Ready for new growth

ANNUAL REPORT 2010 For the year ended April 30, 2010

AIN PHARMACIEZ

At a Glance

The AIN PHARMACIEZ Group is the leader in the field of dispensing pharmacies that boasts top position in the domestic market in terms of net sales. We vigorously promote the opening of new stores, as well as an M&A strategy, and consistently develop and establish an efficient operational structure. In the product sales business, another one of our core businesses, we are expanding the number of drugstores that sell cosmetics, over-the-counter (OTC) drugs and other items as part of a unique lineup.

In the year ended April 30, 2010 (fiscal 2010), AIN PHARMACIEZ posted record highs for both consolidated net sales and net income.

Two Business Domains

Pharmaceutical Business

▶ See pages 4-5 and 14-15

No.1 Dispensing Pharmacy in Japan

- Specialized in dispensing pharmacies located just outside medical institutions*; boasts leading position in net sales in Japan
- Superior education level of pharmacists and depth of the stratification of personnel
- State-of-the-art dispensing structure ensuring safety and reassurance

*Pharmacies located very near to medical institutions that mainly handle prescriptions from these facilities.

Product Sales Business

▶ See page 16

Unique Urban Drug and Cosmetic Stores

- Providing general support in daily life with drugs and cosmetics
- Continually evolving store style
- Lineup focusing on style-conscious females

Contents

The operating environment surrounding the Group is constantly changing due in part to the strengthening of government measures to control rising medical expenses resulting from a declining birthrate and an aging population. We have overcome various challenges in this regard by implementing leading-edge strategies with a view to the future.

In this Annual Report, we present an outlook for the business environment as well as our medium- to long-term strategies to accelerate growth.

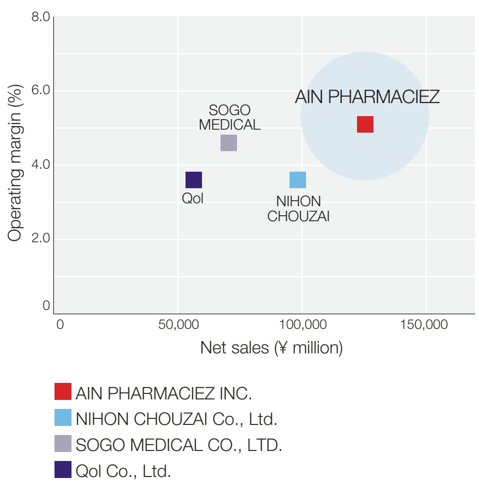
Dispensing Pharmacy Operations Leads Domestic Market

(As of April 30, 2010)

The AIN PHARMACIEZ Group has built up a position of superiority in terms of net sales and profitability mainly through strategic expansion and enhanced efficiency.

INDUSTRY POSITIONING

—Comparison of net sales and operating margin among major companies operating dispensing pharmacies



Souce: Complied by AIN PHARMACIEZ INC. from those companies' financial results for fiscal 2010.

Exceptional Pharmacists

Through an excellent education system and aggressive and regular recruitment of pharmacists, the AIN PHARMACIEZ Group has secured a pool of experts boasting a high level of service quality that gives us a competitive edge.

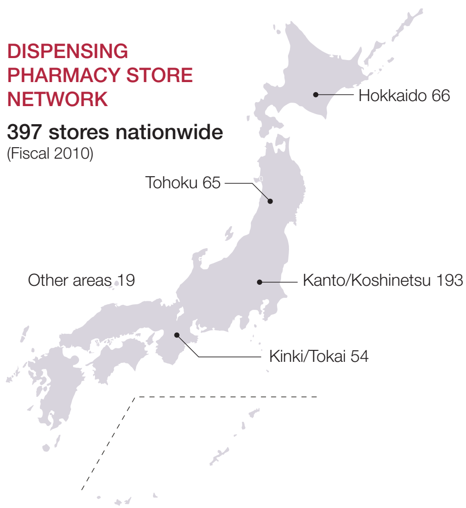
Expansive Network of Dispensing Pharmacies

We are steadily expanding our store network by opening new stores and through M&A.

DISPENSING PHARMACY STORE NETWORK

397 stores nationwide

(Fiscal 2010)



Forward-looking Statements

This annual report contains forecasts and projections concerning the plans, strategies and performance of AIN PHARMACIEZ INC. and its consolidated subsidiaries and affiliates. These forecasts and projections constitute forward-looking statements that are not historical facts, but are based on assumptions and beliefs in accordance with data currently available to management. These forward-looking statements are subject to a number of risks and uncertainties that include, but are not limited to, economic conditions, intense competition in the healthcare industry, demand, foreign exchange rates, tax systems, and laws and regulations. As such, AIN PHARMACIEZ INC. wishes to caution readers that actual results may differ materially from those projected.

Consolidated 11-year Financial Summary

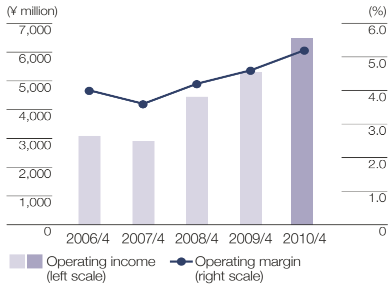
AIN PHARMACIEZ INC. and its consolidate subsidiaries
Fiscal years ended April 30

(¥ million)	2000/4	2001/4	2002/4	2003/4
For the year:				
Net sales	18,570	19,572	24,677	35,374
Selling, general and administrative expenses	2,626	2,539	2,674	3,268
Operating income	249	531	710	1,185
Net income	707	437	465	603
Capital expenditures*2	316	1,155	1,022	1,052
Depreciation and amortization*2	208	278	282	366
At the end of the year:				
Shareholders' equity*3	5,243	6,079	6,379	7,003
Net assets	5,243	6,079	6,379	7,003
Total assets	16,156	17,202	18,293	23,955
Number of shares outstanding (shares)	8,030,096	8,887,696	8,886,746	11,024,650
Number of employees (persons)	415	493	564	907
Number of stores : Pharmaceutical business	58	75	92	148
Number of stores : Product sales business	30	36	33	40
Per share information (¥)				
Net income	97.80	51.09	52.43	58.37
Net assets	652.96	684.08	717.88	633.22
Cash dividends	–	5.0	8.0	10.0
Stock information (based on the closing price as of April 30) (¥)				
Stock price	2,090	1,180	1,320	1,080
Ratios (%)				
Operating margin	1.3	2.7	2.9	3.4
Return on sales*4	3.8	2.2	1.9	1.7
Return on assets (ROA)*5	4.4	2.6	2.6	2.9
Return on equity (ROE)*6	21.3	7.2	7.3	8.6
Shareholders' equity ratio	32.5	35.3	34.9	29.2

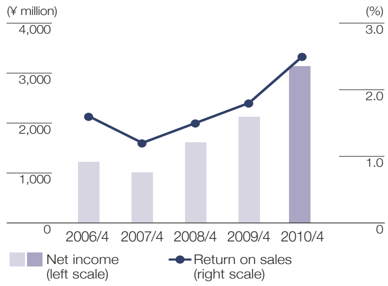
Notes: 1. Amounts of less than ¥ million were rounded down.
2. The amounts of capital expenditures and depreciation and amortization prior to the fiscal year ended April 30, 2007 are on a non-consolidated basis.
3. Shareholders' equity = Net assets – Minority interests
4. Return on sales = Net income / Net sales × 100
5. Return on assets = Net income / Total assets (yearly average) × 100
6. Return on equity = Net income / Shareholders' equity (yearly average) × 100

NET SALES

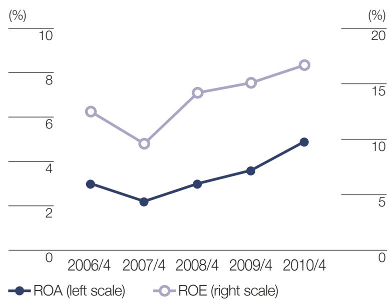
OPERATING INCOME /OPERATING MARGIN



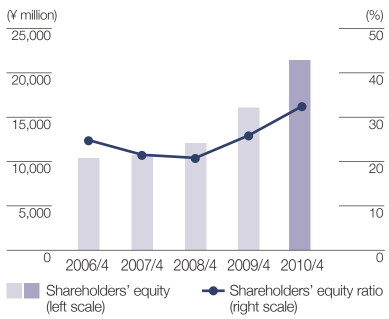
NET INCOME /RETURN ON SALES



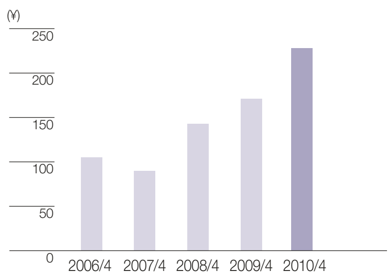
ROA/ROE



SHAREHOLDERS' EQUITY /SHAREHOLDERS' EQUITY RATIO



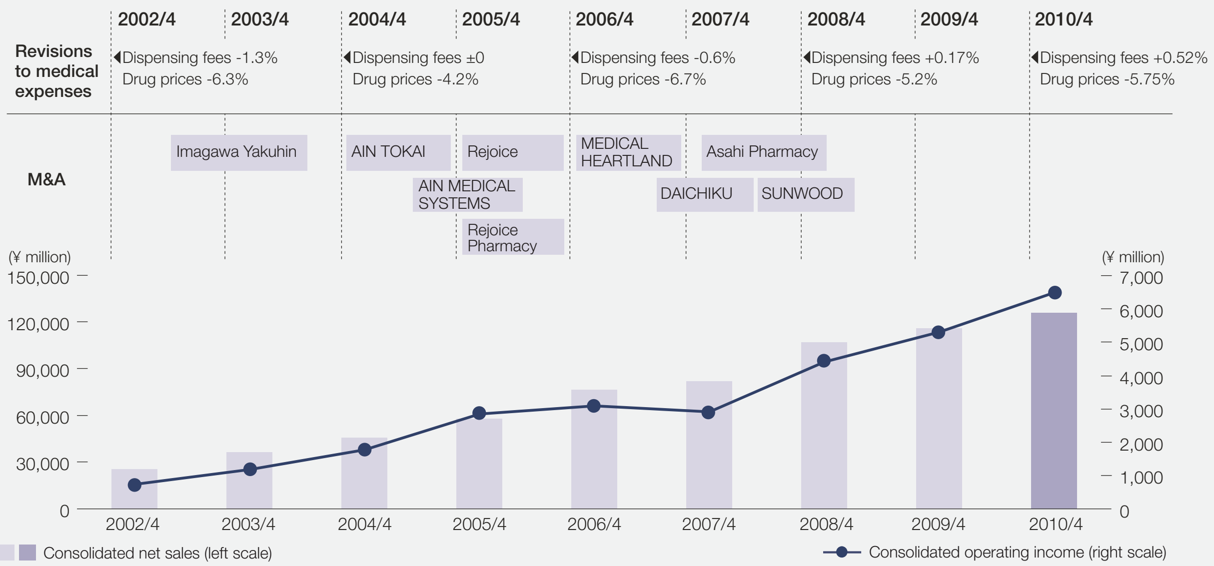
NET INCOME PER SHARE



2004/4	2005/4	2006/4	2007/4	2008/4	2009/4	**2010/4**
45,227	57,091	76,303	81,307	106,231	115,387	**125,495**
3,886	5,230	7,145	7,970	9,203	9,948	**10,744**
1,766	2,875	3,083	2,888	4,444	5,296	**6,492**
855	930	1,215	1,010	1,615	2,127	**3,131**
1,240	1,536	2,087	1,620	1,914	2,891	**2,573**
444	458	648	773	968	1,119	**1,286**
8,019	9,095	10,352	10,710	12,040	16,071	**21,445**
8,019	9,095	10,352	11,326	12,707	16,109	**21,492**
25,131	38,887	41,669	49,849	57,546	62,032	**65,898**
11,024,650	11,210,350	11,304,000	11,320,000	11,361,000	12,831,376	**14,101,164**
905	1,446	1,684	1,947	2,582	2,741	**2,913**
148	193	218	247	356	375	**397**
27	44	43	43	45	46	**49**
74.72	79.92	104.53	89.34	142.36	170.74	**228.08**
724.57	807.68	912.43	946.17	1,059.78	1,252.54	**1,520.81**
12.0	15.0	18.0	18.0	20.0	30.0	**40.0**
1,390	2,050	2,370	1,500	1,490	1,481	**2,920**
3.9	5.0	4.0	3.6	4.2	4.6	**5.2**
1.9	1.6	1.6	1.2	1.5	1.8	**2.5**
3.5	2.9	3.0	2.2	3.0	3.6	**4.9**
10.7	10.9	12.5	9.6	14.2	15.1	**16.7**
31.9	23.4	24.8	21.5	20.9	25.9	**32.5**

History of Growth

The AIN PHARMACIEZ Group has grown and expanded while dealing with the adverse effects from the repeated revisions to medical expenses, which began in April 2002. The opening of new stores and M&A has been actively implemented to continue the scale expansion policy.

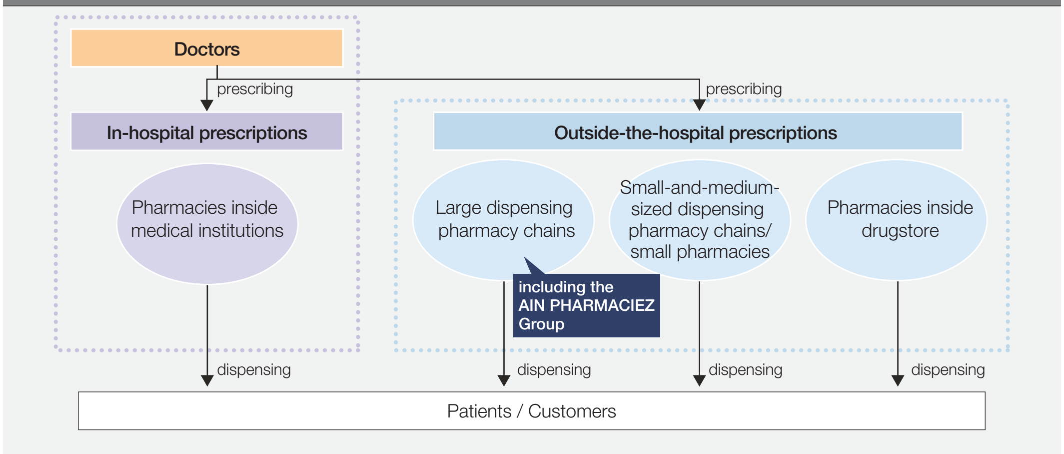


Japan's outside-the-hospital dispensing pharmacy market has major growth potential over the medium term due to a low level of oligopoly among major companies.

Structure of Japan's Dispensing Pharmacy Industry

In Japan, it was standard for medical institutions to prescribe and dispense drugs to patients (in-hospital prescriptions). However, following the introduction of a policy separating medical practice from pharmaceutical dispensing to control medical expenses in 1974, a system was adopted whereby ethical drugs can be dispensed at dispensing pharmacies (outside-the-hospital prescriptions).

DISPENSING PHARMACY MARKET IN JAPAN

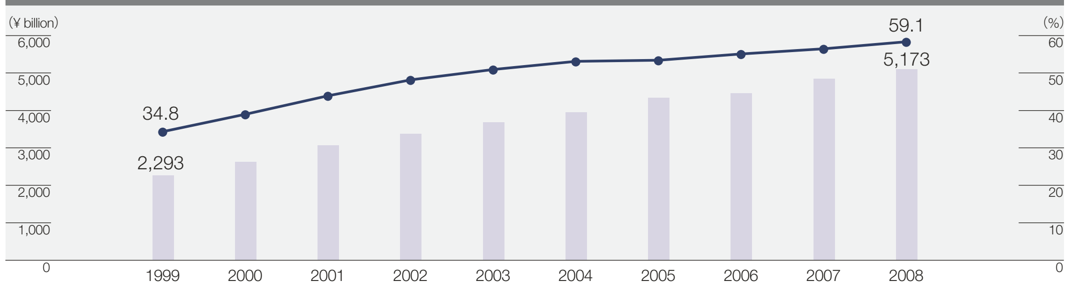


The separation of dispensing from medical practice has accelerated since 1990, with the proportion of outside-the-hospital prescriptions climbing to 59.1%*, or ¥5,173 billion* and steadily growing.

