

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

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INTRODUCTION

We hope that you find the *Asian Health Newsletter* informative. In this issue we look at the opening up of Japan's pharmaceuticals market to foreign companies.

BDA is a corporate finance advisory firm which helps multinational clients to identify and to execute acquisitions and JVs in Asia. We 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 email me: erellie@bdallc.com.

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Managing Director

CHINA/HK

Beijing Ankejie Health Co has agreed with **Procter & Gamble Co** (P&G) of the US to produce P&G's patented Calcium Carbonate Citrate Malate, which has been shown to significantly elevate bone density in clinical trials. (March 21, 2001)

China Medical Science Ltd announced plans to list on Hong Kong's Growth Enterprise Market (GEM). The company has production facilities in China's Sichuan province to develop and manufacture biotechnology and pharmaceutical products. (April 2, 2001)

Jiangsu Yueda Group and **Shanghai Cell Institute** have formed a JV, **Shanghai Saida Biopharma**, to focus on the development of anti-tumour drugs. To date four new drug patents have been filed. (March 26, 2001)

Kinetana Group, a Canadian pharmaceuticals company, will establish a R&D facility in Hong Kong. The facility will use proprietary technologies to develop and improve traditional Chinese medicines. (February 16, 2001)

Kose Corp of Japan has announced plans to open ten retail outlets in Beijing to sell its branded skincare products. Most of the outlets will be located within existing department stores. (March 13, 2001)

Lonza Group Ltd of Switzerland announced that its US\$30m JV with **Guangzhou Pesticides Factory** in Guangdong province is now operational. The company produces niacinamide, the water-soluble form of niacin and a B vitamin. (March 13, 2001)

Merck Sharp & Dohme launched its arthritis pain-killer rofecoxib under the brand name *Vioxx* in China. The company's JV will produce the drug in Hangzhou in Zhejiang province. There is an increasing incidence of arthritis in China. An estimated 100 million people in China currently suffer from arthritis. The drug showed reduced side effects in clinical trials. (March 24, 2001)

Numico, the Dutch food group, acquired **Wuxi-Chia-Tai Pharmaceutical** and renamed the company **Nutrica Pharmaceutical Company Wuxi**. The company manufactures and develops clinical nutrition products. (March 13, 2001)

Roche opened a new factory to manufacture vitamin A as part of a JV with **Shanghai Number 6 Pharmaceutical**. Roche already has production facilities for pharmaceuticals, diagnostics, food, flavors and fragrances in China. (March 13, 2001)

Roche Taishan (Shanghai) Vitamin Preparation Co Ltd, Roche Xinya (Shanghai) Vitamin Co Ltd and **Roche Sanwei (Shanghai) Vitamin Co** have merged. The company formed from the merger will be called **Roche Shanghai Vitamin Co Ltd**. The Chinese JV partner of the new company is **Shanghai Medical (Group) Controlling Co**. (March 6, 2001)

Servier Research Group of France has formed a JV with **Huajin Pharmaceutical Corp** to produce pharmaceuticals in Tianjin. The two companies have invested RMB260m (US\$32m) in the JV. (March 12, 2001)

Shanghai Fortune Industrial, a private Chinese manufacturer of pharmaceuticals, has revealed that it is active in negotiations with several Western pharmaceutical companies to begin retail operations in China. (March 9, 2001)

Shanghai Xin'an Research Center has been established as a JV between **Shanghai Medical University** and **Hainan Xin'an Bioengineering Pharma Co Ltd**. The center will focus on the research and development of vaccines through genetic engineering. (March 26, 2001)

Zhejiang Kangyu Pharma has begun production of rimantadine hydrochloride (a Class II anti-viral for the treatment of type A influenza) and ceftamet piroxil hydrochloride (a Class IV cephalosporin). The plant has capacity for production of around 50 million tpa of rimantadine hydrochloride and 20 million tpa of ceftamet piroxil hydrochloride. (March 26, 2001)

