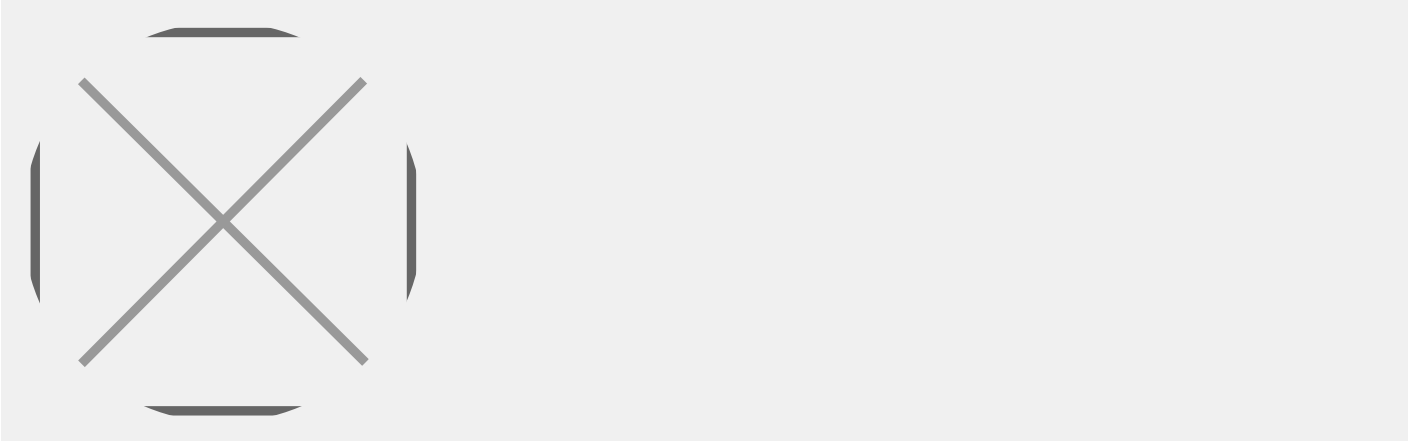
Interview with Mingde Yu, , China Pharmaceutical Enterprises Association (CPEA)



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First, let me briefly introduce myself.

I used to work in Fuxin, a small city in the industrially advanced province of Liaoning which is equivalent to a state in the US. I worked in a company's pharmaceutical factory for twenty years holding various positions such as technology director, factory head, and research center director. Later on, I was promoted to a job in the Municipality Pharmaceutical Administration, then in the Provincial Pharmaceutical Administration. After that I came to Beijing and worked in the National Pharmaceutical Administration. I was the department head of the pharmaceutical division in the National Economic and Trade commission before I moved to the deputy chief position of the Economic Operation Bureau in the National Development and Reform Committee.

I retired not long before starting work in the CPEA. Having retired, I currently am an independent board director for five companies as well, two of which (Sunshine Pharmaceutical and Sinopep Pharmaceutical) are public-listed on NASDAQ. Sinopep will have their IPO soon, as approved by the Security and Exchange Commission (SEC) in the US. In addition, I serve as an adviser to the Beijing Pharmaceutical Group. I was given the fancy title-honorary chairman, but actually I am an adviser.

Are you an adviser only to the company mentioned and the CPEA, or do you hold positions in other associations as well?

I serve in other associations too. In addition to my work at the CPEA, I am a special adviser to the China Chemical Pharmaceutical Industry Association and All-China Federation of Industry.
Yes, it is obvious that you have seniority in this industry.

Not exactly, I am just a public servant and that is all.

Please give us an overview of the CPEA. We had interviews with some other associations previously, and as the president of the CPEA, would you please introduce some of the main characteristics of the CPEA and its role in the Chinese pharmaceutical industry?

The CPEA was established in 1985, under the supervision of the former National Pharmaceutical Administration. At the present, it is directly managed by the unified management office of State Asset Regulatory Commission (which is a governmental department designated to the administration of associations). The CPEA is not governmental or semi-governmental, but rather a private association. The course and the status of the association are quite similar to that of RDPAC you just mentioned.

In general, our key function is to provide services to member companies, which can be specified in the following four areas:

1. Policy Promotion: Our country is in the process of policy research, policy investigation and study, policy-making, and policy improvement, which calls for our active participation. What the CPEA does the most is to participate in policy research and development as well as the modification and improvement for the existing policies. This is the most important responsibility of our association.

Our personnel in the association are mostly retired government officials. This characteristic determines that the association is very policy and regulation making oriented. In the past, we were the policy makers, and now we are an association helping officials to make policies. Two vice presidents and one secretary of the association are retired officials from the former National Pharmaceutical Administration.

2. Information Exchange: We feel now what companies need the most from us is the transmission of information and its interpretation. While companies need information but they do not have the capacity or sources to obtain it. Therefore, we have worked quite bit in the exchange of information.

3. Strengthening Self-discipline: We required all 300 member companies to adhere to strict self-regulation according to a number of laws, regulations and administrative provisions. We ask members to follow the rules seriously.

4. Upholding the Rights and Interests: In the occurrence of an infringement of a member company’s interests during its operation we will work together with the member company through various means and channels, including litigation, to safeguard their legitimate rights and interests.

Although we do not want such incidents occur occasionally there are some.

