

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 / HK | 1 |
| INDIA | 2 |
| INDONESIA | 3 |
| JAPAN | 3 |
| KOREA | 4 |
| MALAYSIA | 5 |
| PHILIPPINES | 5 |
| SINGAPORE | 5 |
| TAIWAN | 5 |
| THAILAND | 6 |

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 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 pdigiacom@bdallc.com.

Paul DiGiacomo
Senior Associate

CHINA/HK

Foreign companies will be allowed to operate retail and wholesale pharmaceutical businesses with no geographical or capital restrictions, beginning in 2003 according to the **State Economic and Trade Commission**. This change is a result of China's commitments to open up market access after it joins the World Trade Organization. (November 27, 2001)

Cheung Kong Holdings of Hong Kong has announced plans to invest US\$1.2bn to develop biotech products. The company has already invested US\$125m in a biotech company, **CK Life Sciences International Inc**, since its establishment two years ago. The company commercializes a proprietary technology called "CSA2," which describes cell selection, activation and acclimatization. CK Life is focusing on CSA2 products for the agriculture, bioremediation, dermatological, nutraceutical and pharmaceutical sectors. CK Life is 60% owned by Cheung Kong and 40% by the Group's Chairman, Li Ka-shing. (December 3, 2001)

China Otsuka Pharmaceutical Co, the Tianjin-based JV between Japanese **Otsuka Pharmaceutical Co** and Beijing's **State Pharmaceutical Administration**, has completed construction of a new injectables production line. The company currently produces 20 million bottles of injectable medicine per year, but sees demand outstripping its production capacity. The shareholders have also agreed to extend their cooperation for an additional 20 years. China Otsuka was the first foreign-Sino pharmaceutical JV set up in China in 1980. (November 16, 2001)

DSM NV of the Netherlands has opened a new manufacturing facility plant for bulk antibiotics in China. The new plant was established in cooperation with its existing JV partner **Shandong Xinhua**, along with **Harbin General Pharmaceutical Factory** and **Zhang Jia Kou Pharmaceutical Factory**. The new plant will focus on the production of semi-synthetic penicillins. (November 29, 2001)

The **Fenghua Nanhai Biochemical Group** in China's Zhejiang Province has stated that it is seeking foreign investment to fund a 200,000 tpa biochemical drug and crude drug project. The company currently produces 4,000 tpa of agents for powder coating series, chemical raw materials, biochemical drugs and crude drugs. The company intends to invest US\$5m in the project. (December 4, 2001)

Merck, the US-based pharmaceutical company and a major producer of AIDS drugs, has agreed to cut the prices of two of its AIDS medicines in China. The company signed an agreement with the **Ministry of Health** to reduce by two-thirds the price of *Crixivan* and *Stocrin*. (November 30, 2001)

Rhodia has acquired **BASF's** global paracetamol business for an undisclosed sum. As part of the acquisition, Rhodia acquired a majority stake in a paracetamol production facility at Wuxi, China, which will be operated as a JV called **Rhodia Wuxi Pharmaceutical Co Ltd**. (November 20, 2001)

SIIC Medical Science and Technology (SIIC MedTech), the Hong Kong listed pharmaceutical company, has stated that it plans to make acquisitions in Traditional Chinese Medicine (TCM) and Western medicine retail sales networks, and TCM production facilities in China. SIIC MedTech is owned by the Shanghai municipal government through the Hong Kong Listed **Shanghai Industrial Holdings** and the Shanghai listed **Shanghai Industrial United Holdings**. (November 9, 2001)

Unigene Laboratories Inc (Unigene) announced that its JV in China with **Shijiazhuang Pharmaceutical Group (SPG)**, the most profitable pharmaceutical company in China, will begin selling injectable calcitonin in Q1 2002. The product will be produced in China using bulk calcitonin manufactured in

Unigene's US facility. SPG will provide marketing and sales distribution for the product in China. (November 19, 2001)

INDIA

The **Apollo Hospitals Group** has earmarked over US\$5m to upgrade the facilities of its hospitals. This will mostly involve an improvement of the capital equipment at its hospitals. The Group specifically cited upgrading the oncology unit at its Chennai hospital. Apollo has also agreed to manage a specialty hospital at Pune, a 300-bed hospital in Raichur and a 250-bed hospital at Bangalore. (December 3, 2001)