* Data for March 1, 2008 through February 28, 2009 by the Japan Pharmaceutical Association

The outside-the-hospital dispensing pharmacy market is comprised of large dispensing pharmacy chains that include the AIN PHARMACIEZ Group, small- and medium-sized chains, privately managed dispensing pharmacies and drugstore chains. The proportion of outside-the-hospital prescriptions is expected to continue increasing to 80%.

TOTAL DISPENSING FEES AND RATIO OF OUTSIDE-THE-HOSPITAL PRESCRIPTIONS



Total dispensing fees (left scale)

Ratio of outside-the-hospital prescriptions (right scale)

* For respective fiscal years beginning March 1 and ending February 28/29

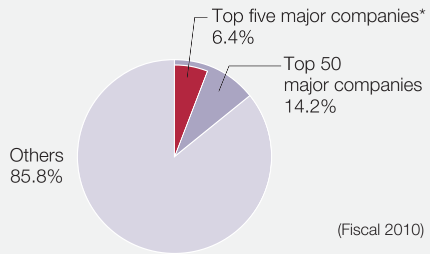
Source: Japan Pharmaceutical Association

Major Growth Potential in the Outside-the-hospital Dispensing Pharmacy Market

The outside-the-hospital dispensing pharmacy market, our business domain, has a unique composition whereby large dispensing pharmacy chains, including the AIN PHARMACIEZ Group, make up as little as 6.4% of the total.

The extremely low level of oligopoly combined with the need to boost efficiency by becoming a chain to survive in a fast-changing market provides considerable scope for large chains to expand.

STRUCTURE OF OUTSIDE-THE-HOSPITAL DISPENSING PHARMACY MARKET



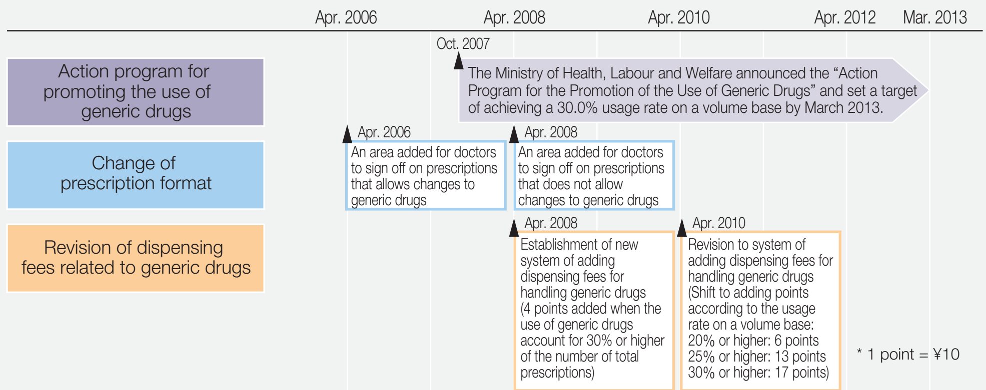
Source: The AIN PHARMACIEZ Group estimates based on materials by Japan Pharmaceutical Association and Drug Magazine published on July 2010.
* Top five major companies are AIN PHARMACIEZ INC., NIHON CHOUZAI Co., Ltd., PharmaCluster Co., Ltd., Qol Co., Ltd. and SOGO MEDICAL CO., LTD.

Future Outlook for Dispensing Pharmacy Industry

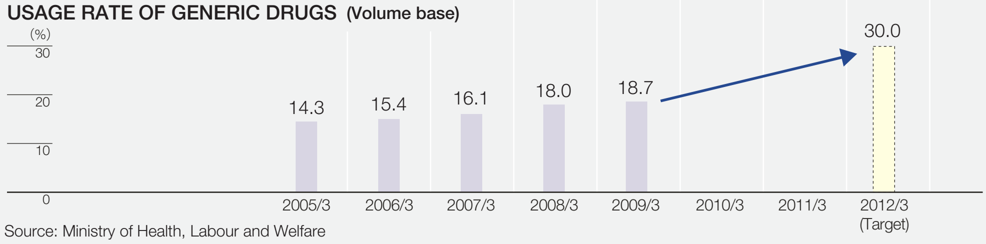
Since Japan has a declining birthrate and an aging population, it is projected that measures to control medical expenses will continue to get stronger. In line with this, we expect drug prices and dispensing fees for ethical drugs to be revised every two years. The usage rate of generic drugs on a volume base is forecast to increase from 19.1% (as of January 2010) to 30.0% by March 2013, which is the target figure of the Ministry of Health, Labour and Welfare.

Despite moderate growth in the dispensing pharmacy market, there is significant leeway for expansion compared with other industries in Japan, and as such, competition is expected to intensify. Based on these circumstances, the level of oligopoly of large dispensing pharmacy chains with a competitive advantage in scale and accumulated know-how is projected to increase. The AIN PHARMACIEZ Group is aiming to drive further growth under medium- to long-term strategies by leveraging current areas of comparative strength.

PROMOTION POLICY OF GENERIC DRUGS BY THE MINISTRY OF HEALTH, LABOUR AND WELFARE



USAGE RATE OF GENERIC DRUGS (Volume base)



Source: Ministry of Health, Labour and Welfare

Towards the Next Stage of Growth through Continued Evolution

AIN PHARMACIEZ posted record highs for both consolidated net sales and net income in the year ended April 30, 2010. This result can be attributed to ongoing store openings, the regular recruitment of pharmacists and an exceptional education program. Low-cost operations, achieved primarily through joint purchasing and efficient business practices, have also contributed to favorable performance results.

Following our listing on the JASDAQ stock market in 1994, the Company's stock went public on the Second Section of the Tokyo Stock Exchange 15 years later in April 2009 and was listed on the First Section in April 2010, proving how fast we have grown. I would like to express my sincere appreciation to our shareholders, partners, employees and all other stakeholders for your understanding and cooperation.

The AIN PHARMACIEZ Group has overcome tough changes in the business environment and continued to grow amid various governmental policies to increase the soundness of medical systems (See "Business Environment" section on pages 4-5).

In our core business of dispensing pharmacies, initiatives are under way for developing and expanding our network of dispensing pharmacies located just outside medical institutions for ultimate user convenience. As a result, we are building a scale of operations that will enable us enjoy the benefits of economies of scale. In the product sales business, we have differentiated ourselves from major drugstore chains and are pursuing greater profitability and efficiency at stores by tackling various challenges.

We have continuously undertaken measures to develop a structure from both software and hardware perspectives to provide safety and reassurance for customers and to create a comfortable working environment for our employees. These long-term strategies have helped to bring about significant achievements at this time.

Our strengths lie in the scale of our operations, our innovative systems and, above all, our human resources, who possess a strong sense of responsibility and have exceptional capabilities. Going forward, we will continue evolving and expanding in the two businesses of dispensing pharmacies and drugstores with the aim of providing more advanced healthcare services.

Although the business environment is expected to keep changing, I believe we can realize a new stage of growth through continued efforts across the board based on the watchwords "Become a standard for the industry."

July 30, 2010

Kiichi Ohtani
President and Representative Director

Interview with the President

There is no shortcut to growth in this business, where responsibility to society is so great. We have a sense of mission and fulfill our responsibilities to patients and society.

Kiichi Ohtani
President and Representative Director

Q. Please give us an overview of business performance for the period.

A. The Japanese economy during the fiscal year showed signs of steady recovery amid a resurgence in economies overseas and an improvement in corporate earnings. Even so, there is still a risk that economies overseas will decline, while the employment situation remains severe.

Under these circumstances, the AIN PHARMACIEZ Group executed initiatives to further expand business, such as actively opening new dispensing pharmacies and urban drugstores, restructuring the Group organization for a more agile structure and increasing capital by ¥2.4 billion through a public offering to enhance our financial position.

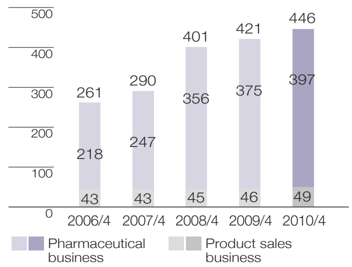
In terms of results, net sales were up 8.8% compared with the previous fiscal year to ¥125,495 million due to the opening of new dispensing pharmacies and urban drugstores together with an increase in sales at existing dispensing pharmacies. As for profits, operating income was up 22.6% year-on-year to ¥6,492 million, and net income surged 47.2% to ¥3,131 million. We achieved record highs in terms of both sales and net income.

Q. What are the main reasons for such dynamic growth in the dispensing pharmacy business amid numerous industry controls?

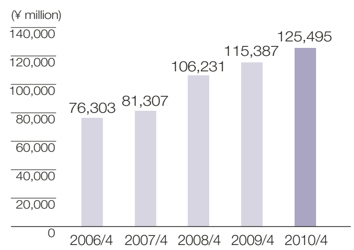
A. Besides having a deep understanding of the characteristics of the dispensing pharmacy market, including being a pharmacist myself, a key reason is our policy of expanding business taking a straightforward stance.

There is no shortcut to growth in this business, where responsibility to society is so great. We have a sense of mission and fulfill our responsibilities to patients and society. By establishing a structure and increasing efficiency in our fundamental business processes, we minimize the burden on our pharmacists and provide a higher quality of advice and services to patients and customers alike. Economies of scale provide us with low-cost operations, and we place importance on reinvesting profits to foster human resources and for further investment in facilities and equipment.

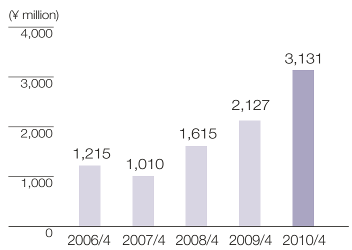
TOTAL NUMBER OF STORES



NET SALES



NET INCOME



Q. Please explain exactly what you mean by taking a straightforward stance.

A. We have a straightforward policy of focusing on dispensing pharmacies located just outside medical institutions as well as regular recruitment of pharmacists. These provide us with a source of differentiation that others cannot emulate.

Dispensing pharmacies located just outside medical institutions are the most convenient for customers. Also, opening stores near large hospitals will ensure more prescriptions, while there are a limited number of medical institutions to target, making our job simple and efficient. Another merit is that we handle numerous drugs for patients in critical condition, and accordingly, this results in raising the skills of our pharmacists.

Another key approach is the regular recruitment of pharmacists. We have always invested management resources in order to firmly establish education systems to nurture new hires. While taking a proactive stance towards M&A, the purpose of promoting the rapid nationwide expansion of our store network also has been to regularly recruit graduating pharmacists from universities across Japan.

Our education system is at an industry-leading level. We also work to create a store environment in which pharmacists can work with reassurance such as building systems to prevent drug dispensing errors. These facilitate the recruitment of exceptional personnel and support aggressive store expansion. We will continue with our approaches to be straightforward in our actions.

Q. What has been the key to corporate growth?

A. We aim to be a good company for employees and society, and we have established our current position through ongoing efforts company-wide.

The AIN PHARMACIEZ Group has always worked to provide a better workplace for our personnel because we believe a motivated workforce ensures better service for customers. This in turn increases corporate value and enables us to give back to shareholders and other stakeholders.

While procuring funds, we have continued to make investments to open stores, educate employees and create systems. For that reason, the profit growth rate and profitability tend to fluctuate each year, but we still almost always achieve the sales and profit targets of our business plans.

In general, as the business scale of a company expands, name recognition and credibility increases, and then earnings stabilize. Since achieving annual net sales exceeding ¥100 billion in the year ended April 30, 2008, we have maintained stable net sales and profits. This is proof that business expansion through economies of scale and capital investment has led to relatively low-cost operations.

To ensure ongoing growth, I have been conscious of keeping the company public, which is of value to society. As opposed to a private holding company, corporate information is more open and employee motivation is increased. Also, it's easier to gain the understanding of shareholders and investors, thus providing us with the opportunity to procure funds more flexibly for further growth.

Q. Please explain your stance toward generic drugs.

A. The AIN PHARMACIEZ Group seeks to expand the handling of generic drugs as a new revenue source.

Although total pharmaceutical sales will decline as we handle more generic drugs, dispensing fees will gradually be added in line with the volume-based usage rate of generic drugs, which will boost gross profit margins.

The usage rate of generic drugs in Japan has been very slow to take off compared with Europe and the United States on both volume and value bases. On a volume base, generic drugs account for 19.1% of the market in Japan as opposed to 60-70% in Europe and the United States, and on a value base, they account for 7.1% in Japan compared with around 20% in Europe and the United States.

The Ministry of Health, Labour and Welfare is planning to increase the use of generic drugs and is targeting 30% on a volume base by March 2013.

In 2006, AIN PHARMACIEZ established WHOLESALE STARS Co., Ltd. (WSS), a wholesale company specializing in generic drugs, in line with an expected increase in usage of generic drugs and to ensure their stable supply going forward. Distribution centers were set up in Saitama and Sapporo for that purpose. As a result, a structure has been established that is able to help lower the purchase price of generic drugs and raise profitability.

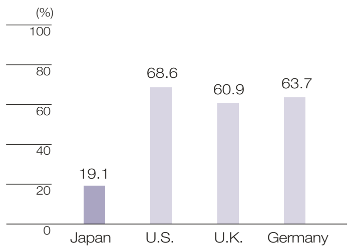
Q. Please tell us about the current status of the product sales business and your future strategy.

A. While continuing to expand business mainly in urban centers, we are working to enhance our product range, inventory management and service content, focusing on over-the-counter (OTC) drugs and cosmetics.

At present, the AIN PHARMACIEZ Group has three different types of stores: *Ainz*, a suburban drugstore mainly engaged in the sale of drugs and everyday items; *Ainz & Tulpe*, which specializes in drugs and cosmetics; and *Tulpe*, which focuses on cosmetics.

The drugstore industry, handling mainly OTC drugs, has become saturated in recent years in Japan. We are thus working to differentiate ourselves from general drugstores through our urban drugstores, *Ainz & Tulpe* and *Tulpe*, by enhancing customer contact. This includes providing in-depth explanations of drugs by our pharmacists and registered

GLOBAL COMPARISON OF GENERIC DRUG USAGE RATE
(Volume base)



Source: U.S., U.K. and Germany data: IMS Health, MIDAS, Market Segmentation, Rx only, based on shipment volume, MAT, Dec. 2008
Japan data: Ministry of Health, Labour and Welfare, Jan. 2010

In Japan, the dispensing pharmacy market has significant potential for growth compared with numerous other mature industries.

vendors. We are also pursuing a differentiation strategy with our unique cosmetics range targeting style-conscious women.

If full-scale expansion of the product sales business can be realized through a focus on highly profitable cosmetics, it will make a significant contribution to overall corporate profitability. This business domain still has considerable room for growth and cultivation, and our policy and measures will remain flexible to maximize this potential.

Q. Please explain the progress of the alliance with Seven & i Holdings Co., Ltd.

A. We are aiming to create a new business model to provide drugs that ensure safety and reassurance for customers that utilizes the powerful network of Seven & i Holdings extending across industries and our high level of specialization as a leading player in the dispensing pharmacy market.

Seven & i Holdings and AIN PHARMACIEZ concluded a business and capital alliance in August 2008. In June 2009, AIN PHARMACIEZ jointly established Seven Health Care Co., Ltd. with a 30% stake. Through the cooperation of both companies, Seven Health Care is building one of Japan's top drugstore businesses via the development of private-brand drugs and an extensive sales network. We will also collaborate on personnel recruitment and education for Seven Health Care by using AIN PHARMACIEZ's pharmacist education program.

In addition, both companies are discussing a strategy to mutually enhance corporate value over the medium- to long-term while pursuing unique, new avenues of development that include dispensing pharmacies.

Q. Finally, please tell us your message for shareholders and investors, and future management vision.

A. In Japan, the dispensing pharmacy market has significant potential for growth compared with numerous other mature industries. The AIN PHARMACIEZ Group has formulated a medium- to long-term strategy that takes into account governmental controls and other risk factors. I believe we can drive further growth by making good use of our current competitive advantages.

