Johnson & Johnson Upbeat about Asia-Pacific Growth

Far from being a mere producer of baby needs, as is the general perception, Johnson & Johnson occupies a position as one of the leaders in the healthcare and pharmaceutical industry. In fact, sales from its products for general consumer use account for only 8.5% of the group’s pre-tax profit, while pharmaceuticals and professional services account for 58.2% and 33.3%, respectively.

With the establishment of overseas offices in India, Malaysia, New Zealand, China and South Korea, Johnson & Johnson is fast making inroads into the Asia-Pacific region. Currently, the group’s regional headquarters in Singapore oversees business development in these countries. According to Michael Yates, president of the Asia-Pacific operation, the future direction of the group lies in this region. He cited as one reason the double digit growth found only in the region, adding that he is not worried about the financial crisis now gripping Asia, as the company’s products are by and large inelastic to the crisis. He is confident that Asia will recover from though the pace of growth will slowed down as a result.

In order that its products meet the requirements of consumers in the region, Johnson & Johnson has already set up chemical plants in Japan, South Korea, the Philippines, China and India. Products manufactured in these plants are for both the local markets and exports. In addition, a research center has been established in Manila, staffed by 70 employees, to analyze markets needs as well as to coordinate with the main research base in Los Angeles so as to manufacture products that will meet the preference of Asians.

As has been pointed out by Michael Yates, the group’s policy is that products will not be imported directly and wholly from the US without modifications, as is necessary for the Asia-Pacific market. As a case in point, the composition of the components of Neutrogena, a skin protector recently put on the market, has been modified to suit the moisturising requirements of Asians. However, Yates was quick to point out that what suit Koreans and Japanese, for example, may not suit the Indians, and as such, the company will not cease in their research of new products. Ultimately, Johnson & Johnson aim to “own the world’s most advanced technology to provide consumers in all four corners with customized products.”

Interestingly, market research carried out by the company showed that Europeans and Americans use two to three kinds of shampoos and skin care products in general, whereas Japanese and other Asians use as many as seven to eight kinds of products. The rise of the middle class, therefore, brought with it new business opportunities to the company.

Comparing the difference in consumer taste between Asians and Europeans, Yates said that Asians are more sensitive to the effect of sunlight on their skin. Generally they like to look fair and are careful about skin problems. Also, they do not like strongly fragrant products. Asian consumers mix and match products in a complicated manner and the company aims to match the complexity.

Last year alone, Johnson & Johnson spent some US$190 million globally in research and development. Currently, J &J Asia-Pacific Group accounts for 12% – 13% of the Group’s total sales, with revenues of some US$850 million in total. According to company source, Asia has shown the greatest and fastest growth in all three main business segments. China alone, is immense. So far, business growth in China has been a double digit figure, with business in Shanghai doubling last year. Therefore, although business in Southeast Asia may slow down somewhat, that in China is expected to continue to accelerate so that, as a whole, the group will still move the fastest in the Asia-Pacific region.

For the first nine months of 1997, consolidated net earnings for Johnson & Johnson amounted to US$2.7 million, or $2.00 per share, compared with US$2.3 million, or $1.75 per share, for the first nine months of 1996. Yates’ advice for business in the region is: “If you are serious about investing in Asia, you cannot pull out because of some short term difficulties. Instead, one should be prepared for all possibilities to occur. We are prepared and we will continue to grow.”
Chiron Diagnostics Signs Technology Transfer Agreement with Chinese Company

Chiron Diagnostics Corporation, the business arm of Chiron Corporation, a major biotechnology company which combines diagnostic, vaccine and therapeutic strategies against human diseases, has signed a technology transfer agreement with Shanghai Long March-Trace Medical Science Co. Ltd. for the manufacture and distribution of Chiron Diagnostics’ Critical Care and Routine Chemistry Reagents in China. Chiron Diagnostics will acquire 22% of the equity interest in the joint venture company and hold two seats in its Board of Directors. The joint venture company has changed its name to Shanghai Long March-Trace Chiron Medical Science Co. Ltd. and its headquarters will be set up in Shanghai.

