, among the top 50 drugs in hospital drug consumption in 2001. The drug is on the State Essential Drug List and was introduced into the China market in 1998. (May 24, 2002)

China's leading finished traditional Chinese medicine (TCM) drug manufacturer, **Guangzhou Pharma**, has reached an agreement with **British Opalmind International Holdings Ltd (BOIH)** on the establishment of **Guangzhou Pharma (Britain) Co Ltd**. This is a 20/80 JV between Guangzhou Pharma and BOIH. The new company will be engaged in a variety of businesses, including TCM medicines, natural health supplements, nutritional supplements, and the operation of chain drug stores. (May 29, 2002)

The **Ministry of Health**, the **State TCM Administration**, the **Ministry of Finance**, and the **State Development and Planning Commission** have jointly released regulations on classification and administration of medical institutions in cities and towns. According to the new regulations, foreign parties are permitted to hold at most 70% of the

shares of JV medical institutions. The cooperation term should last no more than twenty years. Rules concerning the administration of accounting systems and medical practices are included. To date, there are 300,000 medical institutions of various ownership and levels across China. Of those, 130,000 are non-profit medical institutions and 200 are Sino-foreign JV medical institutions, of which 50% are clinics in nature. Half of all Sino-foreign JVs have registered capitals below US\$2m each. (May 8, 2002)

North China Pharmaceutical Company (NCPC) Beida Pharma Co has been established through the merger of **NCPC Xinda Company**, a subsidiary to **North China Pharma Group (NCPG)**, and **Hebei Laixin Pharma**. Four parties, including NCPC, NCPG, **Japanese Nichimen Inc** and **Nichimen (China) Inc** contributed respectively US\$13m, US\$6m, US\$4m and US\$4m to the new company, holding 50%, 20%, 15 % and 15% of the company's shares. NCPC is among the leading semi-synthetic antibiotic producers in Asia. (May 8, 2002)

The **State Drug Administration** will encourage the development of the drug retailing business by further reducing the number of drug wholesalers. There are currently 16,000 drug wholesalers in China, making an average profit margin of 0.6%-1.3%. In addition, the official classification of prescription drugs and OTC drugs, the separation of drug sales from hospitals and the implementation of basic medical insurance will help in the development of the drug retail market. According to WTO regulations, China will reduce the tariff rates for imported pharmaceuticals to 6% by 2003 and open its markets to foreign investors in the fields of drug procurement, warehousing, transportation, delivery, wholesaling and retailing, and after sales service. (May 29, 2002)

Zhejiang Xinchang Medicines Co has signed an agreement with **BASF**, the multinational pharmaceutical chemicals giant, to supply Vitamin H, also called biotin, to BASF. Under the agreement, Xinchang Medicines will provide Vitamin H, valued at approximately US\$1m, to BASF in Q1 2002. Xinchang Medicines commenced mass production of Vitamin H in July 2001. (May 8, 2002)

INDIA

Aurobindo Pharma Ltd (APL) of Hyderabad, India, will expand its production capacity in China. It is setting up a 1,500tpa bulk and formulation unit close to its existing JV project at Datong for the purpose. APL plans to export 70% of the production from its Chinese operations to Europe and sell the remaining 30% in the local market. (May 28, 2002)

Novartis Enterprises Private Ltd, a unit of Switzerland-based pharmaceutical major **Novartis AG**, has established a Rup12m (US\$246,000) international clinical development center in India to augment its existing in-house statistical and programming resources. The **Novartis International Clinical Development Center India (NICCI)**, will work in various therapeutic areas such as oncology, diabetics and gastrointestinal with a 22-member team. India was chosen as the final location because of the availability of technically qualified and skilled personnel, competitive costs and adequate infrastructure. Novartis' other three centers are located in Switzerland, the UK and the US with 240 people. (April 10, 2002)

Pharmacia India has acquired a 75% stake in the Indian operations of US-based **Abbott Laboratories** for US\$20m. The combined entity will have a sales team of 491 and more effectively utilize manufacturing facilities with an expanded product portfolio, which includes brands such as anti-infectives *Claribid* and *Erythrocin*, Vitamin B Complex *Surbex T* and *Vidaylin* and anaesthetic *Pentothol*. In addition, customer coverage will increase from 35,000 to 80,000 dealers. The combined operations will achieve sales revenues of Rup124m (US\$3m) with a market share of 0.8%. Pharmacia plans to achieve growth of 20-25% and focus on five key business divisions: pharmaceuticals, oncology, ophthalmology, endocrinology and urology/gynecology. (May 12, 2002)

