



38th Term Results Presentation Meeting

AIN PHARMACIEZ Inc. (9627)

June 21, 2007

Section 1: Explanation of results

Consolidated P/L

The consolidated results for the fiscal year ended April 2007 benefited from a full contribution from MEDICAL HEARTLAND (Yamagata), and sales were also boosted by Daitiku (Niigata), which was consolidated from the fourth quarter of the term, but profits fell below the previous fiscal year's level as a result of revisions in medical fee and drug prices.

(¥ million)	FY ended April 2006	FY ended April 2007	Change	Year-on-year (%)	
Net sales	76,303	81,307	5,004	106.6	Pharmacy business ¥5,553 million Products sales business ¥(607) million Other business ¥58 million
Gross profit	10,228	10,858	630	106.2	
SG&A expenses	7,145	7,970	825	111.5	Pharmacy business ¥335 million AIN STAFF ¥61 million Mediwel ¥272 million DMP/MHL ¥154 million WSS ¥65 million DC ¥48 million Products sales business ¥(163) million Other ¥53 million
Operating income % of net sales	3,083 4.0	2,888 3.6	(195) -	93.7	
Ordinary income % of net sales	3,012 3.9	2,833 3.5	(179) -	94.1	
Net income	1,215	1,010	(205)	83.1	
Net income per share (¥)	104.53	89.34	(15.19)	85.5	

AMS (AIN MEDICAL SYSTEMS), RJ (Rejoice), RJP (Rejoice Pharmacy), MHL (MEDICAL HEARTLAND)
MYA (MIYAKO AIN), ATK (AIN TOKAI), DC (Daitiku), WSS (Wholesale Stars)

Parent P/L

Performance for the fiscal year ended April 2007 showed a rise in sales and a decline in profits. Sales grew slightly, but profits declined because of the impact of a revision in medical fee, and closures of unprofitable stores in the product sales business.

(¥ million)	FY ended April 2006	FY ended April 2007	Change	Year-on-year (%)	
Net sales	51,123	51,262	139	100.3	Pharmacy business ¥630 million Products sales business ¥(568) million Other business ¥77 million
Gross profit	7,468	6,996	(472)	93.7	
SG&A expenses	5,493	5,571	78	101.4	
Operating income % of net sales	1,975 3.9	1,425 2.8	(550)	72.2	
Ordinary income % of net sales	1,959 3.8	1,422 2.8	(537)	72.6	
Net income	924	544	(380)	58.9	
Net income per share (¥)	79.03	48.18	(30.85)	61.0	

Pharmacy business (consolidated)

In the fiscal year ended April 2007, consolidated net sales rose, and ordinary income up roughly flat compared with last fiscal year, as the result of the full contribution from MEDICAL HEARTLAND (Yamagata), and also the new consolidation of Daitiku (Niigata).

(¥ million)	FY ended April 2006	FY ended April 2007	Change	Year-on-year (%)	
Net sales	61,232	66,785	5,553	109.1	Existing stores and full operation of stores opened in previous year ¥(94) million Newly-opened stores ¥2,222 million DMP/MHL ¥2,129 million DC ¥2,037 million Store closures and disposals ¥(1,101) million Other ¥360 million
Gross profit	6,199	6,987	788	112.7	
SG&A expenses	1,970	2,905	935	147.5	
Operating income	4,229	4,081	(148)	96.5	AIN STAFF ¥61 million Mediwel ¥272 million DMP/MHL ¥154 million WSS ¥65 million DC ¥48 million Other ¥335 million
% of net sales	6.9	6.1			
Ordinary income	4,214	4,104	(109)	97.4	
% of net sales	6.9	6.1			
No. of stores at end of fiscal year	218	247	29	113.3	
No. of prescriptions (thousands)	6,264	6,738	221	107.6	
Average price per prescription (¥)	9,718	9,801	83	100.9	

Product sales business (consolidated)

Net sales decreased, with existing stores and newly-opened stores unable to make up for the loss of sales from store closures. Ordinary income was ultimately negative because of costs associated with store closures.

(¥ million)	FY ended April 2006	FY ended April 2007	Change	Year-on-year (%)	
Net sales	14,860	14,253	(607)	95.9	Existing stores and full operation of stores opened in previous year AIN ¥192 million ATK ¥(153) million Newly-opened stores ¥646 million Closed stores ¥(1,406) million Other ¥114 million
Gross profit	4,097	3,943	(154)	96.2	
SG&A expenses	4,367	4,204	(163)	96.3	
Operating income	(270)	(260)	10	—	
% of net sales	N.A.	N.A.			AIN ¥ (239) million ATK ¥ (21) million
Ordinary income	(201)	(163)	38	—	
% of net sales	N.A.	N.A.			
No. of stores at end of fiscal year	43	43	—	—	
Gross floor space at end of fiscal year (m ²)	18,123	18,510	387	102.1	
Average customer spend (¥)	1,722	1,746	24	101.4	
No. of customers (thousands)	8,759	8,158	(601)	93.1	

Consolidated B/S

Total assets increased as a result of increases in cash and deposits and other current assets, as well as the addition of goodwill to fixed assets as a result of the increase in the number of group companies. In addition, net borrowings outstanding increased to ¥14,186 million as funds were raised for acquisitions.