Dr Reddy's Laboratories and **Gribbles**, the pathology lab operator of Australia, recently launched a pathology lab JV, **Pathnet India Pvt Ltd**, in Delhi. The JV plans to roll out 5 further laboratories over the next nine months in the Delhi region and to establish a national presence over the next five years. The India facility will be linked to Gribbles' other Asian labs and its central lab in Australia. Gribbles holds a 51% stake and Dr Reddy's holds the remainder. (December 4, 2001)

Dr Reddy's Laboratories and **Reddy US Therapeutics Inc** have gained access to **Incyte Genomics Inc's** gene sequence and animal model databases, *LifeSeq Gold* and *ZooSeq*, via a non-exclusive licensing agreement. Dr. Reddy's will use this genetic information in its R&D work on small molecule therapeutics. Financial terms of the agreement were not disclosed. (November 22, 2001)

DrugMax Inc, the US-based pharmaceutical distributor, has formed a JV, **MorpenMax**, with India-based **Morepen Laboratories Ltd**. Morepen will hold a 51% stake in the JV, which will provide low-cost generic pharmaceuticals in the US, including Loratadine, a generic form of *Claritin*. DrugMax will market and distribute these generic drugs throughout the US. (November 15, 2001)

The **Government of Andhra Pradesh** has decided to extend special economic zone benefits to the planned *Pharmaceutical City* at Visakhapatnam, near Hyderabad. This move will help the local industry to expand its activities in manufacturing and also promote investment by foreign companies in JVs or wholly-owned manufacturing units. (November 28, 2001)

ICICI Prudential Life Insurance Co Ltd has entered into a marketing and distribution agreement with the **Indus Group** for marketing health care and medicare products in the northeastern region of India. The Indus Group will now market the entire ICICI Prudential life insurance portfolio, especially focusing on the rural regions. The Indus Group also acts as a marketing agent for **Cadila Pharmaceuticals** for herbal products. (November 22, 2001)

Lupin Ltd, the Indian pharmaceutical company, is expected to form an alliance with a US-based company to enter the US branded generic drug market. The company is targeting the US\$80bn worth of drugs that lose patent protection by 2010. In the short term, there is US\$30bn worth of drugs going off patent in 2005. (November 14, 2001)

The **Nicholas Piramal Group**, the Indian pharmaceutical group, is reportedly negotiating with a European biotech firm for a possible acquisition. The proposed investment by Piramal is in line with the Group's strategy to expand aggressively into the biotech sector. (November 28, 2001)

Nicholas Piramal India (NPIL) is exiting its JV with ayurveda firm **Shree Dhootapapeshwar (SD)**. SD will acquire Piramal's stake in **Solumiks Piramal**, their 50/50 JV that was one of NPIL's first efforts to diversify into traditional and herbal treatments. NPIL has said it would continue in its JV with another ayurveda firm, **Charak Healthcare**. This JV, **Charak Piramal**, markets OTC herbal remedies. (November 26, 2001)

Orchid Chemicals and Pharmaceuticals Ltd, the Indian antibiotic focused pharmaceutical company, is in negotiations with a Chinese pharmaceutical company to establish a JV in China. A letter of intent has

been signed between the two sides, and Orchid has stated that it expects to invest US\$5m into the JV. Orchid already has revenues of US\$40m in China, but looks to a partner to help with distribution of existing products into the market as well as do the last stages of drug production from pharmaceutical intermediates sourced from Orchid's manufacturing facilities in India. (November 23, 2001)

INDONESIA

PT Kimia Farma has confirmed that it has signed a memorandum of understanding with **STADA Arzneimittel AG** of Germany to establish a new company for the production of generic drugs. Kimia denied that the MOU related to the acquisition by STADA of the Indonesian Government's equity stake in Kimia. There had been reports in the press that STADA was to acquire 40% in Kimia. Kimia Farma is currently majority-owned by the Government, which has stated an interest to sell a 40% stake to strategic investors. (December 1, 2001)

JAPAN

Boehringer Ingelheim of Germany has increased its stake in Japanese drug producer **SSP** from 36% to 50.2%. With sales of about US\$550m and a market capitalization of US\$1bn, SSP is one of the leading OTC drug companies in Japan. (November 8, 2001)

Boots Healthcare Japan KK, the Japanese unit of UK-based **Boots PLC**, has appointed **Chuo Bussan International Corporation (CBIC)** as its distributor for *Clearasil* in Japan. Japan is the world's second largest OTC medicines and skincare market behind the US. Boots acquired the *Clearasil* brand from Procter & Gamble in late 2000. (November 2, 2001)

