



CHINA UPDATES

December 23, 2014 – Issue 122

INSIDE THIS ISSUE

China Green Food Expo to be Held in Nanchang

Jan-Oct China Health Insurance Premium Exceeded CNY 130bn

CFDA: Cosmeceuticals Should not Promote Itself as Medicines

Shi Jiazhuang to Crack Down on Illegal Health Food and Cosmetics

Amorepacific Taps Surging Demand for Midrange Beauty Products

China Nepstar: A Bitter Pill For Investors

Herbal Berberine Boosts Brown Fat Activity



China Green Food Expo to be Held in Nanchang

The seventh China Green Food Expo is to be held in Nanchang, Jiangxi province. Companies from more than 30 provinces will attend the Expo with thousands of attendees to the event.

The event is co-held by Ministry of Commerce and Jiangxi local government.

The Expo tends to promote the economic rise of middle area of the country and the opening-up of Jiangxi province. The event will include the food expo and a cooperation seminar joined by state-run companies with local food providers and vendors.

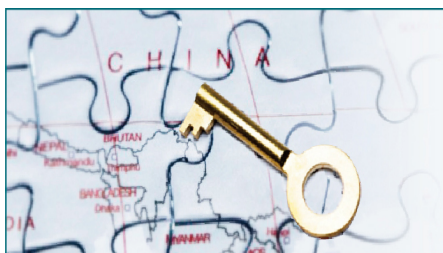
The Expo mainly features low-carbon industry and green food. It will cover six indoor exhibiting rooms with food companies from more than 30 provinces. Overseas vendors from Australia, America, Russia and Thailand will also bring food to the local consumers who will attend the expo. (Source: Food Safety Daily)

Jan-Oct China Health Insurance Premium Exceeded CNY 130bn

Premium income of health insurance exceeded CNY 136.656 billion in the first 10 months of this year, growing 45.25% year on year, according to China Insurance Regulatory Commission.

Premium income of life insurance companies grew 19.36% year on year.

PICC Health predicted commercial health insurance will continue to maintain the fastest growth to narrow the gap with property



Are you seeking a reliable partner to help you navigate and successfully enter the China dietary supplement market?

TSI has the **expertise** to help.

Contact your TSI representative today to learn more.



TSI
www.tsichina.com
www.tsiinc.com

and life insurance and will be together with life and property insurance to become top three insurance plates by 2020 as premium from commercial health insurance is expected to reach CNY 700 billion to CNY 1 trillion at that time.(Source: Sinocast)

CFDA: Cosmeceuticals Should not Promote Itself as Medicines

In the latest version of the national regulation on cosmetics, the state regulator added the regulation on online sales of the products that specifically addresses the online sales of cosmeceuticals.

When searching the term “cosmeceuticals” in China’s biggest e-commerce platform, Taobao.com, the reporter found that the search results include over 98,500 products. Some facial cream products, which rank high in sales number, claim to be prescribed cosmetics that can be used as medicines. “ Many cosmeceuticals in the market are misleading local consumers by their logo and instruction books,” said Yao Long, senior cosmetics expert. “ So far China has no official definition of cosmeceuticals and no issue number of cosmeceuticals either.”

In the latest regulation draft, it is clearly stated that it is forbidden to indicate any medical function of the specific product, or exaggerate its effect.

The draft also puts more responsibility on the online platforms, which are asked to have the vendors registered by their real names to facilitate the consumers in case they need to ask for compensation for any illegal products. (Source: Beijing News)

Shi Jiazhuang to Crack Down on Illegal Health Food and Cosmetics

Local food and drug regulator launched a three-month campaign to clear up the local health food and cosmetics market.

The key health products that are targeted in the campaign include the weight-control products, and products that relieve fatigue and improve sleep. An

So little.  So much.

Powerful Phospholipid EPA & DHA

Excellent User Experience

Smaller Dose, Easy Digestion

 **AkerBioMarine™**
Antarctic

 **SUPERBA®** KRILL

www.superbakrill.com

increasing number of substandard products of these kinds are poured into the local market. The major illegal cases include selling health products without proper instruction book, selling imported cosmetics of special use without getting official approval, and selling products without necessary receipt and sales documents.

The regulators mainly target at health food and cosmetic production companies, whole-sales markets, supermarkets, pharmacies, chain stores, and beauty salons.

The director of city-level inspection team reminds the local consumers to report those vendors who sell illegal products once they spot any. (Source: Shi Jiazhang Daily)

Amorepacific Taps Surging Demand for Midrange Beauty Products

Amorepacific is boosting its production capacity in China tenfold as it aims to satisfy the country's growing appetite for affordable cosmetics.