(¥ million)

FY ended April 2006			
Assets		Liabilities	
Current assets	18,216	Current liabilities	23,849
Cash on hand and in banks	3,068	Short-term debt	6,250
Fixed assets	23,452	Long-term liabilities	6,985
		Long-term debt	6,213
		Total shareholders' equity	10,352
Total assets	41,669	Total liabilities and shareholders' equity	41,669

Financial indicators

Interest-bearing debt	12,464
Net interest-bearing debt	9,396

(¥ million)

FY ended April 2007			
Assets		Liabilities	
Current assets	21,251	Current liabilities	31,428
Cash on hand and in banks	4,186	Short-term debt	12,155
Fixed assets	28,597	Long-term liabilities	7,094
		Long-term debt	6,217
		Total net assets	11,326
Total assets	49,849	Total liabilities and net assets	49,849

Financial indicators

Interest-bearing debt (year-on-year)	18,373 5,909
Net interest-bearing debt	14,186

Borrowings outstanding increased because of acquisitions, but we aim to amend this situation in future through measures including securitization of the assets of the acquired companies and other Group companies.

Assets

Accompanying the increase in the number of Group companies, cash and deposits increased by ¥1,118 million year-on-year, while notes and accounts receivable increased by ¥1,471 million.

(¥ million)	FY ended April 2006	FY ended April 2007	Change	
Cash on hand and in banks	3,068	4,186	1,118	As a result of the expansion in the scale of the business and the increase in the number of group companies
Notes and accounts receivable	6,074	7,545	1,471	
Inventories	4,740	5,497	757	
Total current assets	18,216	21,251	3,035	
Buildings and structures	4,491	5,072	581	As a result of the expansion in the number of Group companies
Land	3,280	3,815	535	
Total tangible fixed assets	8,330	9,788	1,458	
Total intangible fixed assets	6,230	9,923	3,693	
Investments in securities	2,241	2,011	(230)	
Deferred tax assets	370	627	257	
Deposits and guarantees	5,897	5,735	(162)	
Total investments and other assets	8,891	8,885	(6)	
Total fixed assets	23,452	28,597	5,144	

Total investments were ¥1,620 million (+77.6% year-on-year), and depreciation and amortization were ¥664 million (+119.4% year-on-year).

Total liabilities and shareholders' equity

Short-term debt increased because short-term borrowings were raised to fund the purchase of shares in Daitiku. In addition, accounts payable increased along with the expansion in scale of the pharmacy business.

(¥ million)	FY ended April 2006	FY ended April 2007	Change	
Accounts payable	12,856	14,325	1,469	
Short-term debt	6,250	12,155	5,905	Purchase of shares in acquisition
Total current liabilities	23,849	31,428	7,579	
Long-term debt	6,213	6,217	4	
Total long-term liabilities	6,985	7,094	109	
Total liabilities	30,835	38,522	7,687	
Common stock	3,384	3,395	11	
Capital surplus	3,504	3,515	11	
Retained earnings	3,143	3,815	672	
Unrealized holding gain (loss) on securities	324	(11)	(335)	From retention of earnings
Treasury stock	(3)	(3)	0	
Total shareholders' equity	10,352	11,326	977	

Financial indicators

In the fiscal year ended April 2007, goodwill amortization contributed ¥355 million to cash flows from operating activities. The outflow resulting from the purchase of Daitiku is the main reason for the decline in cash flows from investing activities.

(¥ million)	FY ended April 2006	FY ended April 2007	Change
Cash flows from operating activities	3,623	2,277	(1,346)
Cash flows from investing activities	(4,351)	(6,676)	(2,325)
Cash flows from financing activities	664	5,437	4,773
Shareholders' equity ratio (%)	24.8	21.5	(3.3)
Shareholders' equity ratio based on actual value (%)	64.3	34.1	(30.2)
Debt redemption term (years)	3.4	8.1	4.7
Interest coverage ratio (times)	25.6	11.5	(14.1)
Return on assets (%) ROA	3.0	2.2	(0.8)
Return on equity (%) ROE	12.5	9.6	(2.9)
EV/EBITDA (times)	10.9	8.6	(2.3)

FY2008 plan (consolidated)

We expect net sales in the fiscal year ending April 2008 show a large increase of 29.5% year-on-year as a result of new store openings (30 pharmacies, 3 product sales outlets) and the contributions of Daitiku (Niigata) and Asahi-Chozai (Saitama) (for 8 months). We also forecast new all-time highs for ordinary income and net income, up 50% and 83.1% year-on-year respectively.

(¥ million)	FY ended April 2007 actual	FY ending April 2008 plan	Change	Year-on-year (%)
Net sales	81,307	105,260	23,953	129.5
Gross profit	10,858	13,660	2,802	125.8
SG&A expenses	7,970	9,230	1,260	115.8
Operating income	2,888	4,430	1,542	153.4
% of sales	3.6	4.2		
Ordinary income	2,833	4,250	1,417	150.0
% of sales	3.5	4.0		
Net income	1,010	1,850	840	183.1
Net income per share (¥)	89.34	163.43	74.09	182.9

FY2008 plan (parent)

For the fiscal year ending April 2008, we forecast sales up 8.8% year-on-year as a result of new store openings (16 pharmacies and 3 product sales outlets), and ordinary income up 20% year-on-year on rationalization effects and the move of the product sales business into the black.

