

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 you find the *Asian Health Newsletter* informative. In this issue we profile the impact of the ban on phenylpropanolamine (PPA) in the Thai OTC cold remedy market. If you would like to learn more about the impact in Thailand, or the likely impact in other Asian markets, please contact us.

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.

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## CHINA/HK

**aaiPharma Inc** of the US has announced that its **AAI International** business unit and the **Shanghai Second Medical University** have established the **SSMU-AAI Centre for Drug Research and Clinical Pharmacology** in Shanghai. The new facility will specialize in R&D and clinical research. **aaiPharma Inc** is a specialty pharmaceutical company focused on the development and commercialization of branded pharmaceutical products. (May 16, 2001)

**AstraZeneca**, an Anglo-Swedish company, has opened a £69m (US\$100m) manufacturing facility in Wuxi New District, China. It will manufacture primarily for the domestic market. The plant has production capacity of 1.5 billion tablets and 70 million capsules a year. The facility will produce *Losec*, the company's top-selling ulcer treatment. (April 29, 2001)

**GlaxoSmithKline (GSK)** and the **Shanghai Institute of Materia Medica (SIMM)** of China have set up the **GSK-SIMM Combi-Chem Lab** to promote technology development for new drug research in China. GSK has already invested nearly US\$10m in China, and has extensively cooperated with Chinese institutions over the last two decades. (May 22, 2001)

**Shanghai Fortune Industrial Joint-Stock Co Ltd** will acquire a 3% stake in **Tianjin Pharmaceutical Group Co Ltd** from **Tianjin Development Area Pan-Asia Co Ltd** for RMB28m (US\$3.4m). With the acquisition, Shanghai Fortune's stake in Tianjin Pharmaceutical will increase to 25%. (May 24, 2001)

**Shanghai Johnson & Johnson** and the **Shuguang Hospital**, which is affiliated with the **Shanghai TCM University**, have reached a cooperative agreement to establish the **Johnson-Shuguang TCM Research Center**. The Center will focus on the R&D of TCM (Traditional Chinese Medicine) drugs. (April 12, 2001)

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## INDIA

**Allergan India**, the Indian JV between **Allergan Inc** of the US and **Nicholas Piramal India**, has acquired *Glucomol*, an eye-care product, from **Torrent Pharmaceutical** of India. *Glucomol* is used in cases of ocular hypertension and has a 16% market share of the Indian eye-care segment. (May 15, 2001)

**AstraZeneca** plans to invest US\$10m to establish an advanced research center in Bangalore, India for the discovery and development of new pharmaceuticals. The center will focus on medicines which are of particular importance to developing countries., and will initially have an emphasis on developing new drugs to treat tuberculosis. (May 2, 2001)

**ICI India Ltd**, the Indian subsidiary of **ICI Plc** of the UK, is in discussions with a number of companies to secure a strategic alliance, JV or to divest its Indian pharmaceutical business. ICI India is reportedly negotiating with bidders that include **AstraZeneca**, **Pharmacia India Ltd** and **US Vitamins**. AstraZeneca has previously acquired some pharmaceutical business from ICI Plc. (May 25, 2001)

**Knoll Pharmaceuticals India (KPI)** and **Abbott Laboratories India** are likely to complete their merger in July 2001. They are now in the process of defining product and manpower rationalizations. **Abbott** made an open offer in May 2001 to acquire up to 20% of the equity capital of KPI. (May 8, 2001)

**Pfizer India** and **Parke-Davis India Ltd (PDIL)** have proposed to integrate their operational activities by Q4 2001 and to complete their merger in 2002. In 2000 **Pfizer Inc** of US acquired **Warner-**

**Lambert**, the parent of Parke-Davis. Pfizer Inc already holds a 40% stake in both Pfizer India and PDIL. The merger will rationalize Pfizer's presence in India and give it a stronger focus on therapeutic areas such as gynecology and the central nervous system. (May 18, 2001)