The leading South Korean cosmetics company generated group sales of 996.7 billion won (\$909.79 million) in the July-September period, up 26% from the same period a year earlier, while operating profit surged 65% to 147.7 billion won. The driving force behind this growth was Chinese tourists stocking up on Amorepacific products at

duty-free stores in South Korea.

The company's cosmetics sales via duty-free shops within South Korea have doubled, according to KDB Daewoo Securities. This means that duty-free shops have likely become its No. 1 sales channel for cosmetics in South Korea, replacing door-to-door sales.

Amorepacific entered into the Chinese market in 1992 and began manufacturing locally in Shanghai in 2002. The company was clearly not making the most of its sales potential inside China, however, judging by the extraordinary demand from Chinese tourists visiting South Korea.

Now, it is prepared to meet local demand head-on. The company has recently kicked off production at a new factory in the Jiading district of western Shanghai. The facility sits on more than 92,000 sq. meters of land and is capable of churning out some 100 million cosmetics products -- 13,000 tons in total -- each year. The company has ceased production at its existing Shanghai factory in order to concentrate all its production in China at the new facility.

Amorepacific sells its cosmetics products worldwide, with a focus on five brands: upmarket Sulwhasoo and Laneige and midrange Mamonde, Innisfree and Etude House. In China, production is focused on the three midlevel brands, which sell for the equivalent of around \$8 to \$25, putting them within easy reach of the country's middle class.

The company plans to add a distribution center to the Jiading site to speed up delivery, which currently takes seven days or more for some areas of China. Adding a distribution center in Shanghai and coordinating shipments with two existing regional distribution centers in Shenyang, Liaoning Province, and Chengdu, Sichuan Province, will likely shorten delivery time to three to four days.

A better distribution network will also help Amorepacific boost its online sales and better tap the strong demand for midrange cosmetics

products.

The new Shanghai facility will also serve as the company's Chinese research and development base. The on-site lab will collaborate with Chinese universities, hospitals and R&D institutions to boost innovation.



Amorepacific estimates its sales in China will reach 450 billion won this year and account for around 10% of its group sales. The company sees its Chinese sales growing 41% per year for some time. By 2020, it aims to lift sales in China to more than 3 trillion won, more than six times the level today.

The Chinese cosmetics market as a whole is expected to continue enjoying robust growth.

According to Shiseido, the country's market for cosmetics and toiletry products was worth 3.5 trillion yen (\$29.7 billion) in 2013, up 20% from 2011. The Japanese cosmetics company believes the market will continue expanding at a pace 1-2 percentage points above the growth rate of China's gross domestic product, which has been above 7% in recent years.

The robust growth of the cosmetics market has been propelled by the expansion of the middle class. Shiseido defines its potential customers as women 20 years or older women in urban areas and earning 30,000 yuan (\$4,898) or more a year. Based on this definition, its potential customer base will likely more than double from 140 million in 2011 to 330 million by 2020.

Not long ago, only wealthy Chinese urbanites used cosmetics. These women preferred products from major global brands such as L'Oreal of France and Japan's Shiseido.

The country's rapidly growing middle class has sharply expanded the scale of the Chinese cosmetics market, creating lucrative opportunities for newcomers. South Korean cosmetics companies are quickly catching up with established players, such as L'Oreal, Shiseido and Procter & Gamble of the U.S., helped by their low prices and the long-standing popularity of South Korean television dramas in China. (Source: Nikkei)

China Nepstar: A Bitter Pill For Investors

Just like the pharmaceuticals it sells in its stores, China Nepstar Chain Drugstore should come with a warning: this stock can be hazardous to your wealth.



With China's pharmaceutical market set to deliver around 17% growth each year up to 2020, it may appear that an investment in the country's largest drugstore operator would be a sensible investment for riding that trend. Think again. Shares in China Nepstar Chain Drugstore's have fallen more than 30% since August compared to a 15% gain in the MSCI China Healthcare Index.

But don't be fooled into thinking the share price decline is a buying opportunity. Buyers beware! Analysts expect the stock to slide another 40% from its current price of around \$1.70 a share. The lack of faith appears well justified given the company

unveiled a fifth consecutive quarter of red ink with a net loss of \$2.1 million in the third quarter. Although Nepstar's revenues rose 8% year-on-year to \$120 million as store improvements drew in more shoppers, its gross profit margin shrunk to 40.4% from 42.4%.

