

## Summary of Financial Statements for the Second Quarter of Fiscal Year Ending April 2017

[Japan GAAP] (Consolidated)

November 25, 2016

Name of listed company: **AIN HOLDINGS INC.**  
Exchange listed on: First Section of Tokyo Stock Exchange and Sapporo Securities Exchange  
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Date of filing quarterly securities report: December 15, 2016  
Start of dividend payment: –  
Supplementary documents for quarterly results: Yes  
Quarterly results briefing: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen.)

1. Consolidated results for the second quarter of fiscal year ending April 30, 2017 (May 1, 2016 to October 31, 2016)

(1) Consolidated operating results

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended October 31, 2016	116,844	9.3	5,049	(14.4)	5,346	(12.1)	2,855	(13.3)
Six months ended October 31, 2015	106,924	21.2	5,901	39.5	6,084	36.7	3,295	30.5

(Note) Comprehensive income: Six months ended October 31, 2016: ¥2,905 million (-11.7%)  
Six months ended October 31, 2015: ¥3,290 million (+25.9%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended October 31, 2016	90.07	–
Six months ended October 31, 2015	103.93	–

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of October 31, 2016	136,847	54,961	40.1	1,731.65
As of April 30, 2016	139,888	53,324	38.1	1,679.69

(Reference) Shareholders' equity: As of October 31, 2016: ¥54,906 million As of April 30, 2016: ¥53,258 million

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	End of year	Full year
	Yen	Yen	Yen	Yen	Yen
Year ended April 30, 2016	–	0.00	–	40.00	40.00
Year ending April 30, 2017	–	0.00			
Year ending April 30, 2017 (forecast)			–	50.00	50.00

(Note) Revision to the most recently announced dividend forecasts: No

3. Consolidated financial forecasts for the fiscal year ending April 30, 2017 (May 1, 2016 to April 30, 2017)

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	265,000	12.8	16,300	11.5	16,700	10.2	9,000	13.7	283.84

(Note) Revision to the most recently announced consolidated financial forecasts: No

\*Notes

(1) Major changes in subsidiaries during the period (changes in specified subsidiaries resulting from changes in scope of consolidation): No

Newly consolidated: – Excluded: –

(2) Application of specified accounting methods for the preparation of quarterly consolidated financial statements: Yes

(Note) For detail, please refer to "2. Matters concerning summary information (notes) (2) Application of specified accounting methods for the preparation of quarterly consolidated financial statements" on page 3 of the Attachment.

(3) Changes in accounting principles, changes in accounting estimates, and restatement of revisions

1) Changes in accounting principles as a result of revisions to accounting standards, etc.: No

2) Changes in accounting principles other than 1): No

3) Changes in accounting estimates: No

4) Restatement of revisions: No

(4) Number of outstanding shares (common stock)

1) Number of outstanding shares (including treasury stock):	As of October 31, 2016	31,888,212 shares	As of April 30, 2016	31,888,212 shares
2) Number of shares held in treasury:	As of October 31, 2016	180,644 shares	As of April 30, 2016	180,595 shares
3) Average number of shares outstanding:	Six months ended October 31, 2016	31,707,568 shares	Six months ended October 31, 2015	31,707,617 shares

\*Status of execution of the quarterly review of financial statements

This quarterly financial summary is not subject to the quarterly review procedure based on the Financial Instruments and Exchange Act. As of the time of disclosure, this review procedure for quarterly consolidated financial statements had not been completed.

\*Statement regarding the proper use of financial forecasts and other special remarks

The above forecasts are calculated based on the information available as of the publication date of this material, and actual financial results may vary due to change in future economic conditions and others.

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## 1. Qualitative information on consolidated results for the period under review

### (1) Consolidated operating results

During the first six months of the current fiscal year (May 1, 2016 to October 31, 2016), the Japanese economy recovered at a moderate pace, supported by firm consumer spending. Corporate earnings remained at a high level but lost momentum.

In this economic environment, the AIN HOLDINGS Group (the Group) worked to expand its business and increase earnings. Specifically, the Group opened new dispensing pharmacies and used M&A to expand the business. It also developed its urban drug and cosmetic store business.

In the first six months of the fiscal year, net sales rose 9.3% year on year to ¥116,844 million, operating income decreased 14.4% to ¥5,049 million, ordinary income decreased 12.1% to ¥5,346 million, and profit attributable to owners of parent decreased 13.3% to ¥2,855 million.