The **Chinese Government** has introduced new regulations on the formation of JVs by foreign companies for the distribution and retail of pharmaceuticals. Potential foreign partners will require worldwide sales of at least US\$2.5bn for the three years preceding the application and assets of at least US\$300m. Also, the foreign company may only take a minority stake in a JV. (March 9, 2001)

INDIA

Abbott Laboratories of the UK intends to acquire a 20% stake in **Knoll Pharmaceuticals** of India. The offer comes after Abbott indirectly acquired a 51% stake in Knoll Pharma through its acquisition of **Lupharma Holding UK Ltd**, previously majority shareholder in Knoll. (March 11, 2001)

Allergan Inc, the US-based ophthalmology products company, intends to make India its hub for manufacturing formulations for Asia and Africa through its 49:51 JV, **Allergan India**, with partner **Nicholas Piramal India Ltd**. The JV holds a 16% share of the Indian ophthalmology market, which is valued at over Rup2.5bn (US\$54m). Allergan aims to expand into Bangladesh, Indonesia, Myanmar, Philippines, Sri Lanka, South Africa and Vietnam. Other key players in the Indian ophthalmology market include **Cipla, FDC, Sun Pharmaceuticals** and **Ciba Vision**. (March 28, 2001)

Core Healthcare Ltd of India and **Quintiles Transnational Corp**, one of the largest US contract pharmaceutical organizations, have entered into a JV to provide clinical trial management services in India. (March 30, 2001)

Kee Pharmaceuticals of India will form a 51:49 JV with Cuba-based **Heber Biotec SA** in Haryana. The company also recently launched *Cardiostrep*, India's first recombinant DNA streptokinase for the prevention of heart attacks. The streptokinase market is valued at an estimated Rup500m (US\$11m) per year and is growing at an annual rate of 30%. (March 7, 2001)

Nicholas Piramal India Ltd (NPI) has withdrawn from two JVs with MNC partners due to falling margins. One was a 50:50 foot-care JV, **Scholl-Piramal**, with **SSL International Plc**, and the other was a medical equipment marketing arrangement with **Stryker Pacific**. The businesses contributed Rup70m (US\$1.5m) to NPI's total turnover. (March 26, 2001)

Orchid Chemicals and Pharmaceuticals has been authorized by the Foreign Investment Promotion Board to issue US\$30m of foreign currency convertible bonds (FCCBs) through private placement to the **US International Finance Corporation (IFC)**. The FCCBs, when converted into equity, will give the IFC a 17% stake in Orchid. The funds raised from the placement will enable the company to expand into other lines of drugs including nutraceuticals, cardiovascular drugs and osteoporosis drugs. The company has projected revenue growth of 40% for 2000-2001. (March 9, 2001)

Pfizer Inc has initiated talks with **Shantha Biotechnics** of Hyderabad about conducting pre-clinical research projects for the discovery of new drugs. The research was said to be an extension of the co-marketing agreement between **Pfizer India** and Shantha Biotechnics for a hepatitis B vaccine. The global market for the vaccine is currently estimated to be about US\$800m and analysts forecast growth in the global consumption. (April 4, 2001)

Sun Pharmaceutical Industries Ltd, the Indian pharmaceuticals giant, has merged with **Pradeep Drug Co Ltd** of India. At the end of March 2000, Pradeep Drug, a Chennai-based bulk drugs manufacturer, recorded debts of Rup73m (US\$1.6m), net current liabilities of Rup56m (US\$1.2m) and accumulated losses of over Rup150m (US\$3.2m). (February 27, 2001)

The **Government of Himachal Pradesh**, a northern state of India, plans to set up a biotechnology park near Solan to encourage the development of the biotech sector. Biotech companies in the park will be allowed a 50% tax break, as the government has declared the sector a priority. (March 20, 2001)

INDONESIA

Kalbe Farma of Indonesia announced that its sales increased by 41% in FY 2000 to Rp1.6tr (US\$150m) from Rp1.1tr (US\$103m) in FY 1999. Kalbe attributed the increase to higher pharmaceutical product sales, including its OTC and ethical medicine products. (February 20, 2001)

