

## Market Overview: Chinese hospital and retail markets for dermatologicals

China's prevalence rate of dermatological illnesses is between 12% and 14%, according to an article on pharma industry journal *Medicine Economic Information*. It is estimated the theoretical size of the Chinese market for dermatologicals is around CNY 32 billion.

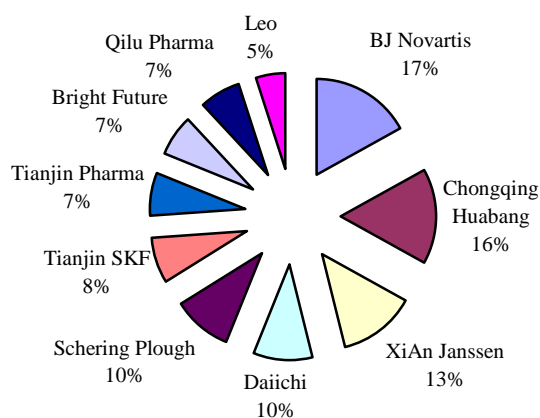
Total sales of external-use dermatological drugs in China is around CNY 8.7 billion in 2007, among which hospital sales account for 38% at CNY 3.3 billion while retail sales account for 62% at CNY 5.4 billion. Average growth of Chinese dermatological sales has been growing steadily at an average annual rate of 6% in recent years.

### *Hospital market*

According to the hospital drug purchase audit of the Chinese Pharmaceutical Association (CPA), the sales of dermatological drugs in the representative hospitals of 16 major Chinese cities were CNY 291 million in 2007, up 17.78% year on year. Among the total, imported dermatologicals represented 16.45%. Also dermatologicals accounted for 0.83% of total hospital sales last year.

Anti-fungals is the leading class of dermatological drugs in Chinese hospitals in 2007, accounting for about one third of the total Chinese hospital dermatological drug sales. Leading five suppliers of anti-fungal dermatologicals to Chinese hospitals are all MNCs including Pfizer Dalian, XiAn Janssen, MSD, Beijing Novartis and Abbott.

Leading ten suppliers of dermatologicals to Chinese hospitals and their market shares in 2006 are shown in the following chart:



Source: CPA

### *Retail pharmacy market*

There are a total of 521 dermatological drugs for external use that are on the Chinese retail pharmacy market, among them 417 are chemical drugs (80%) and 104 are formulated traditional Chinese medicines (20%). Chemical drugs account for 85.19% and formulated TCMs take up the rest 14.81% by sales value.

The leading five subclasses of dermatologicals, including anti-fungals, cortical

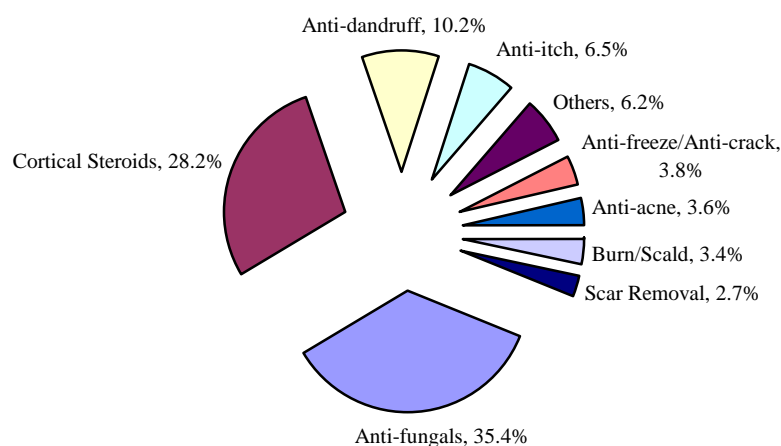
steroids, anti-bacteria agents/disinfectants, anti-acne drugs and anti-psoriasis drugs, take up 95% of the total retail pharmacy sales of such products in 2006.

Retail market shares of dermatological subclasses in 2006

Sub-classes	2006	+/- (%)	2005
Anti-fungals	30.54	+19.08	31.59
Cortical steroids	19.24	+36.20	17.66
Anti-bacteria agents/ disinfectants	16.09	+4.48	17.98
Anti-acne	9.66	+1.67	10.33
Anti-psoriasis	8.62	+33.63	7.02

Source: *Medicine Economic Information*

The retail pharmacy market for dermatologicals, however, seems to have shifted substantially in the past two years, according to the retail pharmacy drug sales audit of the Southern Medicine Economic Institute (SMEI) under the SFDA. The following chart show the latest market share distribution among subclasses of dermatologicals on the Chinese retail pharmacy market in the first quarter of 2008.



Source: SMEI

### ***Retail consumption patterns***

A survey by Guangzhou Zuoliang Sales Consulting Ltd. on use of dermatologicals by residents in 13 Chinese cities including Beijing, Shanghai, Nanjing, Dalian, Wuhan, Chongqing, Hangzhou, Kunming, Guangzhou, Nanning, Guilin and Shenzhen in the last quarter of 2007 found the following consumption patterns:

*Western dermatological medicines preferred* - Survey participants mentioned a total of 152 external use dermatologicals, 81% of them are Western medicines while 19% are formulated TCMs. This shows strong preference by consumers to prefer Western dermatological medicines over formulated TCMs.

*Cream leads all other dosage forms* - The survey found that 82.6% of all dermatological drug purchases by surveyed participants are cream products, showing dominance of it in all dosage forms.

*Past experiences determine purchases* – 29% of survey participants expressed that the most important factor for them to choose a particular dermatological product is “positive past experience with the product”. Other important factors include physician prescription (18%) and advertising (12%).

*Retail pharmacy the dominant channel* – 71% of survey respondents chose to purchase dermatological products from retail pharmacies, while 13% chose hospital pharmacies and 16% prefer other channels such as supermarkets, clinics or community health centers.

*Brand recognition* – Five leading dermatological brands recognized by survey participants are: Daktarin, Band-Aid, 999, Pevisone and Triatop.