Taking the Lead in a Growing Market

ANNUAL REPORT 2012 For the year ended April 30, 2012

AIN PHARMACIEZ

Contents

Forward-looking Statements

This annual report contains forecasts and projections concerning the plans, strategies and performance of AIN PHARMACIEZ INC. and its 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.

AIN PHARMACIEZ at a Glance

The AIN PHARMACIEZ Group is the leader in the Japanese dispensing pharmacy sector.

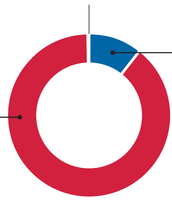
The Group operates the No. 1 dispensing pharmacy business in Japan and a unique urban drug and cosmetic store business targeting style-conscious women in the 20-plus age group.

In the dispensing pharmacy business, the Group is steadily expanding its chain of specialist dispensing pharmacies* through an active M&A strategy and new store openings. One of the Group's strengths is its bargaining power underpinned by the scale of the business. And its profitability is among the highest in the sector.

* Specialist dispensing pharmacies: Pharmacies located near major hospitals to tap into prescription demand

Dispensing Pharmacy Business
¥127,134 million
89.0%

Others
¥261 million
0.2%



Fiscal 2012
Consolidated Net Sales
¥142,790 million

Drug and Cosmetic Store Business
¥15,395 million
10.8%

No.1 Dispensing Pharmacy in Japan

Unique Urban Drug and Cosmetic Stores

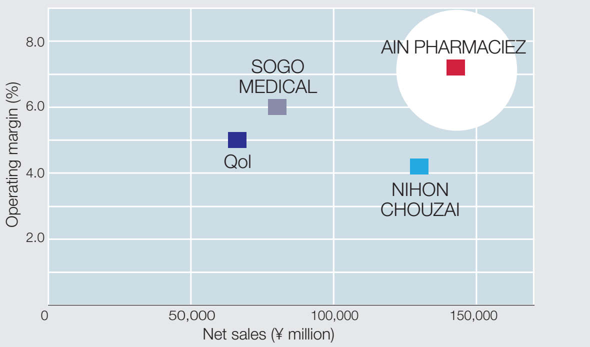
Scale of Business

—Our Dispensing Pharmacy Store Network

494 stores nationwide
(Fiscal 2012)

High Profitability

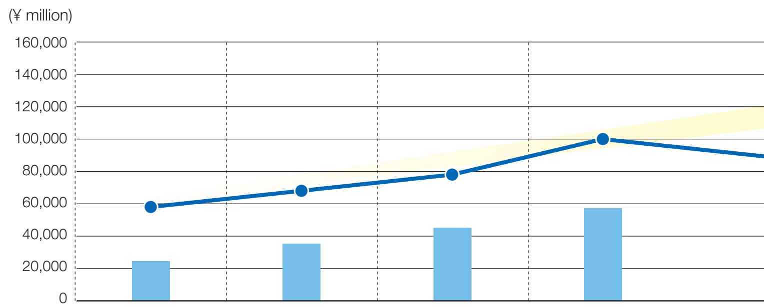
—Comparison of net sales and operating margin among major companies operating dispensing pharmacies in Japan



Source:
Complied by AIN PHARMACIEZ INC. from the above companies' financial results for fiscal 2012.

History of Growth

The AIN PHARMACIEZ Group has grown and expanded while dealing with the adverse effects from the repeated revisions to medical expenses.
The opening of new stores and M&A have been actively implemented to continue the scale expansion strategy.

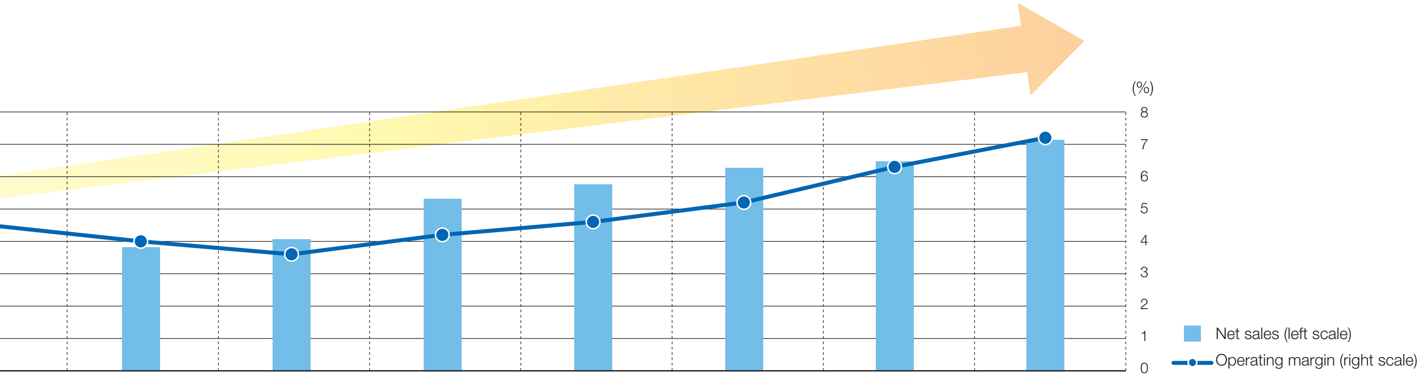


Consolidated 11-year Financial Summary

	2002/4	2003/4	2004/4	2005/4
For the year:				
Net sales	24,677	35,374	45,227	57,091
Selling, general and administrative expenses	2,674	3,268	3,886	5,230
Operating income	710	1,185	1,766	2,875
Net income	465	603	855	930
Capital expenditures*2	1,022	1,052	1,240	1,536
Depreciation and amortization*2	282	366	444	458
At the end of the year:				
Shareholders' equity*3	6,379	7,003	8,019	9,095
Net assets	6,379	7,003	8,019	9,095
Total assets	18,293	23,955	25,131	38,887
Number of shares outstanding (shares)	8,886,746	11,024,650	11,024,650	11,210,350
Number of employees (persons)	564	907	905	1,446
Number of stores : Dispensing pharmacy business	92	148	148	193
Number of stores : Drug and cosmetic store business	33	40	27	44
Per share information (¥)				
Net income	52.43	58.37	74.72	79.92
Net assets	717.88	633.22	724.57	807.68
Cash dividends	8.0	10.0	12.0	15.0
Stock information (based on the closing price as of April 30) (¥)				
Stock price	1,320	1,080	1,390	2,050
Ratios (%)				
Operating margin	2.9	3.4	3.9	5.0
Return on sales*4	1.9	1.7	1.9	1.6
Return on assets (ROA)*5	2.6	2.9	3.5	2.9
Return on equity (ROE)*6	7.3	8.6	10.7	10.9
Shareholders' equity ratio	34.9	29.2	31.9	23.4

M&A Deals and Government Revisions to Medical Expenses

	2002/4	2003/4	2004/4	2005/4
M&A deals		Imagawa Yakuhin	AIN TOKAI; AIN MEDICAL SYSTEMS	Rejoice; Rejoice Pharmacy
Revisions to medical expenses	Dispensing fees -1.3% Drug prices -6.3%		Dispensing fees ±0 Drug prices -4.2%	



2006/4	2007/4	2008/4	2009/4	2010/4	2011/4	2012/4
						(¥ million)
76,303	81,307	106,231	115,387	125,495	129,387	**142,790**
7,145	7,970	9,203	9,948	10,744	11,981	**12,839**
3,083	2,888	4,444	5,296	6,492	8,107	**10,253**
1,215	1,010	1,615	2,127	3,131	3,916	**4,899**
2,087	1,620	1,914	2,891	2,573	2,750	**5,870**
648	773	968	1,119	1,286	1,560	**1,749**
10,352	10,710	12,040	16,071	21,445	29,450	**33,695**
10,352	11,326	12,707	16,109	21,492	29,498	**33,745**
41,669	49,849	57,546	62,032	65,898	76,940	**85,908**
11,304,000	11,320,000	11,361,000	12,831,376	14,101,164	15,941,004	**15,940,790**
1,684	1,947	2,582	2,741	2,918	3,104	**3,326**
218	247	356	375	397	448	**494**
43	43	45	46	49	53	**56**
104.53	89.34	142.36	170.74	228.08	255.67	**307.35**
912.43	946.17	1,059.78	1,252.54	1,520.81	1,847.46	**2,113.79**
18.0	18.0	20.0	30.0	40.0	45.0	**50.0**
2,370	1,500	1,490	1,481	2,920	3,115	**4,290**
4.0	3.6	4.2	4.6	5.2	6.3	**7.2**
1.6	1.2	1.5	1.8	2.5	3.0	**3.4**
3.0	2.2	3.0	3.6	4.9	5.5	**6.0**
12.5	9.6	14.2	15.1	16.7	15.4	**15.5**
24.8	21.5	20.9	25.9	32.5	38.3	**39.2**

2006/4	2007/4	2008/4	2009/4	2010/4	2011/4	2012/4
MEDICAL HEARTLAND DAICHIKU	Asahi Pharmacy SUNWOOD				6 M&As (33 stores)	9 M&As (21 stores)
◀Dispensing fees -0.6% Drug prices -6.7%		◀Dispensing fees +0.17% Drug prices -5.2%		◀Dispensing fees +0.52% Drug prices -5.75%		◀Dispensing fees +0.46% Drug prices -6.0%

Notes:
1. Amounts of less than one million yen 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

Interview with the President

We reported record net sales and profits in the year under review. With our strong cash flows, we now have the foundations in place to move into the next stage of growth. Medical mall dispensing pharmacies and home healthcare also look increasingly promising as new sources of earnings to supplement our existing dispensing pharmacy business and drug and cosmetic store business. Over the longer term, the entire AIN PHARMACIEZ Group will work together to become a vital part of social infrastructure.

