

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

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CHINA/HK

China Pharmaceutical Enterprise (CPE) has announced a 23.3% growth in profit for 1998, to a total of US\$111m. The firm attributed its growth to the 7-ACA product, an intermediate antibiotic. CPE plans to buy an antibiotics business from its parent company, **Shijiazhang Pharmaceutical Group**, though approval is still pending for this deal. The company has kept prices and gross profit margins steady and expects prices to remain steady for the rest of 1999. (May 7, 1999)

NEGPF-BASF, a JV between **BASF** of Germany and **Northeast General Pharmaceutical Factory (NEGPF)** of China is constructing a new plant for the production of dry vitamin powders and vitamin blends. This plant will be located in Shenyang. (May 4, 1999)

Yan'an Wanxiang Pharmaceutical of China and **Aikang** of the US have announced that they will co-produce the patented *Meixin Calcium +D* which is the best selling calcium medicine in the US. (May 23, 1999)

INTRODUCTION

We are seeing consolidation and pricing pressure throughout the region, but also increasing regulation which will benefit MNCs.

We hope that you find the *Asian Health Newsletter* informative. BDA is a corporate finance advisory firm that helps multinational clients to identify and execute acquisitions and JVs in Asia. If you think that BDA's services may be useful to you, please contact us in New York on (212) 265-5300 or in Singapore on (65) 533-8500.

Paul DiGiacomo
General Manager

INDIA

Abbott Laboratories of the US plans to increase its shareholding in its Indian subsidiary from 51% to 74% by acquiring 23% through a rights issue for

Rup183.1m (US\$4.5m). Abbott also plans to modernize its production facilities in India to cost-effectively manufacture bulk drugs and pharmaceutical formulations. (May 11, 1999)

Aurobindo Pharma of India has announced an 86% growth in total revenues, 127% growth in exports and a 110% growth in net profit to US\$12m for FY 1998. The company has decided to establish an advanced research facility with an initial investment of US\$3.7m. It also plans to set up JVs in several countries for the production and marketing of pharmaceutical formulations. (May 16, 1999)

Elder Pharmaceuticals, based in Mumbai, has acquired **Earth, Wind, and Fire (EWF)** of India with the help of a US\$260m investment from **Rottapharm** of Italy. EWF Pharma and Rottapharm will form a 50-50 JV to market and distribute Italian pharmaceuticals in India. The JV, along with Rottapharm, will introduce three drugs within its first year. These include *Viatril*, an osteoarthritis therapy, *Triptical* for osteoporosis and *Aplket*, for spectrum antiplatelet. The company also plans to introduce *Dermatrans*, to aid women with menopausal problems. (May 8, 1999)

Lupin Laboratories of India is in the midst of merging with a related company, **Lupin Chemicals**. On completion of the merger, Lupin will be the second largest pharmaceutical company in India. Lupin also plans to earmark over Rup1.2bn (US\$29m) to acquire international pharmaceutical companies. Lupin claims a 41% share of the Indian antituberculosis drug market. Its net profit for the 1997-1998 year was Rup109m (US\$2.7m). (May 13, 1999)

Morepen Laboratories of India has announced that revenues grew by 36% in 1998 to US\$60m with net profit increasing 46% to US\$8.1m. Morepen produces US FDA approved loratadine, a non-sedative, antiallergic medication. Morepen is the second largest global producer of loratadine, after Schering-Plough. (May 26, 1999)

NATCO Pharma (NPL), part of the Hyderabad-based **NATCO Group**, has announced a fall in turnover and also heavy losses for the 18-month period ended March 31, 1999. NPL reported revenues of

US\$47m in 1997-1998, compared to US\$66m in 1996-1997. (May 1, 1999)

Smith & Nephew of the UK will open its first Indian production plant in Sinnar, Nashik. The opening of this facility allows Smith & Nephew to gain entry into the Indian production of casting and wound care products. The plant will manufacture *Gypsona Plaster of Paris* bandages. India will be the regional source for plaster of paris for the Asia-Pacific region. Smith & Nephew will also focus on the retail market as part of its new strategy to increase sales. (May 21, 1999)

Suresh Kare Enterprises of India has acquired **Warren Pharmaceuticals** of India, which specializes in ophthalmic, dental and ENT products. This acquisition allows Suresh to broaden its presence in the pharmaceutical sector. Suresh's flagship company, **Indoco**, has a strong presence in the antispasmodic, anti-cold, antibiotic, antimalarial and antifungal markets. (May 20, 1999)

Wockhardt will split its operations into two companies; one focusing on pharmaceutical companies, the other on various Wockhardt businesses. The split will allow the company to focus on its pharmaceutical business. Wockhardt has announced a 49% decline in profits for the quarter ending March 31, 1999. (May 13, 1999)

