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MEDIPAL HOLDINGS CORPORATION  
Representative: Sadatake Kumakura, Representative Director, President and CEO  
Code number: 7459 (1st Section, Tokyo Stock Exchange)  
Contact: Kunie Yamazaki,  
Manager of Corporate Communication Department  
Tel.: +81-3-3517-5171

## **Notice of Comprehensive Alliance with Sinopharm Group and Investment in Sinopharm Medicine Holding Beijing Huahong**

MEDIPAL HOLDINGS CORPORATION (“MEDIPAL”) and Mitsubishi Corporation (“Mitsubishi”) have signed a memorandum of understanding for a comprehensive alliance with Sinopharm Group Co., Ltd. (“Sinopharm Group”), a Chinese corporation that is the largest pharmaceutical wholesaler in China.

As the first business under this alliance, MEDIPAL and Mitsubishi will purchase stakes in Sinopharm Medicine Holding Beijing Huahong Co., Ltd. (“Beijing Huahong”) from Sinopharm Group and Beijing ChangXinYiDa Investment Consulting Co., Ltd. (“ChangXinYiDa”), and will receive an additional issuance of Beijing Huahong stock to start a joint venture in the fields of pharmaceutical distribution and wholesaling in China. Details are as follows.

### **1. Background**

MEDIPAL and Mitsubishi signed an agreement for a comprehensive alliance in the medical services business in September 2005, and have since been jointly conducting operational support for hospitals and participating in the dispensing pharmacy business in Japan. Envisioning further expansion of their business domain and profit base, the two companies have been considering future business development in the rapidly growing Chinese market.

The Chinese pharmaceutical market has grown at a double-digit pace for five consecutive years, with a current scale of approximately four trillion yen and further expansion projected. Due to deregulation, investment by foreign distributors is accelerating, but the market is not necessarily efficient, as there are still a large number of pharmaceutical distributors. In addition, the strong customer support services taken for granted in Japan are lacking in China. Pharmaceutical wholesalers are being pressed to increase their management efficiency, upgrade their distribution functions and improve the quality of their services.

Alliance partner Sinopharm Group is a core subsidiary of China National Pharmaceutical Group Corporation, which is under the umbrella of China’s State-owned Assets Supervision and Administration Commission (SASAC). It is the largest pharmaceutical company in China and the only one with a nationwide sales network. After numerous discussions, MEDIPAL, Mitsubishi and Sinopharm Group concluded that this alliance would be the best partnership for each party to expand its business in China and have entered into a memorandum of understanding for a comprehensive

alliance focusing on the themes outlined below. As the first stage of the alliance, MEDIPAL and Mitsubishi will invest in Beijing Huahong, a subsidiary of Sinopharm Group in Beijing, one of the areas of highest pharmaceutical consumption in China, to begin a concrete joint venture in the field of pharmaceutical distribution.

## 2. Details of the Comprehensive Alliance

The main themes this alliance will cover are listed below. Project teams will be formed among the three partners to explore concrete measures for each theme.

- (1) Multi-Area Cooperation of Pharmaceutical Wholesale Business
- (2) Imports into China and Expansion of Sales of Pharmaceuticals and Pharmaceutical Ingredients / Medical Equipment and Materials
- (3) Joint Development of Integrated Operation of Purchasing, Deliveries and Management for Hospitals
- (4) Development of Hospital Pharmacy Management Business
- (5) Development of Pharmacy Chain Business

## 3. Investment in Beijing Huahong

### (1) Objective

Beijing Huahong is a fast-growing pharmaceutical wholesaler under the umbrella of Sinopharm Group that conducts business primarily in Beijing, one of the areas of highest pharmaceutical consumption in China. MEDIPAL and Mitsubishi plan to dispatch employees from Japan to Beijing Huahong, which is expected to grow further. Mitsubishi will contribute expertise gained from its hospital administrative support and internal operations outsourcing business in Japan, while MEDIPAL will provide pharmaceutical distribution know-how, with the aim of clearly differentiating Beijing Huahong from the competition to increase its share of the Beijing market.

Sales will be limited to Beijing for the time being; however, the sales area may be expanded after discussions among the shareholders, depending on business conditions.

Furthermore, this investment will help to strengthen the relationship with Sinopharm Group, facilitating greater access to sales channels throughout China. By utilizing Mitsubishi's global network and MEDIPAL's ties with Japanese pharmaceutical and medical device manufacturers, the partners plan to expand manufacturers' business in China.