July 30, 2012

Kiichi Otani
President and Representative Director

Fiscal 2012 Review

Q. What are your thoughts on the Group's performance in fiscal 2012?

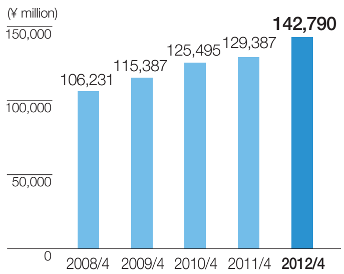
A. In fiscal 2012, ended April 30, 2012, we posted record net sales and profits, underlining how our initiatives in a wide range of areas are now bearing fruit.

Net sales rose 10.4% year on year to ¥142,790 million, operating income increased 26.5% to ¥10,253 million, and net income rose 25.1% to ¥4,899 million. All were record figures for the fifth consecutive fiscal year. Cash flows continue to grow steadily, giving us the base to take the Group to the next stage of growth.

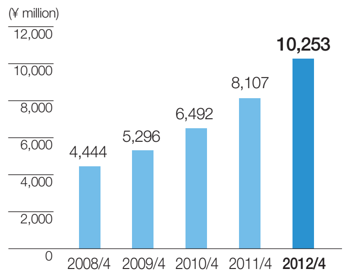
I believe these results show that our initiatives to prepare for drug price and dispensing fee revisions paid off in many ways. Specifically, we boosted profitability by harnessing our bargaining power, reduced costs in administrative areas, and increased the efficiency of store operations through greater systemization and other initiatives. Growth in our store network through new opening of specialist dispensing pharmacies*1 and M&A deals also contributed to our strong earnings in fiscal 2012, as did a move into the black in the drug and cosmetic store business on the back of cost reduction efforts.

*1. Specialist dispensing pharmacies: Pharmacies located near major hospitals to tap into prescription demand

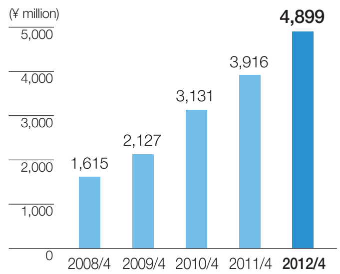
Net Sales



Operating Income



Net Income



Q. In 2012, you hired the first graduates to come out of the new six-year pharmacy college courses. How did AIN PHARMACIEZ fare in recruitment?

A. We did not reach our recruitment target this year, but we will work to secure the people we need going forward.

In April 2012, roughly 9,000 students graduated from six-year courses at pharmacy colleges. This was the first batch of students to complete six-year courses following the switch from the four-year course format. The AIN PHARMACIEZ Group hired just under 200 pharmacists, which was short of our target.

Recruiting enough pharmacists is vital to achieving our targets for new store openings and delivering continued growth. Competition for graduates is set to become more intense among rival companies and hospitals, but I think we can reach our recruitment goals next year and beyond by promoting our strengths more effectively, such as our high-quality pharmacist training program.

We had problems reaching our recruitment goals, even as the leading company in the sector, so smaller and local dispensing pharmacies will probably find it even harder to attract pharmacists going forward. I think this environment will open the way for potential new M&A targets in the sector.

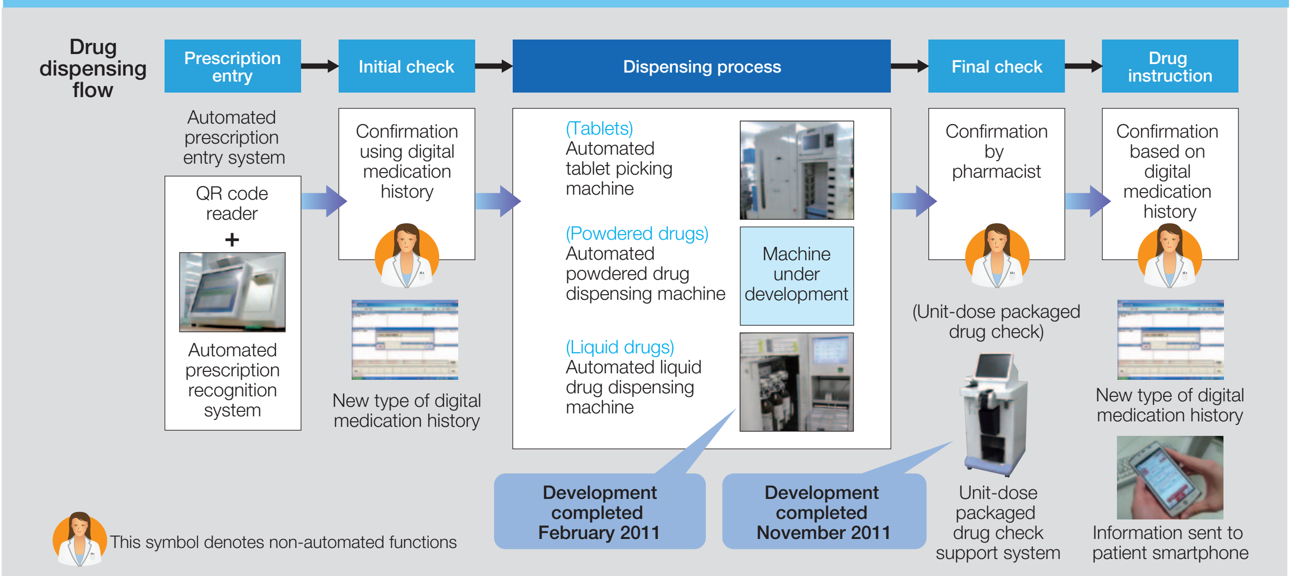
Strategy

Q. What progress have you made in automating dispensing operations?

A. We are making good progress. New equipment is gradually being introduced with a view to achieving full automation.

Dispensing errors due to human error are the greatest risk that dispensing pharmacies face. Preventing these errors has been given the highest priority in the AIN PHARMACIEZ Group, putting us at the forefront of the industry. One way we are tackling the problem is by automating dispensing operations through the introduction of automated tablet picking machines and other equipment. By creating a fully automated and

Ongoing Efforts to Automate Dispensing Operations



integrated dispensing system, covering everything from automated prescription entry through to picking, unit-dose packaging and final checks, we are aiming to minimize the risk of errors. Pharmacists also double and triple check prescribed drugs before they are handed over. This approach ensures safety, cuts costs and enables pharmacists to improve communication with patients, giving our dispensing pharmacies an advantage over competitors. Investment in equipment to automate dispensing operations is only effective once sales reach a certain level. That's why, from the very beginning, we have aimed to open large-scale specialist dispensing pharmacies. The key part of our growth strategy is to establish these dispensing pharmacies near hospitals.

Q. Please tell us about your strategy for the dispensing pharmacy business from fiscal 2013, including your pharmacy opening targets.

A. Opening specialist dispensing pharmacies near hospitals will remain central to our growth strategy. We also plan to step up the development of medical mall dispensing pharmacies*2 to generate a new source of earnings.

In fiscal 2012, we opened 55 new specialist dispensing pharmacies, including those acquired through M&A deals. We are targeting a similar level of new pharmacies in fiscal 2013. We are also focusing on opening pharmacies near medical malls (» See pages 14–15 for more details) located in buildings that connect directly to stations or in areas near stations. We plan to open 15 of these dispensing pharmacies in fiscal 2013 in areas such as Minato Mirai (Kanagawa), Kawasaki (Kanagawa), and Higashi Nakano (Tokyo).

We have two main advantages in the development of medical malls. First is location. Working with leading property developers, we can secure prime sites in station buildings and other convenient urban locations. Second is the quality of medical staff. We have built close relationships with leading medical institutions and university medical faculties through the development of our dispensing pharmacy network and endowments for university courses. This puts us in a good position to attract top medical professionals who want to open their own clinics. Attracting the best doctors also helps to bring in more patients, giving our medical malls a better chance of success.

Separately, we are also taking part in projects to rebuild or relocate aging medical facilities. The number of these projects has been rising rapidly in recent years. Our involvement gives us access to sites near the new or relocated facilities where we can open specialist dispensing pharmacies, allowing us to capture a large part of the prescription demand generated by the hospital.

*2. Medical mall dispensing pharmacies: Specialist dispensing pharmacies opened near medical malls developed by the AIN PHARMACIEZ Group

Q. The drug and cosmetic store business has moved into the black. What are the plans for this business now?

A. We aim to open new stores at rate of around 10 each year while exploring opportunities in online retailing and other areas.

The move into profit came on the back of efficiency gains, including cost reductions, as well as an increase in the popularity of our stores among consumers due to improvements to sales areas through store refurbishments and other efforts. With our drug and cosmetic stores, our aim is to encourage customers to spend time in-store and enjoy the shopping experience, not just offer them products at low prices. Based on this retailing concept, we plan to regularly refurbish stores and refresh product lineups while also opening around 10 new stores each year, mainly in the Tokyo metropolitan area.

We are also making preparations to start online sales. The first step will be to explore ways of effectively tapping into our base of 2.7 million *ainz & tulpe* card holders. Also, given the possibility of further deregulation in the sector, we have started looking at the feasibility of developing a private brand in cooperation with Seven & i Holdings Co., Ltd.

Q. What are your plans for the home healthcare field?

A. We have decided to make a serious move into this field, which we see as a promising market. Careful preparations are already under way.