(¥ million)	FY ended 2007 actual	FY ending 2008 plan	Change	Year-on-year (%)
Net sales	51,262	55,600	4,338	108.5
Gross profit	6,996	7,750	754	110.8
SG&A expenses	5,571	5,875	304	105.5
Operating income % of sales	1,425 2.8	1,880 3.4	455	131.9
Ordinary income % of sales	1,422 2.8	1,750 3.1	328	123.0
Net income	544	800	256	146.8
Net income per share (¥)	48.18	70.67	22.49	146.7
Annual dividend (¥)	18.00	20.00	2.00	111.1

Section 2: Current management position and outlook

Analysis of Challenge1000 (1)

We analyze here overall progress in the three-year medium-term plan Challenge1000, drawn up in the fiscal year ended April 2005. Both sales and profits were weak in 2007 as a result of the revisions to medical fee and drug prices. Although in our fiscal year ending April 2008 forecasts, sales and profits for the pharmacy division are ahead of plan, both sales and profits for the product sales division are below plan, so in total we will fall short at the profit level.

(¥ million)	FY ended April 2006 plan		FY ended April 2006 actual		FY ended April 2007 plan		FY ended April 2007 actual		FY ending April 2008 plan		FY ending April 2008 actual (forecast)	
	Pharmacies	Product sales	Pharmacies	Product sales	Pharmacies	Product sales	Pharmacies	Product sales	Pharmacies	Product sales	Pharmacies	Product sales
Net sales	78,500		76,303		92,100		81,307		106,200		105,260	
	61,386	16,921	61,232	14,860	69,965	21,538	66,785	14,253	77,767	27,150	89,328	15,634
Gross profit	10,836		10,228		12,813		10,858		15,619		13,660	
	6,586	4,412	6,199	4,097	6,347	5,556	6,987	3,943	7,199	6,910	9,180	4,525
% of net sales	10.7	26.1	10.1	27.6	9.1	25.8	10.5	27.7	9.3	25.5	10.3	28.9
SG&A expenses	7,376		7,145		8,213		7,970		9,919		9,230	
	2,265	4,224	1,970	4,367	2,213	5,149	2,905	4,204	2,163	6,308	3,940	4,429
% of net sales	3.7	25.0	3.2	29.4	3.2	23.9	4.3	29.5	2.8	23.2	4.3	28.3
Operating income	3,460		3,083		4,600		2,888		5,700		4,430	
	4,321	187	4,299	(207)	4,134	407	4,081	(260)	5,036	602	5,239	95
% of net sales	7.0	1.1	6.9	-	5.9	1.9	6.1	-	6.5	2.2	5.7	0.6
Ordinary income	3,540		3,012		4,500		2,833		5,600		4,250	
	4,310	213	4,214	(201)	4,134	412	4,104	(163)	5,036	607	5,182	139
% of net sales	7.0	1.3	6.9	-	5.9	1.9	6.1	-	6.5	2.2	5.7	0.9
Total number of stores	271		261		311		290		349		409	
	222	49	218	43	255	56	247	43	286	63	363	46

Analysis of Challenge1000 (2)

- ▶ In the Victory2005 medium-term plan, which started in the fiscal year ended April 2001, we went from net sales of ¥19,572 million (plan ¥20,780 million) and ordinary income of ¥871 million (¥790 million) to net sales of ¥57,092 million (¥40,200 million) and ordinary income of ¥3,082 million (¥2,104 million) in the final year, the fiscal year ended April 2005, so we ended up well ahead of plan in the final term. Thereafter, in the new Challenge1000 medium-term plan starting from 2006, the pharmacy division has been unable to absorb the weakness in product sales, and we expect profits in 2008, the final year, to undershoot target.
- ▶ In terms of safety, we have completely eliminated serious errors in compounding medicines by thorough pharmacological training and by establishing and launching a dispensing error prevention system.
- ▶ “Ainz & Tulpe” is developing into a position in which it will generate stable profits if the conditions are right. But because of difficulties securing locations to open stores in this format, we have been unable to increase the speed of store openings, so it will be below plan.

Current issues

- **Effects of revision of dispensing fee**
- **M&A results and future outlook**
- **Pharmacy business**
- **Product sales business**
- **Generics business (Wholesale Stars)**

Effects of revision of dispensing fee

As a result of the revision to dispensing fee in April 2006, the Group saw a ¥320 million decline (down 2.7%) in technical fees. We had budgeted for a 3% decline, so we managed to keep it to a minimum.