Chiron Diagnostics Corp. provides physicians with the biological technologies, chemistry and advanced systems needed to manage therapies and help patients to understand the diseases they are afflicted with. It is the business unit of Chiron Corporation whose headquarters is located in Emeryville, California. Chiron Corp. is the second largest biotechnology company in the world, with more than 7000 staff in its employment. Chiron Diagnostics employs approximately 3500 staff and has operations in 20 countries. The company’s products include automated instrumentation, reagents, controls, and nucleic acid diagnostics to quantify viral loads. Its advanced diagnostics technologies are mainly in critical blood analysis, clinical chemistry, endocrinology, infectious diseases, allergy, and oncology. Chiron Diagnostics sells its products to more than 90 countries worldwide.

Shanghai Long March-Trace Medical Science Co. Ltd. was established in 1989 as a joint venture between Shanghai Likang Industry & Commerce General Corporation (Shanghai), Wearmax Holdings Ltd. (Hong Kong) and Trace Scientific Ltd. (Melbourne, Australia). It produces and retails a complete line of in vitro diagnostic reagents for clinical chemistry, immunology and microbiology. The company, which has its headquarters in Shanghai, boasts a new manufacturing facility and an extensive country-wide distribution system.

It is hoped that the new joint venture will help Chiron Diagnostics establish itself as a major supplier of imported and locally-manufactured critical care, immunodiagnostic and clinical chemistry systems for the Chinese market, a key strategic market. The partnership will also bring long-term benefit to Shanghai Long March-Trace Medical Science Co. Ltd. in terms of sales and in the area of collaborative research.

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Peptide Technology Ltd., also called Peptech, is an Australian-based company with a mission in developing, manufacturing and marketing peptide-based therapeutic drugs for the human and veterinary markets. The company was established in 1986, and its activities are based principally in Australia and the UK. Peptech employs approximately 120 staff worldwide, with 35 employees based in Sydney. It has several subsidiary companies, namely Peptech (UK), Peptech (Europe), and Peptech Animal Health, which has been a wholly-owned subsidiary since 1995. The company has formed essential links with important research institutions in Australia and internationally, including the Commonwealth Scientific and Industrial Research Organization (CSIRO), the Medical Research Council (in the UK), and the Shemyakin Institute and Immunology Institute in Russia. Peptech has been listed on the Australian Stock Exchange. It is now seeking secondary listing on the London Stock Exchange.

Currently, Peptech’s focus is more on product development rather than on manufacturing. Their emphasis in pharmaceuticals is on the development of products for treating cancer, infection and inflammation. In the veterinary area, the focus is on products for fertility control. At present, the company has a number of pharmaceutical and fertility-based products undergoing clinical and field trials.

As part of Peptech’s plan to focus on its proprietary products and to cut down on expenditure, the company underwent restructuring in 1996. The CEO, Dr. Roger Aston, who oversaw the restructuring, said that Peptech will now concentrate on the development of new products that would earn revenue for the company for the next few years. The company has also signed several strategic alliances, one with Allergan, Inc., in the human pharmaceutical field, and another with Fort Dodge and Boehringer Ingelheim to develop veterinary products.

Since its establishment, Peptech has successfully manufactured products in the pharmaceutical and animal health fields.

**Pharmaceutical Products**

- **GMDP**
  
  GMDP (Glucosaminylmuramyl-dipeptide) is Peptech’s main product in the area of infection and inflammation. It is an immunomodulator which is an analogue of the muramyl dipeptide. GMDP was originally developed in the 1970s at the Shemyakin Institute for Bio-organic Chemistry in Moscow. GMDP activates macrophages to release cytokines and colony stimulating factors (CSFs). These factors stimulate the differentiation of hemopoietic cells and they also stimulate macrophages and neutrophils to clear infections. GMDP is advantageous over other similar products made from G-CSFs (such as Filgrastim and Lenograstim) in the market because it is a small protein component and is acid-resistant, thus it is orally active and can be administered in the tablet form. It is also more affordable than G-CSFs and may be more suitable for patients who are less severely ill.