JAPAN

Chugai Pharmaceutical, Japanese biotech company, announced that it would consider a partnership with an MNC in order to strengthen its marketing capabilities abroad. A partnership might also aid the company's R&D effort. **Aventis** last year terminated a contract with Chugai for the sale of its anti-cancer drug, *Tasotere*, in Japan. **Eli Lilly** currently has a 50:50 JV with Chugai for developing drugs, including Prozac, for the Japanese market. (March 5, 2001)

Fujisawa Pharmaceutical Co has completed the construction of new facilities to synthesize micafungin, an injectable antifungal agent, at its Toyama plant in central Japan. Investment for the new facilities totaled ¥2.8bn (US\$23m). (March 26, 2001)

Kowa, a privately owned Japanese conglomerate, has acquired the rights to market and distribute **BioStratum's Pyoridin** in China, Japan, Korea and Taiwan and for an estimated US\$25m. *Pyoridin* is treatment for diabetes and is still in experimental stages. (February 7, 2001)

Meiji Seika, a leading Japanese confectionery maker, has announced that it plans to increase overseas sales by venturing into healthcare products. Meiji plans to develop health foods. The company had 1999 sales of about ¥360bn (US\$3.25bn). (March 12, 2001)

Mitsubishi-Tokyo Pharmaceuticals Inc and **Sumitomo Pharmaceuticals Co**, both of Japan, will jointly manufacture hepatocyte growth factor (HGF). HGF stimulates tissue regeneration and is used in the treatment of hepatic cirrhosis, renal chronic inflammation and heart degeneration. (February 28, 2001)

Takeda Chemical Industries Ltd will market drugs developed by domestic Japanese counterparts that lack overseas manufacturing or sales networks of their own. This will be done through its wholly owned subsidiary, **Takeda Pharmaceuticals America Inc** (TPA), which was set up in 1998 for the sole purpose of marketing drugs overseas. (March 26, 2001)

Welfide Corp of Japan will merge with **Mitsubishi-Tokyo Pharmaceuticals Inc** (MTP), a unit of **Mitsubishi Chemical Corp**, in October 2001. Welfide will be the surviving entity. Welfide's president has forecast that the new firm will rank fifth in the field of prescription drugs in Japan, and that combined research and development spending will exceed ¥40bn (US\$331m). (March 15, 2001)

Green Cross Company (GCC) has reshaped itself into a life-sciences holding company in an effort to cope with the opening-up of the domestic Korean pharmaceutical market to foreign investors and the increase of M&A among multinational pharmaceutical companies. In March last year, GCC sold 80% of its stake in subsidiary **Green Cross Vaccine Corp** for US\$50m to **Rhein Biotech** of Germany. (March 6, 2001)

MALAYSIA

Roche (Malaysia) Sdn Bhd has begun marketing its *Supradyn* vitamins products through **Diethelm Pharma** in Malaysia. (April 3, 2001)

SkyePharma granted a license to **Meditech Research Ltd** for the rights to *Solaraze* in Malaysia, Singapore, Australia and New Zealand. *Solaraze* (diclofenac sodium) is a topical gel for the treatment of Actinic Keratosis (AK), a skin condition that is caused by overexposure to the sun. The incidence of AK in the region is significantly higher than elsewhere and so *Solaraze* is anticipated to reap high revenues. Sykepharma will receive a 15% share of revenues earned by Meditech from sales of *Solaraze* in these territories. The drug is already licensed to **Bioglan** in Europe and the US. (April 2, 2001)

KOREA

Cellontech of Korea was given approval by the Korean FDA for sales and clinical testing of its novel cartilage transplant technology. The company aims to export its product to the Australia, China, Japan, Singapore and the US. (February 22, 2001)

To submit stories to future editions of the *Asian Health Newsletter*, or to send comments regarding this issue, please contact Emily Ryder at (44) 20-7655-3753 or email at eryder@bdallc.com.