(¥ million)	FY ended April 2006 actual	FY ended April 2007 actual	Difference	Change (%)
Basic compounding fee	2,425	2,489	64	2.6
Compounding fee	6,669	6,375	(294)	(4.4)
Fee for provision of pharmacological information I / II	645	489	(156)	(24.2)
Fee for administration of medical dosing history	920	1,132	212	23.0
Dosage guidance supplement	681	537	(144)	(21.1)



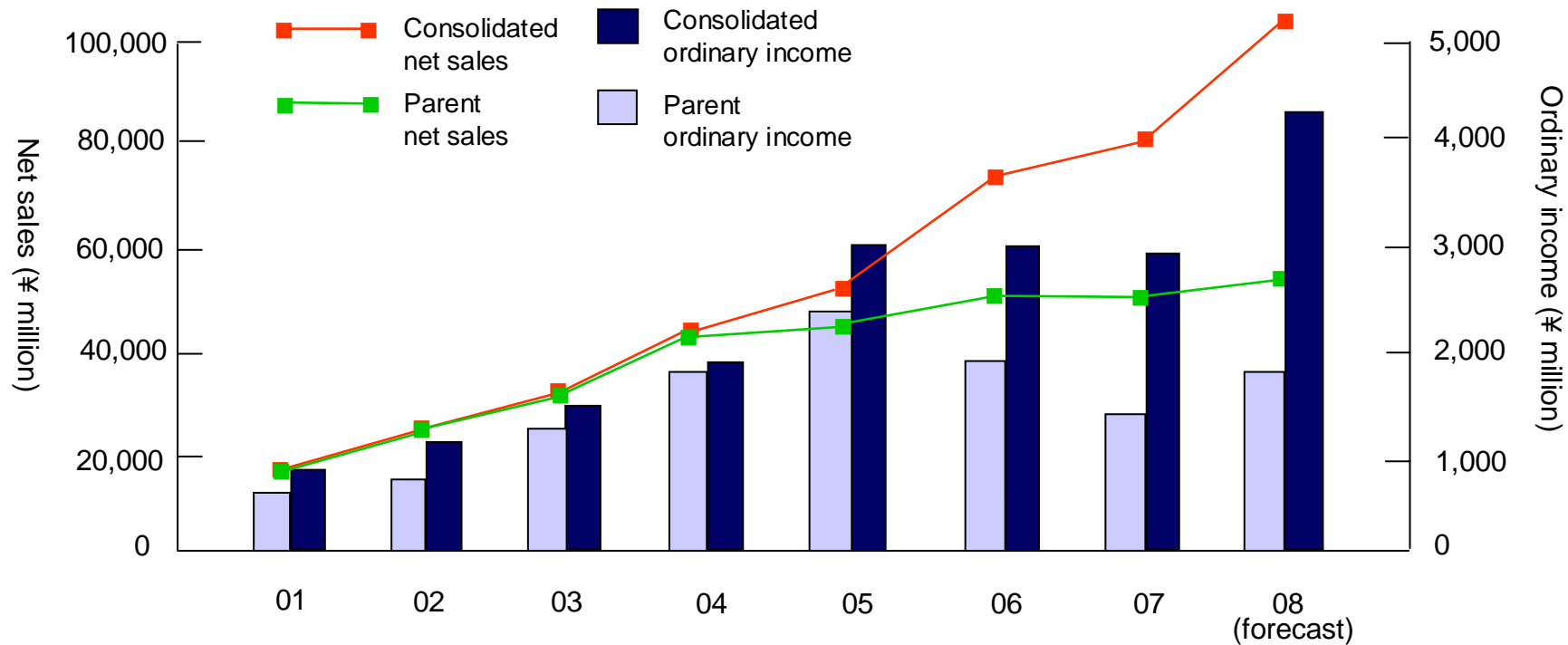
Total technical fees	Consolidated	11,832	11,512	(320)	(2.7)
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Note: Comparison of technical fee revenues before and after the revision on an existing store basis.

M&A results (1) Trends by fiscal year

	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Revisions		Revision of medical fees -1.3% Drug price revision -6.3%		Revision of medical fees ±0 Drug price revision -4.2%		Revision of medical fees -3.0% Drug price revision -6.7%		
M&A		Merger with Imagawa Yakuhin Nov. 2002		AIN TOKAI May 2004 AIN MEDICAL SYSTEMS Dec. 2004	Rejoice Rejoice Pharmacy Apr. 2005	MEDICAL HEARTLAND Apr. 2006 Daitiku Jan. 2007	Asahi-Chozai Jun. 2007	

Trends in sales and profits



(2) P/Ls of major subsidiaries

The table compares the 2007 results and 2008 planned P/Ls for the subsidiaries and the consolidated subsidiaries. 2008 plans for each company are roughly flat year-on-year, but because of the contributions from Daitiku, acquired in January 2007, and Asahi-Chozai, acquired in June 2007, net sales are expected to exceed ¥100 billion, and profits to hit a new all-time high.

(¥ million)	AIN TOKAI		AIN MEDICAL SYSTEMS		Rejoice Group		MEDICAL HEARTLAND		Daitiku		Asahi-Chozai		Other	
	FY ended Mar. 2007 actual	FY ending Mar. 2008 plan	FY ended Jan. 2007 actual	FY ending Jan. 2008 plan	FY ended Mar. 2007 actual	FY ending Mar. 2008 plan	FY ended Mar. 2007 actual	FY ending Mar. 2008 plan	FY ended Mar. 2007 actual	FY ending Mar. 2008 plan	FY ended Jul. 2007 actual	FY ending Jul. 2008 plan	FY ended Apr. 2007 actual	FY ending Apr. 2008 plan
Net sales	5,394	6,134	11,120	12,181	7,585	7,726	2,265	2,340	2,037	9,000	–	10,800	1,907	3,447
Gross profit	587	893	1,007	1,045	638	641	227	210	640	966	–	1,134	463	815
SG&A expenses	583	810	409	429	229	241	154	130	49	174	–	434	405	643
Operating income	4	83	598	615	408	400	73	79	590	791	–	700	58	171
Ordinary income	22	73	593	626	416	402	88	68	593	800	–	650	48	168
Net income	(89)	17	343	321	238	244	60	36	281	480	–	430	37	106

(3) B/Ss of major subsidiaries

The table compares the 2007 results and 2008 planned balance sheets for subsidiaries and the consolidated subsidiaries. In the consolidated plan for the fiscal year ending April 2008, net borrowings are almost unchanged year-on-year even after the acquisition of Asahi-Chozai, so there is no major impact.