The Company views the return of profits to shareholders as extremely important and is aiming for a dividend payout ratio of over 20%.

Since our line of business involves a high degree of social responsibility, we will further develop and strengthen our efforts to realize highly transparent information disclosure, governance, internal controls and compliance as key management challenges.

Forward and Beyond

Ensuring a Greater Competitive Advantage by Maximizing Pharmacist Capabilities

Creating a motivating work environment for pharmacists as well as safety and assurance ultimately contributes to patient health. In the long run, it also leads to higher profitability. That's why efforts to this end are the driving force behind sustained growth for the AIN PHARMACIEZ Group.

It is a key challenge for the Group to create a structure enabling safe, stable, and speedy dispensing operations in order to ensure sustained growth in the future. We are establishing an operational structure to increase accuracy and speed when providing drugs to patients, including automation at our dispensing pharmacies. Another key challenge is to improve our education system to help our pharmacists provide quality advice to customers. As the largest dispensing pharmacy chain in Japan, the AIN PHARMACIEZ Group is pursuing in earnest these two fundamental challenges along with promoting more advanced initiatives ahead of our competitors.

AIMING FOR ZERO ERRORS IN DISPENSING DRUGS

Eliminating drug dispensing errors is always a priority issue for the AIN PHARMACIEZ Group. It is vital for us to create a structure that prevents such errors and ensures immediate recovery in the event of an error. We have led the way ahead of competitors in the formulation of manuals, an education system, and automation of drug dispensing operation in order to minimize the stress as well as careless mistakes of pharmacists to increase accuracy and speed.

To date, we have made significant progress in terms of efficiency and providing better advice to patients by those efforts. We have also started initiatives to bring about total automation of drug dispensing and are proceeding with systemization in accordance with the characteristics of each store.

BENEFITS OF AUTOMATED DRUG DISPENSING

1. Minimizes errors in dispensing → Increases safety
2. Boosts service competitiveness → Increases speed of dispensing and enhances services such as drug administration guidance
3. Raises cost competitiveness → Increases personnel efficiency

■ Automatic Prescription Registration System 1

In this system, prescriptions are read by a scanner and registered on computer, thereby preventing errors from manual input.

■ Unique Drug Dispensing Error Prevention System 2

This system analyzes information recorded on the receipt computer and sends data to the various stages of the

drug dispensing process, including preparation of the drug envelope, tablet picking and the dispensing of a specific measure of powdered or liquid drug.

Pharmacists cross-check the information on the prescription sent from the computer using Personal Digital Assistants (PDAs) developed by the Company with the information on the barcode. A warning alarm sounds if there is a discrepancy and handsets are also used for filling prescriptions to prevent errors.

■ Automatic Drug Picking System 3

We are working on the total automation of drug dispensing by further evolving the drug dispensing error prevention system using barcode recognition. Automating the selection procedure to gather drugs from the shelf is expected to enable greater safety and efficiency than the traditional PDA-based system, which entails manual picking operations and requires more personnel and time.

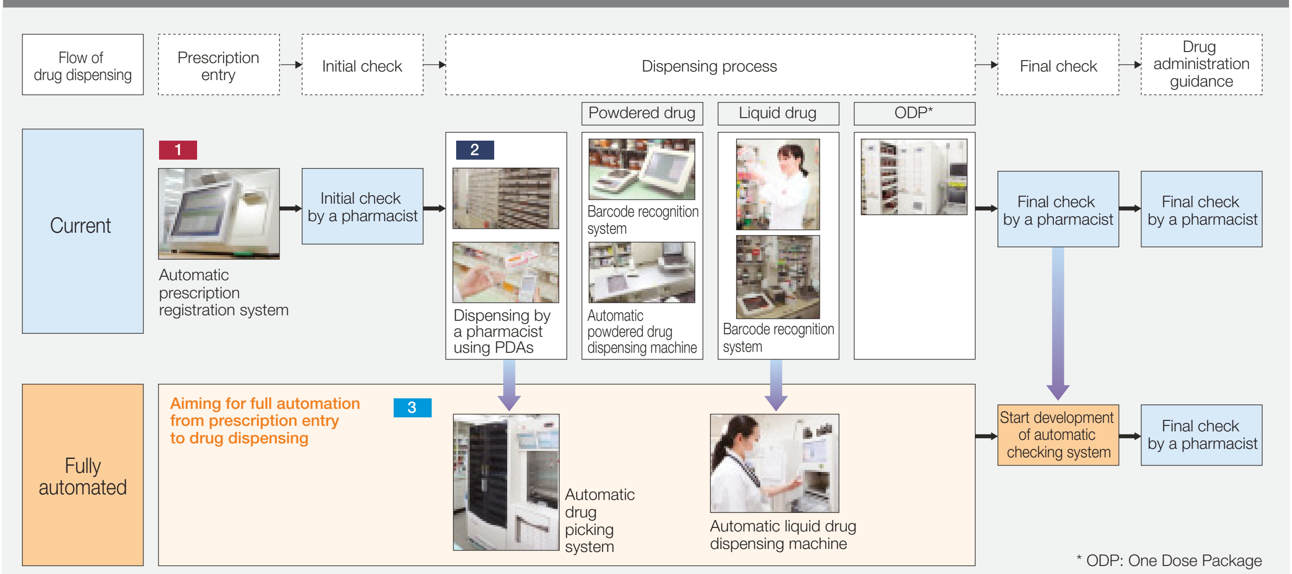
We have already developed and introduced an automatic powdered drug dispensing machine and an automatic liquid drug dispensing machine, and are currently trialing an automatic drug picking system that totally automates the drug dispensing process, starting with prescription entry. We are aiming to introduce the system at 30 stores during the current fiscal year and at 50 stores annually from the next fiscal year.

EXCEPTIONAL HUMAN RESOURCES, A KEY STRENGTH

One of our strengths and most important assets is our human resources. As a company concerned with people's well-being, we believe it is our mission to create a structure that minimizes errors in drug dispensing and to take responsibility for nurturing the personnel who work at our pharmacies. Besides providing training up to the moment our pharmacists first step foot in the pharmacies, we have created an ongoing education system suited to individual careers. This makes it possible to foster exceptional, highly motivated pharmacists.

It is also critical that we recruit experts to handle pharmaceuticals in drugstores to ensure stable growth and expansion of the AIN PHARMACIEZ Group. On that point, the Group has an environment conducive to easily securing graduates from pharmaceutical colleges around the country for its nationwide network. Going forward, we are planning to recruit more pharmacists throughout the Group as we seek to expand dispensing pharmacy networks and product sales business.

AUTOMATED DRUG DISPENSING



* ODP: One Dose Package

Pharmaceutical Business

Shoichi Shudo
Managing director,
General manager of Pharmaceutical division

Expand Network across Japan of Highly Convenient Dispensing Pharmacies Located Just Outside Medical Institutions

"The strength of our dispensing pharmacies lies in the work motivation of young employees. The average age of our pharmacists is 30.2*, and our corporate culture enables swift response to changes in the operating environment, which is a major asset in the dispensing pharmacy industry as it undergoes reorganization."

*Average age calculated by the Company on a non-consolidated basis

Strengths and Characteristics of Pharmaceutical Business

- Specialized in dispensing pharmacies located just outside medical institutions; boasts leading position in net sales in Japan
- Superior education level of pharmacists and depth of the stratification of personnel
- State-of-the-art dispensing structure ensuring safety and reassurance

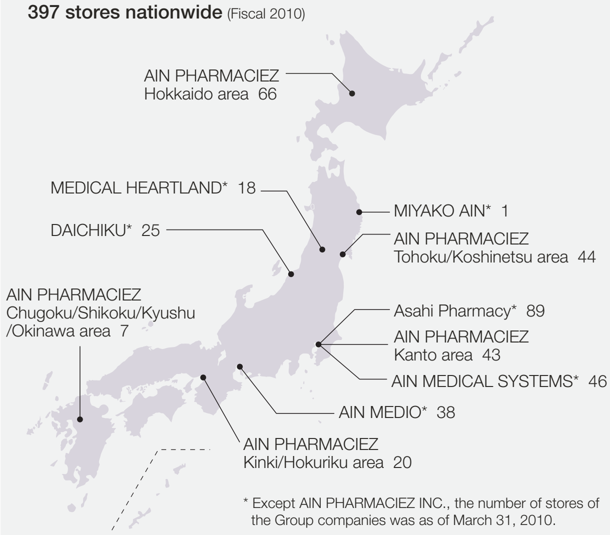
Specialization in Dispensing Pharmacies Located Just Outside Medical Institutions

An extensive network of large-scale dispensing pharmacies located just outside medical institutions forms the basis of our business model. In order to quickly expand business, the AIN PHARMACIEZ Group has not only opened new pharmacies independently but also made reputable dispensing pharmacy chains into subsidiaries through M&A.

These chain stores, which also open stores located just outside medical institutions, continue to conduct sales under their own brand and company names, and with their own pharmacists. This approach is taken to retain their credibility and customer confidence in their respective regions.

DISPENSING PHARMACY STORE NETWORK

397 stores nationwide (Fiscal 2010)

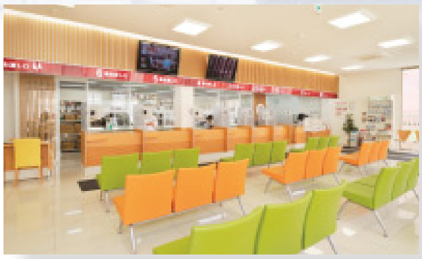


* Except AIN PHARMACIEZ INC., the number of stores of the Group companies was as of March 31, 2010.

At the end of the fiscal year under review, the AIN PHARMACIEZ Group boasted a network of seven companies (only those with dispensing pharmacy business), including AIN PHARMACIEZ, and 397 stores (up 22 from the previous period) with 2,097 pharmacists.

Moving ahead, we will continue recruiting pharmacists while strengthening foundations to drive further growth.

Katsuta Store, Ibaraki


Fushimi Store, Kyoto

Cross-Organizational Management System

We have unified operations in indirect departments of respective companies for greater efficiency in order to standardize services across the Group and pursue group-wide profitability, thereby handling the expansion in business scale. In addition to regular recruitment and enhancement of our education program for pharmacists, we have developed and shared advanced know-how concerning, for example, centralized drug purchasing and standardization of automatic drug dispensing systems in order to raise the Group's profitability.

Response to the Expansion of Generic Drugs

The use of generic drugs in Japan is expected to grow steadily on account of regulations to control medical expenses.

Currently however, the supply system for generic drugs is not ideal. In order to ensure a steady supply, WHOLESALE STARS Co., Ltd. (WSS) was established as a wholesaler of generic drugs in 2006, as well as distribution centers in Saitama and Sapporo. Aside from the AIN PHARMACIEZ Group, WSS provides generic drugs to small- and medium-sized pharmacies and medical institutions that are aiming to keep costs down. The purchasing power of manufacturers will rise with the amount of generic drugs handled, thus boosting the profitability of the AIN PHARMACIEZ Group.

Although net sales will decrease temporarily as the amount of generic drugs handled increases, gross profit margins will increase. These margins will rise further if drug dispensing fees are added in accordance with the volume of generic drugs handled. As of April 30, 2010, 23.7% of drugs handled by the AIN PHARMACIEZ Group were generic drugs. We aim to increase this figure by utilizing WSS as a means to increase profitability.

Expanding Approach to General Healthcare

The AIN PHARMACIEZ Group has a personnel introduction business that matches doctors with hospitals, opens multi-purpose clinics that are directly connected to train stations and provides comprehensive consulting services in support of hospital management.

One new initiative is to provide home medical care along with the aging of Japanese society. The AIN PHARMACIEZ Group is conducting trial services of "home drug dispensing" at our Yubari Store in Hokkaido. This service supports home medical care, whereby our pharmacists go to a person's residence to make sure the appropriate dosage for the patient as well as check their condition and work together with the family doctor or nurse to provide high-quality medical care. The Yubari Store has pharmacists who specialize in home drug dispensing and maintains a record of relevant data. By collaborating with health clinics and social workers, the service goes beyond mere drug delivery to contribute to regional healthcare.

Product Sales Business

Flexibility That Enables Continuous Evolution

“As a select shop of drugs and cosmetics, *Ainz & Tulpe* is a highly valued brand industry-wide. It is being nurtured as the second pillar of AIN PHARMACIEZ due to its ability to expand profits in the medium- to long-term.”

Rieko Kimei
General manager of Product sales division

Strengths and Characteristics of Product Sales Business

- Providing general support in daily life with drugs and cosmetics
- Continually evolving store style
- Lineup focusing on style-conscious females

Unique Urban Drug and Cosmetic Stores

In the product sales business, we have three store brands that handle different products: *Ainz* has an extensive lineup, from pharmaceuticals to everyday items; *Tulpe* provides high-quality cosmetics that include foreign brands; and *Ainz & Tulpe* has a wide-ranging lineup that incorporates products from both these stores.

In particular, *Ainz & Tulpe* and *Tulpe*, which target style-conscious females in their 20 to 40s, have been well received by customers for being different from competitors. Our policy is to expand these stores nationwide, mainly in urban areas.

STORE NETWORK	
Ainz	24
Ainz & Tulpe	20
Tulpe	5

(As of April 30, 2010)

New Challenges Resulting from Alliance

The Company formed an alliance with Seven & i Holdings Co., Ltd. in August 2008. This tie-up is expected to have numerous positive effects that will lead to growth in the product sales business.

One of these benefits is diversification of sales channels. We will promote the opening of new stores in general merchandising stores and in department stores under the Seven & i Holdings umbrella. We are also investigating various collaborative projects with the Seven & i Holdings Group that include using e-money and setting up joint operations with convenience stores.

By combining the abundant know-how of the Seven & i Holdings Group and the strengths and characteristics of AIN PHARMACIEZ stores, we aim to challenge unique, new avenues of development.

Ainz & Tulpe in BISSE ODORI, Hokkaido

Ainz & Tulpe in Ikebukuro Seibu, Tokyo

Corporate Governance

(As of July 29, 2010)

AIN PHARMACIEZ assumes responsibility for people's health and the well-being of the wider community through its business activities. We promote a highly efficient and transparent management system and implement ongoing initiatives toward enhancement of corporate governance.

BASIC ACTION POLICY FOR CORPORATE GOVERNANCE

Dispensing pharmacies and drugstore chains are the key business areas being developed by AIN PHARMACIEZ. Both of these businesses are characterized by a responsibility towards people's health, and as such, we recognize the indispensability of continuing with sound and transparent business activities that prioritize compliance.

We have adopted a corporate auditor system to enable a framework that realizes this goal in a business environment where an expanding market demands quick decision-making. This involves oversight not only of key management decisions and the business execution of directors but also general corporate management. In order to ensure the effective mutual management oversight of directors, the Board of Directors convenes more than once a month, while a management meeting is held for directors and standing corporate auditors on a weekly basis.

To minimize potential risks, the Internal Audit Office assures comprehensive compliance with basic pharmacy regulations and the Safety Policy Office conducts analysis and implements measures to prevent drug dispensing errors, a major risk factor in operating a pharmaceutical business.