Financial results by business segment are as follows.

#### (Dispensing pharmacy business)

In drug price and dispensing fee revisions in April 2016, the role of pharmacies located near hospitals was reevaluated, but in order to realize patient-focused non-hospital dispensing services, pharmacists and dispensing pharmacies are now being required to play a key role at the heart of local communities.

To ensure our pharmacists and dispensing pharmacies fulfill their role at the heart of local communities, the Group continues to build links with local healthcare service providers, mainly in the area of home-based dispensing, step up the integration and continuous management of drug information using patient medication notebooks and other means, and promote wider use of generic drugs.

In business development, the Group continued to push ahead with business expansion by opening new dispensing pharmacies and through M&A deals.

In November 2016, The Group decided to make AOI Pharmacy Corporation (Sendai-shi, Miyagi Prefecture) into a subsidiary. AOI Pharmacy operates a total of 115 dispensing pharmacies across Japan. The Group intends to use the acquisition of the company to further strengthen its network of dispensing pharmacies to support local healthcare provision.

As a result, for the first six months of the fiscal year, the dispensing pharmacy business reported higher sales but lower profit with sales rising 8.7% year on year to ¥104,297 million and segment income decreasing 8.5% to ¥7,494 million.

During the period under review, the Group opened 47 new dispensing pharmacies, including those acquired through M&A deals, and closed 11 pharmacies, resulting in a total of 917.

#### (Drug and cosmetic store business)

In the drug and cosmetic store business, the market environment remained challenging due to a narrowing competitive gap between companies in the sector and the emergence of new competitors from sector consolidation and realignment that also extends to other business sectors.

Against this backdrop, the Group continued to open *ainz & tulpe* urban drug stores and worked to make stores more appealing by refurbishing existing stores and strengthening merchandise lineups, particularly drug and cosmetics products. We also actively developed proprietary merchandise brands such as *LIPS and HIPS* and *cocodecica*, leading to an increase in profit margins.

As a result, for the first six months of the fiscal year, the drug and cosmetic store business reported an increase in sales of 1.8% year on year to ¥10,288 million. However, segment loss was ¥384 million, compared with segment loss of ¥183 million in the same period a year earlier.

In the second quarter of the fiscal year, the Group opened *ainz & tulpe* Colette Mare SAKURAGICHO-B1 (Naka Ward, Yokohama) and closed two stores, resulting in a total of 51 cosmetic and drug stores at the end of the second quarter.

#### (Other businesses)

Net sales from other businesses rose 157.9% year on year to ¥2,258 million and segment loss was ¥826 million compared with the loss of ¥444 million a year earlier.

### (2) Consolidated financial position

The balance of total assets at the end of the second quarter decreased by ¥3,041 million from the end of the previous fiscal year to ¥136,847 million.

This mainly reflected an increase in inventories due to business expansion through new store openings and M&A, against a decrease in notes and accounts receivable.

The balance of liabilities decreased ¥4,678 million to ¥81,885 million.

The balance of short- term and long-term debts decreased by ¥820 million to ¥19,723 million.

Total net assets increased by ¥1,637 million to ¥54,961 million and the shareholders' equity ratio increased 2.0 percentage points to 40.1%.

**(Cash flows)**

In the first six months of the fiscal year, cash and cash equivalents ("cash") increased by ¥420 million from the previous fiscal year end to ¥22,312 million.

Cash flows from each activity and their relevant factors are as follows.

During the first six months of the fiscal year, net cash provided by operating activities was ¥6,090 million, compared with ¥9,221 million provided in the same period a year earlier. The main cash inflows were profit before income taxes of ¥5,298 million, depreciation and amortization of ¥1,753 million, amortization of goodwill of ¥1,660 million. The main cash outflow was income taxes paid of ¥4,666 million.

Net cash used in investing activities amounted to ¥3,053 million, compared with ¥6,117 million used a year earlier. This was mainly due to payments of ¥1,544 million for the acquisition of property, plant and equipment and intangible fixed assets and ¥2,293 million for purchases of subsidiaries' shares resulting in obtaining controls.

Net cash used in financing activities was ¥2,616 million, compared with ¥8,157 million provided a year earlier. The main cash inflow was ¥973 million in net proceeds from short-term and long-term debt repayment and proceeds, while the main cash outflow was cash dividends paid of ¥1,268 million.

**(3) Forecast of consolidated financial results and other forward-looking information**

The Group has made no change to its earnings forecasts for the full fiscal year, announced on May 27, 2016.