(¥ million)	AIN TOKAI		AIN MEDICAL SYSTEMS		Rejoice Group		MEDICAL HEARTLAND		Daitiku		Asahi-Chozai		Other	
	FY ended Mar. 2007 actual	FY ending Mar. 2008 plan	FY ended Jan. 2007 actual	FY ending Jan. 2008 plan	FY ended Mar. 2007 actual	FY ending Mar. 2008 plan	FY ended Mar. 2007 actual	FY ending Mar. 2008 plan	FY ended Mar. 2007 actual	FY ending Mar. 2008 plan	FY ended Jul. 2007 actual	FY ending Jul. 2008 plan	FY ended Apr. 2007 actual	FY ending Apr. 2008 plan
Current assets	1,650	1,515	2,196	2,400	2,282	2,485	649	575	2,353	2,535	–	7,135	631	800
Cash	180	150	565	1,100	585	1,130	93	100	536	1,150	–	4,900	213	300
Fixed assets	1,306	1,290	2,803	2,980	554	630	394	590	1,201	1,405	–	1,500	244	225
Total assets	2,956	2,805	5,000	5,380	2,836	3,115	1,044	1,165	3,555	3,940	–	8,635	875	1,025
Current liabilities	2,518	2,350	2,543	2,543	1,501	1,530	467	550	1,441	1,570	–	3,300	484	520
Short-term debt	1,506	1,350	111	111	0	0	10	45	0	0	–	0	90	100
Long-term liabilities	377	380	399	399	2	10	104	105	282	60	–	850	125	135
Long-term debt	299	300	284	284	0	0	95	95	223	0	–	0	116	120
Total liabilities	2,896	2,730	2,943	3,000	1,503	1,540	572	655	1,724	1,630	–	4,150	610	656
Net assets	59	75	2,057	2,380	1,333	1,575	472	510	1,831	2,310	–	4,485	265	370
Total net assets and liabilities	2,956	2,805	5,000	5,380	2,836	3,115	1,044	1,165	3,555	3,940	–	8,635	875	1,025
Shareholders' equity ratio (%)	2.0	2.6	41.1	44.2	47.0	50.5	45.2	53.0	51.5	58.6	–	51.9	30.3	36.1
Net borrowings balance	1,625	1,500	–	–	–	–	12	40	–	–	–	–	–	–

(4) Consolidated P/L

In the fiscal year ending April 2008, net sales will be around the same for the parent company and for the subsidiaries. However, the parent company will have lower profits than the subsidiaries because of cost burdens including education and training, deployment of systems, and branch operation costs. We also forecast around ¥700 million in goodwill on a consolidated basis in the fiscal year ending April 2008.

(¥ million)

FY ending April 2008 Parent company (forecast)	
Net sales	55,600
Gross profit	7,750
SG&A expenses	5,875
Operating income	1,880
Ordinary income	1,750
Net income	800

FY ending April 2008 Subsidiaries (forecast)	
Net sales	51,627
Gross profit	5,702
SG&A expenses	2,859
Operating income	2,838
Ordinary income	2,785
Net income	1,634



(¥ million)

FY ending April 2008 Consolidated (forecast)	
Net sales	105,260
Gross profit	13,660
SG&A expenses	9,230
Operating income	4,430
Ordinary income	4,250
Net income	1,850

(5) FY2007 consolidated B/S (current)

Because in corporate acquisitions the acquisition cost minus the net assets is recorded under intangible fixed assets as goodwill, total assets increase, but net assets do not increase, so the shareholders' equity ratio declines.

(¥ million)

FY ended April 2007		Consolidated	
Assets		Liabilities	
Current assets	21,251	Current liabilities	31,428
Cash on hand and in banks	4,186	Short-term debt	12,155
Fixed assets	28,597	Long-term liabilities	7,094
		Long-term debt	6,217
		Total net assets	11,326
Total assets	49,849	Total liabilities and net assets	49,849

FY ended Jul. 2007		Asahi-Chozai (forecast)	
Assets		Liabilities	
Current Assets	6,827	Current Liabilities	3,235
Cash on hand and in banks	3,601	Short-term debt	0
Fixed assets	1,628	Long-term liabilities	853
		Long-term debt	0
		Total net assets	4,366
Total assets	8,455	Total liabilities and net assets	8,455

(¥ million)

Consolidated (after acquisition of Asahi-Chozai)			
Assets		Liabilities	
Current assets	28,078	Current liabilities	42,663
Cash on hand and in banks	7,787	Short-term debt	20,155
Fixed assets	33,858	Long-term	7,947
		Long-term debt	6,217
		Total net assets	11,326
Total assets	61,936	Total liabilities and net assets	61,936

(6) FY2008 consolidated B/S (forecast)

Our plan for the fiscal year ending April 2008 is to repay ¥7,938 million in short-term borrowings through securitizations of group assets and from cash and deposits, bringing short-term debt to ¥12,217 million. Along with goodwill in fixed assets (¥700 million), depreciation (¥700 million), and capital investment (¥1,900 million), the planned profit for the fiscal year (¥1,850 million) will be added to net assets, improving our financial position by rebuilding our balance sheet.