JAPAN

Abbott Laboratories' Japanese JV has developed an impotency pill that reportedly works faster than Viagra. *Uprima*, developed by **TAP Holdings**, Abbott's JV with **Osaka**, proved to be safe and effective in clinical trials. Nausea is still a regular side-effect of *Uprima*. (May 5, 1999)

Chugai Pharmaceuticals of Japan has posted a profit of ¥22.5bn (US\$181m) for FY 1998. Chugai plans to develop overseas alliances as it plans to expand its development network. (May 26, 1999)

Fujisawa Pharmaceutical of Japan has announced that profit grew 9.8% in 1998. The higher profits are attributed to new corporate tax reductions. If there had posted no changes in tax measures, Fujisawa would have seen a decline of 4% in profits. Cuts in government-set drug prices have hurt profit margins for Fujisawa and other pharmaceutical firms. (May 20, 1999)

Glaxo Wellcome of the UK and **Sumitomo Chemical** of Japan have agreed to merge **Nippon Glaxo** and **Nippon Wellcome**. The merger is worldwide, excluding India. This merged company, **Glaxo Wellcome KK**, will be based in Tokyo. 80% will be owned by Glaxo Wellcome, 20% owned by Sumitomo Chemical. The new company will have a 2.1% share of the Japanese pharmaceutical market. It will focus its R&D on anti-ulcerials, respiratory rugs, antibiotics, dermatologicals, antivirals, hyperuricaemia and gout medicines. (May 4, 1999)

Nissan Pharmaceutical, **Kowa Pharmaceutical** and **Sankyo Pharmaceutical**, all of Japan, have announced that the three companies will sell *itabasutachin*, a drug treatment for hyperlipidosis (jointly developed by Nissan and Kowa.) This drug reduces cholesterol, low-density lipoproteins and triglycerides. (May 21, 1999)

ONO Pharmaceuticals of Japan has announced an 11.5% profit gain due to corporate tax cuts. Revenues, however, remained flat. ONO also announced that it is currently working with **Kotec**, a US company, on an oral Elastase blocker. Their agreement calls for Ono to have worldwide development and sales rights to the drug. Ono has already developed one injectable product based on the agent called "*Elaspol*," treating chronic rheumatoid arthritis. (May 20, 1999)

Pharma Japan has announced that total Japanese pharmaceutical sales fell 3.1% to US\$31.4bn for 1998. The trend in the Japanese pharmaceutical sector has been decreasing sales since 1996. Japanese exports increased year-on-year by 25%. (May 18, 1999)

Sankyo of Japan announced an increase in profit of 15% although revenues increased by only 0.2%.

Sankyo, in conjunction with **Warner-Lambert** of the US, will develop an anti-diabetes drug by 2003. Sankyo is purchasing rights from **Kowa**, the manufacturer of a new drug for high cholesterol. (May 18, 1999)

The merger of **Sanseido Pharmaceutical**, **Kuraya Pharmaceutical**, and **Tokyo Pharmaceutical**, all of Japan, was approved on April 20. Pro forma revenues for the merged company are projected to be ¥917bn (US\$7.4bn) for the year ending March 2000. The new company is called **Kuraya Sanseido**. (May 4, 1999)

Santen Pharmaceutical of Japan posted an increase in earnings of 16% due to strong sales of the company's corneal treatment drug. Sales increased 19.3% from 1997. Sales of an antiarthritic drug also increased 43% year-on-year. May 19, 1999)

Snow Brand Mil Products and **Daiichi Pharmaceuticals** have agreed to jointly sell *Cevimeline*, a Snow Brand-developed treatment for Sjogren's Syndrome (a condition that inhibits the body's ability to secrete bodily fluids like tears and saliva.) This syndrome affects 500,000 Japanese and 2 million Americans. *Cevimeline* stimulates secretion receptors and improves the body's ability to produce tears. (May 27, 1999)

SRL and **Toho Pharmaceuticals**, both of Japan, have merged their supply and distribution of pharmaceuticals, diagnostic agents and medical devices into a JV company. This venture, **Medical Trust**, will be based in Tokyo. (May 28, 1999)

Taisho Pharmaceutical of Japan has reported poor revenues, dropping 4.3% from the previous year as drinks featuring nutrients and tonics sold poorly. Net profit increased by 4.1% due to reductions in corporate tax rates. Taisho expects to increase revenues in 1999, due to deregulation of the tonic drinks sector. (May 20, 1999)

Yamakawa Pharmaceutical Industries of Japan has announced that it plans to increase its production of optically active substances for use in pharmaceutical products. It plans to invest over ¥2bn (US\$16m) on new facilities to reach its goal. Yamakawa is making this move due to the increase in demand for value-

added optically active substances from overseas manufacturers. (May 27, 1999)

in all Asia-Pacific countries, except Japan. R&D will focus on antibiotics and treatments for cancers, infectious diseases and the central nervous system. (May 15, 1999)