OVERVIEW OF CORPORATE GOVERNANCE SYSTEM

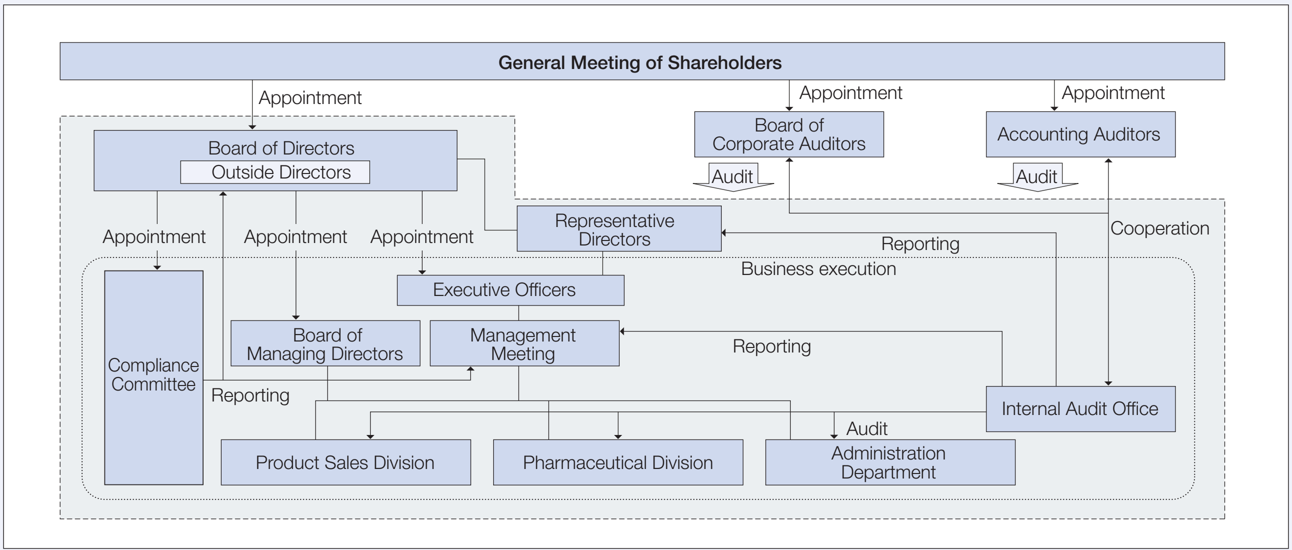
The Board of Directors, the major decision-making body of AIN PHARMACIEZ, is comprised of 14 members. Outside directors participate in management operations by providing appropriate advice from multi-faceted perspectives when important corporate decisions need to be made. At present, there are five outside directors at AIN PHARMACIEZ, and executives in charge of internal controls and internal audits are senior executive officers.

Executives in charge of internal audits and internal controls work closely with the Board of Corporate Auditors from a directorial standpoint and attend Board of Directors meetings where they report on internal audits and internal controls. This helps maintain a system that can secure the confidence of shareholders and investors in real terms. In addition, AIN PHARMACIEZ has introduced an executive officer system separating roles into management decision-making and oversight, and execution of operations, with the objective of vitalizing the Board of Directors and improving the functionality of business execution.

Aside from the aforementioned, we hold a weekly management meeting that is attended by management in positions above division head in order to monitor day-to-day operations. Members discuss business execution in each division at the meeting, which also allows for mutual supervision between business divisions.

Internal Control System

AIN PHARMACIEZ views the effective and reliable functioning of its internal control system as extremely important. With regard to management oversight, continuous swift decision-making is a prerequisite in order to proactively promote business expansion measures. We hold a management meeting every week that is attended by directors and standing corporate auditors, while five outside directors sitting on the Board of Directors participate in management decisions by offering appropriate advice from diverse standpoints. Through these measures, we are working to ensure that the mutual management oversight of directors is functioning properly when key decisions are being made.



Three outside corporate auditors and one standing corporate auditor comment on relevant matters in a corporate auditors' capacity at meetings of the Board of Corporate Auditors and Board of Directors, as well as monitor the execution of duties by directors. We are striving to enhance internal control functions through measures that include regular seminars conducted by lawyers, ongoing programs by the Compliance Committee to raise awareness of executives and regular employees and introduction of help desks for breaches of compliance.

Management System of Group Companies

The AIN PHARMACIEZ Group is comprised of AIN PHARMACIEZ, its 13 subsidiaries and three affiliates as of April 30, 2010. AIN PHARMACIEZ employs Management Guidelines for Subsidiaries and Affiliates at each of its subsidiaries in order to ensure appropriateness of operations as a business group. For items requiring important management decisions (including facts regarding decisions already made) at subsidiaries, a report is submitted to AIN PHARMACIEZ, the parent company, with action taken once approval has been granted. Further, a Group management meeting convenes every second week in the form of a liaison conference for Group companies in order to manage the status of business execution at each subsidiary.

Risk Management System

At AIN PHARMACIEZ, each division evaluates risk inherent in its operations by identifying all potential factors that may lead to physical or economic loss, loss of credibility or unprofitable results based on Risk Management Regulations. We always take steps to prevent or minimize anticipated risks by introducing rules and procedures and standardizing operations. In case of an accident, our basic policy is to quickly and accurately convey relevant information and respond appropriately in order to minimize company losses. We have clarified a concrete system of reporting and response when an accident occurs and are working to increase familiarity with this system among all executives and regular employees.

In addition, an Emergency Countermeasures Headquarters led by the Company president or executive vice president has been set up to deal with major accidents. This body works closely with pertinent departments to control information, swiftly provide appropriate instruction on procedures at the accident source and decide on policies concerning, among other things, external announcements. With regard to the operational status of risk management, the Internal Audit Office monitors compliance with, and effectiveness of, rules and regulations via field audits.

Internal Audits and Corporate Auditors' Audits

In principle, the Internal Audit Office conducts business audits more than once a year at the head office and stores via a four-person structure. It also audits subsidiaries and verifies the condition of respective internal audits.

In addition, we are increasing the effectiveness of internal audits by submitting materials related to internal audits to corporate auditors and through field audits in collaboration with corporate auditors. Other measures include timely discussions and reviews of internal audit methods and their effects, and coordinating with the accounting auditors on accounting audits. The status of internal audits is reported at management meetings, and after coordination with each business division, individual guidance is provided and audits once again conducted in an effort to enhance compliance.

Audits are conducted by corporate auditors, comprising three outside corporate auditors and one standing corporate auditor. In addition to the aforementioned activities, corporate auditors work to enhance the accuracy of their audits from legal and accounting perspectives and in line with the Company's articles of incorporation by exchanging ideas with accounting auditors at the time of each accounting audit. Corporate auditors accompany the accounting auditors on audits of subsidiaries to strengthen auditing functions.

Outside corporate auditors formulate audit policies and audit plans together with the standing corporate auditor, view important management-related documents, audit financial documents and reference materials, as well as proposals submitted at the General Meeting of Shareholders, and verify the status of business execution by directors. They also offer advice, suggestions and recommendations to directors and the Board of Directors through discussions via the Board of Corporate Auditors.

REMUNERATION FOR EXECUTIVE OFFICERS

The maximum total amount of remuneration for directors was determined by a resolution at the 33rd Ordinary General Meeting of Shareholders held on July 30, 2002 to be ¥200 million annually (does not include payments made to directors for their duties as employees). The actual amount each year is determined within this limit by the Board of Directors upon due consideration of business results and economic conditions. The maximum total amount of remuneration for corporate auditors was set at ¥30 million annually at the 22nd Ordinary General Meeting of Shareholders held on July 30, 1991. The actual amount each year is determined within this limit via discussions among the corporate auditors. The amount of remuneration for directors and corporate auditors for the current fiscal year is as follows.

Item	Total remuneration (¥ million)	Remuneration by type (¥ million)		Number of eligible individuals
		Basic remuneration	Bonus	
Directors (excluding outside directors)	175	146	29	12
Corporate auditors (excluding outside corporate auditors)	7	7	—	1
Outside directors and corporate auditors	17	14	2	5

Note: Additionally, the portion of employees' salaries for directors who concurrently serve as employees amounted to ¥4 million.

STATUS OF ACCOUNTING AUDITS

Three certified public accountants from Ernst & Young ShinNihon LLC conducted the accounting audits of AIN PHARMACIEZ based on the Companies Act and Financial Instruments and Exchange Act. Seven certified public accountants and 17 assistant accountants provided support for the accounting audits of AIN PHARMACIEZ. Audit fees for the current fiscal year were as follows.

	Compensation paid for audit certification activities (¥ thousand)	Compensation paid for non-audit activities (¥ thousand)
The Company	34,000	–
Consolidated subsidiaries	–	–
Total	34,000	–

STATUS OF SHARES HELD

1. Of the Company's investment securities, the number of different types of stock held for purposes other than investment, and their total balance sheet value
Number of different types of stock held: 30
Total balance sheet value: ¥1,347 million

2. The issues, numbers of shares held, carrying amount and purposes for holding equity securities (excluding unlisted shares) held not for pure investment purposes

Issues	Numbers of shares held (shares)	Carrying amount (¥ million)	Purpose for holding equity securities
Hokuhoku Financial Group, Inc.	2,047,400	382	Being held to maintain and strengthen the close relationship
Sapporo Hokuyo Holdings, Inc.	779,400	337	〃
TOKAI Corp.	64,900	80	〃
JAFCO Co., Ltd.	22,000	63	〃
Mizuho Financial Group, Inc.	200,000	36	〃
JAPAN CARE SERVICE GROUP CORPORATION	35,000	11	〃
ARCS COMPANY, LIMITED	8,676	10	〃
TAIHEIYO KOUHATSU INCORPORATED	100,000	9	〃
CAREER BANK Co., Ltd.	212	7	〃
ARATA CORPORATION	10,000	3	〃

Corporate Social Responsibility

AIN PHARMACIEZ aims to contribute to society mainly through the two businesses of dispensing pharmacies and drug and cosmetics stores, as well as to contribute to the advancement of research in the pharmaceutical field through funded projects for universities and joint research.

FUNDED PROJECTS AND JOINT RESEARCH

It is critical to link frontline personnel, such as those from the AIN PHARMACIEZ Group, with educational and research institutes to drive advancement in the pharmaceutical industry going forward. The Group seeks to contribute to the advancement of research in the pharmaceutical field and takes a proactive approach to initiatives based on academic-industry partnerships, such as funded projects and joint research at The University of Tokyo, Kyoto University, Hokkaido University and Sapporo Medical University.

<Funded Projects>

■ Division of Social Communication System for Advanced Clinical Research:
The Institute of Medical Science, The University of Tokyo
This project aims to clarify obstacles to the establishment and proliferation of advanced medial care and implements proposals and activities to identify concrete solutions.

■ Pharmaco-Business Innovation:
Graduate School of Pharmaceutical Sciences, The University of Tokyo
This project aims to promote innovation, the true domain of the university, and develop foundations to apply the results for the benefit of society. Activities focus on three key areas: research, education and supporting commercialization.

■ Pharmaceutical Risk Management:
Faculty of Pharmaceutical Sciences, Hokkaido University
By analyzing accumulated data regarding drug dispensing errors and other incidents (mistakes that occur prior to handing over drugs to patients), this project aims to develop new countermeasures and verify their effectiveness in actual clinical practice in order to prevent accidents in drug dispensing.

■ Integrative Palliative Care Education & Practice:
Sapporo Medical University
This project aims to enhance and advance the level of medical treatment through the evidence-based learning of therapy and care at centers for palliative treatment. This involves perceiving palliative treatment as a science.

<Joint Research>

■ Laboratory of Drug Informatics:
Graduate School of Pharmaceutical Sciences, The University of Tokyo
This joint research aims to establish a system of learning for drug informatics in order to carry out drug lifetime management.

■ Department of Pharmacoepidemiology:
Graduate School of Medicine and Public Health, Kyoto University
This joint research evaluates the impact and effect of various announcement of regulations and treatment guidelines for the proper use of drugs on the number of prescriptions filled, and examines the social usability of pharmacy information, including drug dispensing information.

Management's Discussion and Analysis of Financial Condition and Results of Operations

BUSINESS ENVIRONMENT SURROUNDING THE AIN PHARMACIEZ GROUP

The core pharmaceutical business of the AIN PHARMACIEZ Group (the Group) is a dispensing pharmacy business that includes preparing and dispensing ethical drugs based on prescriptions.

The drug prices and dispensing fees are stipulated by the Ministry of Health, Labour and Welfare. As a measure for containing national medical expenses*[1], medical treatment fees*[2] and drug prices are being reduced incrementally.

The difficult business environment is continuing in the pharmaceutical and dispensing pharmacy industries. This is due to the government's policy of containing national medical expenses including deliberation pertaining to a sweeping overhaul of the medical system as well as revisions, including drug prices and dispensing fees, carried out in April 2010.

Total amount revision*[3] increased 0.19% overall (up ¥70 billion on value bases). Looking at a breakdown of these revisions, even though the revision rate for dispensing fees rose 0.52% (an increase of ¥30 billion), the revision rate for drug prices decreased 1.23%*[4] (down ¥450 billion), making this a severe downward revision for the dispensing pharmacy industry as a whole because dispensing pharmacy revenues are based on dispensing fees and drug prices.

One noteworthy point was setting up of the system of adding dispensing fees for handling generic drugs. As a policy for promoting the greater use of generic drugs, this system now operates as a scheme whereby dispensing fees are incrementally added depending on the generic drug usage rate. The Group began actively promoting the use of generic drugs in 2006. While other companies in the industry are struggling with changes to their profit structures resulting from a revision to the medical treatment fee and other systems, the Group regards the recent revision to dispensing fees as a perfect opportunity for further raising profitability.

Notes:
1. National medical expenses refer to medial expenses within the scope of medical services provided under health insurance.
2. Medical treatment fees comprise technical fees for medical personnel and for dispensing pharmacists.
3. Revisions include medical treatment fees, drug prices and material costs.
4. This rate was calculated based on total prior medical expenses. The rate of the most recent revisions to drug prices to the prior revision decreased 5.75%.

ANALYSIS OF BUSINESS RESULTS FOR THE CURRENT FISCAL YEAR UNDER REVIEW

During the fiscal year under review, the Japanese economy showed signs of a steady recovery along with the resurgence of overseas economies and an improvement in corporate earnings. Nevertheless, the economy faced risks that included concerns that overseas economies would decline, while the employment situation remained severe.

Under these circumstances, the Group strengthened its agility and financial structure in preparation for further business expansion by restructuring the Group organization and increasing capital by ¥2.4 billion through a public offering while actively opening new dispensing phar macies and urban drugstores.

Consolidated net sales increased 8.8% compared with the previous fiscal year to ¥125,495 million due to the opening of new dispensing pharmacies and urban drugstores in addition to an increase in net sales at existing dispensing pharmacies. At the profit level, selling, general and administrative (SG&A) expenses increased 8.0% to ¥10,744 million due mainly to investments for expanding store openings and upfront investments for new store openings. Nonetheless, we successfully implemented group-wide business reform projects and were able to hold the SG&A ratio to 8.6%, the same as for the previous fiscal year. Additionally, we posted favorable results at dispensing pharmacies, which resulted in a sharp 22.6% increase in operating income to ¥6,492 million. The operating margin rose 0.6 percentage point from the previous fiscal year to 5.2%. Moreover, net income jumped 47.2% to an all-time high of ¥3,131 million and the return on sales ratio rose 0.7 percentage point to 2.5%.

SEGMENT INFORMATION

Pharmaceutical business

In the pharmaceutical business, new and existing dispensing pharmacies recorded solid results due to a rise in unit prices per prescription accompanying long prescription terms and owing to a large number of patients visiting these pharmacies. In preparing for a two-year blank period for hiring new pharmacist graduates resulting from the transition to a six-year curriculum in pharmaceutical education at colleges, the Group hired a large number of new graduates as pharmacists. Efforts also continued to work to raise safety and efficiency and strengthen the profitability of dispensing pharmacies.

At the Group structure level, we promoted reorganization among subsidiaries to strengthen profitability by raising the agility and efficiency of the Group operational structure and reducing administration costs. Specifically, we merged the operations of AIN MEDICAL SYSTEMS Inc. (surviving company) and Rejoice Inc.; AIN TOKAI Inc. (surviving company) and Rejoice Pharmacy Inc. (upon the merger, AIN

TOKAI Inc. was renamed AIN MEDIO Inc.); and AIN MEDIO Inc. (surviving company) and SUNWOOD Co., Ltd. Regarding stores, we continued to carry out active new store openings and business development with 24 store openings and the closure of two stores. Although we were unable to achieve the target number of new store openings for the fiscal year, the number of dispensing pharmacies in operation at the end of the fiscal year under review reached 397. During the fiscal year under review, the Group did not engage in any large-scale M&A activity because there were no potential investment targets that satisfied the Company's criteria for investment recovery, which was due to a steep rise in market valuations within the industry.