(¥ million)

Consolidated (after acquisition of Asahi-Chozai)			
Assets		Liabilities	
Current Assets	28,078	Current liabilities	42,663
Cash on hand and in banks	7,787	Short-term debt	20,155
Fixed assets	33,858	Long-term liabilities	7,947
		Long-term debt	6,217
		Total net assets	11,326
Total assets	61,936	Total liabilities and net assets	61,936



(¥ million)

FY ending April 2008		Consolidated (forecast)	
Assets		Liabilities	
Current Assets	21,270	Current Liabilities	34,725
Cash on hand and in banks	4,130	Short-term debt	12,217
Fixed assets	34,358	Long-term liabilities	7,947
		Long-term debt	6,217
		Total net assets	12,956
Total assets	55,628	Total liabilities and net assets	55,628

(7) Trends in financial indicators

This page shows indicators of the Group's financial strength, comparing the three terms from the fiscal year ended April 2006. There may be concerns about balance sheet deterioration as a result of M&A, but our financial position is improving through acquisitions of high-quality companies (using appropriate selection criteria) and asset securitizations.

	FY ended April 2006	FY ended April 2007	FY ending April 2008 (forecast)
Shareholders' equity ratio (%)	24.8	21.5	23.3
Current ratio (%)	76.4	67.6	62.1
Return on assets (%) ROA	3.0	2.2	3.3
Return on equity (%) ROE	12.5	9.6	14.3
D/E ratio	0.9	1.2	1.0
EV/EBITDA (times)	10.9	8.6	6.9

(8) Future initiatives

According to the Japan Pharmaceutical Association's most recently published edition of Insurance Pharmacy Trends, the prescription take-up rate has risen to 54.8%. In this industry, with all the pharmacy companies concentrating on a limited number of high-quality properties, store opening costs have mounted as a result of sharp rises in land prices and rents, and profits per store are on a downward trend.

In this environment, the scope for new store openings is limited, and it is difficult to expand sales and profits rapidly.

But with M&A deals, it is a matter of scrutinizing targets that have already opened stores, so it is possible to achieve expansion in sales and profits while limiting the future risks to factors like major changes in the medical system.

After integrating acquisitions, we aim to use economies of scale to reduce purchasing costs, and to strengthen the position of the Group as a whole by introducing our expertise in areas like systems.

Because the small and medium-sized compounding pharmacies we acquire are worried about maintaining their profits in the future because of repeated drug price revisions, changes to the dispensing fee, and pharmacist shortages, we continue to be brought a large number of possible deals.

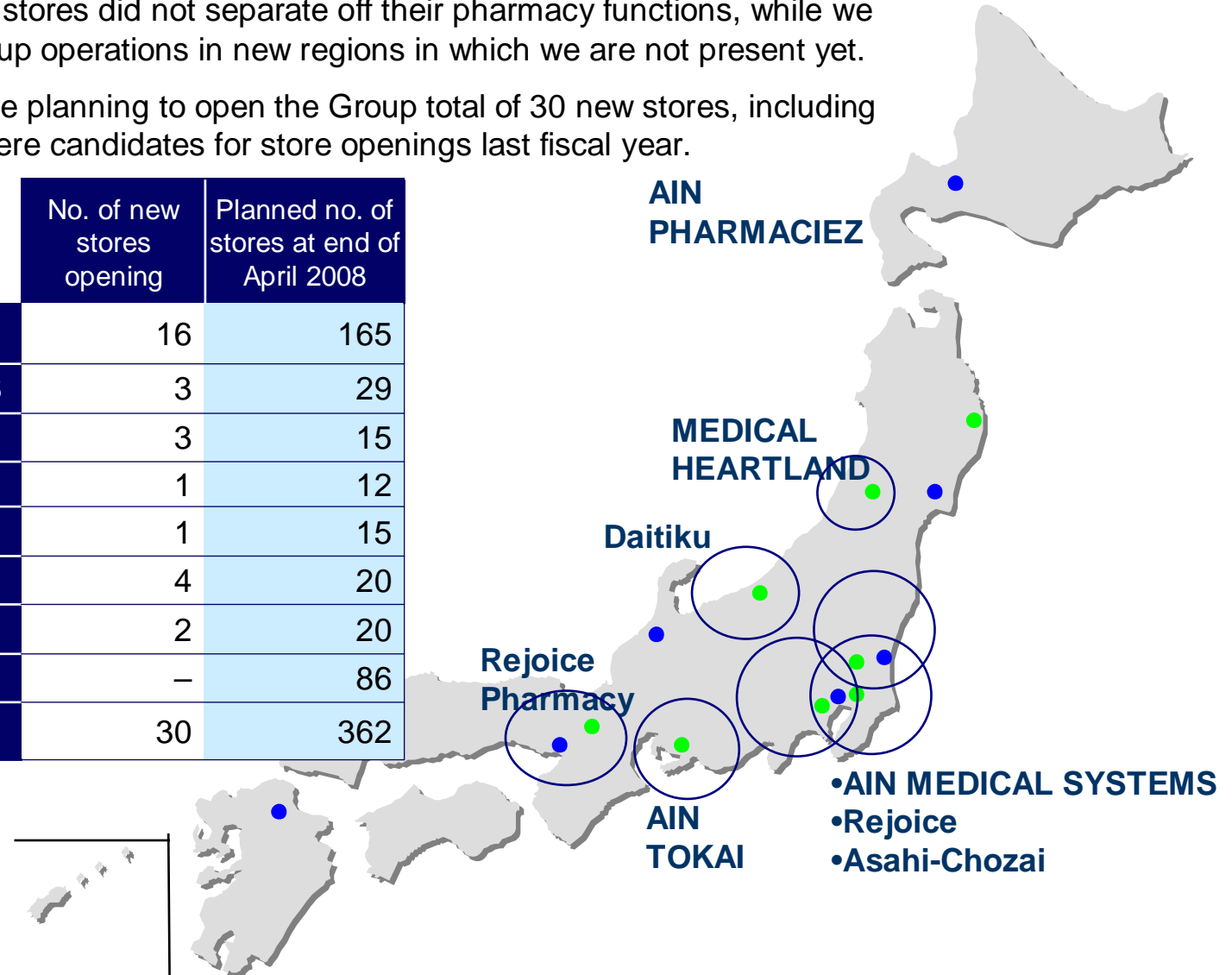
For these reasons, we intend to continue active M&A of high-quality companies in the future.