We have been involved in a home healthcare project in Yubari, Hokkaido since 2008. Using the knowledge we have built up through the Yubari model, we now have a clearer vision of how to generate profits in home healthcare.

Currently, 40% of medical institutions offer home healthcare services, but the equivalent ratio for pharmacies is just 10%. In Japan, 170,000 people receive home-based medical treatment each day and this figure is projected to rise to 250,000 by 2025. In the latest revisions to drug prices and dispensing fees, premiums (additional reimbursement points) were introduced for the provision of home healthcare. We expect the next revisions in two years time to include further initiatives to promote home healthcare. I believe we can generate a reasonable level of profits in this field, provided we make the right preparations now.

For dispensing pharmacies to offer home healthcare services, they need to work closely with medical institutions, home nursing care providers and nursing homes so that pharmacists are integrated into the team of doctors, nurses and care managers providing care to the patients. The pharmacists in the team must also have experience in the field. Regions where the population is both aging and declining face particular challenges, because very few dispensing pharmacies there have the ability to provide home healthcare services. That's why, given our unique capabilities and our sense of responsibility as the leading company in the sector, we have decided to make preparations for a concerted move into the home healthcare field. Home healthcare also gives us the opportunity to create closer relationships with patients and I believe it will become an important business for us in the future.

Q. What impact will the April 2012 revisions to drug prices and dispensing fees have on business performance?

A. The impact overall is likely to be minimal. Through our own efforts, we can not only absorb the negative impact of these biannual revisions, but also benefit from them.

The revisions to drug prices and dispensing fees were similar to previous revisions and in line with our expectations. The revisions will naturally have a negative impact on sales, but we expect to absorb this through internal efforts such as improvements to pharmacist skill levels that help us to secure technical fees, and through efficiency gains driven by automation.

Under the latest revisions, only dispensing pharmacy companies that operate their businesses in line with government policy will be able to benefit, while those that are not able to respond to changes in policy will be hit hard. One element of the government's healthcare policy is to promote wider use of generic drugs. In response, we are using our dedicated generic drug wholesaling subsidiary to flexibly source drugs, dispensing equipment and consumables at low cost, and training our pharmacists about the importance of increasing the ratio of prescriptions for generic drugs. These efforts mean AIN PHARMACIEZ is well placed to benefit from the government's policy on generics.

Q. What is your outlook for the sector over the next couple of years?

A. **I think there is a strong possibility that drug price and dispensing fee revisions in 2014 will trigger a wave of restructuring in the sector.**

The next revisions to drug prices and dispensing fees are scheduled for 2014, with further revisions likely to be introduced every two years thereafter for the foreseeable future. With the government putting pressure on social welfare spending, I expect dispensing fees, not just drug prices, to be cut further, necessitating major changes to dispensing pharmacy earnings model (» See page 10 for more details). However, for some time now, we have been taking a range of steps to build a powerful sector-leading earnings base, which I believe will allow us to absorb the negative impact of any future revisions.

In contrast, some weaker small and mid-size dispensing pharmacies may choose to sell their businesses before the impact hits them. Japan currently has around 50,000 dispensing pharmacies. I think there is a strong possibility that restructuring in the sector will start about one year before the next round of drug price and dispensing fee revisions. We will need to adopt an aggressive stance in order to play a central role in this wave of restructuring.

Q. What is the Company's position on shareholder returns and capital policy?

A. **Our goal is to pay stable dividends while continuing to invest in growth.**

Our policy on shareholder returns is to pay stable dividends and raise them when possible.

We will also actively invest in growth by using funds to acquire other companies and open new stores. In the near term, we will ensure these investments do not exceed cash flow generated by the business.

Q. To close, what is your vision for the AIN PHARMACIEZ Group?

A. **We are shifting our focus from being the standard in the dispensing pharmacy sector to becoming a vital part of social infrastructure.**

Previously, our goal was to be the standard for the industry as the leading dispensing pharmacy company in Japan. However, the Great East Japan Earthquake of March 2011 made us realize that dispensing pharmacies fulfill a much greater role in society. Now our goal is to become a vital part of social infrastructure.

To realize this vision, we will have to create dispensing pharmacies that deliver services to patients rapidly and reliably. And our mission to be a vital part of social infrastructure will mean expanding our business and extending our network into regional areas so that our dispensing pharmacies are never far from local hospitals.

Feature:

Taking the Lead in a Growing Market

The dispensing pharmacy market is one of Japan's few growth markets, but it has developed differently to markets overseas due to the nature of the social environment in Japan.

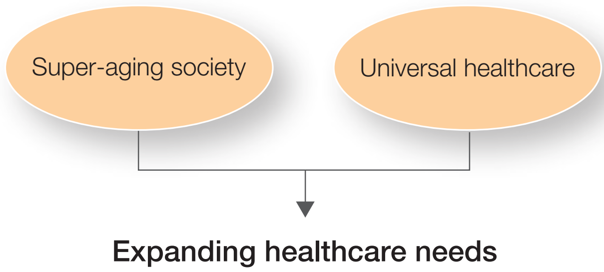
Against this backdrop, the AIN PHARMACIEZ Group has constantly preempted changes in the operating environment to become Japan's leading dispensing pharmacy company based on sales. Going forward, we plan to continue expanding our network of specialist dispensing pharmacies near hospitals, which offer high levels of convenience for patients, while stepping up the development of medical mall dispensing pharmacies* as part of our aggressive strategy to deliver the next phase of growth.

* Medical mall dispensing pharmacies: Specialist dispensing pharmacies opened near medical malls developed by the AIN PHARMACIEZ Group

Operating Environment: Market Growth Potential,

Japan is set to become the world's first super-aging society, with the dispensing pharmacy market projected to grow further on the back of this trend. Other factors at play in the market include moves by the Japanese government to revise drug prices, dispensing fees and other medical fees in order to curb increases in national medical expenses, and a non-hospital dispensing ratio of only around 60%. Going forward, competition is expected to intensify further, triggering sector restructuring and limiting the number of companies that can remain competitive.

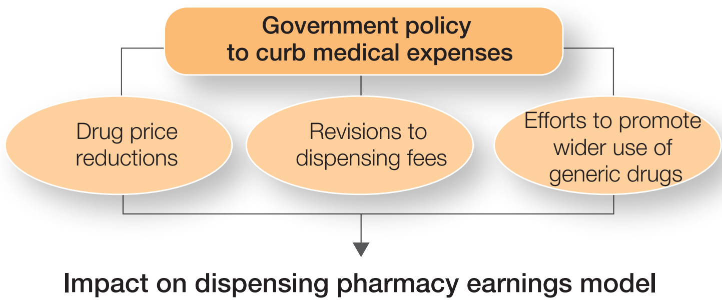
Market growth potential

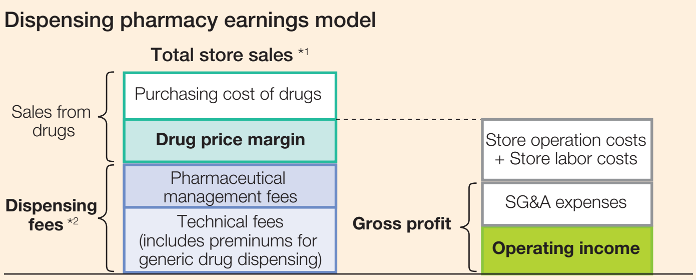


Japan already has the highest ratio of elderly in the world*, but this ratio is projected to rise even further. Due to its relationship with the super-aging society, the dispensing pharmacy sector is seen as one of Japan's few growth fields over the medium to long term. The non-hospital dispensing pharmacy market is currently worth ¥6 trillion, but **we estimate it will grow to be worth ¥8 trillion in the longer term**.

* Proportion of the population aged 65 and over

Distinctive operating environment





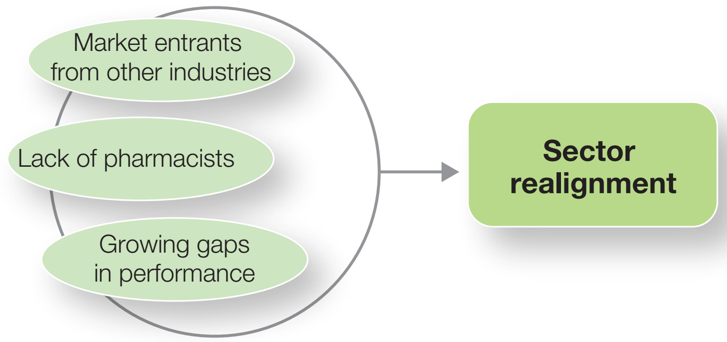
Notes: 1. Dispensing pharmacies receive 0-30% of medical expenses depending on the type of insurance of customers.
Dispensing pharmacies then charge the remainder of medical expenses to health insurance bodies such as national health insurance.
2. Dispensing fees comprise pharmaceutical management fees and technical fees for pharmacists. These fees are added depending on the services at pharmacies.

The Japanese government revises drug prices, dispensing fees and other medical fees once every two years as part of its strategy to curb national medical expenses. Earnings at dispensing pharmacies are based on drug price margin and dispensing fees, so **earnings are affected by these revisions** (» See the figure on the left, "Dispensing pharmacy earnings model").

With the last few revisions, the emphasis has been on reducing drug prices and promoting wider use of generic drugs by adding premiums for generic drug dispensing. **Securing profits by responding appropriately to this policy trend is key to remaining competitive** in the dispensing pharmacy market today.

