

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

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INTRODUCTION

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. 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 us in New York on (212) 265-5300 or in Singapore on (65) 533-8500.

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General Manager

CHINA/HK

Extrawell Pharmaceutical Holdings, the Hong Kong based drug manufacturer, launched its IPO during the last week of February. This distributor of pharmaceutical products for mainland hospitals raised US\$50m to fund expansion of its production facilities and distribution network. (March 11, 1999)

Guangdong Winnerway Holdings has signed an exclusive distribution agreement with **Smith & Nephew**, the London-based health care company, to market S&N's *Elastoplast* brand of first aid dressings in China. The move was encouraged by government reforms this year, allowing citizens to buy first aid items and prescription drugs and be refunded by state-funded health insurance. (March 9, 1999)

The **National Planning Committee of China** will increase the profit limit on medicine sales, allowing companies to obtain higher profits. This should help lure foreign investors to China's pharmaceutical market. China's sales volume in pharmaceuticals was RMB49bn (US\$5.9bn) in 1998, a 12.6% increase year-on-year. (March 4, 1999)

Shenyang Vitamins, a JV between **BASF** (70%) and the **Northeast General Pharmaceutical Factory** (30%) is bringing a new plant onstream at its Shenyang site for the production of dry vitamin powders and vitamin blends. The plant's capacity will be 2,400 tpa, and the products will be sold in the domestic market. (March 19, 1999)

Yunnan Green A New World LifeTech Biotechnology is a new JV company formed by **LifeTech** and **Yunnan Spirin** to research, develop, produce

and market a series of health foods, skin care and pharmaceutical products that use Spirulina as the basic ingredient. Spirulina is used in treating such ailments as leukopenia, hyperlipemia and body weakness. Sales of Spirulina in China, in the forms of *Green-A* tablets and *Spirin*, reached US\$7m in 1998. (March 3, 1999)

INDIA

The **Indian Government** has extended a 125% tax benefit to the pharmaceutical industry for in-house research and development expenditures, valid until March 31, 2005. The scheme is also applicable for corporations using external institutions for research and development. (March 3, 1999)

Natco Pharma of Hyderabad is refocusing itself after selling off several of its leading formulations and injectibles brands to **Sun Pharma** in order to improve its resource base. Though the formulations unit and injectibles unit were doing well, the bulk drug unit had become unprofitable. Natco has also taken cost-cutting measures and retired its high-cost debt in its quest to realign itself. (March 1, 1999)

UAS Laboratories of the US will acquire a 100% stake in troubled **Orissa Drugs and Chemicals (ODCL)** for Rup92.1m (US\$2.2m). ODCL was jointly owned by **Indian Drugs and Pharmaceuticals** and **Industrial Promotion and Investment Corporation of Orissa** to manufacture ethical drugs. (February 20, 1999)

INDONESIA

According to **Indonesian Ministry of Health** officials, at least 30 pharmaceutical firms have temporarily stopped production because of difficulties in obtaining raw materials. Approximately 80% of the

ingredients for the country's drug industry are imported. As a result, pharmaceutical sales have dropped by about 60%. (March 5, 1999)

JAPAN

Boots, the UK's leading retailer of health and beauty products, is expanding into the Tokyo region in a JV with **Mitsubishi**. The company has announced definitive contracts and will open its first personal care products store in Japan in Q3 1999. (March 4, 1999)

Chugai Pharmaceutical and **Eli Lilly** will establish a Tokyo-based JV company called the **Chugai Lilly Clinical Research Company**. The company will manage the development of selected Lilly compounds, *Prozac* and *Tomoxetine*, targeted for the Japanese market. Chugai will receive co-promotion and co-marketing rights to those products developed by the JV that are sold in Japan. (March 25, 1999)