KOREA

Korea United Pharm will invest US\$10m to open a prescription drug manufacturing center in the United States, in Georgia. The facility will be established through its US subsidiary, **United Douglas Pharm**. The facility will produce health-related foods beginning in 2000 and drugs beginning in 2001. Korea United Pharm will become the first Korean pharmaceutical firm to establish production facilities in the US. (May 3, 1999)

TAIWAN

Zeneca of the US has decided to make Taiwan its Asia biotechnology center. Zeneca's three areas of specialty are pharmaceuticals, fertilizers, and specialty chemicals. Zeneca is currently situated in both Taiwan and Japan but plans to move its sites in Japan to Taiwan due to Taiwan's superior environmental conditions and research talent. In May, Zeneca was formally allowed to market its respiratory drug, *Accolate*, in Taiwan. (May 6, 1999)

MALAYSIA

Smith & Nephew Healthcare Sdn Bhd, a local subsidiary of the UK company, has announced that it will focus on the retail market in Malaysia. Smith & Nephew will therefore introduce more OTC and wound-care products, including an adhesive gel sheet used for scar treatment. A similar strategy has been successful in Singapore. (May 20, 1999)

STS Tecnic Bhd and **Medical Apparatus Suppliers Sdn Bhd** have signed an MOU to set up the JV company, **STS Apparatus Manufacturing Sdn Bhd**, to produce plastic products for the medical sector. STS will hold a 30% stake and Medical Apparatus will hold the remaining 70%. (May 25, 1999)

THAILAND

Yamanouchi Pharmaceutical of Japan has established a sales subsidiary in Bangkok to take advantage of the opportunities provided by the Thai market. Yamanouchi started selling drugs treating urinary difficulty with **Diethelm**, its local business partner. Yamanouchi plans to launch the drug on its own within the next few years. Yamanouchi also plans to expand the product line that it offers in Thailand. (April 21, 1999)

SINGAPORE

Pharmacia & Upjohn of the US has set up its Asia-Pacific drug development center in Singapore. This site will coordinate and manage drug trials carried out

VIETNAM

Mekophar, a JV between **Central Pharmaceutical Co 24** and South Korea's **Woopyung** to manufacture Ampicillin and Amoxicillin antibiotics, has reported a combined loss of VND17bn (US\$4.5) for 1997 and 1998. The Mekophar facility has a capacity 180

of tpa of antibiotics, but has only been running at 20% utilization. (May 17, 1999)

Vinh Long Pharmaceutical of Vietnam and **Medical Materials Company** of Canada have opened a VND100bn (US\$7m) capsule factory. It is now in operation and is capable of producing two billion capsules annually. The factory employs 150 people. (May 21, 1999)

FOCUS:

China's pharmaceutical companies

China's pharmaceutical industry is expected to grow 14% in 1999. Although sales are estimated to continue to grow to RMB120bn (US\$15bn), profits will continue to decline, to RMB250m (US\$31m). Imports will continue to fall due to China's reform of the existing medical care system. JV products, however, are expected to increase their market share this year.

This sector is continuing to see both state sponsored rationalization as the more successful players are increasingly taking over troubled firms and consideration of listings as the firms seek access to capital. **North China Pharmaceutical Corporation (NCPC)** has contemplated a listing on the Tokyo Stock Exchange. This has been postponed until a decision on the rumored merger between NCPC and **China Pharmaceutical** is reached. **Shenzen Taitai Pharmaceutical Industry Company** has also announced that it will seek a listing on the Hong Kong Stock Exchange within the next two years.

This underscores local companies' need for capital to grow and develop their pharmaceutical business. They have also increasingly shown a desire to find Western JV partners. We have profiled below some the leading Chinese pharmaceutical producers.

Company Profiles

1. China Pharmaceutical Enterprise

Background: Red Chip Chinese company listed on the Hong Kong Stock Exchange. The company announced in April 1999 that it will acquire the antibiotics business from its parent company, **Shijizhuang Pharmaceutical Group**.

Range of activities: China Pharmaceutical manufactures and distributes Vitamin C, calcium ascorbate, penicillin products, theobromine products and vitamin B12. The leading growth product is expected to be 7-Aca, an intermediate antibiotic.

Financial: 1998 revenues were US\$596m and net profit was US\$111m. Market cap, at May 31, 1999, was RMB1.4bn (US\$175m).

Senior management: Chairman Cai Dongchen, Executive Director Wang Xianjun.

2. Guangzhou Pharmaceutical Co. Ltd.

Background: GPC is principally engaged in the manufacture and sale of Chinese patent medicine; and the wholesale, retail, import and export of Western pharmaceutical products, Chinese raw medicine and various medical apparatuses.

