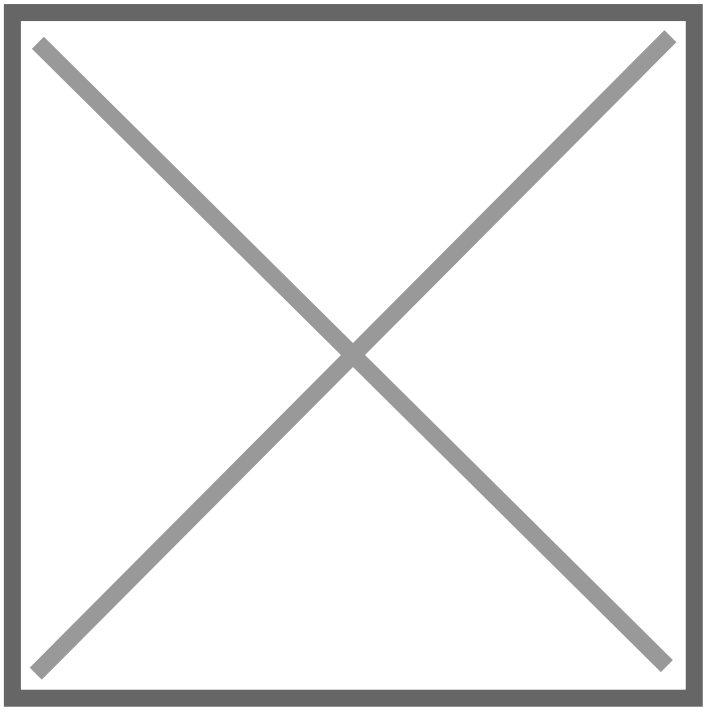
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'We'll expand beyond China'

06 August 2007 | News



'We'll expand beyond China'

-Xiaochun Wang, Chairman & CEO, Tongjitang

In March 2007, Tongjitang Chinese Medicines Company became the first traditional Chinese medicine manufacturer to get listed on the world's biggest stock exchange NYSE.

Tongjitang is a vertically integrated specialty pharmaceutical company. Its flagship product, Xianling Gubao, is the leading traditional Chinese medicine for the treatment of osteoporosis in China. In addition to Xianling Gubao, the company manufactures and markets 10 other modernized traditional Chinese medicine products and 37 western medicines. Some excerpts from an e-mail interview with Xiaochun Wang, Chairman and CEO, Tongjitang.

Why did Tongjitang decide to raise funds through an IPO?

We decided to raise funds through an IPO for several reasons, which are also tied to why we selected the NYSE for Tongjitang's IPO. The traditional Chinese medicine (TCM) industry is a highly fragmented sector in China, with over 1,500 manufacturers but an average annual sales of less than RMB100 million each. We expect consolidation to occur in the coming three to five years, and we consider Tongjitang to be uniquely positioned to be a leading consolidator in this sector. Our publicly traded shares, traded on the NYSE, could be an effective M&A currency, helping us in achieving our M&A target.

Tongjitang's listing at the NYSE is a perfect combination of traditional Chinese culture with modern international capital market. The listing will enhance our brand image in our home market in China.

How is Xianling Gubao manufactured?

Like many of the traditional Chinese medicine manufacturers in China, Tongjitang produces its products in modernized formats. Taking Xianling Gubao as an example, we wash, chop and boil the herbs in cylinders (which is similar to the traditional way, but on a much larger scale and in a more controlled environment), and then desiccate the paste into concentrates. The concentrates will be filled into capsules and the capsules will be sent for packaging.

Xianling Gubao, the medicine for osteoporosis has done tremendously well. What is the future plan for this drug?

Xianling Gubao is both a prescription and OTC medicine, which could be sold in both hospitals and retail pharmacies.

As a prescription drug, Xianling Gubao was approved for four diagnoses, namely osteoporosis, osteoarthritis, ischemic necrosis and bone fracture. In the past, we mainly focused on promoting Xianling Gubao to the medical community for its treatment of osteoporosis. Currently, we are conducting a phase IV clinical trial on Xianling Gubao's prevention against ischemic necrosis caused by taking steroids. We expect to collect data of the trial in the second half of 2008, and we believe such data will facilitate us to expand the sales of Xianling Gubao in hospitals.

Till date, we have built up a sales force of over 1,000 employees and our distribution network consists of more than 2,000 distributors covering all provinces in China. According to government statistics, by the end of 2006, there were 19,246 hospitals in China. In the first quarter of 2007, Xianling Gubao penetrated into about 2,350 of them. It is estimated that there are approximately 2,50,000 retail pharmacies in China. In the first quarter of 2007, Xianling Gubao was sold in over 34,000 drug stores. Based on these numbers, we believe that there is still considerable room for us to enhance the penetration of Xianling Gubao into both prescription and OTC markets. In order to achieve this purpose, we are expanding our sales force with the target enlarging our OTC sales team and the prescription sales team to 900 persons (over 700 right now) and 430 persons (over 380 persons right now), respectively, by the end of 2007.

Despite government price reductions, how has Tongjitang managed to achieve strong sales in the first quarter of 2007?

We managed to achieve strong sales in the first quarter of 2007 due to increased demand for our leading products, which directly reflects continued growth of the core osteoporosis market, our position as the leading and trusted brand, as well as effective marketing campaigns begin last year. Specifically, revenue increased 37 percent year-over-year to $19.2 million, (RMB 148.3 million) driven by Xianling Gubao, which grew 76 percent year-over-year to $15.0 million (RMB 116.1 million).

Also note that our efforts to diversify our product portfolio and revenue stream were apparent in Q1 results, as net revenue from core products excluding Xianling Gubao increased 446 percent year-over-year to $2.5 million (RMB19.1 million), reflecting effective marketing and promotions begun in the second half of 2006.

Can you give an outline of your product portfolio?

As of today, Tongjitang regularly produces and markets 48 products, including 11 modernized traditional Chinese medicines and 37 Western medicines. We have four principal products and all of them are modernized traditional Chinese medicines:

- Our flagship product, Xianling Gubao, is for the treatment of osteoporosis, osteoarthritis, ischemic necrosis and bone fracture for its prescription indications, and for the treatment of osteoporosis for its OTC indication;
- Zaoren Anshen Capsules is for the treatment of insomnia to improve sleep quality;
- Moisturizing and anti-itching capsules is for the treatment of severe itchiness caused by multiple conditions;
- Dianbaizhu syrup is for the treatment of vertigo or dizziness.

All of these products are for common ailments that have large and addressable markets in China. Some of these markets are poised to exhibit demographic growth in the future, especially as the aging population takes up a larger and larger percentage of China's total population over the next decade.

In addition to our existing product portfolio, we have 11 pipeline products at various development stages.

What is the company's presence in countries other than China?

In the past, we achieved all of our sales within Mainland China. We will consider expanding our market overseas in the long run. We are cooperating with Synarc, a US clinical trial company, to conduct a phase IV clinical trial of Xianling Gubao for the treatment of osteoporosis based on the US FDA rules and procedures. We expect to collect data from the trial by the end of 2007, and we will think about our next move upon receiving the data.