While the appointment of new chief operating officer Rebecca Zhang, a twenty year veteran who was previously in charge of procurement, may help Nepstar to improve margins in the long term through better cost controls, the company is expected to face further pressure in coming quarters. "Operating expenses as a percentage of sales will continue to increase at a faster pace than same-store sales, reflecting higher inflation and rental costs," argues Morgan Stanley analyst Bin Li, who has a sell rating on the stock and a target price of \$1 a share.

While Nepstar has increased its revenue, its growth looks weak when compared to the growth rates enjoyed in China's pharmaceutical industry. Rising wealth, coupled with an ageing population and rising incidence of lifestyle diseases, have been a boon for the pharmaceutical companies. Not so drug retailers. The problem is that two-thirds of pharmaceutical drugs in the country are bought directly through hospitals as a result of both ingrained consumer habits and prices being lower than in the retail market. Additionally, Chinese doctors have long encouraged patients to buy drugs from hospital pharmacies, which in turn pay the doctors a commission for prescriptions.

The ability to buy drugs for common ailments on the internet is also hurting Nepstar. Online drug retailers are able to better compete on pricing than brick-and-mortar drugstore operators thanks to lower fixed costs. While e-tailers are currently limited to selling only over-the-counter drugs, new regulations proposed by the Chinese Food and Drug Administration could see prescription drugs being sold online as early as October.

Nepstar has tried to woo back investors with juicy dividends. The company doled out a hefty \$0.32 dividend at the start of the year, but it came at the

cost of burning a large hole in cash reserves. The stock's cash and equivalents of \$47 million in the third quarter was less than half of what it was a year ago.

It's not all bad news for Nepstar. A lifting of a cap on retail drug prices by the Chinese government could bolster earnings. There is a proposal to remove the cap in January. However, it's said that investors should watch what Beijing does, rather than what it says. At this point, talk of a lifting of a cap on drug prices is just that – talk.

Nepstar management had no real guidance for investors about its expectations for the fourth quarter, apart from telegraphing hopes for increased sales. As shown by the latest earnings numbers, growth in revenue does not necessarily translate into bottom-line profits.

Morgan Stanley's Li expects Nepstar to finish 2014 with a loss of \$0.08 a share for the full year, followed by a loss of \$0.01 a share next year. "We expect 2014 to be a loss year with no inflection point in the near term until its sales growth outpaces costs," wrote Li.

Investors wanting to buy into China's fast growing pharmaceutical industry, which has been bolstered by improving health insurance coverage, have much better investment options to consider.

Broking firm Jefferies' top picks include drug distributor Sinopharm and drug maker Sihuan Pharmaceutical Holdings . Analyst Lilian Wan says growth is higher in drug distribution than drug retail. She also notes that Sinopharm stands out as the only pharmaceutical company to be included in the Chinese government's plans to reform state-owned enterprises.

Sinopharm currently trades at around 17 times projected earnings, which is well below its five-year

average. Brokers surveyed by FactSet have a target price of HKD32.70 on the stock, which implies around 11% upside from the current price of HKD29 a share.

Sihuan Pharmaceutical, which is a top seller of prescription drugs to hospitals in China and is developing a treatment for Ebola, has retreated around 3% after surging to an all-time high at the end of October. Now trading at around HKD5.90, the stock is priced at 23 times projected earnings, which is lower than the average of 29 times for other Chinese drug makers. Sihuan is expected to grow its earnings per share from HKD0.21 this year to HKD0.27 next year, and HKD0.33 in 2015. Brokers surveyed by FactSet have a target price of HKD6.6 on the stock, which implies around 12% upside. (Source: Barrons)

Herbal Berberine Boosts Brown Fat Activity

The naturally occurring plant alkaloid berberine, used in many Chinese herbal medicines, was found to increase energy expenditures in rodents by increasing brown fat activity.

Genetically obese mice injected daily with the compound for 4 weeks showed evidence of increased energy expenditures, and they also generated more heat when exposed to cold, reported Guang Ning of the Shanghai Institute of Endocrine and Metabolic Disease in Shanghai, and colleagues.

Berberine (BBR) administration was found to limit weight gain, improve cold tolerance, and enhance brown adipose tissue (BAT) activity in obese db/db mice, and the alkaloid was found to induce the development of brown-like adipocytes in inguinal, but not epididymal, adipose deposits, they wrote in Nature Communications.

