

## China Life Sciences and Health Industry Client Briefing – September 2012 (October 4, 2012)

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### Pharmaceuticals, Medical Devices, Health Care & Life Sciences

#### News and Regulations

- **Merck-Simcere Joint Venture Starts Business in Pudong (*Shanghai Daily* 2012-09-13) – September 14, 2012**

MSD, a joint venture between U.S. pharmaceutical company Merck and Nanjing-based Simcere Pharmaceutical Group, went into operation after more than one year's preparation. Merck, the world's second-largest drug maker, holds a 51 percent stake in the joint venture, which is located in Shanghai's Pudong New Area. MSD currently has about 400 employees and the number is expected to double by the end of this year.

- **Pfizer Joint Venture Set to Hire 600 Staff (*Bloomberg News* 2012-09-14) – September 14, 2012**

Pfizer Inc.'s joint venture with Zhejiang Hisun Pharmaceutical Company plans to hire 600 people in China by the end of the year, its chief executive said. Hisun-Pfizer Pharmaceuticals Co. is seeking staff in manufacturing, research and development, and commercial and support functions such as finance, explained CEO Kevin Xiao. Hisun-Pfizer aims to have 1,000 employees in China by December, and around 1,500 by the end of 2013, Xiao said.

- **Biotec IPO Approved (*Agencies* 2012-09-07) – September 7, 2012**

China National Biotec Group, the nation's top provider of vaccines and blood products, passed an environmental performance test from the Ministry of Environment Protection, enabling it to proceed with seeking up to 10 billion Yuan (\$1.58 billion) in a Hong Kong

IPO. The approval puts China National Biotec closer to moving ahead to the next stage with its Hong Kong IPO, which, if ultimately successful, will signal an improving market environment for new listings in Hong Kong. The company still needs to get the go-ahead from the China Securities Regulatory Commission.

- **SFDA: ID Cards to be Shown When Purchasing Cold Medicines Containing Ephedrine (Caijing 2012-08-31) – September 3, 2012**

On August 30, the State Food and Drug Administration (SFDA) issued a notice to require local SFDA offices to stop the approval of registration of generic medicines containing ephedrine. In addition, the drug sellers are required to check and register the ID cards of the purchasers when selling such medicines. The move targets use of cold medicines containing ephedrine to illegally manufacture crystal methamphetamine and other illegal drugs. Zhejiang province recently issued a stricter regulation asking drug retailers to record the name and home address of purchasers, and the sale time and amounts of the medicines containing ephedrine. The retailers shall not sell more than five minimum packages of OTC ephedrine-containing compound drugs at one time.

- **NDRC Adjusts Retail Price Caps of Some Medicines (*China News Service* 2012-09-19) – September 19, 2012**

The National Development and Reform Commission (NDRC) recently decided to adjust the maximum retail prices of three kinds of medicine, starting October 8. The three kinds of medicine include immunity enhancement, anti-tumor medicines, and blood system medicines covering 95 varieties of more than 200 formulations and specifications. The average price cut is 17 percent. The medicines with a high daily cost will be subject to a substantial price cut, while the prices of some blood products with clinical supply shortage will see other price adjustments. Minor price cuts for innovative patented medicines are intended to encourage the R&D and innovation in new medicines. Some of the adjustments have been made to reflect the policy that innovator drug makers should be able to retain pricing. This would be an exception to the NDRC uniform pricing regulation regime that makes widespread price reductions to promote fair competition.

- **Antitrust Investigation of Guangzhou Pharmaceutical Company Limited's Merger with Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Completed (Caixin Media 2012-09-20) – September 21, 2012**

Guangzhou Pharmaceutical Company Limited (GPC) (600332.SH) and Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (Baiyunshan) (000522.SZ) announced September 20 that GPC had received an antitrust clearance from the Ministry of Commerce for its contemplated merger with Baiyunshan. This was structured through its issuance of new A-shares for a share swap with the latter's shareholders. Baiyunshan will be delisted from the stock market and liquidate after the merger. All of its assets, debts, business and employees will be transferred to GPC. The merger will take effect as soon as the China Securities Regulatory Commission and other relevant authorities approve the deal. The share swap ratio will be 1:0.95. As part of the overall restructuring of GPC and its parent Guangzhou Pharmaceutical Group Co., Ltd., GPC is simultaneously acquiring a number of pharmaceutical assets from its parent, including certain real estate assets, trademarks, 100 percent equity in Po Lian Development Co., Ltd., and 12.5 percent equity in one of Baxter Healthcare Co. Ltd.'s China operations. After this overall restructuring is completed, GPC will change its company name. The end result to be achieved is that essentially all of the pharmaceutical business of GPC's parent would be transferred into the listed GPC.