But Intensifying Competition

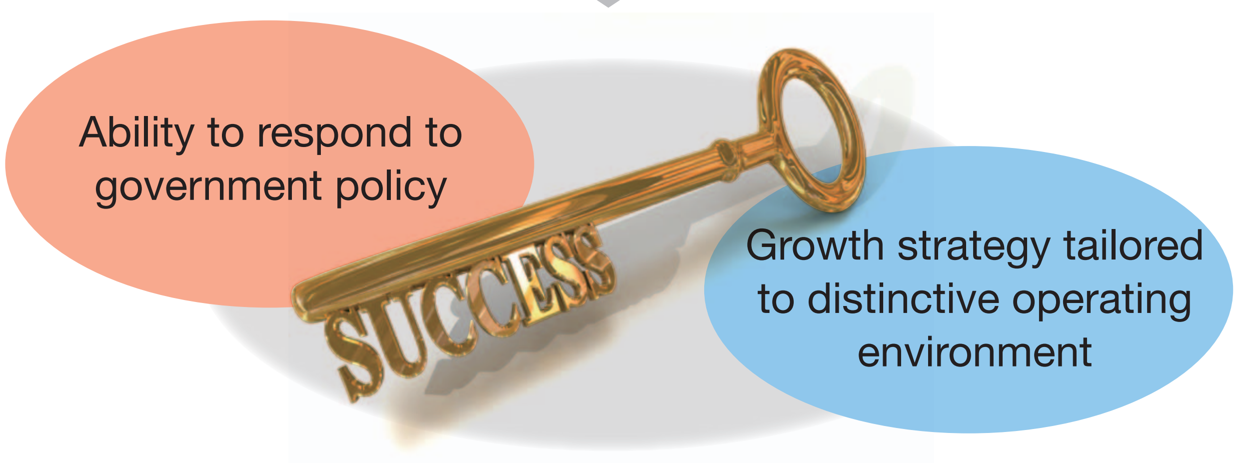
Intensifying competition



and other factors…

The dispensing pharmacy market's growth prospects are attracting companies from other sectors. At the same time, the fluctuations in earnings and a lack of qualified pharmacists are leading to a wider gap in performance among dispensing pharmacy companies, and **the sector is expected to experience a wave of restructuring** as a result. Smaller companies that lack competiveness are likely to face difficulties. **Restructuring in the sector will probably be led by major operators of dispensing pharmacy chains** like AIN PHARMACIEZ, which have advantages in terms of scale, funding and personnel.

Conditions for success



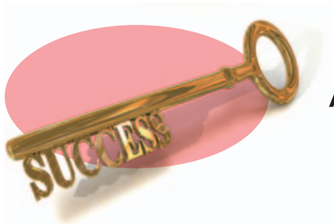
AIN PHARMACIEZ meets these conditions.
We are confident we can play a central role
in the upcoming wave of restructuring,
harnessing market growth to establish a dominant position.

» See next pages **Our Competitive Advantages** →

Our Competitive Advantages

The AIN PHARMACIEZ Group has taken a range of steps to counter the earnings impact of government cuts to national medical expenses and to prepare for increased competition. These initiatives are paying off in many ways, underpinning our competitiveness.

We have increased earnings through a range of measures, such as expanding our business, boosting efficiency and leveraging the strengths of our generic drug wholesaling subsidiary. We have also captured a growing share of the market by opening new pharmacies and M&A deals. The core element of our strategy is to open specialist dispensing pharmacies near hospitals nationwide. From fiscal 2012, we also began opening medical mall dispensing pharmacies in earnest.



Ability to respond to government policy

A dedicated generic drug wholesaling subsidiary:

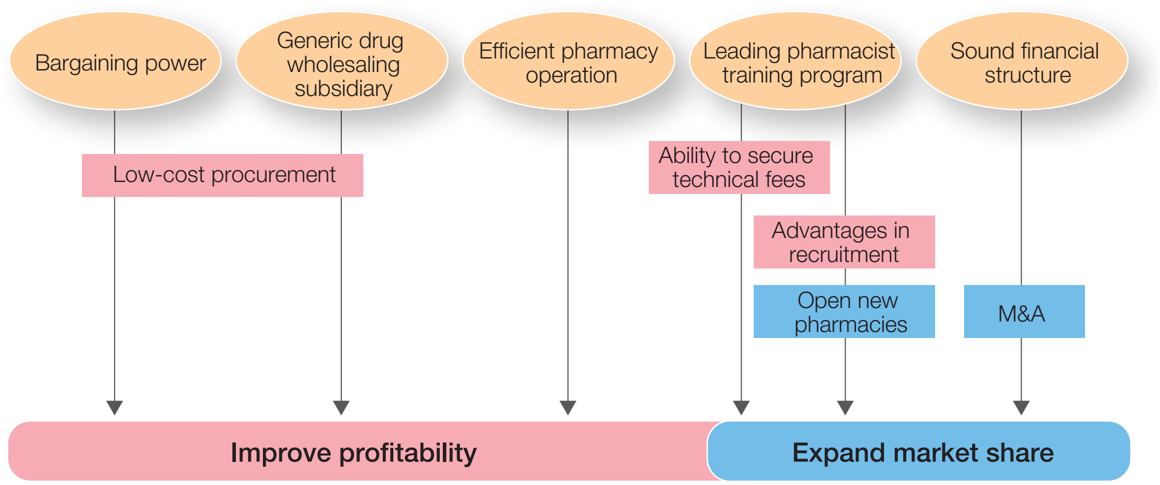
As the only dispensing pharmacy company in the sector with a generic drug wholesaling subsidiary, we have a decisive advantage over rivals that allows us to respond to government policy aimed at encouraging wider uptake of generic drugs. Using this subsidiary, **we can flexibly procure generic drugs at low cost**.

Pharmacist training program:

We are constantly working to improve the quality of our pharmacists through one of the sector's best pharmacist training programs. Higher-trained pharmacists allow us to **secure technical fees** in dispensing operations and help **boost the ratio of repeat business**. Our training program also allows us to **atract newly graduated pharmacists more effectively**, supporting our aggressive growth strategy based on new pharmacy openings.

Efficiency gains:

We are working to improve efficiency by standardizing processes at pharmacies and by promoting systemization, including efforts to automate dispensing operations (»See page 5 for more details). This **boosts profitability, but also helps to minimize risks** such as dispensing errors.



Growth strategy tailored to distinctive operating environment

Our growth stretegy

Large-scale specialist dispensing pharmacies near hospitals & Medical mall dispensing pharmacies

We operate large-scale specialist dispensing pharmacies near hospitals. This is the central element of our business strategy. Reasons for this are twofold: this type of dispensing pharmacy has proved to be the most popular among Japanese patients (»See the mini feature below), and the format gives us greater scope to increase earnings and profitability.

Also, from fiscal 2012, we started the full-scale development of medical mall dispensing pharmacies.

» See pages 14-15 for more details

Mini feature: **Why specialist dispensing pharmacies are so popular in Japan**

In Japan, drugstores with dispensing pharmacy functions only account for a small proportion of prescriptions. Specialist dispensing pharmacies are popular with patients in Japan due to the characteristics of the healthcare system, and we do not expect this to change over the medium term.

◆ Well stocked

Many prescriptions written in Japan specify certain drug brands, which means pharmacies need to stock a wide range of drugs. Specialist dispensing pharmacies near hospitals work closely with their local hospital to ensure they stock the right brands, so patients usually get the brand of drugs they need.

◆ Convenient

In Japan, patients have to return to their hospital to receive repeat prescriptions. The elderly and patients with chronic disorders who tend to visit hospitals more often, are increasingly using specialist dispensing pharmacies near hospitals because of their convenience.

◆ Safe and reassuring

OTC drugs are not used much in Japan, so patient needs are limited. Dispensing pharmacies need to provide highly specialized services and safety and peace of mind is paramount. Specialist dispensing pharmacies handle a much greater volume of prescriptions than drugstores with dispensing pharmacy functions, which means that pharmacists who work at specialist pharmacies gain more experience. This in turn leads to an even higher level of specialization at these dispensing pharmacies.

New Growth Strategy —Medical Mall Dispensing

We are stepping up the development of medical mall dispensing pharmacies to generate a new source of earnings. Our strategy is to create new medical zones by opening medical malls that incorporate our specialist dispensing pharmacies. We are involved in the development of the malls from an early stage, helping with design and working to attract tenants. Using our trusted links with leading medical institutions and working closely with major property developers and other partners, we are able to develop convenient medical malls in prime locations that are staffed by highly capable doctors. This helps us to secure a high volume of prescriptions. We plan to open around 50 medical mall dispensing pharmacies by the end of fiscal 2014, potentially providing a major contribution to net sales and profits.

Formats

◆ Medical mall format

Working with major property developers, we have started developing medical malls in optimum locations in major cities and in or near station buildings. We are also encouraging medical clinics to locate in or near these malls, which also incorporate our dispensing pharmacies.

◆ Hybrid format

(Combination of dispensing pharmacies near hospitals + medical mall dispensing pharmacies)

We are developing medical malls near major hospitals to provide medical services not offered by the hospital. Our hybrid format dispensing pharmacies will be located next to the medical mall. We aim to secure optimum sites for these malls and pharmacies by participating in projects to rebuild or relocate hospitals.