**Wockhardt** of India has expanded its marketing tie-up with **Bayer Pharmaceuticals** to include an antibacterial drug called cefuroxime axetil. Wockhardt and Bayer already co-market Bayer's antidiabetic drug, acarbose, locally. Under the new arrangement, Bayer will buy finished tablet forms of cefuroxime axetil from Wockhardt and market them under the brand name *ForU*. (May 24, 2001)

**Zyodus Cadila**, the sixth largest pharmaceutical company in India, has entered into a JV with the US-based **Onconova Therapeutics Inc**, a biopharmaceutical company specializing in cancer therapies. The broad-based agreement provides for future collaboration on research, manufacturing and marketing of products. Zyodus Cadila has invested US\$3m in Onconova. (May 16, 2001)

**Zyodus Cadila** has entered into a definitive agreement, through its wholly owned subsidiary **Recon Healthcare Limited**, to acquire a combined 27.72% stake in the publicly listed **German Remedies Limited (GRL)** from **Asta Medica AG (Asta)** and **Heller Vermögensverwaltungs GmbH (Heller)**, both of Germany. Zyodus Cadila agreed to pay a price of US\$31.7m. This is the largest-ever M&A transaction in the Indian pharmaceutical sector. Zyodus Cadila has also entered into an agreement with Asta to acquire perpetual rights to the five brands *Deriphyllin*, *Paractol*, *Ildamen*, *Xipamid* and *Beta Xipamid*. (April 11, 2001)

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## INDONESIA

**PT Indofarma**, the first Indonesian state-owned pharmaceutical company to launch an IPO, is considering inviting foreign investors to become

strategic partners. Indofarma plans to sell 29% of its shares to three foreign investors from the Netherlands, Singapore and Australia, which have indicated interest. 20% of Indofarma's shares are already held publicly. The aim of the privatization is to divest 49% of the Government's stake. (April 18, 2001)

**PT Kimia Farma**, a state-owned pharmaceutical company, announced plans for an IPO to sell up to 500 million shares. The IPO would be held in June 2001, with **PT Danareksa Securities** as the lead underwriter. The shares to be floated account for 9% of the company's total equity. Kimia Farma has also expressed a desire to sell an additional stake in the business to foreign strategic partners. (May 11, 2001)

**Sterling Products Indonesia**, an affiliate of **GlaxoSmithKline**, hopes to capture a 5% share of the estimated Rp400bn (US\$35m) market in India for OTC influenza medicine in 2001. The company plans to do this by doubling its output to 500 million tablets per year by June 2001. (April 11, 2001)

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## JAPAN

**Bayer Corp**, the US unit of **Bayer AG**, has formed an alliance with **Matsushita Electric Industrial Co Ltd** of Japan to jointly develop, manufacture and market diagnostic products. Under the agreement, Matsushita Electric will be primarily responsible for the development and manufacturing of new products and services. Bayer will acquire rights for the sale and marketing of the newly developed products and services for a range of applications for the diagnostics market. (May 17, 2001)

**Kawachi Ltd** and **Sundrug Co**, both Japanese pharmacy operators, have signed a joint purchasing agreement and will commence cooperative purchasing by Q4 2001. They aim to improve their competitiveness against two rival drugstore chains — **Matsumotokiyoshi Co** and the **Aeon group**, which consists of **Jusco Co** and 11 other companies. Sundrug, which is strong in pharmaceutical products,

and Kawachi, a food specialist, will also mutually supply their existing private brand products to each other's outlets and hope to jointly develop products in the future. (May 8, 2001)

**Eisai** of Japan and **Neurogenetics Inc** of the US have concluded a joint R&D agreement to research the genetic basis of Alzheimers disease. Eisai will receive rights of first negotiation to collaborate on selected Alzheimers disease drug discovery programs arising from the research. (May 22, 2001)

**Fujisawa Pharmaceutical Co** has obtained a license from the **Servier Research Group** of France to sell a new osteoporosis treatment in Japan. The licensing agreement allows Fujisawa to develop, manufacture and market Servier's strontium ranelate, which is expected to have the dual effect of enhancing bone formation and decreasing bone fractures. The treatment is undergoing large-scale clinical trials in Europe and Australia and Fujisawa will start clinical trials in Japan. (May 18, 2001)

