

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 profile pharmaceutical distribution in Korea.

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 [erellie@bdallc.com](mailto:erellie@bdallc.com).

Euan Rellie  
Managing Director

## CHINA/HK

**Allergan (Hangzhou) Pharmaceutical Co Ltd**, a wholly owned subsidiary of **Allergan** of the US, has begun full operations at its US\$30m plant. The new facility will supply 70% of its products to the Asia Pacific region. It is also one of Allergan's five largest production bases worldwide. (May 24, 2000)

**Aventis** of France plans to produce *Essentiale*, a **liver medicine formula** at its JV plant in Beijing, to replace more expensive imported products. *Essentiale* first entered China in 1993 and had approximately 30% of the market share in 1999. (May 12, 2000)

**BioMerieux** of France has opened its third representative office in China. The company developed a prototype for **high-throughput appliance for immunoassays**. It recorded 1999 revenues of US\$464.8m. (May 26, 2000)

**Ranbaxy Laboratories** of India has delayed entering the OTC market in China through its subsidiary, **Ranbaxy (Guangzhou China) Ltd**, due to unfavorable market conditions. However, it plans to increase its product portfolio in China through **bulk pharmaceuticals**. Ranbaxy recorded 1999 revenues of Rs15.6bn (US\$354m). (April 17, 2000)

**Shanghai Ajinomoto Amino Acid**, the JV between **Ajinomoto** of Japan and **Shanghai Pharmaceutical** of China, has begun production of **high purity amino acids** at its new production plant in Shanghai. The new 800tpa plant will produce ten types of amino acids. It is expected that production capacity will reach 1,200tpa by 2002. (May 7, 2000)

**Sysmex** of Japan, a manufacturer of clinical laboratory testing instruments, plans to increase its presence in China by establishing two new subsidiaries, one each in Hong Kong and Shanghai. It is also building a **disposable product plant** in Shandong Province. It is expected that sales will increase to ¥6.1bn (US\$57m) by 2002. Sysmex also plans to set up more subsidiaries in Beijing and Guangzhou, China. (May 13, 2000)

**Yunyu Bio-Pharmaceutical Co Ltd**, a subsidiary of **Yunnan Enterprises Holding Ltd**, plans to acquire 48% of **Shenzhen Xinpeng Investment Limited** for HK\$44.9m (US\$5.8m). Shenzhen Xinpeng develops and manufactures **biotechnology products** for the Chinese market. (May 12, 2000)

**Zhejiang Hisun Pharmaceutical Co Ltd** has formed a JV, **Zhejiang Pharmaceutical Industrial Co Ltd** with **Zhejiang Yingte Pharma Co Ltd**. The new JV will produce **bulk chemical drugs** and preparations, TCMs, health products, **biological products** and packaging materials. (May 21, 2000)

**Zhengzhou Haixing Science and Technology Bio-Pharmaceutical Co Ltd** is looking to form a partnership with a foreign company to produce a drug that it has developed to treat cancer. It plans to invest US\$8.5m in the venture. (May 15, 2000)

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## INDIA

**Dr Reddy's Laboratories** of India has signed an MOU with **Gribbles Group** of Australia to establish a network of 50 **pathology laboratories** and 200 specimen collection centers in India. The centers will provide diagnostic solutions by leveraging the synergy between pharmaceuticals and diagnostics. The facilities will be completed by 2005. (May 15, 2000)

**Duphar-Interfran Ltd (DIL)** of India, a JV between **Solvay Pharmaceuticals** of Belgium and **Duphar-Interfran Ltd** of India, intends to spin off its pharmaceutical business and to concentrate on chemicals production. Solvay will transfer its 38.8%

stake in DIL to the Kumar family, who owns 21.7% of DIL. Solvay will receive a 21.7% stake in the pharmaceutical operations of DIL from Kumar. (May 26, 2000)

**Elder Pharmaceuticals** of India will transfer its marketing division to its associate, **Elder Healthcare**. Elder, which manufactures and sells *Tiger Balm*, has sold a 51% stake in the company to its Tiger Balm licensor, **Haw Par Brothers** of Singapore. Elder Healthcare is the only Tiger Balm licensee in India, with revenues of Rs120m (US\$2.7m). (May 7, 2000)