Recently Opened Medical Mall Dispensing Pharmacies

(As of September 2012)

		Pharmacy name	Region	Medical institutions served	Format	Opened	Estimated* prescriptions per day	Estimated* annual sales (¥ thousand)
Fiscal 2012	1	Hirano Kami	Osaka	Internal medicine clinic (opened), gynecology clinic (opened), one other clinic (planned)	Medical mall	July 1, 2011	150	316,000
	2	Sapporo Station North Exit	Sapporo	Five clinics from a social medical corporation (finalized)	Medical mall	April 2, 2012	250	726,000
Fiscal 2013	1	Uzumasa Tenjingawa	Kyoto	Internal medicine clinic (opened), ENT clinic (opened), one other clinic (negotiations underway)	Medical mall	April 17, 2012	200	300,000
	2	Minato Mirai	Kanagawa	Internal medicine clinic (opened), mental health clinic (opened), dental clinic (opened)	Medical mall	May 1, 2012	200	396,000
	3	Atre Kawasaki	Kanagawa	Navitas Clinic (opened), eye clinic (opened)	Medical mall	May 1, 2012	300	528,000
	4	Shibetsu	Hokkaido	Shibetsu Municipal General Hospital and medical building [ENT clinic (opened), urology, dermatology, psychosomatic medicine and other clinics (planned)]	Hybrid	June 1, 2012	200	396,000
	5	Nakano Central Park	Tokyo	Tokyo Metropolitan Police Hospital and multidiscipline clinic (finalized)	Medical mall	June 1, 2012	300	691,000
	6	Tomiai	Kumamoto	Nishi Kumamoto Hospital and pediatrics clinic (planned)	Hybrid	June 1, 2012	200	462,000
	7	Nagamachi	Miyagi	Sendai City Hospital and medical building	Hybrid	July 2, 2012	480	1,200,000

* Assuming medial malls are operating at full capacity

Future plan

We have carefully selected a number of medical mall development projects. Of these, more than 60 medical mall development projects and medical institution relocation and rebuilding projects are already underway and we plan to open 15 medical mall dispensing pharmacies in the fiscal 2013.

Pharmacies—

Case Study 1 Medical mall format

Navitas Clinic Kawasaki

(Opened May 2012, Kawasaki, Kanagawa Prefecture)

In 2008, we participated in a project to establish a medical mall inside the JR Tachikawa station building. We helped develop the Navitas Clinic in the mall, provided operational support, and opened one of our own dispensing pharmacies. This project proved to be such a success that the decision was taken to develop a large-scale medical mall in Kawasaki. This medical mall also incorporates AIN Pharmacy Atre Kawasaki Store, one of our dispensing pharmacies. The mall has a prime location in Atre Kawasaki, a shopping center in the Kawasaki station building, so we expect customer traffic to be strong.

Outline of medical mall			(As of September 2012)
Location		Kawasaki City, Kanagawa Prefecture	
Building (Atre Kawasaki)		Eight floors with one underground level	
Dispensing pharmacy area		8F	94m²
Tenant	8F	**AIN Pharmacy Atre Kawasaki Store** Navitas Clinic: Internal medicine, pediatrics, dermatology, travel medicine, anemia treatment, vaccinations (all opened)	

AIN Pharmacy Atre Kawasaki Store

Navitas Clinic Kawasaki

Case Study 2 Hybrid format

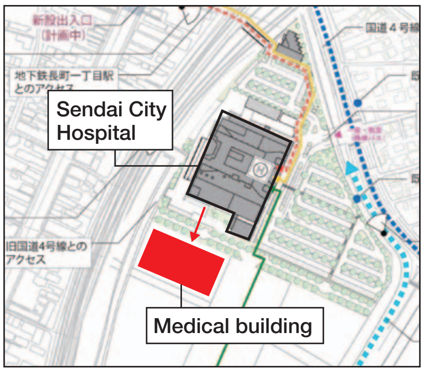
Sendai City Hospital and medical building

(Opened July 2012, Sendai, Miyagi Prefecture)

We have developed a medical building near Sendai City Hospital, which has been relocated. The medical building opened in July 2012. In addition to targeting prescription demand from Sendai City Hospital, we have also attracted seven medical clinics to the mall, which has helped to raise the level of medical care in the local community.

Outline of medical building			(As of September 2012)
Location		Sendai City, Miyagi Prefecture	
Building		Four floors	
Dispensing pharmacy area		1F	396m²
Tenants	1F	**AIN Pharmacy Nagamachi Store** Pediatrics clinic (finalized)	
	2F	Endoscope surgery clinic (finalized), clinical psychiatry clinic (opened), diabetes clinic (finalized), one other clinic (planned)	
	3F	Neurological clinic (finalized), three other clinics (planned)	
	4F	Licensed childcare center (opened), one other clinic (planned)	

Medical building



Dispensing Pharmacy Business

Shoichi Shudo
Senior Managing Director,
General Manager of
Dispensing Pharmacy Division

Stepping up Development of Medical Malls to Accelerate Growth

"One of the strengths of our dispensing pharmacies is that our corporate culture enables a swift response to changes in the environment. Faced with issues such as Japan's aging population and the rapid pace of change in medical and healthcare administration, we have put in place an operating structure that harnesses the energy and initiative of our workforce so that it can be translated directly into action."

Fiscal 2012 Review

In fiscal 2012, we continued to open new pharmacies and actively pursue M&A opportunities. We also began the full-scale development of medical mall dispensing pharmacies. As of the end of fiscal 2012, the business operated a total of 494 dispensing pharmacies.

Net sales rose 11.2% year on year to ¥127,134 million on the back of a steady performance by existing dispensing pharmacies and solid growth in the number of patients visiting our pharmacies. Segment income increased 20.3% to ¥12,286 million, reflecting efficiency gains in store operations and technical fees secured by actively dispensing generic drugs.

AIN Pharmacy Itabashi Store

Medium-term Strategy

The core element of our growth strategy is to open large-scale specialist dispensing pharmacies near hospitals nationwide. We will continue to aggressively expand our network through M&A deals and new pharmacies. We plan to open 66 dispensing pharmacies in fiscal 2013.

In fiscal 2012, we started stepping up our growth strategy driven by the opening of medical mall dispensing pharmacies. By actively attracting medical institutions to these medical mall projects, we expect to see prescription demand equivalent to the level at our specialist dispensing pharmacies located near major hospitals. This should translate into a significant contribution to sales and profits. We plan to open around 50 medical mall dispensing pharmacies by the end of fiscal 2014.

Another of our medium-term goals is to boost the efficiency of dispensing pharmacy operations through initiatives such as increased automation of dispensing operations. In generic drugs, which are likely to become more widespread in Japan, we aim to secure technical fees by increasing the ratio of generic drug prescriptions. We will also work to boost profit margins across the Group by using our dedicated generic drug wholesaling subsidiary WHOLESALE STARS Co., Ltd. to generate profits by extending the supply of generic drugs to small and mid-size dispensing pharmacies outside the Group and medical institutions. In the home healthcare market, which is projected to expand, we plan to start full-scale dispensing services and grow the business into a new source of earnings.

Drug and Cosmetic Store Business

Rieko Kimei
General Manager of
Drug and Cosmetic Store Division

Aiming to Boost Earnings by Enhancing Store Appeal and Increasing Efficiency

"The *ainz & tulpe* brand is highly regarded in the industry as a select store of drugs and cosmetics. In this business, we leverage the Group's expertise in pharmacist training to sell OTC drugs. We aim to continue supporting the beauty and well-being of people."

Fiscal 2012 Review

In fiscal 2012, net sales rose 3.9% year on year to ¥15,395 million. The business also moved into the black with segment income of ¥125 million, compared with a loss of ¥207 million in fiscal 2011. New stores contributed to sales, supporting growth in profits. Steps were also taken to improve profitability, such as repositioning employees and reducing costs in areas such as advertising and sales promotion. Changes to sales area layouts through store refurbishment and other efforts and stronger merchandise lineups also had a positive impact on the bottom line.

During fiscal 2012, we continued to actively open new *ainz & tulpe* stores in locations with high levels of customer traffic such as station retail areas. As of the end of fiscal 2012, the business operated a total of 56 drug and cosmetic stores.

ains & tulpe Ario Sapporo Store

Medium-term Strategy

The drug and cosmetic store business has three different store brands: *ainz* has an extensive lineup of products from drugs 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 *ainz* and *tulpe*.

With our drug and cosmetic stores, our aim is to encourage customers to spend time in-store and enjoy the shopping experience, not just offer them products at low prices. In particular, *ainz & tulpe* stores target style-conscious women in the 20-plus age group, and these stores have been well received by the market. Also, our drug and cosmetic stores stand out in the market due to their capabilities in OTC drug sales, underpinned by the expertise we have accumulated in the dispensing pharmacy business. Going forward, we plan to open new stores at a rate of around 10 each year, mainly in the Tokyo metropolitan area, while continuing to boost the appeal of sales areas and increasing the efficiency of store operations.

We will also work to effectively tap into our base of *ainz & tulpe* mobile loyalty card holders and make preparations to move into online retailing.

Corporate Governance

(As of July 31, 2012)

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 POLICY FOR CORPORATE GOVERNANCE

Dispensing pharmacies and drug and cosmetic store 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 oversee not only 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 the standing corporate auditor on a weekly basis.

To minimize potential risks, the Internal Audit Office ensures comprehensive compliance with basic pharmacy regulations, while the Safety Policy Office conducts analysis and implements measures to prevent drug dispensing errors.

OVERVIEW OF CORPORATE GOVERNANCE SYSTEM

The Board of Directors, the major decision-making body of AIN PHARMACIEZ, is comprised of 12 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 four outside directors at AIN PHARMACIEZ, and executives in charge of internal controls and internal audits are senior executive officers.