**Fujitsu Ltd** of Japan and **General Electric (GE)** have announced plans to form a health care alliance. GE's medical equipment business will be combined with Fujitsu's health-care computer systems to develop a system that will enable hospitals to digitize medical charts. Although the tie-up will initially focus on Japan, Fujitsu has interests in Europe and the US, and the scope of the alliance could in time expand to other regions. (May 17, 2001)

**Jusco Co Ltd** of Japan has announced that its wholly-owned drug store subsidiary and **Takiya Corp** will merge in August 2001 in a move to strengthen Jusco's drug store operations. The new company will be called **Takiya Co Ltd**, and is expected to achieve revenue of ¥16.5bn (US\$136m) in the year to February 2002, and ¥24bn (US\$198m) in FY 2003. (May 11, 2001)

**Kuraya Sanseido** of Japan will take over the OTC drug wholesale business of its subsidiary **Chiyaku** on November 1, 2001. The business recorded sales of ¥942m (US\$7.8m) in FY 1999. Kuraya Sanseido will also merge with its wholly-owned subsidiary **Hisatomo Kuraya**, a manufacturer of laboratory test reagents and diagnostics equipment. (May 22, 2001)

**Olympus Optical Co** and **Terumo Corp**, both of Japan, will form an alliance to jointly develop diagnostic and treatment devices in three areas: heart surgery, gastroenterology and urology. They aim to market the products by Q4 2002. The alliance will combine Olympus' endoscope and precision equipment technology and Terumo's blood vessel treatment equipment. The new venture aims for sales of ¥10bn (US\$82m) in five years. (April 26, 2001)

**Pharmacia Corp** of the US and **Takeda Chemical Industries Ltd (Takeda)** of Japan announced a new marketing agreement for Japan. Under the agreement, Takeda has exclusive distribution rights in Japan for Pharmacia's *Nicorette* brand of OTC nicotine replacement therapy products. It will handle pharmacy promotion, wholesaler promotion, distribution and material management upon approval of *Nicorette* for OTC use in Japan. **Pharmacia KK**, a wholly owned subsidiary of Pharmacia Corp, will manufacture *Nicorette* in Japan. (May 21, 2001)

**Schering-Plough KK**, Schering-Plough's wholly owned Japanese subsidiary, will acquire **Fujisawa Pharmaceuticals'** animal health business in Japan, subject to regulatory review. Fujisawa's animal health business is engaged primarily in the areas of livestock and aquaculture. Schering-Plough ranks 6th in the worldwide animal health market with sales of US\$720m in 2000. (May 16, 2001)

**Snow Brand Milk Products Co** of Japan, the dairy producer hit by a poisoning scandal in 2000, will sell some of its pharmaceutical operations to **Daiichi Pharmaceutical Co** for an as yet undisclosed sum. Daiichi will obtain rights to develop and sell Snow Brand's medical products and drug-related patents, as well as acquire its research center in Tochigi Prefecture and the pharmaceutical development unit in the US. The Snow Brand divisions being sold accounted for approximately 17% of Snow Brand's total drug sales in FY 2000, or about US\$5m. (May 11, 2001)

**Takeda Chemical Industries**, Japan's largest pharmaceuticals group, has won European approval to market *Ixense*, a treatment for impotence. The new treatment was developed by **TAP Holdings**, Takeda's JV with **Abbott Laboratories**, the US

healthcare company. Takeda has semi-exclusive marketing rights to the treatment outside the US and Canada, where it will be sold under the brand name *Uprima*. (May 29, 2001)

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## KOREA

**Dong-A Pharmaceutical Co** is seeking overseas markets for its impotence drug DA-8159 and is also looking for a licensing partner for the drug. Dong-A has been developing DA-8159 since 1997. The company plans to begin selling the drug by 2003, if clinical trials are successful. (May 18, 2001)

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## PHILIPPINES

**STADA Arzneimittel AG** of Germany has announced that it is acquiring a controlling stake in **Croma Medic Inc** of the Philippines, a highly focused distributor of specialty medicines. STADA is ranked as the third largest German generics company in terms of revenue and fifth largest among all German pharmaceutical companies in terms of production volume. Croma Medic specializes in cardiovascular, ophthalmic, gastroenterology and dermatology products. (April 16, 2001)