**2. Matters concerning summary information (notes)**

**(1) Major changes in subsidiaries during the period**

There are no applicable matters to be reported.

**(2) Application of specified accounting methods for the preparation of quarterly consolidated financial statements**

Tax expenses were calculated by reasonably estimating the effective tax rate after the application of tax effect accounting to net income before taxes for the consolidated fiscal year including the second quarter, and multiplying the estimated effective tax rate by income before income taxes for the quarter.

**(3) Changes in accounting principles, changes in accounting estimates, and restatement of revisions**

There are no applicable matters to be reported.

**(4) Additional information**

(Adoption of the Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter of the current fiscal year, the Company has applied the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

**3. Quarterly consolidated financial statements****(1) Quarterly consolidated balance sheet**

(Thousand yen)

	Fiscal year ended April 30, 2016 (As of April 30, 2016)	Six months ended October 31, 2016 (As of October 31, 2016)
<b>Assets</b>		
Current assets		
Cash on hand and in banks	22,647,300	23,012,593
Notes and accounts receivable	12,385,821	7,214,813
Merchandise	10,661,177	11,509,313
Supplies	323,473	314,608
Deferred tax assets	1,149,432	1,107,321
Short-term loans	639,457	642,728
Other accounts receivable	5,983,629	7,508,888
Other current assets	2,806,438	1,984,822
Allowance for doubtful accounts	(3,337)	-
Total current assets	56,593,392	53,295,089
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	14,694,738	14,680,304
Land	9,537,493	9,525,982
Other property, plant and equipment, net	3,921,089	3,543,443
Total property, plant and equipment	28,153,320	27,749,730
Intangible fixed assets		
Goodwill	33,337,372	33,776,445
Other intangible fixed assets	2,248,861	2,337,342
Total intangible fixed assets	35,586,233	36,113,788
Investments and other assets		
Investments in securities	2,677,643	2,565,978
Deferred tax assets	2,038,851	2,163,596
Deposits and guarantees	10,013,440	10,287,169
Other investments and other assets	6,062,530	5,449,101
Allowance for doubtful accounts	(1,237,174)	(777,244)
Total investments and other assets	19,555,292	19,688,602
Total fixed assets	83,294,846	83,552,121
Total assets	139,888,239	136,847,211

(Thousand yen)

	Fiscal year ended April 30, 2016 (As of April 30, 2016)	Six months ended October 31, 2016 (As of October 31, 2016)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	39,987,595	37,693,599
Short-term debt	5,690,001	7,584,837
Accrued income taxes	4,448,862	2,177,896
Deposits received	10,112,896	11,153,793
Allowance for bonuses to employees	1,633,520	1,984,297
Allowance for bonuses to directors	13,590	15,945
Reserve for reward obligations	390,200	396,519
Provision for sales returns	15,815	13,167
Other current liabilities	4,452,428	3,687,689
<b>Total current liabilities</b>	<b>66,744,908</b>	<b>64,707,745</b>
<b>Long-term liabilities</b>		
Long-term debt	14,854,307	12,138,983
Net defined benefit liability	2,228,446	2,334,349
Other long-term liabilities	2,735,964	2,704,181
<b>Total long-term liabilities</b>	<b>19,818,717</b>	<b>17,177,514</b>
<b>Total liabilities</b>	<b>86,563,626</b>	<b>81,885,260</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Common stock	8,682,976	8,682,976
Capital surplus	6,367,844	6,367,844
Retained earnings	38,605,783	40,193,311
Treasury stock	(419,311)	(419,598)
<b>Total shareholders' equity</b>	<b>53,237,293</b>	<b>54,824,534</b>
<b>Accumulated other comprehensive income</b>		
Unrealized holding gains on securities	(63,296)	13,222
Remeasurements of defined benefit plans	84,867	68,525
<b>Total accumulated other comprehensive income</b>	<b>21,570</b>	<b>81,748</b>
<b>Non-controlling interests</b>	<b>65,748</b>	<b>55,668</b>
<b>Total net assets</b>	<b>53,324,613</b>	<b>54,961,951</b>
<b>Total liabilities and net assets</b>	<b>139,888,239</b>	<b>136,847,211</b>

**(2) Quarterly consolidated statements of income and comprehensive income****Quarterly consolidated statements of income**