Kanebo has announced that it will sell part of its drug operations to a Japanese subsidiary of the Netherlands-based **Akzo Nobel**. **Nippon Organon**, a 60-40% JV between **Organon**, the pharmaceutical arm of Akzo Nobel, and Japan's **Sankyo**, will take over the hospital pharmaceutical business in Kanebo's pharmaceutical division. 600 employees, products, property rights and facilities will be transferred. Kanebo will put more emphasis on its herbal remedies and general drug business. The move also matches Organon's strategy of strengthening its Japanese business. (March 2, 1999)

Kyuko Pharmaceutical and **Unik**, both based in Kyushu, are to merge during H2 1999 to form the ninth largest pharmaceuticals wholesaler in Japan. The revenues of the new group will be ¥170bn (US\$1.4bn). Kyuko is a subsidiary of **Yamanouchi Pharmaceutical** and Unik is part of **the Takeda Chemical Industries Group**. (March 1, 1999)

Sankyo has signed an agreement with US-based **Quark Biotek Inc (QBI)** allowing Sankyo to utilize QBI's

genomics technology to study non-insulin dependent diabetes mellitus on a genetic level. QBI will conduct a feasibility study on an insulin response route in specific target cells and carry out a large-scale gene search project. In addition to royalty payments, Sankyo will pay a US\$21.5m fee to QBI. (March 5, 1999)

Taisho Pharmaceutical and **Mitsubishi Chemical (MCC)** are jointly conducting clinical trials on MCI-255, a drug used to combat stress and depression. The new drug has been developed by MCC and will be sold independently by the two companies after it is approved. (March 18, 1999)

Zeneca has granted exclusive Japanese sales rights for *quetiapine fumarate*, used in the treatment of schizophrenia, to **Fujisawa Pharmaceutical**. **Sumitomo Pharmaceutical** is also seeking approval from the Japanese government for its schizophrenia drug, SM-9018, and **Eli Lilly Japan** is expected to apply for approval of a similar drug during 1999. Annual demand for antipsychotic drugs in Japan is estimated at ¥50bn (US\$420m). (February 17, 1999)

KOREA

The **Samsung Group** will sell 39% of its stake in a JV with **GE Medical Equipment** for US\$20m. Samsung will be left with a 10% stake in the firm and will use the proceeds from the deal to reduce its debt. **Samsung-GE Medical Equipment** posted W64.3bn (US\$5.2m) in 1998 revenues. (March 15, 1999)

InSite Vision of the US has signed an agreement to license its proprietary dry-eye treatment, *AquaSite*, to **Global Damon Pharm** of Korea. InSite develops ophthalmic pharmaceutical products based on proprietary eyedrop-based drug delivery technology. Global Damon will be the exclusive distributor of *AquaSite* in Korea for a period of 10 years. Global Damon will pay royalties to InSite Vision on net sales. InSite has signed a manufacturing agreement with **Kukje Pharma**, also of Korea, to produce the *AquaSite* brand locally. (March 4, 1999)

MALAYSIA

Pantai Medical Centre is building a hospital block to be devoted partially to women and children's health, specialist treatment and educational resources. The new block will have 358 beds and completion is expected in Q4 2000. Pantai Medical Centre is one of five hospitals under Pantai Holdings' Hospital Operations division. (March 4, 1999)

United Engineers Malaysia (UEM) has signed a JV with **Sabah Economic Development Corporation** to build six new hospitals in Sabah. The hospitals are in Lahad Datu (268 beds), Keningau (200 beds), Nabawan (76 beds), Kuala Penyu (76 beds), Pitas (76 beds) and Kunak (76 beds). A total of RM590m (US\$155m) will be invested in the project. (March 4, 1999)

PHILIPPINES

Abbott Laboratories, **Novartis** and **Warner Lambert** will close their Philippine units as a result of the 75% decline in domestic pharmaceutical sales in 1998. Abbott will close its plant in Mandaluyong City, which produces such products as *Seccon*, *Vidaylin*, *Gain* and *Grow*. Rumours suggest that Abbott will sell its Philippine based equipment for the production of intravenous solutions to **Euromed**. (February 18, 1999)