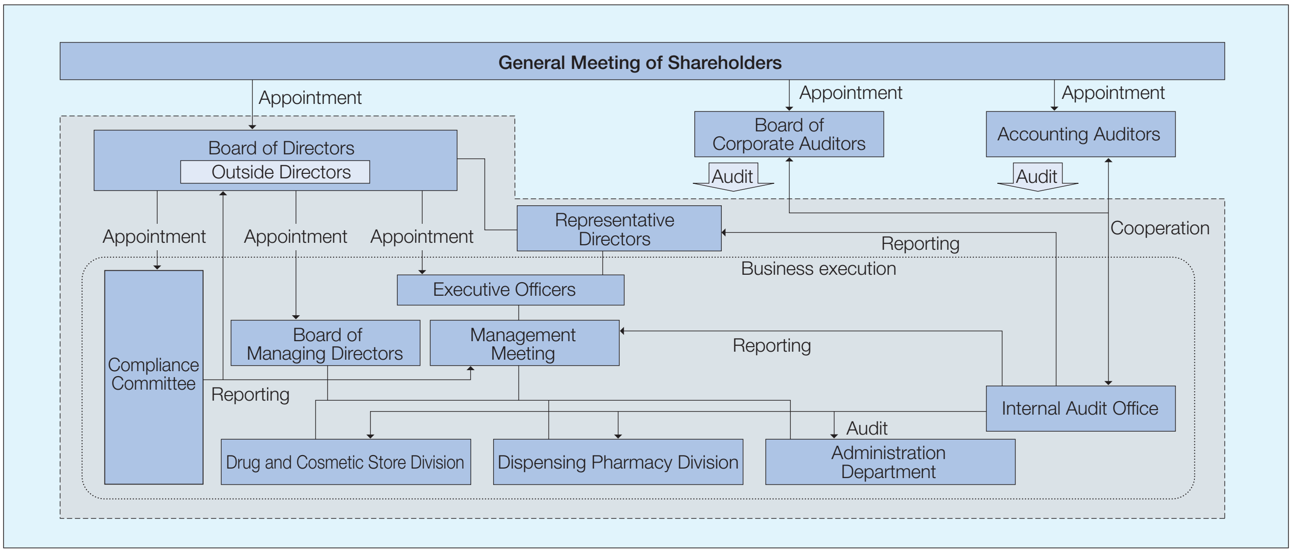
Executives in charge of internal audits and internal control work closely with the Board of Corporate Auditors from a directorial standpoint and attend Board of Directors meetings where they report on internal audits and internal controls. This helps maintain a system that can secure the confidence of 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 above, 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 four 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.

Two outside corporate auditors and one standing corporate auditor comment on relevant matters in a corporate auditor 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 INC., its 19 subsidiaries and one affiliate as of April 30, 2012. AIN PHARMACIEZ employs Management Guidelines for Subsidiaries and Affiliates at each of the Group companies 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 twice a month in the form of a liaison conference for the Group companies in order to manage the status of business execution at each company.

INTERNAL AUDITS AND AUDITS BY THE CORPORATE AUDITORS

In principle, the Internal Audit Office conducts business audits at least 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 two 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.

OUTSIDE DIRECTORS AND OUTSIDE CORPORATE AUDITORS

The Board of Directors is comprised of 12 members, including four outside directors. Two of the Company's three corporate auditors are outside corporate auditors. There are no conflicts of interest between the Company and its outside directors and outside corporate auditors. The outside directors and outside corporate auditors have been appointed on the basis that they have the ability to fulfill their roles, possess expert knowledge about the nature of the Company's business, and have a high level of independence.

Both of the outside corporate auditors have no history of working for the Company, its subsidiaries, major shareholders, or its key clients, ensuring they possess a high level of independence and neutrality. One of these outside corporate auditors has been designated as the Company's independent officer.

REMUNERATION FOR DIRECTORS AND AUDITORS

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 year ended April 2012 is as follows.

Item	Total remuneration (¥ million)	Remuneration by type (¥ million)		Number of eligible individuals
		Basic remuneration	Bonus	
Directors (excluding outside directors)	150	123	26	7
Corporate auditors (excluding outside corporate auditors)	7	7	—	1
Outside directors and outside corporate auditors	26	24	2	6

Note: Aside from the above, the portion of employees' salaries for directors who concurrently serve as employees amounted to ¥6 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. Audit fees for the year ended April 2012 are as follows.

(¥ thousand)

	Compensation paid for audit certification activities	Compensation paid for non-audit activities
The Company	35,500	–
Consolidated subsidiaries	–	–
Total	35,500	–

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

BUSINESS ENVIRONMENT SURROUNDING THE AIN PHARMACIEZ GROUP

The core business of the AIN PHARMACIEZ Group (the Group) is the dispensing pharmacy business that includes preparing and dispensing drugs based on prescriptions. Drug prices and dispensing fees* are stipulated by the Ministry of Health, Labour and Welfare.

As part of its policy to curb national medical expenses, the ministry revises drug prices, dispensing fees and other medical expenses every two years. Earnings at dispensing pharmacies are the total of dispensing fees* and sales of drugs, so earnings are affected by these revisions.

Under April 2012 revision, the average drug price was reduced by 6.0% and additional measures were introduced to promote the uptake of generic drugs. Specifically, dispensing pharmacies that have a high generic drug dispensing ratio receive additional reimbursement points (premiums), translating into higher earnings, while those with a generic drug dispensing ratio below a predetermined level do not receive these premiums.

The gap in performance is widening between companies in the industry, which are struggling with changes to their profit structures resulting from revisions to medical treatment fees and other systems. However, the Group regards these revisions as a perfect opportunity to further raise profitability.

Note: Dispensing fees comprise pharmaceutical management fees and technical fees for pharmacists.

BUSINESS OVERVIEW FOR THE FISCAL YEAR UNDER REVIEW

During the fiscal 2012, ended April 30, 2012, the Japanese economy showed signs of a moderate pickup owing to a steady recovery from the Great East Japan Earthquake and upward trends in consumer spending, production activity and capital expenditure. However, there were lingering concerns about deterioration in the global economy due to the ongoing sovereign debt crisis in Europe and high crude oil prices, and a slowdown in domestic production due to power shortages.

In this economic environment, the Group opened new stores and made effective use of M&A deals to aggressively expand its dispensing pharmacy and urban drug and cosmetic store businesses. It also reorganized the operating framework of the Group to boost the efficiency of store management and integrate administrative functions. This reorganization included absorbing or merging the businesses of seven subsidiaries across Japan into AIN PHARMACIEZ INC. and core subsidiaries.

In the fiscal year under review, consolidated net sales increased 10.4% to ¥142,790 million, operating income rose 26.5% to ¥10,253 million, and net income increased 25.1% to ¥4,899 million. All were record figures for the fifth consecutive fiscal year. The operating margin improved 0.9 percentage point to 7.2%, and the return on sales ratio rose 0.4 percentage point to 3.4%. As of the end of the fiscal year, the number of stores in the Group totaled 550, a net increase of 49 stores from the end of the previous fiscal year.

BUSINESS RESULTS BY SEGMENT

Dispensing Pharmacy Business

The dispensing pharmacy business expanded its operations through new store openings and M&A deals. Earnings at existing stores were supported by a steady number of patients visiting its dispensing pharmacies and a rise in the average prescription price due to an increase in longer-term prescriptions. As a result, sales and profits grew year on year.

In addition to continuing its existing strategy of opening large-scale specialist dispensing pharmacies near hospitals, the Group also began the full-scale development of medical malls, opening a number of these facilities in convenient locations, such as in or near station buildings.

Although sales in the dispensing pharmacy business are likely to be affected by the April 2012 revisions to drug prices and dispensing fees, the Group is confident it can absorb any negative impact through a range of steps it has taken in preparation for the revisions. Specifically, the Group has been focusing on enhancing the skills of its pharmacists and actively increasing the generic drug dispensing ratio, enabling it to secure many of the premiums introduced under the recent revisions. The Group is also targeting higher drug price margins by using its dedicated generic drug wholesaling subsidiary WHOLESALE STARS Co., Ltd., which was established in 2006.

M&A strategy during the fiscal year under review included acquiring and consolidating a total of nine dispensing pharmacy companies after carefully assessing the potential for return on investment. Also, in order to increase the operating efficiency of the Group, five mid-size and small dispensing pharmacy subsidiaries were absorbed or merged into AIN PHARMACIEZ, INC., AIN MEDICAL SYSTEMS INC., Asahi Pharmacy Co., Ltd. or DAICHIKU Co., Ltd.

In the fiscal year under review, we opened 55 stores, including those added through the above-noted nine M&As, and closed nine stores, bringing the total number of dispensing pharmacies to 494. The dispensing pharmacy business posted net sales of ¥127,134 million, up 11.2% year on year, and segment income of ¥12,286 million, an increase of 20.3% year on year.

Drug and Cosmetic Store Business

The drug and cosmetic store business recorded favorable sales of some seasonal product lines during the year. In the summer, demand was strong for cooling products, and in winter, products that help counter the dry conditions proved popular. However, the general weakening in consumer sentiment after the earthquake persisted and the sector as a whole continued to face challenging conditions.

In this environment, the Group continued to open drug and cosmetic stores operated under the *ainz & tulpe* brand in station retail areas and other locations with high levels of customer traffic. Also, the store opening process was reviewed in order to ensure consistent profitability and returns on investment from store openings.

A number of other steps were taken to improve profitability. These included focusing on overhauling sales displays and strengthening merchandising in order to make stores more appealing to consumers and increase the gross margin. The Group also upgraded the mobile version of its membership system and reduced the volume of direct mail shots, resulting in more efficient sales promotion activities at lower cost.