  GMDP was first registered in Russia in 1995 under the trade name Likopid®. It was used for the treatment and prevention of surgery-related infections and for the treatment of psoriasis, an auto-immune inflammatory disease which causes epidermal thickening and scaling skin. Peptech (UK) is responsible for the commercialization and sale of the product in Russia. In 1995, Peptech signed an agreement with Allergan, Inc. (USA) to license GMDP for the treatment of psoriasis. Both parties will conduct clinical trials on GMDP (at Peptech UK) and fund further developmental work. Allergan is also investigating the potential uses of GMDP in ophthalmologic infections caused by herpes virus.

  GMDP has also been applied in the treatment of neutropenia, a result of cancer chemotherapy. GMDP stimulates the release of CSFs to modulate the proliferation and differentiation of immune cells including macrophages and neutrophils from the bone marrow. This helps to reduce infection and allows higher doses of chemotherapy drugs to be used. GMDP is currently undergoing phase II trials in Australia. Peptech has obtained patents for the product in the US, Japan and some European countries. It is applying for patents for other uses of GMDP. The company is hopeful that GMDP will have routine clinical application by the year 2001.

- **Novel peptides (PTL 78419)**
  
  PTL 78419 is a novel peptide which has been designed as an analogue of a portion of the macrophage-derived cytokine Tumor Necrosis Factor (TNF). PTL 78419 was selected for its antimicrobial activity. It has the ability to activate neutrophils and macrophages to produce oxygen free radicals. The peptide has applications in the treatment of opportunistic infections in immunocompromised patients and as an adjunct to antibiotic treatment in diseases such as tuberculosis. PTL 78419 will be undergoing phase I trials. Worldwide patents have already been granted for it and other TNF against peptides.

- **Naturally-occurring carnosine**
  
  This product was developed with the cooperation of CSIRO. Due to the anti-oxidative ability of carnosine, which is found in meat to turn brown. Because of these properties, carnosine has...
been licensed to cosmetic manufacturers, where it has therapeutic applications in age-related problems, and as a food supplement. Currently, Peptech is collaborating with research groups in Australia to investigate the development and application of carnosine in the inhibition of glycation in diseases such as diabetes and Alzheimer’s disease.

**Peptide antagonists**

Peptech has been in collaboration with the Imperial Cancer Research Fund (ICRF) in the UK to synthesize improved ‘second generation’ peptide antagonists with greater stability and effectiveness in binding to tumor cell surface to block the activity of growth factors like substance P and vassopressin. This project has significant commercial potential. Peptech has also undertaken a joint project with the Women’s and Children’s Hospital in Adelaide and the Australian National University to develop anti-inflammatory drugs from modified polyunsaturated fatty acids (PUFA). The targets for these new drugs are the treatment of asthma, eczema and ulcerative colitis.

**Peptide T**

This octapeptide has anti-inflammatory properties and can block some TNF activity. Peptech is currently seeking new projects from local and foreign research groups to study and conduct clinical tests on Peptide T’s effectiveness against inflammation induced by the herpes viruses.

**Animal healthcare products**

**• Deslorelin (Trade name Ovuplant®)**

This is the company’s major product. It is a controlled-release peptide which can be implanted in mares to induce ovulation. The peptide is a 9-amino acid analogue of gonadotrophin-releasing hormone (GnRH). The product was manufactured in Sydney and has been marketed in Australia, New Zealand and Canada since 1995. Peptech is currently applying for registration in other parts of the world. If it is successful, Ovuplant® is expected to achieve an annual sales of A$5 Million (US$3.2 million) within a few years in the US.

**• Vaxstrate®**

This product is a vaccine against GnRH. It is used to block fertility in female cattle. This product is essential in outback areas of Australia where bull control is difficult.

Peptech Animal Health is also conducting research in other areas of reproductive technology. In the pipelines are some products based on GnRH including the control of ovulation in cattle and the delay of reproduction in heifers to improve their reproductive efficiency. Other products being developed are based on anti-GnRH vaccine technology.