PHILIPPINES

Merck Sharp & Dohme Philippines (MSD), a subsidiary of **Merck & Co Inc**, strengthened its partnerships with local medical institutions by forming the **UP Manila-Philippine General Hospital-Merck Sharp & Dohme Resource Center**, a communication information center for doctors and patients in Manila. The center should aid Merck's marketing capabilities to physicians and hospitals. (February 26, 2001)

SINGAPORE

Bioveda Capital, a US\$30m life sciences venture capital fund, was launched by the Singapore Government's **National Science and Technology Board** and private businessman, **Ong Beng Seng**. The VC fund will invest in the US and Asia, focusing primarily on China. (March 3, 2001)

Mitsui & Co and the **National Cancer Centre Technology Ventures** of Singapore will establish a 50:50 JV for the genetic analysis of cancers in Singapore. The new company aims to establish genetic risk factors for cancer. The JV will then sell its findings to pharmaceutical companies to be used in the development of cancer drugs. (April 2, 2001)

TAIWAN

Hydron Technologies Inc (Hydron) of the US has signed an agreement to distribute *Hydron* brand skin care products in Taiwan through **Engineering Science and Development Inc** of Taiwan. Initial products launched in Taiwan will include patented facial moisturizers and skin treatment products. Engineering Science and Development currently sells cosmetic products direct to dermatologists and also to high-end retail markets. Hydron markets a broad range of personal care products, including skin care, hair care, bath and body, and topical OTC pharmaceutical products, based on its proprietary and patented Hydron polymer technology. (April 10, 2001)

Academia Sinica, the most prominent academic institution in Taiwan, has announced that it will invest about NT\$2bn (US\$62m) in a drug development project in Taiwan. The venture plans to focus on the development of drugs for the treatment of diabetes and asthma and the study of gene expression in the brain. (March 5, 2001)

THAILAND

Rhodia of France announced that it would diversify and expand its operations in Thailand. In 2000, Rhodia took a 74% stake in **Rhodia Thai Industries**, which operates a factory in Bang Pho in partnership with the **Osotspa Group**. The plant produces a total of 20,000 tons of analgesics and surfactants under the *Rhodine* brand with 85% exported. Operations in Asia were expected to account for 15% of the group's annual turnover of approximately Euro7bn (US\$6.2bn) in 2001 and 20% of total turnover by 2003. (March 19, 2001)

VIETNAM

Ranbaxy Laboratories Ltd, the Indian pharmaceuticals giant, has announced that it will establish its seventh overseas facility in Vietnam to enhance its presence in Asia and the global markets. The company's revenues were about US\$300m in FY 1999 and mainly stemmed from generic drugs. Almost 50% of the company's revenues are generated from overseas markets, and its exports accounted for 12% of total pharmaceutical exports from India. (March 8, 2001)

FOCUS:

The liberalization of Japan's prescription pharmaceuticals market

Until recently, the Japanese pharmaceutical market has been difficult for Western companies to enter due to a number of regulatory, distribution and cultural

barriers. Foreign multinational companies have been pressing to gain market share in Japan, which constitutes the largest portion of the Asian pharmaceutical industry. Annual pharmaceutical spending in Japan totals US\$50bn of the US\$63bn spent in the whole of Asia. Moreover, the country has the largest aging population in Asia resulting in a large demand for pharmaceuticals that target age-related diseases. Globally, the Japanese market is also significant. Japan's annual consumption of prescription pharmaceuticals roughly equals that of France, Germany, Italy and the UK combined. With this in mind, Western pharmaceutical companies have been working to increase their presence in the market. However, they have faced a number of barriers to entry. These obstacles, which are outlined in the following paragraphs, are slowly diminishing as Japan liberalizes its pharmaceutical market. As the market opens up, Western companies will increasingly form sales and marketing alliances with local companies in order to gain market share.

Testing regulations - Foreign pharmaceutical companies' attempts to gain market share have been hindered by rigorous testing regulations required by the Japanese government to market drugs in Japan. All drugs to be marketed in Japan must undergo a three phase clinical trial, which is more difficult to execute compared to trials in a Western country due to the small pool of test subjects. Until recently, the drug regulatory body of Japan required all Western drugs that were already approved in their home country to be comprehensively retested before introduction into the Japanese market. These regulations delayed the drug launching process by years and increased costs dramatically for foreign pharmaceutical manufacturers.