"The beneficial effects of berberine on metabolic



GMP Services
注册服务

To learn more about NSF cGMP Services, [click here](#)
Experts in auditing, consulting, training and testing

欲了解更多服务信息请点击
审核、咨询、培训和测试专家团队

improvement have evoked a substantial interest in the compound as a potential treatment for obesity and diseases such as diabetes," the researchers wrote. "Our data support a clear function of berberine in regulating energy expenditure by initiating a thermogenic program."

Recent studies have revealed that, in addition to rodents and newborn humans, adult humans have functional BAT, which is composed of single chambered lipid droplets and large numbers of mitochondria that contain uncoupling protein-1 (UPC1).

This discovery has fueled speculation that the pharmacologic enhancement of BAT development and activity could be a useful strategy for treating obesity, the researchers noted.

Berberine has traditionally been used as an anti-diarrhea agent in Chinese herbal medicine, but it has recently been found to have metabolic effects, the researchers wrote.



The authors examined the metabolic effects of berberine by administering the compound to genetically engineered db/db obese mice for 4 weeks. During treatment the mice were protected from weight gain and berberine appeared to be well tolerated.

Other tests showed that berberine ameliorated glucose tolerance.

"Our results demonstrate that BBR reduced body

weight and improved disordered metabolic profiles," the researchers wrote. "The rectal temperatures of BBR-treated animals were significantly higher than that in the vehicle group, which means that the mice in BBR group could generate more heat during resting periods."

Another set of experiments conducted by the investigators demonstrated that BBR increased energy expenditure and adaptive thermogenesis in both db/db mice and normal, wild-type mice fed high-fat diets.

The researchers analyzed the actions of berberine using a comprehensive lab animal monitoring system (CLAMS). When normalized to their lean mass, berberine-treated mice showed higher oxygen consumption and carbon dioxide production rates through a 12-hour light/dark cycle compared with control (wild type) animals. db/db mice treated with berberine showed significant increases in the whole-body energy expenditure.

The increase in energy expenditure in the berberine-treated mice was not found to be due to an increase in physical activity. Respiratory exchange ratio (RER) decreased significantly upon berberine treatment, demonstrating that berberine can shift the fuel preference towards fatty acids, the researchers noted.

To further examine the differences in energy expenditures, the researchers performed a cold tolerance test to gauge adaptive thermogenesis, another major component of energy expenditure. During 2 hours of exposure to cold, body temperatures of the nontreated db/db mice dropped significantly, displaying impaired thermogenesis compared with the berberine group.

"This result shows that BBR was able to increase body adaptation to cold exposure by generating more heat," the researchers wrote.

BAT is a major tissue where energy is produced

into the form of heat to maintain the body temperature. Active BAT can be identified in human adults by FDG-PET/CT scans.

The researchers used 18F-FDG with a micro PET/CT that can be used in rodents to characterize the activity of berberine-treated BAT in vivo.

The combination of CT and PET images clearly showed that the PET signal was more highly detected in the interscapular position of the berberine-treated mice. The calculation results of the standard uptake values showed that berberine had a greater capacity to increase the activity of BAT in drug-treated mice.

Consistent with the reduction in body weight, the db/db mice had smaller brown adipocytes with berberine treatment, and they accumulated substantially less lipids in the brown fat. The number of mitochondria was increased as observed by means of transmission electronic microscopy after berberine treatment.

Berberine treatment induced the activation of a network of genes controlling energy expenditure and thermogenic program in BAT. The expression of several transcription factors, including PGC-1-alpha, estrogen-related receptor-alpha and nuclear respiratory factor 1, was strongly activated in the BAT of berberine-treated mice.

The expression of the UCP1 and other classical BAT marker genes, such as CIDEA, COX8band Icdp5, were strongly induced, and the expression of genes controlling fatty acid oxidation and components of

the mitochondrial electron transport chain were also enhanced.

Western blot analysis indicated that UCP1, PGC-1-alpha, phosphorylation of AMPK, and other important proteins expression were enhanced by berberine treatment.

When fractionated and differentiated primary BAT adipocytes were treated with berberine and the patterns of thermogenic gene expression were assessed, "messenger RNA and protein expression of known BAT markers were robustly increased to a high level in the BBR-treated group," the researchers wrote, suggesting that berberine could function as an activator of thermogenic programming and increase the activity of BAT.

The series of studies also demonstrated that berberine regulates UCP1 transcription through AMPK/PGC-1-alpha. (Source: medpagetoday)

China Updates is published weekly by the U.S. – China Health Products Association, a non-profit organization dedicated to the promotion of dietary supplements and nutritional ingredients. The association's major focus is the continued development of China's overall natural health product industry as well as offer business services to its global members.