Eli Lilly and Co of the US and **Chugai Pharmaceutical** have announced that they will dissolve their 50/50 Japanese JV by the end of 2002. Lilly's Japanese R&D base has expanded to the point where it feels that it no longer needs to operate in a JV. The JV currently has four new drugs in development, including depression and sexual dysfunction treatments. Lilly will take over development of the four drugs and retain future sales and marketing rights. (December 4, 2001)

Genzyme Molecular Oncology of the US and **Kirin Brewery Co Ltd** of Japan have announced a partnership to develop and market human monoclonal antibodies for use as therapies in the areas of antiangiogenesis and vascular-targeted cancer drug delivery. Kirin will fund the research conducted by Genzyme and two parties will share the marketing rights to any antibodies developed from the research. Genzyme will hold the rights in North America, Kirin will hold the rights in Asia and both firms will share the rights in Europe, with Genzyme playing the lead role. (November 23, 2001)

Gyrus Group PLC of the UK has signed a distribution agreement for its ENT products in Japan with **Kobayashi Pharmaceutical Co Ltd**. Kobayashi will be the exclusive distributor for Gyrus ENT products in Japan for 10 years, commencing from January 1, 2002. The market for ENT products in Japan is estimated at US\$34.7m annually. (November 2, 2001)

Johnson & Johnson will acquire **Kyowa Hakko Kogyo Co's** stake in their Japanese prescription drug JV, **Janssen-Kyowa Co**. The JV will become a wholly owned subsidiary of Johnson & Johnson and the name will be changed to **Janssen-Pharmaceutical KK**. Johnson & Johnson will acquire Kyowa Hakko's 40% stake in the JV by the end of 2001 for an estimated US\$120m. Johnson & Johnson hopes the buy-out will lead to more streamlined decision making at the company. (November 6, 2001)

Suzuken and **Ohmori**, both of Japan, will merge next year to form Japan's largest pharmaceutical wholesaler. Ohmori is an affiliate of the Japanese pharmaceutical firm **Shinogi**, which has announced a strategy to di-

vest its drug wholesaling business. Shinogi plans to find merger partners or buyers for its remaining drug wholesaling companies covering the Shikoku, Chugoku and Kyushu regions. The merged entity will have pro forma revenues of US\$8.3bn and will supplant **Kurya Saneido** as the leading drugs wholesaler in Japan. (November 12, 2001)

Taisho Pharmaceutical, Japan's largest OTC drugs company, and **Tanabe Seiyaku**, a large Japanese pharmaceuticals manufacturer, have cancelled their proposed merger. The companies cited differences over strategy and management issues. The merger would have created Japan's third largest pharmaceutical company with sales of US\$4bn and an annual R&D budget of US\$400m focusing on prescription drugs. Tanabe Seiyaku has said that it would consider other strategic alliances. Taisho has said that it intends to bolster its non-OTC businesses. (December 3, 2001)

Japanese firms **Toyobo** and **Nichirei Corp** have formed a 51/49 JV, **Pacific Biologics Inc**, to focus on development and the subsequent contract manufacturing of human monoclonal antibodies for medical uses. The partners invested US\$4m in capital into the JV, which expects to have a 4,000 liter manufacturing capacity. (November 13, 2001)

KOREA

Chong Kun Dang, a Korean pharmaceutical firm, has won a patent dispute against **Novartis**, the MNC pharmaceutical company. A Seoul court has dismissed Novartis's suit against the local company regarding patent violation of one its immunosuppressants finding, that Chong Kun Dang's manufacturing process for the drug was original. Novartis alleged that Chong Kun Dang's *Cipol-N* was a copy of its *Sandium Neoral*. (December 4, 2001)

The **SK Group** has announced plans to enter the Chinese pharmaceutical sector. The Group seeks to establish a new bio-engineering research and devel-

opment center in Shanghai in early 2002 to develop drugs for sale to the retail segment in China. (November 23, 2001)

MALAYSIA

Nu Skin Enterprises Inc, a global skin care company, said it expects Malaysia to become one of its leading markets in South East Asia. Nu Skin began operating in **Malaysia** in early November 2001, via **Nu Skin (Malaysia) Sdn Bhd**, which sells skin and body care products through network marketing. (November 15, 2001)

PHILIPPINES

A.S. Watsons, Hong Kong's largest pharmacy and personal care chain, has announced plans to open 250 pharmaceutical and health and beauty stores in the Philippines. Watsons will form a JV with the **SM Group**, which is the Philippines largest mall operator. (November 29, 2001)