As a result of the previous initiatives, the pharmaceutical business recorded a 9.5% increase in net sales from the previous fiscal year to ¥111,602 million and a 23.2% increase in operating income to ¥8,330 million.

Product sales business

The products sales business includes the *Ainz & Tulpe* urban drugstores and the *Tulpe* cosmetic specialty stores situated in commercial facilities in inner-city areas throughout the country. The *Ainz & Tulpe* and *Tulpe* stores handle beauty-related products, centering on cosmetic products, and we are working to strengthen the competitiveness of these stores and raise profitability.

As we implement various measures as part of these initiatives, our business alliance with the Seven & i Holdings Group is steadily yielding positive results. These include the establishment of Seven Health Care Co., Ltd. with a joint investment and the undertaking of renovations, centering on the conversion of the Hirokoji Place Store of *Ainz & Tulpe* (Nagoya, Aichi Prefecture) into a 7-Eleven-based store. In addition, in November 2009 we opened a store in the flagship Ikebukuro Seibu Store of Seibu Department Stores, Ltd. (Tokyo), marking our first store opening inside a department store.

During the fiscal year under review, we opened a total of five stores, including three *Ainz & Tulpe* stores, beginning with the Ikebukuro Seibu Store, and two *Tulpe* stores, while closing two small stores. As a result, we had a total of 49 drugstores including subsidiary AIN MEDIO.

Ainz & Tulpe and *Tulpe* are differentiated from regular drugstores that sell pharmaceuticals and everyday household products and are thus virtually unaffected by the revised Pharmaceutical Affairs Law. Nevertheless, there is still a strong tendency for consumers to maintain their defensive stance toward spending and thus numerous existing stores experienced declines in sales compared with the previous fiscal year.

Consequently, net sales rose 2.8% from the previous fiscal year to ¥13,619 million. However, the product sales business was unable to absorb the initial costs for new store openings while upfront investments for increasing staff in preparation for new store openings pushed up SG&A expenses. The product sales business posted an operating loss of ¥493 million (versus an operating loss of ¥289 million in the previous fiscal year).

Other businesses

Net sales in other businesses increased 5.6% to ¥273 million and the operating loss was ¥76 million versus an operating loss of ¥82 million in the previous fiscal year.

ANALYSIS OF FINANCIAL POSITION

Total assets at the end of the fiscal year under review amounted to ¥65,898 million, up ¥3,866 million from ¥62,032 million at the end of the previous fiscal year.

Current assets at the end of the fiscal year under review amounted to ¥31,242 million, up ¥3,071 million from ¥28,170 million at the end of the previous fiscal year. A principal factor underlying this rise was an increase in cash on hand and in banks. To flexibly carry out store openings and M&A activities, besides procuring funds in capital markets, the Group also liquidates receivables in working to raise liquidity on hand. As a result, cash on hand and in banks at the end of the fiscal year rose ¥1,954 million from the end of the previous fiscal year to ¥11,188 million. Other principal factors underlying the increase in current assets were a ¥709 million rise in notes and accounts receivable associated with an expansion of openings of dispensing pharmacies and drugstores and a total increase of ¥1,009 million in inventories. The cash-to-debt ratio rose 25.3% from 49.4% in the previous fiscal year to 74.7%.

Fixed assets at the end of the fiscal year under review were ¥34,642 million, up ¥780 million from ¥33,862 million at the end of the previous fiscal year. This was due mainly to a ¥272 million increase in tangible fixed assets resulting from investments related to new store openings (29 stores) as well as a ¥745 million increase in investments in securities resulting from investments in subsidiaries and affiliated companies and other factors.

Current liabilities at the end of the fiscal year under review amounted to ¥34,140 million, up ¥738 million from ¥33,402 million at the end of the previous fiscal year. This was due mainly to a ¥954 million increase in accounts payable and a ¥445 million increase in accrued income taxes resulting from new store openings and an expansion in earnings, respectively. On the other hand, short-term debt decreased ¥1,027 million from the end of the previous fiscal year to ¥6,549 million.

Long-term liabilities at the end of the fiscal year under review amounted to ¥10,266 million, down ¥2,254 million from ¥12,521 million at the end of the previous fiscal year. The decrease was due to a ¥2,539 million decline in long-term debt and a ¥140 million decrease in bonds owing to the completion of bond redemptions.

As a result of the preceding factors, total liabilities at the end of the fiscal year under review amounted to ¥44,406 million, down ¥1,517 million from ¥45,923 million at the end of the previous fiscal year. Interest-bearing debts were reduced ¥3,706 million during the fiscal year under review due to the repayment of long- and short-term debts and to the completion of bond redemptions. As a result, net interest-bearing debt (interest-bearing debts – cash on hand and in banks + investments in securities) declined ¥6,406 million to ¥985 million and the net D/E ratio, an indicator showing the dependency on borrowings, improved 0.40 point to 0.05 times.

Net assets at the end of the fiscal year under review amounted to ¥21,492 million, up ¥5,383 million from ¥16,109 million at the end of the previous fiscal year. This was due primarily to ¥1,251 million increases in common stock and capital surplus, respectively, due to a public offering capital increase (the issuance of 1,200 thousand new shares and the exercise of equity warrants for 70 thousand shares). Retained earnings rose ¥2,746 million from the previous fiscal year due to an expansion in earnings.

The shareholders' equity ratio at the end of the fiscal year under review stood at 32.5%, up 6.6 percentage points from 25.9% at the end of the previous fiscal year. ROA and ROE were 4.9% and 16.7%, respectively, and we thereby attained our previously established targets (ROA: 4.5%, ROE: 15.5%).

BASIC POLICIES FOR PROFIT DISTRIBUTION

The Company's basic policy is to pay dividends from retained earnings once per year at the end of the fiscal year. Regarding dividends from retained earnings in the year under review, we paid cash dividends per share of ¥40. This consisted of ordinary cash dividends per share of ¥35, an increase of ¥10 from the previous fiscal year, and a ¥5 per share commemorative dividend for the Company's listing on the First Section of the Tokyo Stock Exchange.

In the future as well, the Company will treat the return of profits to shareholders as an important management issue. We will work to implement our basic policy of providing returns to investors proportionate to the profits realized and maintaining a stable return on investment. Internal reserves are held for strengthening the Company's soundness, preparations for new store openings and future development of the business. We will make effective use of these funds to generate profits to be returned to shareholders in the future. Regarding dividends from retained earnings for the next fiscal year, we plan to increase ordinary dividends per share by ¥10 and thus pay total dividends of ¥45 per share.

CASH FLOWS

Cash flows from operating activities

Net cash provided by operating activities was ¥6,428 million compared with ¥4,333 million in the previous fiscal year. The primary cash inflows were income before income taxes and minority interests of ¥6,105 million, depreciation and amortization of ¥1,286 million, amortization of goodwill of ¥878 million and increase in accounts payable of ¥954 million. These inflows resulted from an expansion in earnings along with new store openings. On the other hand, principal cash outflows consisted of an increase in inventories of ¥1,009 million and income taxes paid of ¥2,712 million.

Cash flows from investing activities

Net cash used in investing activities was ¥2,700 million compared with ¥757 million in the previous fiscal year. This was due primarily to a total of ¥471 million for purchase of shares in subsidiaries and affiliated companies that included an investment for the establishment of Seven Health Care Co., Ltd. as well as ¥1,606 million for payments for purchase of property, plant and equipment and intangible fixed assets associated with new openings of urban drugstores and dispensing pharmacies.

Cash flows from financing activities

Cash flows used in financing activities amounted to ¥1,773 million compared with an inflow of ¥1,462 million in the previous fiscal year. This was due mainly to ¥2,484 million in proceeds from issuance of new shares associated with a public offering capital increase and the exercise of stock options.

Due to the increase in cash flows provided by operating activities that resulted from the increase in the Group's earnings along with efforts to strengthen the Group's liquidity on hand and financial structure in preparation for business expansion, cash and cash equivalents at end of the year amounted to ¥11,188 million, an increase of ¥1,954 million.

BUSINESS AND OTHER RISKS

The following factors may affect the Group's business performance, stock price and financial position. Statements in the text referring to the future reflect the judgment of the Group at the end of the current fiscal year.

1. Laws and Regulations

a. Regulations under the Pharmaceutical Affairs Law and other laws

We operate dispensing pharmacies under various permits, licenses, registrations and notifications including those set forth by the Pharmaceutical Affairs Law, the Health Insurance Law and the Pharmacists Law, under the supervision of the Ministry of Health, Labour and Welfare, and of prefectural health and welfare departments. The drugstore business in our product sales business also involves sales of pharmaceuticals, which are similarly regulated under the Pharmaceutical Affairs Law.

b. Easing of pharmaceutical sales regulations

Under the "Law for Partial Revision of the Pharmaceutical Affairs Law" (Law No. 69, June 14, 2006), which includes a review of the sales system for over-the-counter (OTC) drugs, OTC drugs are categorized into three groups by risk. It has thus become possible to sell the two lower-risk categories of pharmaceuticals as a "Registered Vendor," not requiring a pharmacist. Factors such as the entry into the market of firms from other industries as a result of a continuing trend in the future to deregulate pharmaceutical sales may affect the Group's business performance.

2. Details of Business

In the Group's pharmaceutical business, we have a chain of dispensing pharmacies based on a scheme, in which dispensing pharmacies are located just outside medical institutions to concentrate on the prescriptions from such medical institutions to secure demand.

As the pharmaceutical business accounted for 88.9% of net sales in the fiscal year under review, we plan to continue the multi-store operation mainly based on dispensing pharmacies. Accordingly, the Group's operating results may be affected by the success or failure of the store opening policies and by trends in competitors' store openings.

Furthermore, sales of dispensing pharmacies significantly depend on the medical institutions that write prescriptions. Therefore, some hard-to-predict factors including the issuance of prescriptions for extramural dispensing by the medical institutions or suspension/discontinuation of operations thereof may affect the Group's business performance.

3. Industry Trends

The revenues in our pharmaceutical business come from pharmacy operations involving the dispensing and supplying of ethical drugs based on prescriptions. The price s of those pharmaceuticals (drug prices) and remuneration levels are set by the Ministry of Health, Labour and Welfare. As a way to contain national medical expenses, both remuneration for medical treatments and drug prices are being reduced in stages. Changes in profit structure resulting from factors such as revisions in the treatment remuneration system could continue to affect the Group's business performance and financial position.

4. Retention of Qualified Staff

Dispensing pharmacies and drugstores (Stores for Category 1 Drugs) are required by the Pharmaceutical Affairs Law to have a pharmacist on site; the Pharmacists Law stipulates that the dispensing of drugs must be handled by a pharmacist. The Group continues to have a policy of expansion by aggressively opening new stores, but if it becomes difficult to secure qualified pharmacists, this could affect our store openings and our business performance.

5. Risks of Loss of Trust in the Company

a. In the dispensing pharmacy businesses

In our pharmaceutical business, pharmacists dispense and supply ethical drugs that affect the human body. This business carries the risk that medical accidents might be caused through errors in dispensing drugs. The Group recognizes that any medical accidents could have a severely damaging effect on society's confidence in the Group, and we place the highest priority on measures in all aspects to prevent this risk from materializing.

b. Protection of personal data

We possess patient data in the pharmaceutical business, including medical histories and prescription information, and we possess personal data in the product sales business obtained for the Ainz Point Club Card. The Group has completed development of personal information protection systems and rules for the handling of such information. The Company acquired the Privacy Mark accreditation in the healthcare, medical and social service fields. However, we believe it is possible that any accidental or illegal leakage of personal data may not only affect our business performance but also lead to a loss of society's confidence in the Group.

6. Risk in Business Strategy

We have promoted expansion of the business scale of dispensing pharmacies through actively promoting new store openings and M&A. Our basic policies regarding M&A strategy require us to carefully examine target companies and determine the amount to be paid for acquisitions thereof in order to stably secure a profitability level that exceeds the amortization of goodwill to be incurred. If matters do not go as planned, however, we may incur loss on valuation of shares in subsidiaries and impairment loss on goodwill, which may have an adverse impact on the Group's operating results and financial position.

7. Risk of Financial Fluctuations

In the Group's promotion of business expansion based on actively promoting new store openings and M&A, costs for ordinary store openings are covered by its own resources within the range of operating cash flow, while in some cases of large-scale M&A, costs are partially financed by borrowings from financial institutions. To flexibly respond to these capital needs, the Group improved liquidity on hand through such means as increasing capital through a public offering. As of the end of the fiscal year under review, the balance of cash on hand and in banks was ¥11,188 million, while the balance of interest-bearing debts of the Group was ¥14,976 million. The net D/E ratio was 0.05 times.

We focus on the possibility of return on investment and seek to reduce interest-bearing debts in implementing M&A. However, if the Group fails to secure an adequate return on its M&A investment, or due to interest rate fluctuations associated with conditions of the financial market, the Group's financial position and operating results including interest payable may be affected.

AIN PHARMACIEZ INC.
CONSOLIDATED BALANCE SHEETS
AS OF APRIL 30, 2010 AND 2009

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
ASSETS	2010	2009	2010
Current assets:			
Cash on hand and in banks (Notes 2 and 4)	¥ 11,188	¥ 9,234	$ 118,794
Notes and accounts receivable (Note 4)	9,270	8,560	98,429
Other accounts receivable	1,404	2,409	14,908
Inventories (Note 3)	6,938	5,929	73,667
Deferred tax assets (Note 11)	723	632	7,677
Short-term loans	893	613	9,482
Other current assets	851	805	9,036
Allowance for doubtful accounts	(25)	(12)	(265)
Total current assets	31,242	28,171	331,726
Property, plant and equipment (Note 7):			
Buildings and structures	5,993	5,988	63,633
Land	5,002	4,959	53,111
Construction in progress	315	209	3,345
Other property, plant and equipment	1,200	1,083	12,742
Total property, plant and equipment	12,511	12,238	132,841
Investments and other assets:			
Investments in securities (Notes 4 and 5)	2,803	2,057	29,762
Deferred tax assets (Note 11)	996	893	10,575
Deposits and guarantees	4,463	4,496	47,388
Intangible fixed assets	13,078	13,493	138,862
Other investments and other assets	1,027	953	10,905
Allowance for doubtful accounts	(220)	(269)	(2,336)
Total investments and other assets	22,146	21,624	235,145
Total assets	¥ 65,899	¥ 62,033	$ 699,713

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 1(1)) 2010
Current liabilities:			
Accounts payable (Note 4)	¥ 19,667	¥ 18,713	$ 208,824
Short-term debt (Notes 4 and 8)	6,549	7,576	69,537
Current portion of bonds (Notes 4 and 8)	-	140	-
Accrued income taxes	1,709	1,264	18,146
Deposits received	3,036	2,842	32,236
Allowance for bonuses to employees	875	800	9,291
Allowance for bonuses to directors	21	43	223
Reserve for reward obligations	298	273	3,164
Other current liabilities	1,985	1,751	21,077
Total current liabilities	34,140	33,402	362,497
Long-term liabilities:			
Long-term debt (Notes 4 and 8)	8,427	10,966	89,478
Allowance for retirement benefits (Note 10)	1,018	863	10,809
Other long-term liabilities	822	692	8,728
Total long-term liabilities	10,267	12,522	109,015
Net Assets: (Note 12)			
Shareholders' equity			
Common stock	6,308	5,057	66,978
Capital surplus	5,498	4,247	58,378
Retained earnings	9,874	7,128	104,842
Treasury stock	(4)	(4)	(42)
Total shareholders' equity	21,677	16,428	230,166
Unrealized holding losses on securities	(232)	(356)	(2,463)
Minority interests	47	37	499
Total net assets	21,492	16,109	228,201
Total liabilities and net assets	¥ 65,899	¥ 62,033	$ 699,713

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED APRIL 30, 2010 AND 2009

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2010	2009	2010
Net sales (Note 17)	¥ 125,496	¥ 115,387	$ 1,332,512
Cost of sales	108,259	100,142	1,149,490
Gross profit	17,237	15,245	183,022
Selling, general and administrative expenses	10,745	9,949	114,090
Operating income (Note 17)	6,493	5,296	68,942
Other income (expenses):			
Interest and dividend income	71	47	754
Commissions received	82	59	871
Real estate rental revenue	69	58	733
Interest expenses	(290)	(358)	(3,079)
Loss on sales of accounts receivables	(82)	(63)	(871)
Gain on sales of investments in securities	71	1	754
Loss on devaluation of investments in securities	(56)	(67)	(595)
Impairment losses	(196)	(175)	(2,081)
Other, net (Note 9)	(57)	(55)	(605)
	(387)	(553)	(4,109)
Income before income taxes and minority interests	6,105	4,743	64,823
Income taxes (Note 11):			
Current	3,157	2,533	33,521
Deferred	(193)	81	(2,049)
	2,964	2,614	31,472
Minority interests	10	2	106
Net income	¥ 3,131	¥ 2,128	$ 33,245

See accompanying notes.