- **Circular from the Medical Reform Office under the State Council Expected to Make M&As of Drug Distributors Easier in China (*Economic Information Daily* 2012-09-17) – September 17, 2012**

The Medical Reform Office under the State Council is expected to issue the Opinions on the Reform and Development of the Drug Distribution Industry. The Opinions address four major issues in the Chinese drug distribution sector. First, the Opinions will remove a number of legal and administrative barriers in the mergers and acquisitions of drug distribution companies, such as the need for the acquired distributors to change their various licenses as a result of the change of control. Second, the Opinions will forbid drug distributors to pay kickbacks to doctors, but will instead allow them to pay "open rebates" to hospitals that will be recorded on the hospitals' books. Third, the Opinions will provide for certain financial incentives to drug distributors who will engage in the less profitable business of delivering essential drugs to hospitals in remote localities. Finally, the Opinions will also seek to remove existing barriers put in place by hospitals that make it difficult for patients to access their prescriptions from the hospitals in order to purchase

medicines from pharmacies. The Opinions and the new Good Supplier Practices are expected to be issued soon and could have major impact on the domestic drug distribution industry.

- **Alliance Boots Says to Buy \$91 Million Stake in China Pharma Retailer (Reuters 2012-09-16) – September 17, 2012**

Alliance Boots, the owner of Europe's largest pharmacy chain, will buy a 12 percent stake in China's Nanjing Pharmaceutical Co. Ltd. for about 56 million pounds (\$91 million), Alliance said in a statement. The deal, initially announced more than a year ago, will strengthen Alliance Boots' position within the drug distribution industry. Alliance Boots Executive Chairman Stefano Pessina told Reuters in an interview that Alliance Boots is committed to working with Chinese agencies to improve the health care sector.

- **Dutch Health Store Chain Opens First China Shop (China Daily 2012-09-24) – September 25, 2012**

Vitaminstore, a Dutch health store chain, opened its first Chinese outlet in Xiamen, in Eastern China's Fujian province. With 20 health stores in all major cities in the Netherlands, Vitaminstore is a major provider of food supplements, sports nutrition and natural cosmetics in its home country. Vitaminstore plans to open 300 stores across China in the coming years. The construction of its first Shanghai store is currently underway.

- **Health Care System to Get 400b Yuan Injection, including prevention and control of chronic disease (China Daily 2012-09-04) – September 3, 2012**

The Ministry of Health said that around 10 million people in China have contracted chronic diseases every year since 2002. "Prevention and control of chronic diseases will be one of the seven top tasks of China's medical care reform by 2020," said Health Minister Chen Zhu. The central government will invest a total of 400 billion Yuan by 2020 in six other key projects, which include:

- Improvements to the grassroots health care system
- Psychological disease prevention
- The construction of a digital public health information network
- Medical device innovation

- The development of traditional Chinese medicine
  - The training of general practitioners
- **China to Strengthen Urban-Rural Medical Co-op (Xinhua News Agency 2012-09-25) – September 25, 2012**

The Chinese health authority called for closer ties between top-level urban hospitals and county facilities to improve the latter's service capacity. By 2011, China had 10,337 county hospitals, which directly served more than 900 million rural people. However, many rural patients tend to go to major urban hospitals to pursue better-quality services. But as of 2011, there were only about 1,400 level III hospitals, which meet the highest standards in China.

- **China Encourages Private Investment in Hospitals: Minister (CNTV 2012-09-17) – September 18, 2012**

The Chinese government plans to encourage more private investment in the country's hospitals, noted Health Minister Chen Zhu. In 2011, there were 3.81 hospital beds for every 1,000 Chinese people, which is a high rate among developing countries, Chen told a press conference. He said public hospitals would see moderate development, while more room would be made for growth of private investment in the sector. Qualified private investors would be given priority for new hospital constructions. The minister pointed out that the government would also encourage private funds to invest in the construction of rehabilitation hospitals, nursing homes, geriatric, and chronic disease hospitals. Chen also called on private hospitals to improve their service quality and efficiency.

- **Beijing Policies Encourage Development of Private Hospitals (*China Daily* 2012-08-31) – September 3, 2012**

Beijing policies will encourage private hospitals in Beijing to be competitive with public hospitals, authorities said. The Beijing government issued policies expected to help private hospitals develop. The policies include opening the health service market to private companies, and giving them priority when the city is planning to build a new hospital or other health institution. Private hospitals are also likely to invest more in public hospitals and will receive permission to obtain new land for building new facilities in the same way public hospitals do.

- **Court Case Reveals Medical Companies Using Gutter Oil (*Shanghai Daily* 2012-09-03) – September 3, 2012**

Authorities have stepped up measures against the use of gutter oil after more pharmaceutical firms and forage makers were found to have used the waste material. Qilu Pharmaceutical Co, Charoen Pokphand Group, and two Shenzhen-listed forage makers – Beijing Dabeinong Technology Group and Tangrenshen Group Co – were among the latest companies found to have purchased gutter oil to replace soy oil in their production processes. The companies were identified after Henan-based Huikang Grease Co stood trial recently for processing and selling gutter oil – also known as swill oil, which is oil ladled from drains near restaurants.

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