**Gujarat Lyka Organics Ltd** of India plans to merge with **Sun Pharmaceutical Industries Ltd** of India. Gujarat Lyka recorded nine months ended December 1999 revenues of Rs396m (US\$9m) and Sun posted revenues of Rs328bn (US\$75m) for the same period. (May 17, 2000)

**JB Chemicals and Pharmaceuticals Ltd (JB Chemicals)** of India has integrated the pharmaceutical divisions of **Unique Pharmaceutical Laboratories Ltd (Unique)** and **Ifiunik Pharmaceuticals Ltd (Ifiunik)** into JB Chemicals. JB Chemicals expects to increase its profit by Rs30m (US\$0.7m), once the merger is completed in October 2000. (May 27, 2000)

**Lupin Laboratories** of India plans to establish a new manufacturing unit to produce **tuberculosis drugs** in Aurangabad. The plant is expected to come onstream by the end of 2000. Lupin has a 40% market share in the tuberculosis formulations market in India. (May 14, 2000)

**Orchid Chemicals and Pharmaceuticals Ltd** of India has acquired the **bulk pharmaceuticals facilities** of **Ajanta Pharma Ltd** for Rs210m (US\$4.8m). The purchase did not include Ajanta Pharma's cephalosporins facility. (May 26, 2000)

**Ranbaxy Laboratories** of India aims to finalize its supply contracts in early 2001 with Europe-based distributors in 12 countries to market its products in Europe. The countries are: Austria, Belgium, Czech Republic, Denmark, Finland, France, Hungary, Norway, Portugal, Slovak Republic, Spain and Sweden. Ranbaxy has 53 supply contracts. It aims to boost

revenues in developed countries from 16% to 30% by 2004. It has also signed a long-term agreement with **Knoll Pharmaceutical Co**, the US pharmaceutical unit of **BASF AG** of Germany, to market Knoll's leading drugs, *Digene*, *Epilex* and *Nousidome* in several Southeast Asian countries. (May 23, 2000)

**Zydus Cadila Healthcare (Zydus)** of India plans to sign an agreement with **Bayer AG** of Germany to co-market five new drugs developed by Bayer. **Bayer India**, a subsidiary of Bayer, will manufacture the drugs. (May 7, 2000)

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## INDONESIA

**PT Pfizer Indonesia**, a subsidiary of **Pfizer** of the US, has agreed to set up a marketing and distribution JV with **PT Dexa Medica** of Indonesia to boost its marketing strength. Dexa produces **cardiovascular and antibacterial** products. It also manufactures the **anti-hypertention drug**, *Tensivask*, under license from Pfizer and *Lescol*, a **cholesterol-lowering drug**, under a Novartis license. (May 15, 2000)

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## JAPAN

**Asahi Glass Co (AGC)**, one of Japan's leading chemicals and glass manufacturers, has formed an alliance with **DSM NV** of the Netherlands, to manufacture and to market **animal cell-based proteins** for use in pharmaceuticals in Japan. DSM will provide the technology while AGC manufactures the protein samples for market research in Japan. It is estimated that sales will reach ¥1bn (US\$9.3m) per year over the next three years. (May 5, 2000)

**Bayer Yakuhin Ltd**, a Japanese subsidiary of **Bayer AG** of Germany, has launched a new drug, *Baynas*, to treat **allergic rhinitis (hay fever)** in Japan. It is expected that sales will reach ¥10bn (US\$93m) per

year. Baynas combats the nasal discharge and irritation associated with allergic rhinitis and has no side effects, such as drowsiness or exhaustion. (May 30, 2000)

**Dainippon Pharmaceutical** of Japan has reached an agreement with Japan's **Kyorin Pharmaceutical** to co-market *Gatifloxacin*, a new **synthetic quinolone antibiotic** developed by Kyorin. Gatifloxacin, which is effective against gram-positive bacteria, will compete with *Cravit*, developed by **Daiichi** of Japan. Kyorin has licensed the drug to **BMS** in the US. (May 25, 2000)