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED APRIL 30, 2010 AND 2009

	Thousands of shares	Millions of yen							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders ' equity	Unrealized holding gains (losses) on securities	Minority interests	Total net assets
Balance at April 30, 2008	11,363	¥ 3,424	¥ 3,544	¥ 5,208	¥ (3)	¥ 12,172	¥ (132)	¥ 667	¥ 12,708
Net income	-	-	-	2,128	-	2,128	-	-	2,128
Cash dividends paid	-	-	-	(207)	-	(207)	-	-	(207)
Issuance of new shares	-	1,633	703	-	-	2,336	-	-	2,336
Acquisition of treasury stock	-	-	-	-	(0)	(0)	-	-	(0)
Net change in items other than those in shareholders' equity other than those in shareholders' equity	-	-	-	-	-	-	(225)	(630)	(855)
Net changes during the year	1,470	1,633	703	1,920	(0)	4,256	(225)	(630)	3,402
Balance at April 30, 2009	12,834	5,057	4,247	7,128	(4)	16,428	(356)	37	16,109
Net income	-	-	-	3,131	-	3,131	-	-	3,131
Cash dividends paid	-	-	-	(385)	-	(385)	-	-	(385)
Issuance of new shares	-	1,251	1,251	-	-	2,503	-	-	2,503
Acquisition of treasury stock	-	-	-	-	(1)	(0)	-	-	(0)
Net change in items other than those in shareholders' equity other than those in shareholders' equity	-	-	-	-	-	-	125	10	134
Net changes during the year	1,270	1,251	1,251	2,746	(0)	5,249	125	10	5,383
Balance at April 30, 2010	14,104	¥ 6,308	¥ 5,498	¥ 9,874	¥ (4)	¥ 21,677	¥ (232)	¥ 47	¥ 21,492

	Thousands of U.S. dollars (Note 1(1))							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders ' equity	Unrealized holding gains (losses) on securities	Minority interests	Total net assets
Balance at April 30, 2009	$ 53,695	$ 45,094	$ 75,685	$ (42)	$ 174,432	$ (3,780)	$ 393	$ 171,045
Net income	-	-	33,245	-	33,245	-	-	33,245
Cash dividends paid	-	-	(4,088)	-	(4,088)	-	-	(4,088)
Issuance of new shares	13,283	13,283	-	-	26,577	-	-	26,577
Acquisition of treasury stock	-	-	-	(11)	(0)	-	-	(0)
Net change in items other than those in shareholders' equity	-	-	-	-	-	1,327	106	1,423
Net changes during the year	13,283	13,283	29,157	0	55,734	1,327	106	57,157
Balance at April 30, 2010	$ 66,978	$ 58,378	$ 104,842	$ (42)	$ 230,166	$ (2,463)	$ 499	$ 228,201

See accompanying notes.

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED APRIL 30, 2010 AND 2009

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2010	2009	2010
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 6,105	¥ 4,743	$ 64,823
Depreciation and amortization	1,287	1,119	13,665
Impairment losses	196	175	2,081
Amortization of goodwill	879	860	9,333
Loss on devaluation of investments in securities	56	67	595
Decrease in allowance for doubtful accounts	(35)	(13)	(372)
Increase (decrease) in reserve for reward obligations	25	(6)	265
Increase in allowance for retirement benefits	155	128	1,646
Increase in allowance for bonuses to employees	75	82	796
(Decrease) increase in allowance for bonuses to directors	(22)	0	(234)
Interest and dividend income	(71)	(47)	(754)
Interest expenses	290	358	3,079
Loss on investments in partnerships	22	39	234
Gain on donations of property, plant and equipment	(17)	(29)	(181)
Gain on sales of investments in securities	(70)	(1)	(743)
Loss on disposal and sales of fixed assets	43	76	457
Gain on transfer of business	-	(78)	-
(Increase) decrease in accounts receivable	(755)	452	(8,017)
Increase in inventories	(1,009)	(561)	(10,714)
Decrease (increase) in other assets	1,064	(375)	11,298
Increase in accounts payable	954	82	10,130
Increase in other liabilities	195	112	2,071
Subtotal	9,365	7,183	99,437
Interest and dividends received	67	44	711
Interest paid	(291)	(360)	(3,090)
Income taxes paid	(2,712)	(2,534)	(28,796)
Net cash provided by operating activities	6,428	4,333	68,252
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(1,152)	(1,392)	(12,232)
Proceeds from sales of property, plant and equipment	4	90	42
Proceeds from business transfer	-	78	-
Payments for purchase of investments in securities	(392)	(583)	(4,162)
Proceeds from sales of investments in securities	110	1	1,168
Purchase of shares in affiliated companies	(270)	(180)	(2,867)
Purchase of subsidiaries' shares resulting in changes in scope of consolidation	(201)	-	(2,134)
Payments for loans receivable	(630)	(95)	(6,689)
Proceeds from collections of loans receivable	366	96	3,886
Payments for investments in capital	(0)	(1)	0
Proceeds from returns of investments in capital	1	0	11
Payments for purchase of intangible fixed assets	(455)	(163)	(4,831)
Proceeds from withdrawal of time deposits	-	120	-
(Increase) decrease in other investments	(80)	1,270	(849)
Net cash used in investing activities	(2,701)	(757)	(28,679)
Cash flows from financing activities:			
Proceeds from short-term debts	2,032	9,300	21,576
Repayments for short-term debts	(3,122)	(10,378)	(33,149)
Proceeds from long-term debts	1,350	4,550	14,334
Repayments for long-term debts	(3,826)	(3,033)	(40,624)
Payments for redemption of bonds	(140)	(332)	(1,487)
Repayments of lease obligations	(166)	(70)	(1,763)
Proceeds from issuance of new shares	2,485	1,674	26,386
Payments for purchase of treasury stock	(1)	(0)	(11)
Cash dividends paid	(385)	(227)	(4,088)
Dividend payments to minority shareholders	(0)	(20)	(0)
Net cash (used in) provided by financing activities	(1,773)	1,463	(18,826)
Net increase in cash and cash equivalents	1,954	5,039	20,748
Cash and cash equivalents at beginning of the year	9,234	4,195	98,046
Cash and cash equivalents at end of the year (Note 2)	¥ 11,188	¥ 9,234	$ 118,794

See accompanying notes.

AIN PHARMACIEZ INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2010 AND 2009

1. Summary of significant accounting policies

(1) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of AIN PHARMACIEZ INC.(the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at April 30, 2010, which was ¥94.18 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

(2) Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(3) Basis of consolidation and accounting for investments in affiliated companies

The consolidated financial statements comprise the accounts of the Company and its thirteen and fourteen subsidiaries as of April 30, 2010 and 2009, respectively. All significant intercompany accounts and transactions have been eliminated in consolidation. All companies are required to consolidate all significant investees which are controlled through ownership of majority voting rights or existence of certain conditions.

The investments in affiliated companies are stated at their underlying equity value. All companies are required to account for investments in affiliated companies (20% to 50% owned and certain others that are 15% to 20% owned) by the equity method, in principle.

Of consolidated subsidiaries, MEDIWEL Corp. closes its accounts on January 31. The account closing date for other consolidated subsidiaries is March 31. Financial statements as of these respective closing dates are used in preparing the consolidated financial statements. However, necessary adjustments are made to important transactions that occur between these subsidiaries' account closing dates and the account closing date for the consolidated financial statements.

In the past, the account closing date for AIN MEDICAL SYSTEMS Inc. was January 31. However, this date was changed to March 31 at the time of the merger with Rejoice Inc. Consequently, in preparing the consolidated balance sheets, a 14-month period, which is from February 1, 2009, to March 31, 2010, was reported for AIN MEDICAL SYSTEMS Inc. for the year ended April 30, 2010.

(4) Securities

The Company and its consolidated subsidiaries examine the intent of holding each security and classify those securities other than equity securities issued by subsidiaries and affiliates: (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are carried at fair value and held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gains or losses, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost. Cost of securities sold is determined by the moving average method.

(5) Inventories

Dispensed drugs were stated at lower of cost or market, cost being determined using the gross average method. Merchandise was stated at lower of cost or market, cost being determined using the retail method. Supplies were stated at cost determined using the last purchase method.

Effective May 1, 2008, the Company and its consolidated subsidiaries have applied the “Accounting Standard for Measurement of Inventories” (Statement No. 9 issued by Accounting Standards Board of Japan (“ASBJ”) on July 5, 2006).

This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.
The change had no impact on the consolidated financial statements for the year ended April 30, 2009.

(6) Depreciation and amortization

Depreciation of property, plant and equipment is computed by the declining-balance method at rates based on the useful lives, except that the straight-line method is applied to buildings acquired after April 1, 1998. The useful lives of major property, plant and equipment are summarized as follows:

Buildings and structures: 10 to 50 years

The straight-line method is applied over a three-year period for assets with an acquisition price of ¥100,000 or more and less than ¥200,000.

Amortization of software used by the Company and its consolidated subsidiaries is computed by the straight-line method over the useful lives, 5 years. Amortization of long-term prepaid expenses is computed by the straight-line method. Amortization of goodwill is computed by the straight-line method over 5 or 20 years.

Leased assets capitalized under finance leases are depreciated over the lease terms of the respective assets with no residual value.

(7) Deferred charges

Amortization of stock issuance cost is computed by the straight-line method over 3 years.

(8) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts for probable collection losses by applying the actual rate of bad debt losses experienced in a past reference period for normal receivables and by individual assessment of collectability for doubtful receivables.

(9) Bonuses to employees

Allowance for bonus to employees is provided for payments to employees of the Company and its consolidated subsidiaries at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

(10) Bonuses to directors

Allowance for bonus to directors is provided for payments to directors of the Company and its consolidated subsidiaries at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

(11) Retirement benefits

Retirement benefits covering all employees are provided through two plans: a lump-sum benefit plan and a tax-qualified pension plan. Upon retirement or termination of employment, employees are generally entitled to lump-sum or annuity payments based on their current rate of pay, length of service and cause of termination.

The Company began employing a tax-qualified retirement plan in the 23rd fiscal year (beginning December 1, 1991) applied to a portion of the retirement benefit (equivalent to 30%).

The liabilities and expenses for retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. The Company and its consolidated subsidiaries provide an allowance for employees' retirement benefits based on the estimated amounts of the projected benefit obligation and the fair value of the plan assets. Prior service costs are recognized in expenses in equal amounts over a period within the average of the estimated remaining service lives of the employees. Actuarial gains and losses are recognized in expenses using the declining-balance method over a period (one year to six years) within the average of the estimated remaining service period, commencing from the year after the year in which they are incurred.

Effective from the year ended April 30, 2010, the Company and its consolidated subsidiaries have adopted the “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” (ASBJ Statement No.19 issued on July 31, 2008).

The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, domestic companies were allowed to use a discount rate determined taking into consideration fluctuations in the yield of long-term government and gilt-edged bonds over a certain period.

This change had no impact on the consolidated financial statements for the year ended April 30, 2010.

(12) Reserve for reward obligations

In terms of the estimated redeemable amount of the purchase points given in the parent company’s Product Sales Business, the Company sets a reserve based on actual redemptions in the past.

(13) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(14) Amounts per share of common stock

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during the year.

Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon conversion of the convertible bonds.

Net assets per share are computed based on the net assets excluding minority interests, and the number of common stock outstanding at the year end.

Cash dividends per share represent the actual amount declared as applicable to the respective years.

(15) Derivatives and hedge accounting

The Company states derivative financial instruments at fair value and recognizes changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company deters recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The following summarizes hedging derivative financial instruments used by the Company and items hedged.

Hedging instruments:	Hedged items:
Interest rate swap contracts	Interest on long-term debt

The Company uses interest rate swap contracts to hedge interest rate fluctuation risk on hedged items and identifies hedged items by individual contracts.
The Company does not evaluate hedge effectiveness if the notional amounts, terms and interest payment dates of the hedging instruments and the hedged items are the same for and meet certain hedging criteria.

(16) Consumption taxes

The Company and its consolidated subsidiaries are accounted for using the tax excluded method.

With regard to consumption taxes and other taxes that are subject to exclusions, expenses are reported in the fiscal year in which they are incurred.

However, consumption taxes and other taxes that are subject to exclusions and that are related to fixed assets are recorded in “other investments and other assets” within “investments and other assets” and amortized using the straight line method.

Accrued consumption taxes are indicated in the corresponding “other” sections within current assets and current liabilities.

(17) Accounting change of lease transactions

Prior to May 1, 2008, the Company and its consolidated subsidiaries accounted for finance leases that do not transfer ownership of the leased assets to the lessee as operating leases. On March 31, 2007, the Accounting Standards Board of Japan (“ASBJ”) issued ASBJ Statement No.13, “Accounting Standard for Lease Transactions” and ASBJ Guidance No.16, “Guidance on Accounting Standard for Lease Transactions.” The new accounting standards require that all finance lease transactions should be capitalized.

Effective May 1, 2008, the Company and its consolidated subsidiaries adopted the new accounting standards for finance leases commencing after April 30, 2008 and capitalized assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As permitted, finance leases commencing prior to April 1, 2008 that have been accounted for as operating leases, continue to be accounted for as operating leases. The effect on the financial results was not material for the year ended April 30, 2009.

(18) Valuation of consolidated subsidiaries’ assets and liabilities

Assets and liabilities of consolidated subsidiaries are valued for consolidation at fair value.

(19) Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications and restatement had no impact on previously reported results of operations.

2. Cash and cash equivalents

(1) Reconciliations of cash on hand and in banks shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of April 30, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash on hand and in banks	¥11,188	¥ 9,234	$ 118,794
Less: Time deposits with maturities exceeding three months	-	-	-
Add: Short-term highly liquid investments with maturities not exceeding three months	-	-	-
Cash and cash equivalents	¥ 11,188	¥ 9,234	$ 118,794

(2) The following table summarizes significant non-cash transactions for the years ended April 30, 2010 and 2009:

(a) Major breakdown of assets and liabilities of a company that is newly included in the consolidated financial statements for the years ended April 30, 2010 and 2009 due to the acquisition of shares

(i) Acquisition of shares of United Healthcare Co., Ltd. for the year ended April 30, 2010

The following is the summary of assets acquired and liabilities assumed through the acquisition of shares of United Healthcare Co., Ltd., relating acquisition cost and net disbursement.

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Current assets	¥ 57	$ 605
Fixed assets	156	1,656
Goodwill	60	637
Current liabilities	(20)	(212)
Long-term liabilities	(8)	(85)
Acquisition cost of United Healthcare Co., Ltd.'s shares	245	2,601
Cash and cash equivalents held by United Healthcare Co., Ltd.	(44)	(467)
Net disbursement due to the acquisition	¥ (201)	$ (2,134)

(ii) Acquisition of shares of Saitama Chozai Co., Ltd. for the year ended April 30, 2009

The following is the summary of assets acquired and liabilities assumed through the acquisition of shares of Saitama Chozai Co., Ltd., relating acquisition cost and net disbursement.