	(Thousand yen)	
	Six months ended October 31, 2015 (May 1, 2015 to October 31, 2015)	Six months ended October 31, 2016 (May 1, 2016 to October 31, 2016)
Net sales	106,924,364	116,844,279
Cost of sales	90,210,692	98,479,207
Gross profit	16,713,672	18,365,071
Selling, general and administrative expenses	10,812,265	13,315,707
Operating income	5,901,407	5,049,363
Non-operating income		
Interest income	27,145	36,813
Dividend income	25,144	23,716
Commissions received	35,238	17,426
Real estate rental revenue	84,280	106,635
Consignment income	96,099	69,839
Guarantees received	157,022	39,408
Other non-operating income	181,968	172,802
Total non-operating income	606,899	466,643
Non-operating expenses		
Interest expenses	41,379	64,126
Losses on sales of accounts receivables	39,575	31,928
Real estate rental expenses	43,809	44,250
Provision of allowance for doubtful accounts	282,600	-
Other non-operating expenses	16,767	29,363
Total non-operating expenses	424,133	169,668
Ordinary income	6,084,173	5,346,338
Extraordinary income		
Gains on sales of investments in securities	-	150,537
Gains on sales of fixed assets	22,999	5,824
Insurance income	8,368	50,612
Other extraordinary income	2,772	28,118
Total extraordinary income	34,140	235,093
Extraordinary losses		
Losses on disposal and sales of fixed assets	167,018	241,243
Impairment losses on investments in securities	79,009	6,820
Other extraordinary losses	46,597	34,586
Total extraordinary losses	292,625	282,651
Profit before income taxes	5,825,688	5,298,780
Income taxes	2,514,779	2,453,028
Profit	3,310,909	2,845,752
Profit attributable to non-controlling interests	15,406	(10,080)
Profit attributable to owners of parent	3,295,503	2,855,832

**Quarterly consolidated statements of comprehensive income**

(Thousand yen)

	Six months ended October 31, 2015 (May 1, 2015 to October 31, 2015)	Six months ended October 31, 2016 (May 1, 2016 to October 31, 2016)
Profit	3,310,909	2,845,752
Other comprehensive income		
Unrealized holding gains (losses) on securities	(33,205)	76,519
Remeasurements of defined benefit plans, net of tax	12,958	(16,342)
Total other comprehensive income (loss)	(20,246)	60,177
Comprehensive income	3,290,663	2,905,929
Comprehensive income attributable to owners of parent	3,275,257	2,916,010
Comprehensive income(loss) attributable to non-controlling interests	15,406	(10,080)

**(3) Quarterly consolidated statements of cash flows**

(Thousand yen)

	Six months ended October 31, 2015 (May 1, 2015 to October 31, 2015)	Six months ended October 31, 2016 (May 1, 2016 to October 31, 2016)
<b>Cash flows from operating activities</b>		
Profit before income taxes	5,825,688	5,298,780
Depreciation and amortization	1,417,501	1,753,206
Amortization of goodwill	1,339,030	1,660,995
Increase in defined benefit liability	70,809	89,011
Increase in allowance for bonuses to employees	326,105	341,968
Increase in allowance for bonuses to directors	184	2,355
Interest and dividend income	(52,290)	(60,530)
Interest expenses	41,379	64,126
Losses on disposal and sales of fixed assets	144,019	235,419
Increase (decrease) in accounts receivable	(75,008)	5,733,772
Increase in inventories	(1,515,572)	(651,501)
Increase in other accounts receivable	(521,028)	(1,525,211)
Increase (decrease) in accounts payable	3,806,792	(2,918,279)
Other, net	721,316	741,923
Subtotal	11,528,927	10,766,036
Interest and dividends received	50,576	56,772
Interest paid	(40,967)	(64,981)
Income taxes paid	(2,316,854)	(4,666,987)
Net cash provided by operating activities	9,221,681	6,090,841
<b>Cash flows from investing activities</b>		
Payments for purchases of property, plant and equipment and intangible fixed assets	(4,427,422)	(1,544,246)
Proceeds from sales of property, plant and equipment and intangible fixed assets	192,595	304,258
Payments for purchase of investments in securities	(4,467)	(210)
Proceeds from sales of investments in securities	244,773	339,729
Purchase of subsidiaries' shares resulting in obtaining controls	(1,131,659)	(2,293,087)
Payments for loans receivable	(871,940)	(60,001)
Proceeds from collections of loans receivable	14,110	60,321
Payments for time deposits	(33,805)	(43,430)
Proceeds from withdrawal of time deposits	73,771	235,706
Other, net	(173,426)	(52,604)
Net cash used in investing activities	(6,117,471)	(3,053,564)