SINGAPORE

Bausch & Lomb has announced that its surgical equipment business should grow by 17% in Asia-Pacific in 1999. Apparently, its Asian contact lens and lens care division should see similar growth. Asia

accounted for 15% of the company's revenue of US\$2.4bn in 1998. The vision care market in Asia is worth US\$2bn and is growing by 10-15% annually. (March 3, 1999)

Parkway Group Healthcare is looking to expand its JV with **Charter Advantage** into Kuala Lumpur and Hong Kong to provide specialty medical services. Parkway is aiming first to enter a niche area and later to expand, according to Managing Director Dr. Lim Cheok Peng. (March 3, 1999)

Parkway Holdings has formed a venture with the **Guardian Pharmacy** chain to set up 40 clinics in Guardian Pharmacies in Singapore. Parkway will invest an initial US\$1m to expand its network of eight GP clinics to nearly 50 in Singapore by 2004. (March 6, 1999)

Schering-Plough has opened its second plant in Tuas to produce breath-activated non-CFC dry powder oral inhalers for asthma treatment. The US\$25m plant is expected to earn over US\$300m in annual sales of *Asmanex* after the year 2000. Schering-Plough has invested US\$285m in Singapore to date. (March 17, 1999)

TAIWAN

Quintiles Transnational has signed a letter of intent with the **Taiwan Ministry of Economic Affairs**, forming a long-term strategic relationship to accelerate the development of the country's pharmaceutical, biotechnology and medical device industries. The agreement also calls for Quintiles to assist the Ministry in establishing Taiwan as a leading authority in Asia for regulatory approval of new medicines. (March 3, 1999)

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THAILAND

Allegiance Healthcare, the surgical glove manufacturer, has invested US\$45m in Thailand to build a new manufacturing facility. Reasons for this investment include attractive tax incentives and the pioneer status awarded by the Thai government. The new facility is expected to start operations in 2000 and will have an annual production capacity of one billion items. (March 10, 1999)

Bangkok General Hospital and **Phyathai Hospital** are two of the private hospital chains that are expected to form alliances over the next five years in an attempt to stave off financial difficulties caused by fewer patients. The economic crisis, combined with an oversupply of hospital beds, has led to a 50% decline in occupancy rates. Hospitals are reporting a 1998 revenue drop of 10-15%. (March 1, 1999)

VIETNAM

The **Medical Technological Company** has opened a private hospital, **Thang Long General Practice Hospital** in Hanoi. The hospital will specialize in treating kidney diseases, rheumatism, hemorrhoids, spinal problems and tumors, with the use of lasers. (February 22, 1999)

Mega Products of Thailand wants to expand its distribution of pharmaceutical, consumer and health-care products in Burma, Cambodia and Vietnam by inviting other manufacturers to join its network. The company hopes to build on its strong distribution network for products from Thai firms, and will focus on medicines, medical devices, disposal equipment and consumer products. It has the capacity to deliver pharmaceutical products to more than 4,500 pharmacies and hospitals in Vietnam. (February 23, 1999)

The Vietnamese Ministry of Health will spend VND20bn (US\$1.5m) to build 218 commune clinics and provide medical equipment to 1,000 poor communes in 1999. It will also spend VND470bn (US\$33.6m) to build two specialized healthcare centers for the central region, one in the **Hue Central Hospital** and the other in **Da Nang Hospital**. These centers will be used to conduct research and to train medical staff. (March 9, 1999)

FOCUS:

Indian Pharmaceutical Firms

India's economy slowed in 1998, but the impact from the regional crisis in Asia has been limited. Nevertheless, although India had a 1998 growth rate of 5%, making the country one of Asia's best economic performers, it is still plagued by structural problems. India's economy remains one of the region's most highly regulated, state-dominated and protected. This has constrained the development of a dynamic domestic industrial base and has reduced the ability of India to compete with other Asian countries in an increasingly competitive export market. As a result, India is set to record continuing high fiscal deficit figures and a falling share in total world trade.