	Millions of yen
	2009
Current assets	¥ 82
Fixed assets	3
Goodwill	187
Current liabilities	(71)
Acquisition cost of Saitama Chozai Co., Ltd.'s shares	200
Cash and cash equivalents held by Saitama Chozai Co., Ltd.	(20)
Net disbursement due to the acquisition	¥ (180)

3. Inventories

Inventories at April 30, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Merchandise	¥ 6,841	¥ 5,832	$ 72,638
Supplies	97	96	1,030
	¥ 6,938	¥ 5,929	$ 73,667

4. Financial Instruments

Effective from the year ended April 30, 2010, the Company and its consolidated subsidiaries have adopted a revised accounting standard, “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 revised on March 10, 2008) and the “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19 revised on March 10, 2008). Information on financial instruments for the year ended April 30, 2010 required pursuant to the revised accounting standards is as follows:

(1) Qualitative information on financial instruments

(a) Policies for using financial instruments
The Company and its consolidated subsidiaries have expanded business by opening dispensing pharmacies and drugstores and through M&A activities. Operating cash flows provide the majority of the funds the Company and its consolidated subsidiaries require to fund its shop openings. The Company and its consolidated subsidiaries secure additional funding as needed for M&A activities through bank borrowings and issuance of new shares and invests in highly liquid financial assets. Derivatives are employed to hedge against the risks described below; the Company and its consolidated subsidiaries do not engage in speculative transactions.

(b) Details of financial instruments used and the exposures to risk and how they arise
Notes and accounts receivable, which relate to sales receivables, are mostly composed of prescription dispensing fees receivable from National Health Insurance associations and the Social Insurance Medical Care Fee Payment Fund, and therefore do not entail any risk.

Investment securities, which are principally held-to-maturity bonds and equity securities held for the purpose of maintaining operating relationships with other companies, involve the risk of market price fluctuations.

Lease deposits and guarantee deposits are primarily deposits placed with the owners of properties that the Company leases for the operation of dispensing pharmacies and drugstores. Such deposits involve lessor credit risk.

Notes and accounts payable, which relate to purchases, are payable within three months.

With respect to borrowings, the Company raises funds primarily as working capital or in relation to capital expenditures. Redemption periods on such debts are typically seven years from the date of borrowing, at the longest. A portion of these instruments carry floating interest rates and are therefore subject to interest rate fluctuation risk. Derivative transactions (interest rate swap transactions) are used to hedge against such risk.

With regard to derivative transactions, interest rate swap transactions are used to hedge the risk of fluctuations in interest rate payments. See Note 1 (16) for the description of derivatives and hedge accounting.

(c) Policies and systems for risk management

Management of credit risk (the risk that a business partner will default on its business transactions)

As the Company's notes and accounts receivable, which relate to sales, are mostly composed of prescription dispensing fees receivable from National Health Insurance associations and the Social Insurance Medical Care Fee Payment Fund, no particular risk management is employed.

Securities held to maturity are based on the Company's Marketable Securities Investment Standards. Such investments are based on careful decisions, following internal screenings of investees and investment amounts. Furthermore, such investments are monitored regularly, determining the investee's financial status throughout the investment period to quickly determine and minimize potential repayment difficulties.

The Company manages default risk on lease deposits and guarantee deposits through the management of contract periods and regular credit screening.

Management of market risk (the risk of exchange and interest rate fluctuations)

The Company and its consolidated subsidiaries mainly raise funds through long-term debt and use interest rate swap transactions to hedge the risk of fluctuations in interest rate payments on borrowings. With regard to investment securities, the Company and its consolidated subsidiaries regularly check the financial conditions of the issuers of unlisted securities. The Company and its consolidated subsidiaries review on an ongoing basis the status of their holdings of listed securities, taking into consideration market conditions and their relationships with the issuing companies.

Management of liquidity risk associated with fund procurement (the risk of being unable to execute payments when due)

To manage liquidity risk, the Company and its consolidated subsidiaries create cash flow plans based on annual capital expenditures forecasts. These plans are updated each month, based on revised operating performance and forecast figures. To ensure the Company's ability to respond flexibly to sudden demands for funding in relation to M&A activities, the Company maintains a certain level of liquidity, including through issuance of new shares.

(2) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheet at April 30, 2010 are the following.

Assets	Millions of yen	Thousands of U.S. dollars
	2010	2010
Carrying value		
Cash on hand and in banks	¥ 11,188	$ 118,794
Notes and accounts receivable	9,270	98,429
Investment securities	1,832	19,452
Deposits and guarantees	4,346	46,146
Total	26,636	282,820
Fair value		
Cash on hand and in banks	11,188	118,794
Notes and accounts receivable	9,270	98,429
Investment securities	1,832	19,452
Deposits and guarantees	4,175	44,330
Total	26,465	281,004
Difference		
Cash on hand and in banks	-	-
Notes and accounts receivable	-	-
Investment securities	-	-
Deposits and guarantees	(172)	(1,826)
Total	¥ (172)	$ (1,826)

Liabilities	Millions of yen	Thousands of U.S. dollars
	2010	2010
Carrying value		
Accounts payable	¥ 19,667	$ 208,824
Short-term debt including current portion of long-term debt	6,549	69,537
Deposits received	3,036	32,236
Long-term debt	8,427	89,478
Total	37,679	400,074
Fair value		
Accounts payable	19,667	208,824
Short-term debt including current portion of long-term debt	6,556	69,611
Deposits received	3,036	32,236
Long-term debt	8,427	89,478
Total	37,686	400,149
Difference		
Accounts payable	-	-
Short-term debt including current portion of long-term debt	7	74
Deposits received	-	-
Long-term debt	0	0
Total	¥ 7	$ 74

Method of calculating the fair value of financial instruments and matters related to available-for-sale securities and derivative transactions.

Assets:

(a) Cash on hand and in banks and notes and accounts receivable

As these instruments are settled in the short term, their carrying value approximates fair value.

(b) Investment securities

The fair values of equity securities are determined by their prices on stock exchanges. The fair values of bonds are determined by the prices indicated by the counterparty financial institutions.

(c) Deposits and guarantees

The Company determines credit risk from the standpoint of credit management, according to repayment amount and contract period. These amounts are discounted to their current value using appropriate rates of interest.

Liabilities:

(a) Accounts payable, short-term debt and deposits received

As these instruments are settled in the short term, their carrying value approximates fair value. The fair value of current portion of long-term debt included in short-term debt is determined by discounting the total amount of principal and interest by the assumed interest rate on new borrowings of the same type.

(b) Long-term debt

The fair value of long-term debt included in short-term debt is determined by discounting the total amount of principal and interest by the assumed interest rate on new borrowings of the same type.

Financial instruments for which fair value is not readily determinable:

The fair value of unlisted equity securities with a carrying amount ¥971 million ($10,310 thousand) as of April 30, 2010 is not readily determinable.

The redemption schedule for monetary claims and securities with maturity dates as of April 30, 2010 are summarized as follows:

	Millions of yen			
	2010			
	1 year or less	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
Cash on hand and in banks	¥ 11,188	¥ -	¥ -	¥ -
Notes and accounts receivable	9,270	-	-	-
Investment securities				
Held-to-maturity debt securities	300	150	-	-
Deposits received	718	1,596	1,642	506
Total	¥ 21,476	¥ 1,746	¥ 1,642	¥ 506

	Thousands of U.S. dollars			
	2010			
	1 year or less	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
Cash on hand and in banks	$ 118,794	$ -	$ -	$ -
Notes and accounts receivable	98,429	-	-	-
Investment securities				
Held-to-maturity debt securities	3,185	1,593	-	-
Deposits received	7,624	16,946	17,435	5,373
Total	$ 228,031	$ 18,539	$ 17,435	$ 5,373

5. Securities

(1) The following tables summarize acquisition costs, carrying values and differences of securities with available fair values as of April 30, 2010 and 2009:

Other securities:

Securities with carrying values exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Acquisition cost			
Equity securities	¥ 20	¥ 36	$ 212
Bonds	-	-	-
Limited partnerships and similar investments	-	6	-
Other	54	54	573
Total	74	96	786
Carrying value			
Equity securities	40	55	425
Bonds	-	-	-
Limited partnerships and similar investments	-	9	-
Other	58	59	616
Total	98	122	1,041
Difference			
Equity securities	19	19	202
Bonds	-	-	-
Limited partnerships and similar investments	-	2	-
Other	4	5	42
Total	¥ 24	¥26	$ 255

Other securities:

Securities with carrying values not exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Acquisition cost			
Equity securities	¥ 1,304	¥ 1,283	$ 13,846
Bonds	450	-	4,778
Limited partnerships and similar investments	169	188	1,794
Other	223	120	2,368
Total	2,146	1,591	22,786
Carrying value			
Equity securities	923	709	9,800
Bonds	450	-	4,778
Limited partnerships and similar investments	161	180	1,709
Other	199	78	2,113
Total	1,733	966	18,401
Difference			
Equity securities	(381)	(574)	(4,045)
Bonds	-	-	-
Limited partnerships and similar investments	(8)	(9)	(85)
Other	(24)	(43)	(255)
Total	¥ (413)	¥ (625)	$ (4,385)

Equity securities included stocks of non-consolidated subsidiaries and affiliates of ¥322 million ($3,419 thousand) and ¥2 million at April 30, 2010 and 2009, respectively.

(2) The following table summarizes total sales amounts of other securities sold, and amounts of the related gains and losses in the years ended April 30, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Total sales of other securities sold	¥ 110	¥ 1	$ 1,168
Related gains	71	0	754
Related losses	1	-	11

(3)The following table summarizes impairment loss on other securities in the years ended April 30, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Other securities with fair value	¥ 11	¥ 17	$ 117
Other securities without fair value	45	50	478

6. Derivative financial instruments and hedging transactions

The Company has applied hedge accounting for interest rate swap contracts to hedge risks of changes of floating interest rates on long-term debt. The notional amount is ¥1,110 million ($11,786 thousand) and the amount of the contracts for which the term is more than one year is ¥770 million ($8,176 thousand). As discussed in Note 1 (16), if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed. Therefore, the fair value of long-term debt includes the fair value of the interest rate swap contracts.

At April 30, 2010 and 2009, there were no outstanding derivative transactions for which hedge accounting has not been applied.

7. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation, impairment loss and net balance of leased assets as of April 30, 2010 and 2009, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases as allowed under Japanese GAAP.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Acquisition cost			
Buildings	¥ 411	¥ 392	$ 4,364
Other fixed assets	988	1,472	10,491
Intangible fixed assets	487	703	5,171
Total	1,886	2,567	20,025
Accumulated depreciation			
Buildings	308	258	3,270
Other fixed assets	690	876	7,326
Intangible fixed assets	338	400	3,589
Total	1,336	1,534	14,186
Impairment loss			
Buildings	-	-	-
Other fixed assets	4	40	42
Intangible fixed assets	-	-	-
Total	4	40	42
Net balance			
Buildings	103	133	1,094
Other fixed assets	294	557	3,122
Intangible fixed assets	149	303	1.582
Total	¥ 546	¥ 993	$ 5,797

Future minimum lease payments as of April 30, 2010 and 2009 for finance leases currently accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 257	¥ 431	$ 2,729
Due after one year	204	718	2,166
Total	¥ 461	¥ 1,149	$ 4,895

The balance of impairment loss for leased assets is ¥2 million ($21 thousand) and ¥15 million at April 30, 2010 and 2009, respectively.
The following table summarizes details of lease expenses, reversal of impairment loss for leased assets, depreciation, interest expense and impairment loss, if they had been capitalized:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease expense	¥ 488	¥ 647	$ 5,182
Reversal of impairment loss for leased assets	16	13	170
Depreciation	416	553	4,417
Interest expense	57	78	605
Impairment loss	2	3	21

Remaining lease expenses for non-cancellable operating lease transactions are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 470	¥ 457	$ 4,990
Due after one year	3,555	2,405	37,747
Total	¥ 4,025	¥ 2,862	$ 42,737

8. Short-term debt and long-term debt

Short-term debt and long-term debt at April 30, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Short-term bank loans with a weighted-average interest rate of 1.1%	¥ 3,010	¥ 4,100	$ 31,960
5th unsecured bond maturing in 2009 with a fixed interest rate of 0.8%	-	140	-
Current portion of long-term debt with a weighted-average interest rate of 1.5%	3,539	3,476	37,577
Current portion of lease obligation with a weighted-average interest rate of 2.0%	184	114	1,954
Long-term debt (2011-2016) with a weighted-average interest rate of 1.4%	8,427	10,966	89,478
Lease obligation (2011-2016) with a weighted-average interest rate of 2.0%	533	402	5,659
Total	¥ 15,693	¥ 19,198	$ 166,628

At April 30, 2010 and 2009 the carrying amounts of assets pledged as collateral for short-term debt, long-term debt and accounts payable are as follows:

Assets pledged as collateral:	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings and structures	¥ -	¥ 181	$ -
Land	-	471	-
Investments in securities	6	6	64

Liabilities corresponding to collateral:	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Short-term debt	¥ -	¥ 32	$ -
Long-term debt	-	66	-
Accounts payable	14	12	149

The aggregate annual maturities of long-term debt at April 30, 2010 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2011	¥ 3,539	$ 37,577
2012	3,053	32,417
2013	2,969	31,525
2014	1,671	17,743
2015	729	7,740

The aggregate annual maturities of lease obligations at April 30, 2010 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2011	¥ 184	$ 1,954
2012	183	1,943
2013	186	1,975
2014	123	1,306
2015	39	414

9. Sales, disposal and impairment of fixed assets

(1) Gain and loss on sales of fixed assets for the years ended April 30, 2010 and 2009 are as follows:

Gain on sales of fixed assets:	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings and structures	¥ -	¥ 2	$ -
Land	-	5	-
Total	¥ -	¥ 7	$ -

Loss on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings and structures	¥ -	¥ 10	$ -
Land	-	6	-
Other property, plant and equipment	0	0	0
Goodwill	-	0	-
Intangible fixed assets	-	0	-
Total	¥ 0	¥ 16	$ 0

(2) Loss on disposal of fixed assets for the years ended April 30, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings and structures	¥ 16	¥ 20	$ 170
Other property, plant and equipment	4	2	42
Intangible fixed assets	8	-	85
Goodwill	-	1	-
Deposits and guarantees	2	20	21
Other investments and other assets	0	0	0
Disposal cost	12	24	127
Total	¥ 43	¥ 67	$ 457

(3) For the years ended April 30, 2010 and 2009, the Company recognized impairment losses for the following property groups:

		Millions of yen		Thousands of U.S. dollars
		2010	2009	2010
Property group	Description of assets			
Stores	Store facilities	¥ 173	¥ 145	$ 1,837
	Store facilities and land	11	30	117
Shops scheduled for opening	Store facilities	9	-	96
Shop to be closed	Store facilities and land	3	-	32
		¥ 196	¥ 175	$ 2,081

10. Retirement benefits

Allowance for retirement benefits as of April 30, 2010 and 2009 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥ (1,359)	¥ (1,086)	$ (14,430)
Plan assets at fair value	182	158	1,932
Unfunded retirement benefit obligation	(1,178)	(929)	(12,508)
Unrecognized actuarial gains	160	66	1,699
Net retirement benefit obligation	(1,018)	(863)	(10,809)
Allowance for retirement benefits	¥(1,018)	¥ (863)	$ (10,809)

Retirement benefit expenses for the years ended April 30, 2010 and 2009 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service costs	¥ 209	¥ 182	$ 2,219
Interest cost on projected benefit obligation	20	17	212
Expected return on plan assets	(1)	(1)	(11)
Amortization of actuarial losses	44	15	467
Retirement benefit expenses	¥ 273	¥ 213	$ 2,899

Actuarial assumptions used in accounting for the Company's plans as of April 30, 2010 and 2009 are principally as follows:

	2010	2009
Discount rate	1.0-2.0%	2.0-2.5%
Expected rate of return on plan assets	0.75%	0.75%
Amortization period for unrealized actuarial gain or loss	1-6 years	1-6 years

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years.