Certainly, participation in policy and decision-making is one of the important works of your association. At present, China's health care reform is underway in full swing. In the past three years, the whole country has conducted some intense discussions. May I ask how your association is involved in the health care reform?

From the very beginning of the document drafting, we participated in several aspects of the research. We provided them with fundamental advice, and then in the process of State Department comments inquiry we submitted three reports. Many organizations offered their points of view on health care reform policy including ourselves, the Ministry of Health, the National Development and Reform Commission, and the Ministry of Social Security in order to express our standpoints and how we look at national policy-making. We dare not say that all these points will be adopted. The last report we provided to the State Department has 14 suggestions, I am very happy to say that nine of them were adopted.

To my knowledge, the coverage of health care reform will be very extensive; involving insurance coverage to be extended to areas that were previously never covered. What is the impact on the pharmaceutical industry and pharmaceutical companies you represent in the short term? What changes can the pharmaceutical companies expect?

According to the points of the CCP Central Committee on the reform, the health care reform consists of a total of six parts, 24 items and 13,300 words. The core content is to form the necessary health insurance for the poorest in China such as the farmers and unemployed city dwellers, who account for 1.1 billion people. In the past, this population was uninsured. This health career form calls for the governmental spending to provide this population with health insurance, which is the heart of the health care reform.

With the expansion of health insurance coverage, the poor will also be able to enjoy health insurance benefits. In regard to the pharmaceutical companies, in the next three years, how will they plan their development? Will the health care reform bring these companies the rapid revenue growth? How will these companies look at their development a few years after the healthcare reform and its implementation?

There will be a general expansion of the total market affecting all companies across the country. The five policies adopted by the association include: new farmers and the health care system, the health care insurance system for urban residents, the 15 types of infectious diseases with the national free treatment policy, the planned 13 types of vaccine with nationwide free vaccination, and the State-aid system for a poverty-stricken population. With these five policies and funding from the government, our calculations roughly estimate that the increase in drug consumption will be between 160-170 billion RMB. For our whole country, this will be a considerable expansion of

the market bringing opportunity to every enterprise. However, the opportunity may not necessarily be equal to everyone.

In the past three years, thanks to China's strong economic growth momentum, companies' domestic and international sales growth were unusually rapid. Meanwhile, the pharmaceutical industry has seen many changes in organizational structure; many Chinese local companies went public and some experienced mergers and acquisitions. With China's further opening-up in economy and capital investment, what is your point of view on the current situation for the next two years?

At present, it is slightly difficult due to the reason that ½ of our chemical API market is abroad. Therefore, when the market situation abroad was not good, obviously, our chemical API production, starting from the fourth quarter of last year, began to decline. However, a variety of other sectors, such as biological and chemical formulations and our traditional Chinese medicine (TCM) within the country have not experienced these issues and are still going up. According to the drug production statistics for year 2000 through 2008, the average annual growth of drug production and sales revenue is 20.45%. Therefore, we forecast that in 2009, the annual growth should be at around 20%. Will it really happen? The statistics provided by the National Bureau of Statistics (NBS) reported that by the end of February, the growth of drug production and sales revenue was 18.07%, which we believe are close to our expectations. We expect the second quarter of this year should be better than the first, and the forecasted growth should be achievable.

Of course, China has now become an international API production and export power. However, for some Chinese local companies, they are not satisfied with the current situation and would like to further enter into the finished drug market. India, for example, has now become an international heavyweight of generic drugs. How would you look at these developments? What are the difficulties and challenges faced by Chinese companies when competing in the international pharmaceutical market?

We now have approximately 40-50 enterprises in the process of obtaining cGMP certification for their pharmaceutical preparations as well as seeking SFDA approval. We are certainly not just satisfied with the production of API alone, the next step for our entire industry is to 'reach out' – promote our preparations. We expect to sell our medicines directly to the US, the EU and Japan. One of the biggest difficulties is that there is a gap between our current certification system and that of the world's most advanced level. We need to work on it.

Many multinational pharmaceutical companies have a strong interest in the Chinese market now, what do you think about the opportunities for cooperation between Chinese local companies and multinationals?

Indeed we have lots of very successful cooperation, the foreign-funded and joint venture companies you have listed in the table are excellent examples of the cooperation with the Chinese enterprises. When they first came to China, these companies worked with their Chinese counterparts. We should say that, foreign companies are more competitive in R & D than Chinese local companies. However, local companies are familiar with the local market and have more connections in marketing and sales. This characteristic differs from that of the US so if you want to expand the market here, it is better done by a Chinese than a foreigner. The cooperation should be complementary and we welcome these partnerships. We have more than 4620 companies for generic drug production and more than 1,000 of them are cooperating with overseas companies through various forms. For example, Beijing Pharmaceutical Group where I work, now teams up with many foreign institutions such as R & D, CRO and US universities to cooperate in many projects of technological innovation.

Exactly! This is the result we expect to see, to jointly promote the cooperation between China and foreign countries.
There are plenty examples. We just had a visit from the American Hospital Pharmacists Association. The chairman and his two assistants came to visit us recently. This week, the M Gene company will arrive at our association for a meeting. The following week I will leave for Philadelphia to participate in an annual meeting of the US-China Pharmaceutical Association where I will speak about China’s ongoing health care reform.

So you really are a very busy person!

Yes, we work hard and stay healthy!

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