Additionally, in order to make store operation more efficient and reduce store administration costs, AIN PHARMACIEZ absorbed 11 drugstores in the Tokai region on April 1, 2012.

During the year under review, the Group opened or relocated a number of *ainz & tulpe* stores. These included the Sannomiya Store (Kobe City, Hyogo Prefecture) and the Minato Mirai Store (Yokohama City, Kanagawa Prefecture), resulting in a Group total of 56 drug and cosmetic stores at the end of the fiscal year.

Although sales at existing stores were lower compared with the previous fiscal year, sales from new stores contributed to growth. As a result, the drug and cosmetic store business reported net sales of ¥15,395 million, up 3.9% year on year, and segment income was ¥125 million, compared with a segment loss of ¥207 million in the previous fiscal year.

Other Businesses

Net sales in other businesses were ¥261 million, up 23.5% year on year, and segment loss was ¥143 million, compared with a segment loss of ¥78 million a year earlier.

FINANCIAL POSITION

Total assets at the end of the fiscal year under review totaled ¥85,908 million, an increase of ¥8,968 million from the end of the previous fiscal year.

Current assets at the end of fiscal year under review amounted to ¥40,320 million, up ¥2,287 million from the end of the previous fiscal year. One reason for this increase was a rise of ¥497 million year on year in cash on hand and in banks to ¥15,935 million, partly reflecting expansion in the Group overall due to store openings and M&A deals. In addition, notes and accounts receivable increased ¥737 million to ¥10,985 million due to growth in new dispensing pharmacies and drug and cosmetic stores, while other accounts receivable increased ¥720 million to ¥2,757 million.

Fixed assets at the end of the fiscal year under review totaled ¥45,570 million, up ¥6,698 million from the end of the previous fiscal year. This was mainly due to an increase in fixed assets related to investment in new stores and expansion in the asset base at consolidated subsidiaries that became part of the Group through M&A deals. Property, plant and equipment increased ¥1,805 million to ¥15,256 million, while goodwill rose ¥3,797 million to ¥17,664 million.

Current liabilities at the end of the fiscal year under review amounted to ¥42,945 million, up ¥5,328 million from the end of the previous fiscal year. This mainly reflected increases of ¥2,817 million in accounts payable and ¥317 million in accrued income taxes. Long-term liabilities at the end of the fiscal year under review totaled ¥9,216 million, down ¥607 million from the end of the previous fiscal year. Although allowance for retirement benefits increased ¥178 million, there were decreases of ¥829 million in long-term debt and ¥184 million in bonds. As a result of the above, total liabilities at the end of the fiscal year under review amounted to ¥52,162 million, up ¥4,721 million from the end of the previous fiscal year. In interest-bearing debt, short-term debt increased ¥514 million to ¥6,397 million, long-term debt fell ¥829 million to ¥6,318 million and the outstanding balance for bonds declined to zero.

Net assets at the end of the fiscal year under review amounted to ¥33,745 million, up ¥4,247 million from the end of the previous fiscal year. This mainly reflected an increase in retained earnings of ¥4,199 million due to growth in earnings. Net unrealized holding losses on securities totaled ¥281 million.

The shareholders' equity ratio at the end of the fiscal year under review stood at 39.2%, up 0.9 percentage point from the end of the previous fiscal year. ROA rose 0.5 percentage point to 6.0% and ROE improved 0.1 percentage point to 15.5%.

BASIC POLICIES FOR PROFIT DISTRIBUTION

The Company's basic policy is to pay dividends from retained earnings each year at the end of the fiscal year. We paid a cash dividend of ¥50 per share for the fiscal year under review, an increase of ¥5 from the end of the previous fiscal year.

In the future, the Company will continue to 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 maintain a stable return on investment. Internal reserves are held to strengthen the Company's financial position, prepare for new store openings and invest in the future development of the business. We will make effective use of these funds to generate profits to be returned to shareholders in the future.

In the fiscal year ending April 30, 2013, we plan to increase annual dividends per share by ¥10. As a result, the total dividends will rise to ¥60 per share.

CASH FLOWS

Cash and cash equivalents at the end of the fiscal year under review totaled ¥15,935 million, up ¥537 million from the end of the previous fiscal year. This mainly reflected operating cash flow generated in line with business expansion, active investment in new store openings and M&A using funds secured through a public offering and private placement of new shares in the previous fiscal year, and a certain level of liquidity to provide the Group with access to flexible sources of funds. Cash flows and the main factors affecting each cash flow were as follows:

Cash Flows from Operating Activities
Net cash provided by operating activities totaled ¥11,679 million, an increase of 53.1% year on year. The main items that were positive for cash flow were income before income taxes and minority interests of ¥9,782 million, depreciation and amortization of ¥1,749 million, and amortization of goodwill of ¥1,262 million. These increases came on the back of a rise in earnings related to new store openings and M&A.

Cash Flows from Investing Activities
Net cash used in investing activities totaled ¥9,010 million, an increase of 132.2% year on year. This was mainly due to payments of ¥2,378 million for purchases of property, plant and equipment related to new openings and refurbishments of urban drug and cosmetic stores and dispensing pharmacies, and ¥4,122 million for purchase of subsidiaries' shares resulting in obtaining controls related to shares acquired in nine companies through M&A deals.

Cash Flows from Financing Activities
Net cash used in financing activities totaled ¥2,131 million, compared with cash of ¥463 million provided in the previous fiscal year. This was mainly attributable to net short-term debt procurement of ¥322 million, net long-term debt repayment of ¥1,246 million, and ¥184 million in payments for redemption of bonds. Cash dividends paid totaled ¥717 million.

BUSINESS AND OTHER RISKS

The following factors may affect the Group's oprating results, stock price and financial position. Forward-looking statements in this annual report are based on information available to the Group at the end of the fiscal year under review.

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 drug and cosmetic store business also involves sales of drugs, which are similarly regulated under the Pharmaceutical Affairs Law.
b. Easing of drug 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 drugs as a "registered seller," 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 drug sales may affect the Group's performance.

2. Details of Business
The Group's dispensing pharmacy business operates a chain of specialist dispensing pharmacies. These dispensing pharmacies are mainly located near major hospitals (targeting demand from patients with prescriptions written by those hospitals) and near medical malls (targeting demand from patients with prescriptions written by those mixed medical facilities).

As the dispensing pharmacy business accounted for 89.0% 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 non-hospital prescriptions by the medical institutions or suspension/discontinuation of operations thereof may affect the Group's performance.

3. Industry Trends
The revenues in our dispensing pharmacy business come from pharmacy operations involving the dispensing and supplying of prescription drugs. The drug prices and dispensing fees are set by the Ministry of Health, Labour and Welfare. As a way to contain medical expenses, both medical treatment fees and drug prices are being revised in stages. Changes in profit structure resulting from factors such as revisions in the medical treatment fee system could continue to affect the Group's 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 performance.

5. Risk of Loss of Trust in the Group

a. In the dispensing operations

In our dispensing pharmacy business, pharmacists dispense and supply prescription drugs that affect the human body. This business carries the risk that medical accidents might be caused through dispensing errors. 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 dispensing pharmacy business, including medical histories and prescription information, and we possess personal data in the drug and cosmetic store 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 performance but also lead to a loss of society's confidence in the Group.

6. Risk in Business Strategy

We have promoted the expansion of the business scale through actively promoting new openings of dispensing pharmacies 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. Interest Rate Risk

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 seeks to maintain a certain level of liquidity. As of the end of the fiscal year under review, the balance of cash on hand and in banks was ¥15,935 million, while the balance of interest-bearing debt of the Group was ¥12,715 million.

We focus on the possibility of return on investment and seek to reduce interest-bearing debt 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 expenses may be affected.

8. Consumption Tax Risk

Under Japan's Consumption Tax Act, dispensing sales in the dispensing pharmacy business related to social insurance medical examinations are exempt from consumption tax. However, the business is required to pay consumption tax on drugs and other products that it procures.

As a result, the consumption tax burden borne by the Group is booked as consumption tax under cost of sales in the dispensing pharmacy business.

In the past, when consumption tax was introduced in Japan and dispensing fees were revised, the government took into account the increase in drug prices caused by the higher rate of consumption tax. However, future revisions to the rate of consumption tax may not be reflected in drug prices, which could have an impact on the Group's performance.