The Japanese government has gradually simplified the drug registration process due to calls by Japanese doctors and patients for access to new medicines as well as outside pressures by Western companies and governments. The regulatory bodies now accept the results of foreign clinical trials once they have been supported by a short "bridging" study to demonstrate their applicability to Japanese people. In some instances, foreign companies are permitted to skip the first phase of the three phase clinical trials process,

reducing the time to market from the typical seven years down to two or three years.

Distribution barriers - In addition to the testing regulations, elements of Japan's distribution networks have been major obstacles to foreign companies attempting to enter the market. The doctors and local distribution companies responsible for pharmaceutical dispensing often have close personal ties with Japanese pharmaceutical companies. These exclusionary relationships have hindered the penetration of Western pharmaceuticals in the market.

These relationships have begun breaking down due to measures recently taken by the Japanese government. It has repeatedly imposed price cuts on pharmaceuticals in an effort to remove incentives for doctors to over-prescribe. Japanese doctors have responded to the regulations, reducing the quantity of traditional Japanese drugs that they prescribe. As a result, Japanese doctors have begun to increasingly prescribe more innovative and cost effective medicines, which are often supplied by Western pharmaceutical companies.

Western companies themselves have attempted to reduce distribution barriers by hiring or building their own sales teams. This tactic has increased sales in Japan, but the doctor/salesperson relationship in some instances becomes strained as many doctors wish to avoid working with salespersons employed by Western companies.

Cultural barriers - Due to cultural differences, certain Western medications have faced difficulty in gaining acceptance in the Japanese market. For instance, antidepressants that are leading sellers in Europe and the US do not sell as well in Japan as mental illnesses there are identified and treated less frequently. Contraceptive pills legalized two years ago in Japan have also had a cautious reception to date. As the market opens up, Western medicines will become increasingly accepted in the market.

Before Japan's bubble economy burst in the 1990s, Western pharmaceutical companies found it almost impossible to penetrate Japan's market alone. Instead they tended to sell drugs by forming marketing

alliances. **AHP**, best known for its OTCs such as *Advil* and *Centrum* vitamins, entered the Japanese market early through a JV, **Wyeth Lederle**, with **Takeda Pharmaceuticals**. As the above-mentioned barriers to entry increasingly declined, more Western companies followed suit.

SmithKline Beecham of the UK and **Asahi Chemical Industry** signed a licensing agreement in April 2000 to develop and to market an obesity and diabetes drug, *AZ40140*. **Idec Pharmaceutical** of the US and **Taisho Pharmaceuticals Co Ltd** of Japan entered into an agreement in July 2000 to develop and to market antibody therapies for the treatment of inflammatory and autoimmune disease. **Takeda Chemical Industries** agreed in the same month to market *Tylenol* for **Johnson & Johnson**. Takeda's goal was to increase its 1% market share in the Japanese analgesic drug market while J & J aimed to enter the market in general. In May 2000 **Fuso Pharmaceutical** of Japan signed a marketing

agreement with **Medinox Inc** of the US to commercialize *NOX-100 (IV)*, Medinox's nitric oxide neutralizing compound for the treatment of sepsis. In the same month, **Warner-Lambert KK**, the Japanese arm of **Warner-Lambert**, which is itself a subsidiary of **Pfizer**, has agreed to jointly market *Lipitor*, its drug for the treatment of high cholesterol with **Yamanouchi Pharmaceutical Co** of Japan.

In conclusion, Western companies are increasingly forming marketing alliances with Japanese firms in order to gain a foothold in the profitable Japanese pharmaceutical market. This is being mirrored by Japanese pharmaceutical companies, which are increasingly looking to commercial relationships with Western companies as a means to broaden their own global marketing. These two trends, in addition to the weakening of the testing, distribution, and cultural barriers discussed above, will further liberalize the Japanese market.

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ABOUT BDA

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