**Dewa Yakuhin, Eishin, Higashi-Nihon Yakuhin, Ishidate Shoji** and **Kanno Shokai**, five of Japan's drug wholesalers are to merge to form a new company, **Asucome** in October 2000. (May 25, 2000)

**Eli Lilly** of the US has signed a LOI with **Ono Pharmaceutical Co Ltd** of Japan to develop, manufacture and market *Sivelestat*, a new compound developed by Ono for the treatment of **acute lung injury and acute respiratory distress syndrome**. Under the agreement, Eli Lilly will have an exclusive worldwide license to market the drug excluding Japan, Korea and Taiwan, while Ono will receive a signing fee, milestone payments and royalties. In Japan, *Sivelestat* will be marketed under the trade name, *Elaspol*. (May 26, 2000)

**Fujisawa Pharmaceutical** of Japan has transferred its manufacturing rights for amoxicillin tablets, capsules, and fine granules to **Showa Yakuhin Kako** of Japan. Fujisawa will retain the marketing rights. Annual sales of the drugs are expected to reach ¥1bn (US\$9.3m). (May 5, 2000)

**Fuso Pharmaceutical Industries** of Japan has signed a marketing agreement with **Medinox Inc** of the US to commercialize *NOX-100 (IV)*, Medinox's new **nitric oxide neutralizing compound** for the treatment of sepsis. Under the agreement, Fuso will acquire equity stakes in Medinox and own exclusive rights to develop and to market the compound in Japan, while Medinox will retain the manufacturing rights to NOX-100 (IV). (May 15, 2000)

**Kirin Brewery Co Ltd** of Japan has obtained a patent to cover the domestic market for its *Transchromo Mouse*,

which retains human chromosome fragments and produces human antibodies. This patent will further boost Kirin's ¥379.3m (US\$3.6m) pharmaceutical business. Kirin has also formed a strategic alliance with **Medarex Inc** of the US in January 2000. (May 6, 2000)

**Millennium Pharmaceuticals** of the US has extended its research agreement for **chemokine receptor antagonists**, *CCR1* and *CXCR3*, to **Kyowa Hakko** of Japan for 12 months. The agreement was originally signed between Kyowa Hakko and **Leukosite**, a company acquired by Millennium in 1999. The companies will also cooperate with **Warner-Lambert** of the US to conduct research on three other chemokine receptors, *CCR2*, *CXCR1* and *CXCR2*. (May 27, 2000)

**Mitsubishi-Tokyo Pharmaceuticals** of Japan has granted a global license, excluding Japan, for *MKC-733*, a **gastrointestinal kinetic**, to **Janssen**, a subsidiary of **Johnson & Johnson** of the US. Clinical development and marketing of the drug will be carried out by Janssen. Phase I clinical trials have been conducted in Japan and the UK, while Phase II will begin in Japan, Europe and the US. (May 27, 2000)

**Nihon Schering**, the Japanese subsidiary of **Schering AG** of Germany, is to acquire **Mitsui Pharmaceutical** of Japan for an undisclosed sum. Mitsui has 600 employees. It reported 1999 revenues of ¥12bn (US\$110m). (May 26, 2000)

**Nippon Boehringer Ingelheim**, the Japanese subsidiary of **Boehringer Ingelheim** of Germany, plans to increase its equity stake in **SS Pharmaceutical**, Japan's second largest OTC drug manufacturer, by 13.8% to 33.4%. SS Pharmaceutical manufactures and distributes drugs developed by Boehringer Ingelheim. (May 26, 2000)

**Takara Shuzo** of Japan intends to invest ¥6bn (US\$56.4m) to establish **Dragon Genomics**, a world class high-speed genomics analysis center, in Mie Prefecture. Takara will also double the DNA research facilities of **Takara Biotechnology (Dalian) Co Ltd** in Dalian, China. In a separate announcement, Takara

announced that it will conduct joint studies on therapeutic applications for gene-splicing technologies with **Nexell Therapeutics**, a biotech firm of the US. Takara has marketing rights in China, Japan, Korea and Taiwan for the product. (May 15, 2000)