The one-year old BJP government promises, however, to deregulate certain key sectors of the economy as the party's *swadeshi* policy (India for Indians) has been increasingly criticized. The speed at which India can implement reforms and further open up the economy is still a subject of debate, but the BJP has, at times, proved itself to be surprisingly progressive.

Pharmaceutical Sector Overview

The pharmaceutical sector remains one of the India's least regulated sectors and attractive to international investors. There is, however, currently a ban on the export of drugs that are not marketed in India. Talks are underway to withdraw this restriction. On the domestic front, pros-

pects remain positive as pharmaceutical sales have grown at an average of more than 12% pa in the last five years.

There are currently over 23,000 Indian companies manufacturing bulk drugs and other pharmaceuticals. Increased competition has rendered price controls redundant and, as a result, cheap generic drugs have flooded the market since 1995.

Despite the abundance of drug companies, the top 20 companies account for nearly 50% of total drug sales. While 300 companies produce bulk drugs, the majority of the rest are small-scale formulators that operate in regional markets, buying generics and converting them to finished dose forms.

Patent reform has made the Indian pharmaceutical sector more attractive to foreign corporate investors. Indian patent regulations, previously, allowed only a process to be patented. Thus, a drug itself could not be patented, only the process by which the drug was created was protected. This loophole had allowed companies to effectively produce the same drug, albeit by a different method. Patent reform has closed this loophole, allowing firms to patent the drug itself.

The most attractive prospects for foreign investors lie with the top 20 companies. These companies are in constant competition, vying for increased market share of the domestic market. Recent competitive trends include the increased production of value-added formulations, an increase in the number of mergers and acquisitions and the development of export markets for high-value bulk drug formations. Potential investors should also take into consideration a company's domestic distribution capability as companies have successfully expanded beyond their original regional network. Below we have profiled some of the leading Indian pharmaceutical firms.

Company Profiles

1. CIPLA LIMITED

Background: Cipla Limited manufactures fine chemicals and pharmaceutical products. The company manufactures antiasthmatic, anticancer, antiinflammatory, antidepressant and other drugs.

Range of activities: Tablets and capsules accounted for 65% of fiscal 1998 gross revenues; chemicals (including malts), 14%; aerosols, 9%; injection sterile solutions, 5%; liquids, 5% and creams, 2%.

Financial: Mkt cap: Rup28.7bn (US\$678m)
1998 Revenues: Rup4.8bn (US\$42.3m)

Senior management: Chairman & Managing Director, Y.K. Hamied

2. DR. REDDY'S LABORATORIES LIMITED

Background: Dr. Reddy's Laboratories Limited manufactures and markets pharmaceutical products. The company has three bulk drug manufacturing plants and one formulation manufacturing plant. The company exports its products to the United Kingdom, Switzerland, Germany, Spain, Russia and Netherlands. During fiscal year 1998 the group launched three brands: *Clamp*, *Reclide* and *Becelac*. Cheminor Drugs, a unit of Dr. Reddy's, develops, manufactures and markets bulk drugs, intermediates and other related products in India. Cheminor is the third largest manufacturer of Ibuprofen in the world and the largest in Asia.

Range of activities: Formulations accounted for 62% of fiscal 1998 gross revenues; bulk drugs, 35% and reagent kits control, standards, analytical reagents, diagnostic machinery and kits, 3%.

Financials: Mkt cap: Rup22.4bn (US\$528m)
1998 Revenues: Rup2.97bn (US\$70.2m)

Senior management: Chairman, K.A. Reddy; Managing Director, K.S. Reddy

3. J.B. CHEMICALS & PHARMACEUTICALS LIMITED

Background: J.B. Chemicals and Pharmaceuticals Limited develops, manufactures and markets tablets, bulk drugs and also ampoules, vials, liquids, capsules, ointments, cartridges, powder and other pharmaceutical products in India and abroad.