Pharmacy business (1) Store-opening strategy

Last fiscal year we undershot targets because medical institutions next to which we were planning to site stores did not separate off their pharmacy functions, while we also struggled to set up operations in new regions in which we are not present yet.

This fiscal year we are planning to open the Group total of 30 new stores, including those in areas that were candidates for store openings last fiscal year.

	No. of new stores opening	Planned no. of stores at end of April 2008
AIN PHARMACIEZ	16	165
AIN MEDICAL SYSTEMS	3	29
AIN TOKAI	3	15
Rejoice	1	12
Rejoice Pharmacy	1	15
MEDICAL HEARTLAND	4	20
Daitiku	2	20
Asahi-Chozai	–	86
Total	30	362



(2) Analysis of efficiency improvements

In the fiscal year April 2007, by strengthening our systems and efficiently allocating staff, we reduced the number of pharmacists and assistants in existing stores by 66 and 43 respectively, achieving ¥150 million in labor cost reductions during the fiscal year (around ¥500 million on a full-term basis).

By using our head office system (AIMS), which we started to roll out fully in November last year, we reduced monthly average inventories by ¥121 million through concentrated on-line inventory management. (From ¥1,363 million in Apr. 2006 to ¥1,242 million in Apr. 2007)

In addition, because we have been able to confirm that systematization brings both efficiency improvements and safety improvements resulting from a reduction in medicine dispensing errors, we will gradually roll out the system through the whole Group from this term.

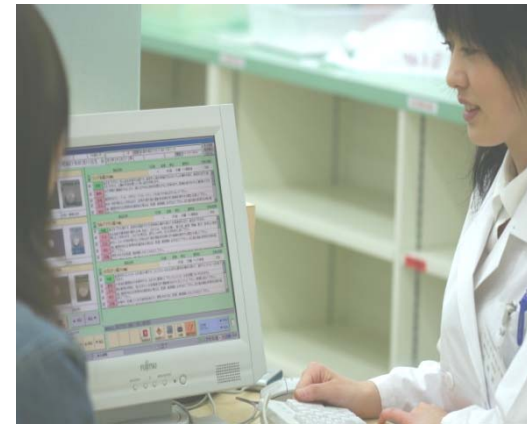
- | | |
|---|--|
| ■ PDA-based dispensing error prevention system (PhAIN system) : | introduced in all stores |
| ■ Prescription input system using OCR or two-dimensional code : | introduced in 19 stores |
| ■ Planning to introduce in-house developed electronic dosage history system (Front System): | scheduled to be introduced in 35 stores this fiscal year |
| ■ Head office administrative system (AIMS) : | came into full operation in November last year |