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## SINGAPORE

**Haw Par Healthcare Limited**, the owners of the *Tiger Balm* brand, have entered into a JV agreement with Mumbai-listed **Elder Health Care Ltd**, and an individual investor, Mr. Sat Pal Khattar, to manufacture and distribute *Tiger* branded products, and other pharmaceuticals, in India. The JV, named **Haw Par Elder**, will be 60% held by Haw Par, 26%

by Elder and 14% by Mr. Khattar. (April 23, 2001)

**Raffles Medical Group**, the Singapore based healthcare provider, intends to invest HK\$10m (US\$1.3m) in 2001 in its medical clinics business in Hong Kong. To date it has invested more than HK\$30m (US\$3.8m) in Hong Kong, where it has six clinics and over 200 associate clinics. Its revenue from Hong Kong grew 30% to over HK\$30m (US\$3.8m) in FY00. Raffles Medical Group is one of the leading healthcare providers in Singapore. (May 11, 2001)

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## TAIWAN

Taiwan's **United Biomedical Inc's (UBI) Asian Operation Center (UBI-Asia)** has acquired a **GlaxoSmithKline plc (GSK)** pharmaceutical manufacturing plant located in Hsinchu. This transaction significantly expands UBI's production capacity. The newly merged operation will have the capacity to produce a large range of pharmaceuticals and related products, such as injectables, sustained release capsules, tablets, liquids, and topical creams. (May 21, 2001)

**Uni-President Group** of Taiwan has established a US subsidiary to develop herbal medicines for the treatment of cancer and AIDS. Uni-President, the largest food conglomerate in Taiwan, has been actively developing its biotech businesses in recent years. In addition to large investments in both domestic and overseas biotech and pharmaceutical firms, the group established the **President Life Sciences Co Ltd** to handle its biotech businesses. Uni-President also holds stakes in ScinoPharm Taiwan Ltd, Taiwan Genome Science Inc, as well as IMPAX Pharmaceuticals Inc of the US. (May 17, 2001)

**Uni-President Group** has announced that it will temporarily suspend investments in local biotech firm **Vita Genomics, Inc.** Vita Genomics is a JV between **Celera Genomics Corp** of the U.S., Taiwanese drug maker **Ho Tung Chemical Corp**, **Cathay Life In-**

**surance Co, Ltd**, **Winbond Electronics Corp** and several private equity funds. Vita will first concentrate on researching the genetic sources of five to ten types of cancer prevalent in Asia such as liver, cervical and nasopharyngeal cancers. Research results would be patented and licensed to other firms. (May 24, 2001)

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## THAILAND

**Boots Retail (Thailand) Ltd**, which has been in the red since its inception in 1997, anticipates becoming profitable by the end of 2001. Boots will focus on improving revenue from existing stores and increasing the number of products sourced from Thailand. Fewer than 10 new branches, on top of the existing 67 stores, will be opened this year and more products under the Boots brand will be locally produced through subcontractors. (April 20, 2001)

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## FOCUS:

### PPA ban in the Thai OTC sector

#### The PPA health risk

In November 2000, the US FDA issued a public health notification about drugs containing phenylpropanolamine (PPA). This was a result of a study conducted at Yale University in the US which showed that patients, especially young women, who used medicines containing PPA showed high incidences of brain hemorrhage. The findings have resulted in global concern among consumer protection groups and regulatory bodies. PPA is an active ingredient commonly found in cold remedies, as well as appetite suppressants. The US FDA requested manufacturers of products containing PPA to voluntarily recall these

products from the market.

### Actions by leading pharmaceutical MNCs

<u>Companies</u>	<u>Corporate actions (since Nov 00)</u>
<b>Bayer</b>	Withdrew its Alka-Seltzer Plus effervescent cold remedy.
<b>BMS</b>	Stopped producing all drugs with PPA.
<b>Novartis</b>	Stopped selling cold and allergy related products and plans to market replacements.
<b>GlaxoSmithKine</b>	Stopped producing and selling drugs with PPA. It had existing PPA-free products available.