Range of activities: GPC manufactures more than 400 kinds of products, including medicines for diabetes, cardiovascular diseases, gastrointestinal diseases, heat dissipation and detoxification, gynecological diseases, high blood pressure and hyperlipemia, loin and leg pain and other health care products.

Financial: 1998 revenues were RMB3.2bn (US\$400m) and net profit was RMB123m (US\$15m).

3. Huazhong Pharmaceutical

Background: Combines material medicine production, preparation processing, science R&D, management

and trading. HP has five subordinate companies and one medicine research institute and also has sales offices and agencies across China. These locations include Beijing, Guangzhou, Wuhan, Hefei, Hangzhou, Nanjing, Wuxi, Xian, Zhengzhou, Nanning, Chengdu, Datong, Yulin, Jinzhou and Harbin.

Range of activities: Fleroxacin, Acetylspir, Aureomycin, anti-cold tablets, double chlorine pain-killers and aueromycin. Semi-processed ilotycin, quinazolinone and herbal medicines, biological engineering products and gene medicine such as industrial enzymes.

Financial: 1998 revenues were RMB550m (US\$69m).

4. Livzon (Group) Libao Biochemical & Pharmaceutical Co.

Background: Livzon Pharmaceutical is a biopharmaceutical company applying innovative biochemical and biotechnological approaches to the production, discovery and development of novel pharmaceutical products. The company has more than 130 products including chemical medicines, antibiotics, Chinese traditional medicines, health-care products, and medical electronic products. Based in Zhuhai, the company is active both domestically and internationally.

Range of activities: Products have a wide variety of use, targeting heart and cerebral diseases, gynecologic and obstetric diseases, ulcer of digestive tracts, cancers, osteoporosis and virus infection. Products include chemical, biochemical, biotechnological, microecological medicines, antibiotics, traditional Chinese medicines, health-care products, diagnostic reagents, biomaterials and medical electronic products.

Financial: The company's market cap at May 31, 1999 was RMB349m(US\$42m).

Senior Management: Chairman: Xiaoxian Xu

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5. North China Pharmaceutical Corporation (NCPC)

Background: NCPC was established in Shijiazhang, Hebei Province, in 1958 and is listed on the Shanghai stock exchange. The company is the largest state-owned pharmaceutical enterprise in China and the second largest global producer of benzylpenicillin. NCPC has acquired various local pharmaceutical firms in the last two years as the government continues to rationalize the pharmaceutical sector.

Range of activities: NCPC products include benzylpenicillin, an antibiotic norvancomycin hydrochloridum, an antibiotic; streptomycin; ciclosporine, in both tablet and oral formulations; lovastatin, to treat hyperlipidemia. NCPC has established a R&D center for the development of new drugs and products. The center has a staff of 383 people engaged in research.

Financial: 1998 revenues were RMB3.2bn (US\$387m)

6. Shandong Xinhua Lukang Pharmaceutical Group

Background: The company is the result of a merger between Shandong Xinhua and Shandong Lukang Pharmaceutical Group. The company is one of three largest pharmaceutical manufactures in China. The company is mainly engaged in developing, manufacturing and selling bulk pharmaceuticals.

Range of activities: In 1997, bulk pharmaceuticals (including analgesic, antiseptic, and central nervous system medicines) accounted for 64% of total revenues in 1997. Preparations (including injections and tables), 32% and chemical products, 4%. It is also the largest producer of antipyretic and analgesic drugs in China. Shandong Xinhua increased R&D expenses in 1998 by 58% to RMB39.4m (US\$5m),

Financial: 1998 revenues were US\$122m and net profit was US\$7m.

Senior management: Chairman & General Manager: He Duan-Shi

7. Shenzhen Taitai Pharmaceutical Industry Co., Ltd. (TAITAI)

Background: TAITAI improves products through research and development to provide benefits to consumers and great returns to investors. It acquired Haibin Pharmaceutical Company, China's 3rd largest pharmaceutical company manufacturing B-lactamase inhibitors and antibiotics in China) in 1997.

Range of activities: TAITAI is a developer, manufacturer and marketer of prescription drugs and over the counter medications.

Financial: 1998 revenues were RMB616m (US\$77m).

8. Wuxi C.S.I. Pharmaceutical Co., Ltd.

Background: Wuxi C.S.I. Pharmaceutical Co., Ltd. is a US\$25m JV established by the original Wuxi Pharmaceutical factory and Hong Kong C.S.I. Pharmaceutical Industry Group.

Range of activities: Wuxi produces antibiotics, synthetic chemicals, and preparations. Their main products are Paracetamol, Micronomycine sulfate, Rifamipicin and Rifapentine capsules, and various kinds of aerosols.

Financial: 1998 revenues of about US\$30m.

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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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