Range of activities: Tablets accounted for 31% of fiscal 1998 gross revenues; liquids, 26%; ampoules/vials, 18%; bulk drugs, 13%; capsules, 6% ointments and other, 6%.

Financial: Mkt cap: Rup1.3bn (US\$30m)
1998 Revenues: Rup1.8bn (US\$42.3m)

Senior management: Chairman & Managing Director, J.B. Mody; General Manager/Finance, N. Balasubramanian

4. NICHOLAS PIRAMAL INDIA LIMITED

Background: Nicholas Piramal India Limited manufactures and markets pharmaceutical products, bulk drugs, skin care products, sodalime and borosilicate. The company's products constitutes of tablets, capsules, liquids, powders, creams and ointments.

Range of Activities: Pharmaceutical products accounted for 50% of fiscal 1998 gross revenues; sodalime, 13%; trading products, 9%; intermediates, 8% and other, 20%.

Financial: Mkt Cap: Rup11bn (US\$283m)
1998 Revenues: Rup4.5bn (US\$115)

Management: Chairman, A.G. Piramal; Managing Director, C.M. Hattangdi; CFO, M.S. Gupta.

5. RANBAXY LABORATORIES LIMITED

Background: Ranbaxy Laboratories Limited develops, manufactures and markets pharmaceutical preparations, diagnostic substances, fine chemicals, animal health care products and surgical dressings. The company is the second largest pharmaceutical company in India and produces more than 18% of India's total bulk drugs and ethical pharmaceutical brands.

Range of activities: Bulk pharmaceutical and intermediates accounted for 37% of fiscal 1998 gross revenues; tablets, 20%; capsules, 16%; injectible vials, 5%; ointments, 4%; dry syrups/powders, 4%; ampoules, 4%; liquids, 3% and laboratory reagents and other, 7% The company operates in India, the rest of Asia, North America, Europe and Africa.

Financials: Mkt cap: Rup71.5bn (US\$168m)
1998 Revenues: Rup11.5bn (US\$274m)

Senior management: Chairman & Managing Director, P. Singh; President, D.S. Brar; Vice-President Finance, V.K. Kaul

6. SUN PHARMACEUTICAL INDIA LIMITED

Background: Manufactures and markets bulk drugs and long-term therapeutics. Sun produces for the local market and export. The company has decided to concentrate on cardiology, psychiatry, GI tract and neurology. It is also developing oncology and diabetes brands. Sun is well regarded by equity analysts and other pharmaceutical players.

Range of Activities: Brands launched in the past four years account for 30% of turnover. Cardiology products accounted for 25% of FY98 sales, psychiatry for 23%, GI tract for 11% and neurology 11%.

Financials: Mkt Cap Rup4.5bn (US\$113m)
1998 Revenues: Rup2.8bn (US\$72m)

Senior management: Chairman, Shantilal Shanghvi; Managing Director, Dilip Shanghvi; Director, Narendra Borkar.

7. TORRENT PHARMACEUTICALS LIMITED

Background: Manufactures and markets pharmaceutical products, bulk drugs and medical equipment. Products are manufactured in the form of tablets, capsules, injections, vials, ointments and other related products. Signed an agreement with **Sanofi Pharma** in 1996 for setting up a 50:50 JV in India. The agreement provides for setting up of the JV to develop, manufacture and market medical formulations of the two partners in India, Nepal and Bhutan.

Range of activities: Pharmaceutical products accounted for 99% of fiscal 1998 gross revenue and bulk drugs and medical equipment, 1%.

Financials: Mkt cap: Rup1.4bn (US\$35m)
1998 Revenues: Rup3.2bn (US\$78m)

Senior management: Chairman, U.N.Mehta; Vice Chairman, Samir U Mehta.

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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 Euan Rellie or Charles Maynard through our New York office, or Andrew Huntley in Singapore.

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