**Toyama Chemical, Kitasato University and Kobe University** of Japan have developed a compound, which may be used to treat chronic arthritis. They will collaborate further to explore the potential applications of the compound. The clinical trials will begin in 2001. (May 15, 2000)

**Warner-Lambert KK**, the Japanese arm of US-based **Warner-Lambert**, has agreed to jointly market *Lipitor*, its drug for the **treatment of high cholesterol** with **Yamanouchi Pharmaceutical Co** of Japan. The two companies aim to reach sales of ¥51bn (US\$474m) per year in Japan. (May 10, 2000)

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## KOREA

**Hanall Pharmaceutical Co** of Korea has agreed to set up a JV with an undisclosed leading Japanese pharmaceutical company. It will also form a JV with a local biotechnology firm. (May 23, 2000)

**Hewlett-Packard Korea Co**, the Korean subsidiary of US-based **Hewlett-Packard**, has signed an agreement with **Macrogen** of the US, to establish a research center to study **bioinformatics and genomics**, to develop software programs and to digitize biotech and medical data. Macrogen, a biotech venture firm, has launched a program to study the ethnic Korean genetic structure. It has set up a database of human genome information on about 100,000 cases. Under the agreement, Hewlett-Packard Korea will provide high-performance computers and financial aids. (May 29, 2000)

**Kyowa Medex** of Korea has commercialized a **diagnostic agent**, *Determiner TBGL Antibody*, to identify blood antibodies in patients with tuberculosis

and a typical acid-fast bacteriemia. The technique was developed and patented by **Sawai Pharmaceutical** and **Ikuya Yano of Osaka City University** of Japan, and licensed to Kyowa Medex for commercialization. (May 20, 2000)

**LG Chemical**, one of Korea's largest pharmaceutical and chemicals companies, has signed a contract with **Elitra Pharmaceuticals** of the US, to jointly research, develop and market antibiotics. Under the agreement, LG will receive 50% of the revenues generated from the sale of these products. LG has agreed to invest US\$30m into Elitra Pharmaceuticals. (May 25, 2000)

**Rhein Biotech NV** of Germany will acquire an 80% equity stake in **Green Cross Vaccine Corp (GCVC)** of Korea for US\$110m. GCVC is the largest hepatitis C vaccine manufacturer in Asia, with revenues of US\$48.3m. The acquisition will make Rhein Biotech the third largest manufacturer of the hepatitis B vaccine worldwide. (May 18, 2000)

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## MALAYSIA

**Alcon Laboratories Inc** of the US has set up an office in Kuala Lumpur to expand its presence in Asia. The company first set up operations in Malaysia in 1974, to distribute its ophthalmic pharmaceutical, surgical and vision care products. Alcon has operations in 172 countries. (May 29, 2000)

**Berjaya Land Bhd** of Malaysia has acquired a 45.78% equity stake in **Gold Coin Bhd**, through its 73% owned subsidiary, **Portal Access Sdn Bhd**. Berjaya invested a total of RM105m (US\$27.6m). The company paid RM15m (US\$4m) upon signing the conditional purchase agreement. It will pay the remaining RM90m (US\$23.7m) by October 2000. Gold Coin, the Malaysian investment holding company that distributes pharmaceutical products, is Malaysia's sole distributor of the impotency drug, *Viagra*. (May 12, 2000)

**Indofarma**, Indonesia's state-owned pharmaceutical company, has signed a marketing agreement with **Enseval Putera Mega Trading (EPMT)**, a pharmaceutical distributor, to develop the market in Malaysia. EPMT is a subsidiary of **Kalbe Group**, one of Indonesia's largest pharmaceutical companies. Indofarma is also planning to be privatized in July 2000. (May 18, 2000)

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## SINGAPORE

**China Continental Inc** of Hong Kong is to acquire Singaporean biotechnology company, **International Biotech Laboratory**. As part of the US\$15m investment, it has identified a site for its R&D and production facility in Singapore. International Biotech develops and markets **novel therapeutic and diagnostic compounds** in Singapore. It will serve as the biotech and pharmaceutical arm of China Continental. (May 18, 2000)