**Antibody-Based Therapeutics**

Cambridge Antibody Technology (CAT) in the UK was established as a joint venture with Peptech in 1990, in collaboration with the Medical Research Council. The company specializes in building genetic libraries of antibody fragments. From these fragments, antibodies of any specificity can be created in vitro without the need for immunization. This technology has wide applications in therapeutics, diagnostics and research. The market for antibody-based therapeutics is estimated at US$5 billion by the year 2000. Recently, CAT entered a joint venture with Techniclonse International Corporation from the US to develop products for cancer therapy and diagnosis. The venture will combine the expertise of CAT’s antibody technique and Techniclone’s Tumor Necrosis Technology to produce human monoclonal antibodies to deliver radioactive substances to tumors.

**Future Directions for Peptech**

Peptech’s focus has shifted from manufacturing to the development of essential revenue-yielding projects. Over the next few years, the company envisions that its main obstacle will be to obtain efficacy data and registration of GMDP in Europe and the US. However, following registration of GMDP, Peptech can expect to generate profits of about A$ 50 million (US$32.2 million) annually. The income will mainly be derived from GMDP and other products from their animal fertility projects.

The company’s most important news is its expected listing on the London Stock Exchange by the end of 1997. This would provide the company with a wider range of investors. In preparation of the listing, Peptech has appointed Nomura International, a major investment bank, to be its sponsor. The bank, which has expertise in biotechnology and pharmaceuticals, will advise Peptech and aid in raising funds for research of their key projects.

The US Patent & Trade Office has approved grant of a patent on GMDP, in the treatment of inflammatory conditions due to infections. This grant will provide a strong support for further developmental work for GMDP in Europe and the US. The key application is in the treatment of infections associated with cancer chemotherapy. Europe and the US have also granted patents on the peptide antagonist PTL 78419, which is developed for application in association with antibiotics in the treatment of chronic infections. Clinical trials for the drug were carried out in 1997.

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Healthcare Groups Seek Opportunities to Invest in Thailand and Indonesia

Singapore-based healthcare groups are seeking opportunities to expand their operation into Thailand by investing in the country's overbuilt private hospitals. Among these are Vista Healthcare Asia and AsiaMatrix.

Many of Thailand’s private hospitals have overbuilt and are now facing mounting foreign debts, mostly US dollar-dominated loans. In order to find a way out of the current financial difficulties, many of the hospitals are looking for supplementary investors with the required capital and expertise. Industry sources said that at least 10 hospitals and healthcare groups, including listed companies, are looking for foreign investors to take a stake in their operations. It is not uncommon that the larger groups run a chain of hospitals in Bangkok and elsewhere.

According to Peter Cunningham, a healthcare consultant with Coopers & Lybrand Marc J. Consultants, overbuilding of hospitals in Thailand in the last 15 to 18 months could be attributed to earlier government policies of offering subsidies such as cheap loans and duty-free capital equipment to private hospitals. Some of these hospitals later borrowed more money and went on to acquire more hospitals in the hope to seize a bigger market share. One source said that with the foreign exchange risk and the softening private-sector market, the hospitals have been unable to generate enough revenue and therefore have ended up heavily in debt.

The consultant also noted that private hospitals in Indonesia face similar problems but not of the same scale. On the other hand, the Philippines has not built any major hospitals in the last 20 years, while in Malaysia, opportunities for investment are not many as a number of private hospitals have already been bought up by big healthcare groups.

Commercially, it made sense for expanding healthcare groups to buy a stake in existing hospitals rather than building a new one, as it would take about six years for a new hospital to become profitable.

Vista Healthcare Asia, which has recently teamed up with a Philippine consortium to build a hospital and medical center in Manila, has been in discussion with hospitals in Thailand. AsiaMatrix has also been actively seeking opportunities for investment in hospitals in the region, particularly in Indonesia.