PhAIN system



OCR input device



Electronic dosage history system

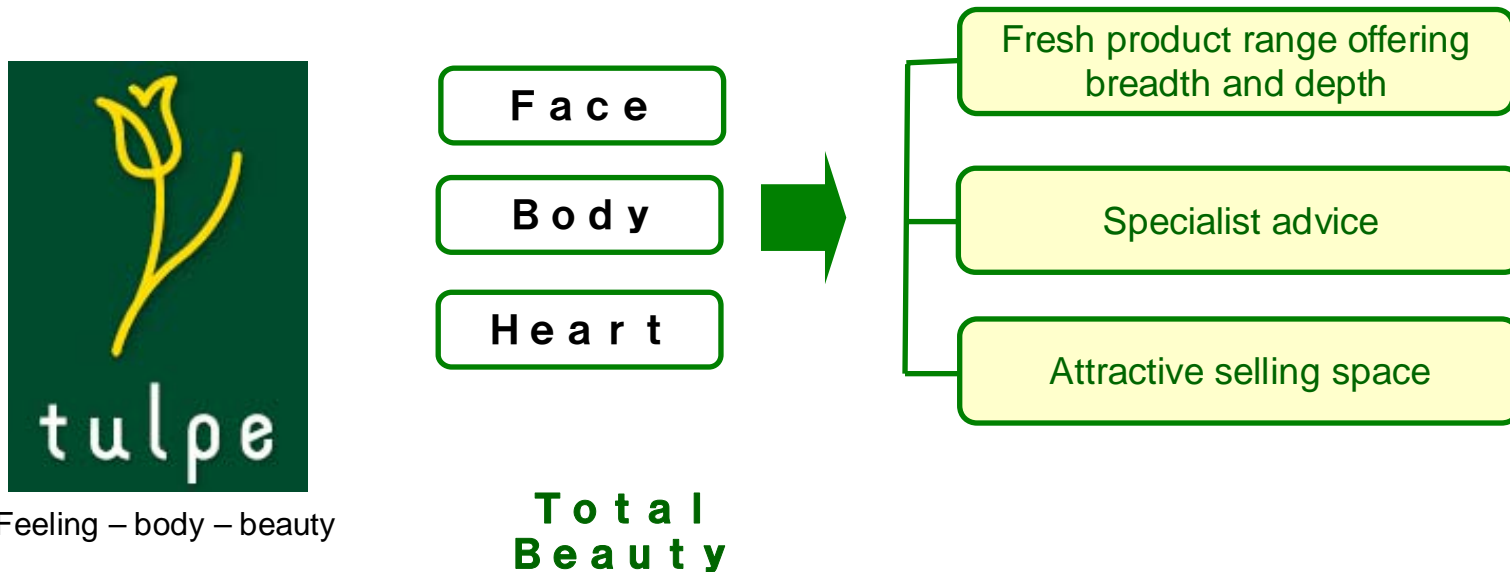
Performance analysis of the product sales business in FY2007

We improved our profit structure by developing a new merchandising and by strategies to improve gross margins. By closing two unprofitable stores in Nagoya and Osaka in the first half, we managed to break into the black at the ordinary income level in the second half, but the final result for the full year was a loss, as we were unable to absorb the losses on store closures.

(¥ million)

	FY ended April 2006 actual	FY ended April 2007 plan	FY ended April 2007 actual		Against plan (%)	Year-on-year (%)
			1st half	2nd half		
Net sales	12,275	12,723	11,707		92.0	95.4
			6,148	5,558		
Gross margin (%)	21.3	25.3	24.2		(1.1)	+2.9
			22.7	25.9		
Gross profit	3,282	3,797	3,368		95.0	100.9
			1,662	1,705		
SG&A expenses	3,591	3,793	3,601		98.0	105.6
			1,867	1,733		
Operating income	(308)	4	(233)		—	—
			(205)	(28)		
Ordinary income	(250)	64	(146)		—	—
			(171)	26		

Development of “Tulpe” prototype (cosmetics specialist)



Aiming to distinguish itself from other existing drug stores, “Ainz & Tulpe” has opened select stores specializing in drugs and cosmetics, targeting the fashion-conscious women in their 20s and 30s. “Ainz & Tulpe” stores are located mainly in large cities, with floor space of around 650m².

However, there is a limited number of locations in which “Ainz & Tulpe” stores can be opened, so we need to establish a format enabling faster store openings. We are working on a “Tulpe” prototype, with a store concept and product range that will combine even more customer pulling power than current stores, with highly favorable location conditions (store sizes of about 160-260m²). We will be opening the first store this fiscal year in the Tokyo area.

The generics business (1) WSS's growth strategy

As in the previous fiscal year, there will not be big growth in the fiscal year ending March 2008, but the Ministry of Health, Labour and Welfare has published a target that generics should account for 30% of all drugs by volume in 2012, so we expect large growth from next year on.

▶ **Gain new customers**

- DPC hospitals
- Medical institutions (hospitals) generating demand for Group compounding pharmacies
- Sales to non-Group compounding pharmacies

▶ **Promoting use of generic drugs by Group dispensing pharmacies**

- Sharing of successful ideas
- Distributing patient instruction tools (DVD screenings, distribution of cards and pamphlets for those wishing to switch to generics)
- Hosting study sessions run by manufacturers

▶ **Introduction of recommended products to existing customers**

- Sharing recommended products with compounding pharmacies and associated hospitals etc.
- Tie-ups with generics manufacturers

(2) FY2008 plan (WSS)

Plans for the fiscal year ending March 2008 anticipate growth in both sales and profits. The breakdown of sales is drugs ¥483 million, medicine compounding equipment and others ¥1,191 million, while the breakdown of gross profits is drugs ¥120 million, gross profits ¥79 million.

(¥ million)	FY ended March 2007 actual	FY ending March 2008 plan	Year-on-year (%)
Net sales	408	1,675	410.6
Gross profit	75	200	266.2
SG&A expenses	65	109	167.0
Operating income	9	90	957.3
Ordinary income	11	91	781.0