**Merck Sharp & Dohme (MSD)**, a subsidiary of **Merck & Co** of the US, is to build a new pharmaceutical plant in Singapore. The US\$300m plant will produce ingredients for two of MSD's latest **arthritis and asthma medicines**. The plant is expected to come onstream in Q3 2001 and to reach full production capacity by Q4 2004. MSD recorded 1999 revenues of US\$830m for these drugs. (May 27, 2000)

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## TAIWAN

**Analytical Therapeutics Inc** of the US will set up a US\$25m clinical and pharmaceutical center in Taiwan. Analytical will make an initial investment of US\$15m. It has contacted several venture capital and biotechnology companies in Taiwan to raise the remaining US\$10m. (May 30, 2000)

## THAILAND

**Biolab Ltd** of Thailand, a pharmaceutical producer, has signed an agreement with **Boots (Thailand) Ltd**, a subsidiary **Boots Ltd** of the UK, to manufacture 12 medicines, including tablet-form **aciclovir, amoxicillin, aspirin, cimetidine, paracetamol, piroxicam and ranitidine**. Boots aims to increase its market presence in Thailand. (May 16, 2000)

**British Dispensary (LP) Co**, Thailand's oldest pharmaceutical business, will switch its focus from selling traditional medicines to selling herbal and other natural healthcare products. It has signed a distribution agreement with local distributors in Vietnam and will also distribute to Burma, China and India. (May 15, 2000)

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## VIETNAM

**Bayer Agritech Saigon**, the Vietnam-based subsidiary of **Bayer AG** of Germany, has expanded the production capacity of its Binh Duong plant. The US\$16.6m plant produces nutrition, hygiene, animal health and crop protection products. (May 23, 2000)

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## FOCUS

### Pharmaceutical distribution in Korea

Pharmaceutical distribution in Korea has long been under-regulated and is characterized by a high degree of corruption. **The Ministry of Health and Welfare (MOHW)** plans to impose a new medical system in July 2000 to draw a distinct line between the doctor's role of prescribing and the pharmacist's role of dispensing drugs. This move aims to regulate Korea's pharmaceutical trade and to prevent the abuse

and misuse of drugs. The following paragraphs provide an overview of pharmaceutical distribution in Korea.

**Current distribution methods** - Pharmaceutical manufacturers, retail distributors and wholesalers distribute pharmaceutical products in Korea to end users such as hospitals, clinics and patients. Prices are rarely fixed and are usually negotiated. High margins are offered to retailers and credit terms are prolonged to provide incentives to purchase certain pharmaceutical products. Free pharmaceutical products, including duplicates of products with expired patents and sometimes even cash of up to 10% on the retail price of drugs, are offered to private physicians and hospitals.

Hospitals, which sell medicine and drugs at higher prices, are able to prescribe and dispense excessive doses of medicine. Pharmacies, supermarkets and discount stores, on the other hand, are allowed to put OTC drugs on sale, sometimes at rock-bottom prices.

**New distribution system in July 2000** - to regulate the distribution system, the government will launch a fixed price system in July 2000 designed to prevent over and under pricing of products at the retail end. Hospitals will be banned from dispensing drugs to outpatients and pharmacists will be prohibited from dispensing prescription drugs without a doctor's prescription. Only suburban clinics will be allowed to dispense drugs to outpatients.

**Impact of the new medical system** - the new regulations are expected to have little negative impact on the income of doctors from government-owned hospitals, since their salaries are fixed. However, physicians from private hospitals who had previously enjoyed a 30%-40% margin through sales of pharmaceutical products, especially from duplicates of products with expired patents, will see their profit decline.

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The ethical and OTC distribution channels are expected to merge, with the distributors of ethical drugs making use of the OTC distribution network and expanding it in the process. At present, the ETC retail distribution network is not as well-developed and established as the OTC distribution network.

Distributors of pharmaceutical products will need to continue to build their relationships with both doctors and pharmacists, post implementation of the regulations. Promotion of drugs to doctors remains important as they retain the power to prescribe. It is also important for distributors to continue to market drugs to pharmacists, who can substitute generic brands for brand name medications at their discretion.

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### **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 Charles Maynard in New York, Euan Rellie in London, Andrew Huntley in Singapore or Frank Zhang in Singapore.

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