### Reactions from Asian regulatory bodies

The policies implemented by some Asian countries against PPA are as follow:

<u>Country</u>	<u>Regulation on PPA</u>
China	State policies ban sale of cold tablets containing PPA.
Indonesia	PPA amount must be less than 15mg per dosage, effective April 8, 2001.
Thailand	Sale of drugs containing PPA banned, effective 17 June, 2001
Singapore	Sale of drugs containing PPA banned.

The food and drug control agencies in some Asian countries have subsequently regulated the sale of drugs containing PPA. India, Japan, South Korea, the Philippines and Taiwan however, have not yet announced any plans to ban the ingredient. The Thai FDA moved quickly to implement a ban on PPA.

### Ban of PPA in Thailand

The sale of OTC drugs containing PPA will be illegal in Thailand as of June 17, 2001. Pharmaceutical companies will be allowed to continue to use the same brand names for OTC cold remedies, after they have altered the formulations. An amendment to the drug registration and label must also be made. The Thai FDA reported on May 4, 2001 that manufacturers and distributors of 157 OTC drugs containing PPA have applied to amend their drug formula.

### Impact on the Thai OTC cold remedy market

The size of the systemic cold remedy market in Thailand was approximately Bht1.5bn (US\$33m) in FY00. The top three brands, *Tiffy* (**Thai Nakorn Patana**), *Decolgen* (**Medipharma/Unilab**) and *Nuta* (**Osotspa**), in aggregate account for approximately 90% share of the market. All three drugs currently contain PPA.

Manufacturers of drugs that contain PPA in Thailand will be greatly affected by the ban. There is no substitute ingredient for PPA that is approved in Thailand for OTC applications. In Western markets, affected products can be reformulated using pseudoephedrine or phenylephedrine and still be sold OTC. That is not the case in Thailand, as these PPA-substitutes are also restricted.

The Thai FDA may look at moving one or both of these ingredients to OTC status, but it has not done so yet. Furthermore, replacing PPA with these ingredients, which are more costly than PPA, would increase production costs and the retail price. The export of drugs would also be adversely affected, as international trade laws state that medicines banned in the country of origin cannot be exported.

We have briefly profiled two of the leading local producers of OTC cold remedies in Thailand:

To submit stories to future editions of the *Asian Health Newsletter* please contact Kathleen Ng on (65) 533-8506 or via email at [kng@bdallc.com](mailto:kng@bdallc.com).

### Osotspa Co Ltd

**Summary:** The second largest Thai OTC producer. Main OTC brands include *Tamjai* (aspirin-based analgesic), *Nuta* (cold remedy) and *Mag77* (antacid). Originally a pharmaceutical company, the company's main business is beverages (energy drinks and sports drinks), which contributes 80% of total revenues. Its OTC business accounts for 6%-7% of total revenues.

**Impact of PPA ban:** The ban on PPA would have little impact on Osotspa's overall business. *Nuta* contributes less than 2% to the firm's total revenues of Bht9.3bn (US\$180m). Nevertheless, *Nuta* had been doing well in recent years, taking an increasingly larger piece of the domestic cold remedy market.

### Thai Nakorn Patana (TNP)

**Summary:** The largest local manufacturer in the Thai OTC market, with the leading OTC cough and cold brand *Tiffy*, and the leading brand in the gastrointestinals market - *Antacil*. TNP will launch its new formulated Rx cold remedy (still under the brand *Tiffy*) with a substitute ingredient in June 2001.

**Impact of PPA ban:** TNP stands to lose significantly as *Tiffy* accounts for at least 50% of its OTC revenues. The loss of revenues from the export of *Tiffy* as an OTC drug will be significant. *Tiffy* has historically been the biggest earner for the firm's total exports which account for 10%-15% of revenues.

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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 and acquisitions. 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 Charles Maynard in New York, Euan Rellie in London, Andrew Huntley in Singapore, Simon Wu in Shanghai or Paul DiGiacomo in Hong Kong.

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