UK-based **Reckitt Benckiser PLC (RB)** will acquire the 49% stake in its Indian subsidiary, **Reckitt Benckiser India Ltd (RBIL)**, currently held by the public and convert it into a wholly-owned subsidiary. RBIL is engaged in the manufacture of household,

laundry, toiletry, pharmaceuticals and food products, air fresheners, bathroom cleaners, denture products and many other products. RBIL had 2001 sales of Rup550m (US\$11m) with a profit of Rup21m (US\$1m). (May 26, 2002)

INDONESIA

The **Indonesian Government** will divest a certain portion of its ownership of state-owned pharmaceutical company **PT Indofarma**. The government will still remain the majority shareholder. The specific amount to be divested will be settled at a later undisclosed date. Indofarma reported sales of Rp600bn (US\$60m) in 2001. Indonesia has 160 pharmaceutical companies, including 38 foreign companies and none of the companies has a market share of more than 10%. (May 2, 2002)

JAPAN

Abbott Laboratories of the US will acquire the 33% it does not already own in **Hokuriku Seiyaku Co**, becoming the first foreign company to take full control of a Japanese drugs group. Abbott, which acquired its original stake in Hokuriku in 2001 when it bought the pharmaceuticals business of **BASF**, is offering ¥38bn (US\$293m) for the 33% stake. Abbott plans to merge Hokuriku with **Dainabot**, a wholly-owned Japanese healthcare subsidiary, to provide a stronger portfolio of products, a larger sales force and a reinforced pipeline of products. The new subsidiary will have a marketing staff of 700 people. (April 23, 2002)

AstraZeneca KK, the Japanese subsidiary of UK-based **AstraZeneca PLC**, has formed a JV with **Shionogi and Co** to jointly sell a new drug to lower cholesterol levels. AstraZeneca KK and Shionogi will start selling the drug, *Crestor*, in Japan in Q4 2003 using their respective distribution channels. *Crestor* was developed by AstraZeneca based on a

license from Shionogi. In Japan, an estimated five million people are receiving treatment for reducing cholesterol levels. (May 15, 2002)

Boehringer Ingelheim (BI) of Germany expects to double revenues in **Japan** to ¥160bn (US\$1.2bn) in five years. **Nippon Boehringer Ingelheim**, BI's Japanese subsidiary, achieved record group sales of ¥79bn (US\$612m) in 2001, helped by the strong growth of prescription medicines, in spite of a sluggish market. The Japanese market provided 11% of Boehringer Ingelheim's global sales. BI acquired a controlling stake in **SSP**, Japan's third-largest OTC drug company, in 2001. (April 19, 2002)

Chugai Pharmaceutical Co Ltd of Japan and Swiss pharmaceutical company **F. Hoffmann-la Roche Ltd** have agreed to merge Chugai Pharmaceutical and Roche's Japanese subsidiary **Nippon Roche KK**. The companies plan to integrate domestic R&D, production and branch offices leading to plant closures and job losses. The integration of labs, plants, sales offices and headquarters will enable Chugai and Nippon Roche to save ¥4bn (US\$31m) in operating expenses. With these measures, the firms have increased their fiscal 2005 sales target to ¥315bn (US\$2.5bn) from the previous goal of ¥300bn (US\$2.4bn), and operating profit target to ¥63bn (US\$488m) from ¥60bn (US\$465m). The name Chugai Pharmaceutical will be retained, and Roche will make the combined company a subsidiary by receiving 50.1% of its shares. The acquisition will create the fifth-largest pharmaceutical company in Japan's prescription drugs market. Currently, Chugai ranks tenth in the world's second largest pharmaceuticals market. Under jointly agreed terms, Chugai will be Roche's exclusive pharmaceutical representative in Japan and will have rights to develop and market all pharmaceutical products that the Roche Group decides to commercialize in Japan. Roche will have the right to license-in for all Chugai products outside of Japan and Korea for which Chugai seeks a partner. The combined products of Chugai and Roche will create a balanced portfolio with a strong position in oncology/hematology, renal and bone diseases and virology. (April 1, 2002)

Changes have been made to Japan's

Pharmaceutical Affairs Law which will increase efficiency and competition in the industry. New measures include the easing of previous restrictions on outsourcing production of intermediates to third parties. The outsourcing-related aspects take effect in 2003 but drug companies are already responding to the new flexibility. **Takeda** is to increase outsourcing of drug production from 30% to 70% by 2006. However, Takeda will continue in-house production of bulk actives. The immediate impact of the new law will be on older, generic drugs. The outsourcing rate in the Japanese drugs industry is expected to be 20-25%, compared with 30-40% for the European industry and 50-60% in the US. (May 20, 2002)