### (2) Fundamental Scheme

Beijing Huahong was established under Chinese corporate law as a limited liability company with registered capital of RMB 40 million. It is 60 percent owned by Sinopharm Group and 40 percent owned by ChangXinYiDa.

Through this joint venture, Mitsubishi will acquire a 9 percent interest in Beijing Huahong from Sinopharm Group and a 16 percent interest from ChangXinYiDa for a total stake of 25 percent.

MEDIPAL will acquire a 14 percent interest in Beijing Huahong from ChangXinYiDa. After completion of the above stock transfers, Beijing Huahong's capital will be increased, and newly issued shares will be allocated to MEDIPAL, Mitsubishi, Sinopharm Group and ChangXinYiDa in proportion to their respective interests in Beijing Huahong.

Beijing Huahong will then be re-registered as a Chinese-foreign joint venture company with capital of RMB 80 million.

(3) Overview of Sinopharm Group Co., Ltd.

(As of December 31, 2008)

1) Corporate name	Sinopharm Group Co., Ltd.
2) Principal businesses	Wholesale of pharmaceuticals to hospitals and pharmacies, distribution, pharmacy chain (Customers include approximately 4,200 hospitals, 5,800 pharmacies, 3,000 pharmaceutical companies and 3,600 other medical institutions.)
3) Head office	Shanghai, China
4) Representatives	Chairman: She Lulin (currently General Manager, China National Pharmaceutical Group Corporation) General Manager: Fu Mingzhong
5) Paid-in capital	RMB 3,411.3 million (approximately ¥51.1 billion)
6) Fiscal year	January 1 to December 31
7) Number of employees	11,123
8) History	Established in January 2003 through joint investment by China National Pharmaceutical Group Corporation and Fosun Pharmaceuticals (Group) Corporation
9) Percentage of shares held	Sinopharm Industrial Investment Co., Ltd.* 96% China National Pharmaceutical Group Corporation 4% * China National Pharmaceutical Group Corporation holds 51% and Fosun Pharmaceuticals (Group) Corporation holds 49% of the shares of Sinopharm Industrial Investment Co., Ltd.
10) Operating results (fiscal 2008)	Net revenue: RMB 38,170.00 million (approximately ¥572.5 billion) Net profit: RMB 818.10 million (approximately ¥12.15 billion)

Figures in parentheses are calculated using a currency exchange rate of RMB 1 = ¥15.

(4) Overview of Beijing Huahong after Investment

1) Corporate name	Sinopharm Medicine Holding Beijing Huahong Co., Ltd.
2) Principal businesses	Export and sales in China of pharmaceuticals and medical equipment, medical care related support for hospitals
3) Date established	April 29, 1998
4) Head office	Beijing, China
5) Representative	CEO: Hua Weiqiang
6) Paid-in capital	RMB 80.0 million (approximately ¥1.2 billion)
7) Fiscal year	January 1 to December 31
8) Number of employees	Approximately 120
9) Percentage of shares held	Sinopharm Group: 51% ChangXinYiDa: 10% Mitsubishi: 25% MEDIPAL: 14%
10) Joint venture period	30 years
11) Start of operations	End of October 2009 (scheduled)
12) Operating results (fiscal 2008)	Net revenue: RMB 1,053.38 million (approximately ¥15.8 billion) Net profit: RMB 25.46 million (approximately ¥0.4 billion) Total assets: RMB 394.50 million (approximately ¥5.9 billion)

Figures in parentheses are calculated using a currency exchange rate of RMB 1 = ¥15.

#### 4. Outlook

The impact of the comprehensive alliance with Sinopharm Group on MEDIPAL's consolidated operating results for the fiscal year ending March 2010 will be immaterial.

In addition, because Beijing Huahong will not become a consolidated subsidiary of MEDIPAL, the impact of the investment in Beijing Huahong on MEDIPAL's consolidated operating results will be immaterial.

#### Reference

Corporate Name (Short Form)	Corporate Name (Location)
Sinopharm Group	Sinopharm Group Co., Ltd. (Shanghai, China)
ChangXinYiDa	Beijing ChangXinYiDa Investment Consulting Co., Ltd. (Beijing, China)
Beijing Huahong	Sinopharm Medicine Holding Beijing Huahong Co., Ltd. (Beijing, China)

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