(Thousand yen)

	Six months ended October 31, 2015 (May 1, 2015 to October 31, 2015)	Six months ended October 31, 2016 (May 1, 2016 to October 31, 2016)
Cash flows from financing activities		
Net increase (decrease) in short-term debts	11,732,426	2,257,210
Proceeds from long-term debts	10,000	50,000
Repayments of long-term debts	(2,282,003)	(3,280,231)
Repayments of lease obligations	(351,731)	(375,300)
Payments for purchase of treasury stock	-	(286)
Cash dividends paid	(951,228)	(1,268,304)
Net cash (used in) provided by financing activities	8,157,463	(2,616,913)
Net increase (decrease) in cash and cash equivalents	11,261,673	420,363
Cash and cash equivalents at beginning of the period	19,389,097	21,892,179
Cash and cash equivalents at end of the period	30,650,771	22,312,543

**(4) Notes on quarterly consolidated financial statements**

(Notes on the premise of a going concern)

There are no applicable matters to be reported.

(Notes on significant changes in the amount of shareholders' equity)

There are no applicable matters to be reported.

(Segment Information, etc.)

I Six months ended October 31, 2015 (May 1, 2015 to October 31, 2015)

1. Net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segments				Adjustments (Note) 1	Carried on quarterly consolidated statements of income (Note) 2
	Dispensing pharmacy	Drug and cosmetic store	Other	Total		
Sales						
(1) Sales to third parties	95,940,867	10,107,600	875,896	106,924,364	-	106,924,364
(2) Intersegment sales	-	-	155,311	155,311	(155,311)	-
Total sales	95,940,867	10,107,600	1,031,207	107,079,676	(155,311)	106,924,364
Segment income (loss)	8,193,917	(183,965)	(444,421)	7,565,530	(1,481,357)	6,084,173

Notes: 1. The adjustment of ¥(1,481,357) thousand to segment income (loss) includes ¥1,201,363 thousand in corporate expenses, ¥333,062 thousand in losses that are not allocated to reportable segments, and ¥(53,069) thousand in eliminations due to intersegment transactions.

Corporate expenses consist mainly of expenses associated with the administrative divisions of the parent company, such as general affairs and accounting divisions.

2. Segment income (loss) is adjusted with the ordinary income of quarterly consolidated statements of income.

2. Impairment losses on fixed assets and goodwill by reportable segment

[Significant impairment losses on fixed assets]:

There are no applicable matters to be reported.

[Significant changes in the amount of goodwill]:

In the dispensing pharmacy business segment, the Company acquired five dispensing pharmacy companies and one other company. During the first six months of the fiscal year, the increase in goodwill related to these companies was ¥1,025,281 thousand.

II Six months ended October 31, 2016 (May 1, 2016 to October 31, 2016)

1. Net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segments				Adjustments (Note) 1	Carried on quarterly consolidated statements of income (Note) 2
	Dispensing pharmacy	Drug and cosmetic store	Other	Total		
Sales						
(1) Sales to third parties	104,297,439	10,288,333	2,258,506	116,844,279	-	116,844,279
(2) Intersegment sales	-	-	188,175	188,175	(188,175)	-
Total sales	104,297,439	10,288,333	2,446,682	117,032,454	(188,175)	116,844,279
Segment income (loss)	7,494,180	(384,611)	(826,383)	6,283,186	(936,847)	5,346,338

Notes: 1. The adjustment of ¥(936,847) thousand to segment income (loss) includes ¥1,696,461 thousand in corporate expenses, ¥(735,544) thousand in income that are not allocated to reportable segments, and ¥(24,070) thousand in eliminations due to intersegment transactions.

Corporate expenses consist mainly of expenses associated with the administrative divisions of the parent company, such as general affairs and accounting divisions.

2. Segment income (loss) is adjusted with the ordinary income of quarterly consolidated statements of income.

2. Impairment losses on fixed assets and goodwill by reportable segment

[Significant impairment losses on fixed assets]:

There are no applicable matters to be reported.

[Significant changes in the amount of goodwill]:

In the dispensing pharmacy business segment, the Company acquired nine dispensing pharmacy companies. During the first six months of the fiscal year, the increase in goodwill related to these companies was ¥1,885,934 thousand.