US-based **Ricerca** and **Sumika Fine Chemicals** of Japan have established a strategic partnership to develop and market Active Pharmaceutical Ingredients (APIs). The partnership will also promote chemical process development and scale up commercial manufacturing capacity to biotechnology and pharmaceutical companies. Under the partnership, which is renewable after the first three-year term, Ricerca will render process chemistry, development, scale-up and API production services through Phase II of the clinical development program for its clients' project. Sumika will take over the Phase III clinical trials and commercial API manufacture. The partnership enables Ricerca to offer development capabilities to its clients, which have the opportunity to utilize Sumika's three world-class facilities in Japan as well as production sites in Europe and the US. (May 13, 2002)

KOREA

Cheil Jedang Corp of Korea has formed a task force team to take over **Youngjin Pharm Co**, also of Korea. After a two year survey on Youngjin's performance and other basic information, Cheil Jedang will spend an additional three to seven months to undertake further analysis before making a final decision to acquire. The addition of Cheil

Jedang should strengthen the relatively weak finished pharmaceutical products business for Youngjin. (May 31, 2002)

Korea Green Cross Corp of Korea, which had bought a 57% stake in **SangA Pharmaceuticals**, a company that was under court receivership in December 2001, has created a new bio-venture company called **Biomedlab**. The subsidiary was created with an investment of W4bn (US\$3m). (May 31, 2002)

Pharmacia Korea, the Korean arm of **Pharmacia Corporation** of the US, will close some of its manufacturing operations in Korea in order to cut costs. Pharmacia Korea's factory in Hoengseong, Gangwon Province will only operate until the end of June. The plant had been run by **Searle Korea** which was merged with Pharmacia in 2001 and had produced ten types of medicines there since 1985. Production lines at the Hoengseong Plant will be transferred to its Suwon Plant, in Gyeonggi Province with an addition investment of US\$6m to modernize the facilities. (May 22, 2002)

Employed **pharmacists** and **pharmacy workers** in Korea are set to form a union in 2003. As many privately-owned drugstores give way to large retail chains following the implementation of medical reforms, the number of hired pharmacists and computer-related staff have increased significantly, facilitating the call for a union. Officials claim employees working for drugstores lack proper employment conditions and job security. All workers receiving pay from drugstores are qualified to join the union. At present, the number of hired chemists nationwide is 7,900. (May 20, 2002)

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MALAYSIA

Chemical Company of Malaysia Bhd (CCM) plans to focus on developing its healthcare division by increasing pharmaceutical exports and expanding its Prima Health chain. CCM expects its pharmaceutical division to contribute 30% to 40% of group profits in three to four years. CCM is a diversified company involved in a wide range of chemicals, development and operation of medical centers and related services and investment holding. 2001 sales were US\$131m. (April 30, 2002)

SINGAPORE

Chugai Pharmaceutical Co Ltd of Japan has established a JV, **PharmaLogicals Research Pte Ltd**, with **Biostar Research Pte Ltd** of Singapore, a wholly owned subsidiary of Japanese company **Mitsui & Co Ltd** and the **Central Institute for Experimental Animals (CIEA)**. Chugai will hold 48%, Mitsui 48% and CIEA 4% of the JV. PharmaLogicals Research will use combine human genome information combined with in vivo experimental information of model animals and drug information to create valuable knowledge for new diagnostics and new molecular entity development. (May 22, 2002)

TAIWAN

Academia Sinica, Taiwan's highest research body, and British-US pharmaceutical major **GlaxoSmithKline (GSK)** have formed a strategic alliance to research genetic drugs. The two organizations will collaborate on genetic research into common diseases in Asia, such as diabetes, heart disease and asthma. The objectives of the research are to find genes that might cause the

illnesses and develop new drugs to treat them. Academia Sinica will be in charge of collecting disease samples, while GSK will provide its advanced research techniques. (April 22, 2002)

distribute pharmaceutical products for its parent company in Japan. Eisai (Thailand) Marketing has licenses to distribute 12 medicines in the local market and intends to launch veterinary medicines for animals in the future. (May 6, 2002)

VIETNAM

Eisai (Thailand) Marketing Company, a subsidiary of Japanese-based **Eisai Company**, has opened a representative office in Ho Chi Minh City aimed at surveying the local market and helping

To date, the **Ministry of Health** has licensed 24 foreign-invested enterprises to produce pharmaceuticals, with a combined capital of US\$205m. Eight of these have commenced operations while another three expect to begin operating by Q4 2002. According to a Ministry of Health report there were 223 foreign companies licensed for pharmaceuticals trade and distribution. In addition, US\$417m worth of pharmaceuticals were imported in 2001. (April 15, 2002)

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists multinational companies in expanding their businesses in Asia through JVs, acquisitions and divestments. BDA helps clients to find local business and has senior advisors in Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul, Shanghai, Taipei and Tokyo. For further information on BDA's services or on any of the articles in this newsletter, please contact our offices below.

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