11. Income taxes

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities was 40.4%.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for consolidated financial statement purposes for the years ended April 30, 2010 and 2009:

	2010	2009
Statutory tax rate	40.4%	40.4%
Non-deductible expenses	0.2	0.7
Per capita inhabitant tax	2.0	2.6
Amortization of goodwill	5.2	6.7
Valuation allowance	0.3	4.6
Other	0.5	0.1
Effective tax rates	48.6%	55.1%

Significant components of deferred tax assets as of April 30, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Impairment losses	¥ 490	¥ 436	$ 5,203
Excess of allowance for bonuses	358	320	3,801
Excess of reserve for rewards obligation	120	110	1,274
Allowance for retirement benefits	413	349	4,385
Net unrealized holding gains on securities	157	237	1,667
Other	546	465	5,797
Sub-total deferred tax assets	2,085	1,918	22,138
Valuation allowance	366	393	3,886
Total deferred tax assets	1,719	1,525	18,252

12. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law (the "Law"), in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, the legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized by resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

13. Stock options

The Company has adopted certain stock option plans under which share subscription rights are granted to directors and employees of the Company and its consolidated subsidiaries.

(1) The following presents details of the stock options the Company has for the years ended April 30, 2010 and 2009.

For the year ended April 30, 2010

Stock option plans:	October 2002 plan
Individuals covered by the plan:	11 directors 1 auditor 208 employees 16 directors of subsidiaries
Type and number of options:	Common stock 300,000
Grant date:	October 16, 2002
Exercise period:	Within five years from the vesting date. However, this date shall become ineffective on the retirement date in the event that the retirement is later than the vesting date.
Exercise price:	¥ 1,360 ($14.4)
Average share price upon exercise:	¥ 2,129 ($22.6)

Exercise period of October 2002 stock option plan expired on July 31, 2009.

Conditions for the exercise of share subscription rights are as follows:
Individuals to whom the share subscription rights are granted must continue their service with the Company or its subsidiaries in the state of being employed or entrusted until the share subscription rights become exercisable.

For the year ended April 30, 2009

Stock option plans:	June 2002 plan	October 2002 plan
Individuals covered by the plan:	1 director 170 employees	11 directors 1 auditor 208 employees 16 directors of subsidiaries
Type and number of options:	Common stock 174,000	Common stock 300,000
Grant date:	June 28, 2002	October 16, 2002
Exercise period:	Within five years from the vesting date. However, this date shall become ineffective on the retirement date in the event that the retirement is later than the vesting date.	Within five years from the vesting date. However, this date shall become ineffective on the retirement date in the event that the retirement is later than the vesting date.
Exercise price:	¥1,473 ($15.6)	¥1,360 ($14.4)
Average share price upon exercise:	¥1,739 ($18.5)	¥1,894 ($20.1)

Exercise period of June 2002 stock option plan expired on July 31, 2008.

Conditions for the exercise of share subscription rights are as follows:
Individuals to whom the share subscription rights are granted must continue their service with the Company or its subsidiaries in the state of being employed or entrusted until the share

subscription rights become exercisable.

(2) Changes stock options outstanding for the years ended April 30, 2010 and 2009 are as follows:

Movement of stock options	June 2002	October 2002
Outstanding as of April 30, 2008	52,000	146,000
Exercised	28,000	18,000
Forfeited	24,000	-
Outstanding as of April 30, 2009	0	128,000
Exercised	-	70,000
Forfeited	-	58,000
Outstanding as of April 30, 2010	-	0

14. Commitment

The Company entered into overdraft agreements with 23 and 22 banks as of April 30, 2010 and 2009, respectively, to finance working capital requirements. The outstanding balances of such overdrafts as of April 30, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Total overdraft available	¥ 13,500	¥ 15,850	$ 143,343
Amount utilized	2,460	3,550	26,120
Outstanding balance	¥ 11,040	¥ 12,300	$ 117,222

15. Contingencies

The Company has contingent liabilities for the payment of lease deposits and guarantee deposits to owners of shops that the Company has rented, which the Company has sold to owners of shops that the Company has leased. Such transferred contingent liabilities amounted to ¥1,957 million ($20,779 thousand) and ¥1,842 million as of April 30, 2010 and 2009, respectively.

16. Amounts per share

Net assets per share at April 30, 2010 and 2009 and basic and diluted net income per share for the years then ended are as follows:

	Yen		U.S. dollars
	2010	2009	2010
Net assets per share	¥ 1,521	¥ 1,253	$ 16.15
Basic net income per share	228	171	2.42
Diluted net income per share	228	170	2.42
Cash dividends per share attributable to the year	40	30	0.42

Cash dividends per share represent the cash dividends declared as applicable to the respective years, including dividends to be paid after the end of the year and not accrued in the accompanying consolidated financial statements.

17. Segment information

The business operations of the Company and its consolidated subsidiaries are classified into three business segments: "Pharmaceutical," "Product sales" and "Other."

	Millions of yen					
	2010					
	Pharmaceutical	Product sales	Other	Total	Eliminations	Consolidated
I. Sales and operating income						
Sales to third parties	¥ 111,603	¥ 13,620	¥ 273	¥ 125,496	¥ -	¥ 125,496
Intersegment sales	-	6	19	25	(25)	-
Total sales	111,603	13,626	292	125,521	(25)	125,496
Operating expenses	103,272	14,119	369	117,760	1,243	119,003
Operating income (loss)	¥ 8,331	¥ (494)	¥ (77)	¥ 7,760	¥ (1,268)	¥ 6,493
II. Assets, depreciation and capital expenditures						
Total assets	¥ 56,643	¥ 7,193	¥ 1,155	¥ 64,991	¥ 908	¥ 65,899
Depreciation and amortization	999	203	15	1,216	24	1,241
Impairment loss	103	93	-	196	-	196
Capital expenditures	1,583	395	-	1,978	42	2,021

	Thousands of U.S. dollars					
	2010					
	Pharmaceutical	Product sales	Other	Total	Eliminations	Consolidated
I. Sales and operating income						
Sales to third parties	$ 1,184,997	$ 144,617	$ 2,899	$ 1,332,512	$ -	$ 1,332,512
Intersegment sales	-	64	202	265	(265)	-
Total sales	1,184,997	144,680	3,100	1,332,778	(265)	1,332,512
Operating expenses	1,096,539	149,915	3,918	1,250,372	13,198	1,263,570
Operating income (loss)	$ 88,458	$ (5,245)	$ (818)	$ 82,395	$ (13,464)	$ 68,942
II. Assets, depreciation and capital expenditures						
Total assets	$ 601,433	$ 76,375	$ 12,264	$ 690,072	$ 9,641	¥ 699,713
Depreciation and amortization	10,607	2,155	159	12,911	255	13,177
Impairment loss	1,094	987	-	2,081	-	2,081
Capital expenditures	16,808	4,195	-	21,002	446	21,459

	Millions of yen					
	2009					
	Pharmaceutical	Product sales	Other	Total	Eliminations	Consolidated
I. Sales and operating income						
Sales to third parties	¥ 101,877	¥ 13,252	¥ 259	¥ 115,387	¥ -	¥ 115,387
Intersegment sales	-	6	19	25	(25)	-
Total sales	101,877	13,258	277	115,412	(25)	115,387
Operating expenses	95,115	13,547	359	109,021	1,070	110,091
Operating income (loss)	¥ 6,762	¥ (289)	¥ (82)	¥ 6,391	¥ (1,094)	¥ 5,296
II. Assets, depreciation and capital expenditures						
Total assets	¥ 53,380	¥ 6,174	¥ 1,059	¥ 60,612	¥ 1,420	¥ 62,033
Depreciation and amortization	837	174	14	1,026	20	1,046
Impairment loss	82	93	-	175	-	175
Capital expenditures	1,838	217	9	2,064	72	2,135

As discussed in Note 1 (17), the Company and its consolidated subsidiaries adopted the new accounting standard for lease transactions in the year ended April 30, 2009. The effect on the financial operating expenses and operating income was not material in fiscal year 2009.

18. Business combinations

For the year ended April 30, 2010

1. Merger of AIN MEDICAL SYSTEMS Inc. and Rejoice Inc.

(1) Names and businesses of companies involved in merger, method of corporate merger, name of post-merger entity and overview of transaction, including the purpose of the transaction

(a) Names and businesses of merging companies

AIN MEDICAL SYSTEMS Inc. (consolidated subsidiary) - Operating dispensing pharmacies

Rejoice Inc. (consolidated subsidiary) - Operating dispensing pharmacies

(b) Method of corporate merger

A merger, with Rejoice Inc. as the dissolved company and AIN MEDICAL SYSTEMS Inc. as the surviving company

(c) Name of post-merger entity

AIN MEDICAL SYSTEMS Inc.

(d) Overview of transaction, including the purpose of the transaction

As wholly owned subsidiaries of the Company, AIN MEDICAL SYSTEMS Inc. and Rejoice Inc. both worked to expand dispensing pharmacy chain operations in the Kanto region. Their merger is designed to allow the consolidation of headquarters functions, accelerate decision-making and raise management efficiency, with the aim of enhancing overall corporate value.

(2) Overview of accounting method used

This merger is was handled as a jointly controlled transaction, based on “Accounting Standard for Business Combinations” (Business Accounting Council), the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10).

2. Merger of AIN TOKAI Inc. and Rejoice Inc.

(1) Names and businesses of companies involved in merger, method of corporate merger, name of post-merger entity and overview of transaction, including the purpose of the transaction

(a) Names and businesses of merging companies

AIN TOKAI Inc. (consolidated subsidiary) - Operating dispensing pharmacies

Rejoice Inc. (consolidated subsidiary) - Operating dispensing pharmacies

(b) Method of corporate merger

A merger, with Rejoice Inc. as the dissolved company and AIN TOKAI Inc. as the surviving company

(c) Name of post-merger entity

AIN MEDIO INC.

(d) Overview of transaction, including the purpose of the transaction

As wholly owned subsidiaries of the Company, AIN TOKAI Inc. and Rejoice Inc. both worked to expand dispensing pharmacy chain operations in the Keihanshin region (Greater Osaka region). Their merger is designed to allow the consolidation of headquarters functions, accelerate decision-making and raise management efficiency, with the aim of enhancing overall corporate value.

(2) Overview of accounting method used

This merger is was handled as a jointly controlled transaction, based on “Accounting Standard for Business Combinations” (Business Accounting Council), the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10).

For the year ended April 30, 2009

Merger through share exchange of the Company and AIN MEDICAL SYSTEMS Inc.

(1) Names and businesses of companies involved in merger, method of corporate merger, name of post-merger entity and overview of transaction, including the purpose of the transaction

(a) Names and businesses of merging companies

AIN MEDICAL SYSTEMS Inc. (consolidated subsidiary) - Operating dispensing pharmacies

(b) Method of corporate merger

Merger though share exchange, with the Company as wholly owning parent company in share exchange and AIN MEDICAL SYSTEMS Inc. as subsidiary company in share exchange

(c) Name of post-merger entity

AIN PHARMACIEZ INC. (wholly owning parent company in share exchange)

AIN MEDICAL SYSTEMS Inc. (subsidiary company in share exchange)

(d) Overview of transaction, including the purpose of the transaction

To enable the sharing of information among certain sales, operational and management divisions of the two companies that had previously been controlled individually, as well as improved operational efficiency, the other party and the Company are reinforcing governance and strengthening relationships in other pharmaceutical operations, personnel transfers and numerous other ways, to enhance corporate competitiveness and bolster synergies. The Company and its consolidated subsidiaries acquired all outstanding shares in AIN MEDICAL SYSTEMS Inc. in the aim of further enhancing profitability, accelerating growth and enhancing corporate value.

(2) Overview of accounting method used

This merger was handled as a jointly controlled transaction, based on “Accounting Standard for Business Combinations” (Business Accounting Council), the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10).

(a) The acquisition costs for the acquired company and breakdown

The acquisition cost of the acquired company was ¥662 million, which was the value of the Company’s common stocks.

(b) Transfer ratio by share type and the computation method, issued number of shares and their appraisal value

(i) Transfer ratio by share type

1 share of the AIN MEDICAL SYSTEMS Inc.’s common stock for 150 shares of the Company

(ii) Computation method

The Company assigned to third-party institutions the task of calculating share exchange ratios for ABeam M&A Consulting Ltd., AIN MEDICAL SYSTEMS Inc. and Attax Business Consulting Co., Ltd., and these ratios were employed following the approval of the respective organizations.

(iii) Issued number of shares and their value

Issued number of shares: 424,650 shares of common stock

Value of issued shares: ¥662 million

(c) Amount of goodwill generated, its sources, and its amortization method and term

(i) The amount of goodwill was ¥50 million.

(ii) Sources of goodwill

Primarily, through the increased cooperation in sales, operational and management divisions as well as the increased operational efficiencies resulting from the companies’ conversion to wholly owned subsidiaries, the Company and its consolidated subsidiaries look forward to superior earnings capabilities.

(iii) Amortization method and term

Uniform amortization over 20 years

19. Subsequent Events

Not applicable.

Report of Independent Auditors

The Board of Directors
AIN PHARMACIEZ INC.

We have audited the accompanying consolidated balance sheets of AIN PHARMACIEZ INC. and consolidated subsidiaries as of April 30, 2010 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AIN PHARMACIEZ INC. and consolidated subsidiaries at April 30, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended April 30, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.(1).

Ernst & Young ShinNihon LLC

July 29, 2010

DIRECTORS AND CORPORATE AUDITORS
(As of July 29, 2010)

Chairman and Representative Director
Yoshiaki Imagawa

President and Representative Director
Kiichi Ohtani

Executive Vice President and Representative Director
Tadashi Nagumo

Senior Managing Directors
Hiromi Kato
Junichi Kawai
Masato Sakurai

Managing Director
Shoichi Shudo

Directors
Toshihide Mizushima
Masahiro Kuribayashi
Joji Sato*1
Masaru Mizuno*1
Hikaru Minami*1
Tsuyoshi Kobayashi*1
Masao Kiuchi*1

Corporate Auditors
Ichiro Ohashi
Kousei Isu*2
Yuya Ishibashi*2
Kazunori Sugimoto*2

Notes: 1. Outside directors
2. Outside corporate auditors

CORPORATE DATA
(Fiscal 2010)

Corporate Name
AIN PHARMACIEZ INC.

Head Office
5-1-2-1, Higashi-naebo,
Higashi-ku, Sapporo-shi,
Hokkaido 007-8755, Japan

Established
August 1969

Common Stock
¥ 6,308 million

Number of Employees
4,336
(including part-time workers)

Business Lines
- Pharmaceutical Business
  Management and franchise operation of dispensing pharmacies and consulting services for the opening of dispensing pharmacies
- Product Sales Business
  Management of drugstores and consulting services for the opening of shopping centers

STOCK INFORMATION
(Fiscal 2010)

Transfer Agent
Mizuho Trust & Banking Co., Ltd.

Stock Listings
First Section of the Tokyo Stock Exchange

Securities Code Number
9627

Fiscal Year
May 1 to April 30 of the following year

Ordinary General Meeting of Shareholders
July

Date of Record
April 30
(The Company will announce other dates as and when required.)

Number of Shares Outstanding
14,104,106 shares
(including treasury stock)

Number of Shareholders
3,032

Major Shareholders

Name	Number of shares held (thousand shares)	Share-holding ratio (%)
Kiichi Ohtani	1,754	12.44
Marubeni Corporation	1,340	9.50
Yoshiaki Imagawa	1,200	8.51
State Street Bank and Trust Company (Standing proxy: Mizuho Corporate Bank, Ltd.)	1,029	7.30
Seven & i Holdings Co., Ltd.	1,000	7.09
The Hokkaido Bank, Ltd.	546	3.87
Japan Trustee Services Bank, Ltd.	540	3.84
The Norinchukin Bank	300	2.13
Bank of New York GCM Client Account JPRD ISG (FE-AC) (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	274	1.95
NORTHERN TRUST CO AVFC RE NORTHERN TRUST GUERNSEY NON TREATY CLIENTS (Standing proxy: The Hong Kong and Shanghai Banking Corporation Limited, Tokyo Branch)	266	1.89

Note: The Company owned 2,942 shares of treasury stock as of April 30, 2010, but they are excluded from the major shareholders mentiond above.

AIN PHARMACIEZ INC.

5-1-2-1, Higashi-naebo,
Higashi-ku, Sapporo-shi,
Hokkaido 007-8755, Japan

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Printed in Japan