SINGAPORE

CWT Distribution Limited of Singapore and **Tomoe Shokai Co Ltd** of Japan have formed a JV, **Sterile Services (Singapore) Pte Ltd** to develop and operate a medical device sterilization facility in Singapore. The JV hopes to capture business from medical device manufacturers seeking to outsource the sterilization of their products. Tomoe Shokai specializes

in sterilization in Japan while CWT is a supply chain management and logistics solutions provider. (November 20, 2001)

Parkway Holdings' management has stated that the company was well positioned to make opportunistic regional acquisitions, though did not state which markets or opportunities it was evaluating. Parkway is a Singapore based healthcare services company. Parkway is still negotiating terms with the **Apollo Group** of India over their proposed hospital services JV in India. (November 30, 2001)

TAIWAN

Uni-President Enterprises Corp, the largest local food manufacturer in Taiwan, has announced that it will invest a further US\$35m into its biotechnology firms. Uni-President will invest further funds into **Scino Pharm Taiwan**, a local biotechnology-based pharmaceutical manufacturer. The company will also invest in subsidiaries in Thailand, Vietnam and China. The latter company focuses on the production of health food for the mainland China market. (November 24, 2001)

Yung Hsin Pharmaceutical Ind Co Ltd and **Chang Gung Memorial Hospital**, an affiliate of the **Formosa Plastics Group**, have agreed to jointly establish a blood plasma venture. The venture will initially focus on producing Factor IV, Factor VIII, albumin and globulin for the Taiwan and SE Asia market. The partners hope to achieve a manufacturing capacity of 300,000 liters of plasma products a year. Yung Hsin, a TSE listed pharmaceutical company, will hold a 65% stake in the venture with Chang Gung holding the remainder. (November 22, 2001)

To submit stories to future editions of the *Asian Health Newsletter* please contact Kathleen Ng on (65) 533-8500 or via email at kng@bdallc.com.

THAILAND

Osotspa, a Thai pharmaceutical conglomerate, has announced a restructuring plan for its business and product lines to combat the Group's losses over the last three years. Osotspa will freeze production of a number of pharmaceutical products which require large marketing budgets and will also reduce by half the number of products in its personal care and cosmetics line. Osotspa expects revenue this year to fall to US\$227m from US\$313m in 2000 and expects the restructuring plan to save US\$5m per year in expenses.

The group still has about US\$63m in bank debt outstanding. (November 21, 2001)

Thai Herbal Product Co (THP), part of the **Government Pharmaceutical Organization**, has appointed distributors for its *Phyto Care* herbal products in China and Thailand. **China World Best Co**, a marketer of herbal products, and **Diethelm & Co**, are the new distributors for China and Thailand respectively. THP is also seeking to appoint distributors for the US, UK and India. The *Phyto Care* range of products had sales of US\$1.1m in Thailand in 2000. (November 17, 2001)

Paul DiGiacomo, Senior Associate
Kathleen Ng, Analyst

Joon-Ho Lee, Associate
Peter Thomas Black, Analyst

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 in New York, Andrew Huntley in Singapore, Charles Maynard in Tokyo, Simon Wu in Shanghai or Paul DiGiacomo in Hong Kong.

New York

Business Development Asia LLC
The Economist Building, Suite 405
111 West 57th Street
New York, NY 10019
Tel: (212) 265-5300
Fax: (212) 265-4300

Singapore

Business Development Asia Utd Pte Ltd
20 Raffles Place
#10-07 Ocean Towers
Singapore 048620
Tel: (65) 533-8500
Fax: (65) 533-8506

London

Business Development Asia Ltd
10 Crown Place
London EC2A 4FT
United Kingdom
Tel: (44) 20-7655-3660
Fax: (44) 20-7655-8953

Shanghai

Business Development Asia
American International Centre
at Shanghai Centre, Suite 506A
1376 Nanjing Road West
Shanghai, China, 200040
Tel: (86) 21-6279-8390
Fax: (86) 21-6279-8906

Tokyo

Business Development Asia
Otemachi First Square
4/F East Tower, 1-5-1 Otemachi,
Chiyoda-ku
Tokyo, 100-0004 Japan
Tel: (81) 3-5219-1504
Fax: (81) 3-5219-1201

Hong Kong

Business Development Asia
(HK) Ltd
23/F Tung Hip Commercial
Building 244-256 Des Voeux Rd
Central, Hong Kong
Tel: (852) 2537-9565
Fax: (852) 2537-4406