According to Peter Cunningham, it is a good time to invest in Thailand and Indonesia because of their newly created private health insurance markets. The reason is the strong encouragement given by the two governments for the development of a private health insurance market. The outcome of this is that a private healthcare market has evolved as more patients are able to avail themselves of private healthcare without having to pay out of their own pockets.
China National Fisheries Corporation Seeks Hong Kong Listing

The largest deep-sea fishing company in China, China National Fisheries Corporation (CNFC), is actively preparing itself for listing in Hong Kong’s H shares following its successful listing in Shenzhen A share market in November 1997. The company is one of the few companies selected for overseas listing by the authorities.

CNFC is a conglomeration of China Marine Fishing Company, China Aquatic Products Supplier and China Aquaculture Company. Its main business scope includes ocean fishing, aquaproucts processing, domestic and foreign trading, building fishing vessels, producing diesel oil engine for vessels, manufacturing fishing equipment and construction of fishing ports. CNFC is one of the 100 enterprises identified by the State Council to adopt a modern management system as well as one of the 120 state appointed companies to participate in the ‘group enterprise pilot scheme.’

For the purpose of listing in Shenzhen, CNFC had set up the Zhongshui Group. The group comprises two subsidiaries of China’s National Fishing Corporation and also part of the parent company’s assets.

### Assets of the Zhongshui Group

**From the parent company:**
- 8 large scale professional squid jiggers from their Pacific Ocean marine fishing fleet
- departments dealing with supply, logistics, compensation as well as import and export matters
- other related assets and liabilities

**From CNFC Zhoushan Marine Fisheries Company:**
- two large scale trawlers used mainly in cod trawling activities in North Pacific Ocean
- five large scale squid jiggers
- other related assets and liabilities

**From CNFC Yantai Marine Fisheries Company:**
- three large scale trawlers used mainly in cod trawling activities in North Pacific Ocean
- six large scale squid jiggers
- one refrigerated carrier
- other related assets and liabilities

### Performance of the Zhongshui Group

<table>
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<tr>
<th>Particulars</th>
<th>Jan-Jun 97</th>
<th>96</th>
<th>95</th>
<th>94</th>
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<tbody>
<tr>
<td>Income from main business</td>
<td>327.9</td>
<td>746.4</td>
<td>641.5</td>
<td>313.9</td>
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<tr>
<td>Total Profit</td>
<td>14.1</td>
<td>146.6</td>
<td>140.2</td>
<td>48.3</td>
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<tr>
<td>Net profit</td>
<td>8.7</td>
<td>98.2</td>
<td>140.2</td>
<td>48.3</td>
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</table>

The assets of Zhongshui Group will be part of the new H share company that will also reflect major asset restructuring of the controlling company. Net asset value of the group is estimated to be worth about 270 million yuan (US$32.6 million). The Zhongshui Group has offered 63 million public ‘A’ shares through Shenzhen Stock Exchange at a price of 7.24 yuan (US$0.87) with a PE ratio of 14.2. The group hopes to raise 456 million yuan (US$55.1 million) through this.

### Structure of CNFC

CNFC consists of the following:

- Zhoushan Marine Fisheries Company (舟山海洋渔业公司)
- Yantai Marine Fisheries Company (煙台海洋渔业公司)
- Zhangjiang Marine Fisheries Company (湛江海洋渔业公司)
- CNFC, Dalian Fishing Vessels Company (大连漁輪公司)
- CNFC, Guangzhou Port Construction and Engineering Company (廣州建港工程公司)
- CNFC, Zhibo Diesel Oil Engine for Fishing Vessel Company (淄博漁輪柴油機廠)
- CNFC, Nantong Haishi Vessel Engineering Company (南通海獅船舶機械公司)
- CNFC, Wenzhou Fishing Machinery Plant (溫州漁業機械公司)
- CNFC, Rongcheng Fishery Wirope Manufacturing Plant (榮成漁業鋼絲繩廠)
- CNFC, GuangHai Fishery Wirope Manufacturing Plant (廣海漁業鋼絲繩廠)
- CNFC, Huanong Company (中國水產華農公司)
- CNFC, Shanghai Company (中國水產上海公司)
- CNFC, Tianjin Company (中國水產天津公司)
- CNFC, Ningbo Company (中國水產寧波公司)
- CNFC, Ocean Fishery Ltd. (中海水產漁業有限責任公司)