AIN PHARMACIEZ INC.
CONSOLIDATED BALANCE SHEETS
AS OF APRIL 30, 2012 AND 2011

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
ASSETS	2012	2011	2012
Current assets:			
Cash on hand and in banks (Notes 2 and 4)	¥ 15,935	¥ 15,438	$ 197,264
Notes and accounts receivable (Note 4)	10,985	10,248	135,987
Other accounts receivable	2,758	2,037	34,142
Inventories (Note 3)	8,253	8,376	102,166
Deferred tax assets (Note 11)	892	929	11,042
Short-term loans	606	235	7,502
Other current assets	918	898	11,364
Allowance for doubtful accounts	(27)	(128)	(334)
Total current assets	40,320	38,033	499,133
Property, plant and equipment (Note 7):			
Buildings and structures	7,049	6,457	87,262
Land	5,622	5,421	69,596
Construction in progress	825	236	10,213
Other property, plant and equipment	1,761	1,338	21,800
Total property, plant and equipment	15,257	13,451	188,871
Investments and other assets:			
Investments in securities (Notes 4 and 5)	2,826	2,960	34,984
Deferred tax assets (Note 11)	1,123	1,233	13,902
Deposits and guarantees	5,758	4,990	71,280
Goodwill	17,665	13,867	218,680
Other intangible fixed assets	991	961	12,268
Other investments and other assets	2,226	1,675	27,556
Allowance for doubtful accounts	(257)	(230)	(3,181)
Total investments and other assets	30,331	25,456	375,489
Total assets	¥ 85,908	¥ 76,940	$ 1,063,481

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 1(1)) 2012
Current liabilities:			
Accounts payable (Note 4)	¥ 22,525	¥ 19,707	$ 278,844
Short-term debt (Notes 4 and 8)	6,397	5,883	79,190
Accrued income taxes	2,740	2,422	33,919
Deposits received	7,714	6,722	95,494
Allowance for bonuses to employees	965	948	11,946
Allowance for bonuses to directors	13	9	161
Reserve for reward obligations	302	313	3,739
Reserve for loss on disaster (Note 9)	-	11	-
Other current liabilities	2,289	1,600	28,336
Total current liabilities	42,945	37,616	531,629
Long-term liabilities:			
Long-term debt (Notes 4 and 8)	6,318	7,148	78,212
Bonds	-	184	-
Allowance for retirement benefits (Note 10)	1,449	1,270	17,938
Other long-term liabilities	1,450	1,223	17,950
Total long-term liabilities	9,217	9,825	114,100
Net Assets: (Note 12)			
Shareholders' equity			
Common stock	8,683	8,683	107,489
Authorized - 44,000,000 shares in 2012 and 2011			
Issued - 15,944,106 shares in 2012 and 2011			
Capital surplus	7,873	7,873	97,462
Retained earnings	17,426	13,227	215,722
Treasury stock (3,316 shares in 2012 and 3,102 shares in 2011)	(6)	(5)	(74)
Total shareholders' equity	33,977	29,778	420,612
Accumulated other comprehensive losses:			
Unrealized holding losses on securities	(281)	(328)	(3,479)
Total accumulated other comprehensive losses	(281)	(328)	(3,479)
Minority interests	51	49	631
Total net assets	33,746	29,499	417,752
Total liabilities and net assets	¥ 85,908	¥ 76,940	$ 1,063,481

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED APRIL 30, 2012 AND 2011

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2012	2011	2012
Net sales (Note 16)	¥ 142,791	¥ 129,387	$ 1,767,653
Cost of sales	119,698	109,298	1,481,778
Gross profit	23,093	20,090	285,875
Selling, general and administrative expenses	12,839	11,982	158,938
Operating income (Note 16)	10,254	8,108	126,937
Other income (expenses):			
Interest and dividend income	94	89	1,164
Commissions received	59	52	730
Real estate rental revenue	132	86	1,634
Consignment income	124	90	1,535
Interest expenses	(159)	(240)	(1,968)
Loss on sales of accounts receivables	(71)	(68)	(879)
Gain on sales of investments in securities	21	45	260
Gain on sales of shares of subsidiaries and affiliates	23	-	285
Loss on sales of investments in securites	(193)	(3)	(2,389)
Loss on disposal and sales of fixed assets	(147)	(134)	(1,820)
Impairment losses on investments in securities	(52)	(28)	(644)
Impairment losses on fixed assets	(244)	(232)	(3,021)
Loss on disaster	-	(60)	-
Other, net	(57)	(60)	(706)
	(472)	(463)	(5,843)
Income before income taxes and minority interests	9,782	7,645	121,094
Income taxes (Note 11):			
Current	4,652	4,039	57,589
Deferred	229	(313)	2,835
	4,881	3,726	60,423
Income before minority interests	4,901	3,919	60,671
Minority interests	2	2	25
Net income	¥ 4,899	¥ 3,917	$ 60,646

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEARS ENDED APRIL 30, 2012 AND 2011

	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 1(1))
	2012	2011	2012
Income before minority interests	¥ 4,901	¥ 3,919	$ 60,671
Other comprehensive income (losses)			
Unrealized holding gains (losses) on securities	47	(96)	582
Total other comprehensive income (losses)	47	(96)	582
Total comprehensive income	4,948	3,822	61,253
Comprehensive income attributable to shareholders of the parent	4,946	3,821	61,228
Comprehensive income attributable to minority interests	2	2	25

See accompanying notes.

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED APRIL 30, 2012 AND 2011

	Thousands of shares	Millions of yen								
		Shareholders' equity					Accumulated other comprehensive losses			
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities	Total accumulated other comprehensive income (losses)	Minority interests	Total net assets
Balance at April 30, 2010	14,104	¥ 6,308	¥ 5,498	¥ 9,874	¥ (4)	¥ 21,677	¥ (232)	¥ (232)	¥ 47	¥ 21,492
Net income	-	-	-	3,917	-	3,917	-	-	-	3,917
Cash dividends paid	-	-	-	(564)	-	(564)	-	-	-	(564)
Issuance of new shares	-	2,375	2,375	-	-	4,749	-	-	-	4,749
Acquisition of treasury stock	-	-	-	-	(0)	(0)	-	-	-	(0)
Net change in items other than those in shareholders' equity	-	-	-	-	-	-	(96)	(96)	2	(95)
Net changes during the year	1,840	2,375	2,375	3,353	(0)	8,102	(96)	(96)	2	8,007
Balance at April 30, 2011	15,944	8,683	7,873	13,227	(5)	29,778	(328)	(328)	49	29,499
Net income	-	-	-	4,899	-	4,899	-	-	-	4,899
Cash dividends paid	-	-	-	(717)	-	(717)	-	-	-	(717)
Acquisition of treasury stock	-	-	-	-	(1)	(1)	-	-	-	(1)
Change in scope of consolidation	-	-	-	17	-	17	-	-	-	17
Net change in items other than those in shareholders' equity	-	-	-	-	-	-	47	47	2	49
Net changes during the year	-	-	-	4,199	(1)	4,199	47	47	2	4,247
Balance at April 30, 2012	15,944	¥ 8,683	¥ 7,873	¥ 17,426	¥ (6)	¥ 33,977	¥ (281)	¥ (281)	¥ 51	¥ 33,746

	Thousands of U.S. dollars (Note 1(1))								
	Shareholders' equity					Accumulated other comprehensive losses			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities	Total accumulated other comprehensive income (losses)	Minority interests	Total net assets
Balance at April 30, 2011	$ 107,489	$ 97,462	$ 163,741	$ (62)	$ 368,631	$ (4,060)	$ (4,060)	$ 607	$ 365,177
Net income	-	-	60,646	-	60,646	-	-	-	60,646
Cash dividends paid	-	-	(8,876)	-	(8,876)	-	-	-	(8,876)
Acquisition of treasury stock	-	-	-	(12)	(12)	-	-	-	(12)
Change in scope of consolidation	-	-	210	-	210	-	-	-	210
Net change in items other than those in shareholders' equity	-	-	-	-	-	582	582	25	607
Net changes during the year	-	-	51,981	(12)	51,981	582	582	25	52,575
Balance at April 30, 2012	$ 107,489	$ 97,462	$ 215,722	$ (74)	$ 420,612	$ (3,479)	$ (3,479)	$ 631	$ 417,752

See accompanying notes.

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED APRIL 30, 2012 AND 2011

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 9,782	¥ 7,645	$ 121,094
Depreciation and amortization	1,750	1,561	21,664
Impairment losses on fixed assets	244	232	3,021
Loss on disaster	-	28	-
Amortization of goodwill	1,263	974	15,635
Impairment losses on investments in securities	52	28	644
Gain on sales of shares of subsidiaries and affiliates	(23)	-	(285)
Decrease in allowance for doubtful accounts	(79)	(12)	(978)
(Decrease) increase in reserve for reward obligations	(11)	16	(136)
Increase in allowance for retirement benefits	175	193	2,166
Increase in allowance for bonuses to employees	2	34	25
Increase (decrease) in allowance for bonuses to directors	3	(12)	37
(Decrease) increase in reserve for loss on disaster	(11)	11	(136)
Interest and dividend income	(94)	(89)	(1,164)
Interest expenses	159	240	1,968
Loss on investments in partnerships	19	8	235
Gain on donations of property, plant and equipment	(28)	(20)	(347)
Loss (gain) on sales of investments in securities	172	(42)	2,129
Loss on disposal and sales of fixed assets	130	133	1,609
Decrease (increase) in accounts receivable	70	(86)	867
Decrease (increase) in inventories	405	(1,131)	5,014
Decrease in other assets	10	7	124
Increase in other accounts receivable	(687)	(506)	(8,505)
Increase (decrease) in accounts payable	1,862	(1,169)	23,050
Increase in other liabilities	1,007	3,105	12,466
Subtotal	16,172	11,146	200,198
Interest and dividends received	84	90	1,040
Interest paid	(159)	(243)	(1,968)
Income taxes paid	(4,418)	(3,365)	(54,692)
Net cash provided by operating activities	11,680	7,627	144,590
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(2,378)	(1,237)	(29,438)
Proceeds from sales of property, plant and equipment	166	17	2,055
Payments for purchases of investments in securities	(478)	(182)	(5,917)
Proceeds from sales of investments in securities	575	54	7,118
Purchase of shares in affiliates	(8)	-	(99)
Purchase of subsidiaries' shares resulting in obtaining controls	(4,122)	(1,635)	(51,027)
Proceeds from subsidiaries' shares resulting in loss of controls	205	-	2,538
Payments for loans receivable	(1,061)	(875)	(13,134)
Proceeds from collections of loans receivable	183	699	2,265
Payments for investments in capital	(4)	(3)	(50)
Proceeds from returns of investments in capital	6	3	74
Payments for purchases of intangible fixed assets	(1,228)	(317)	(15,202)
Increase in other investments	(866)	(404)	(10,720)
Net cash used in investing activities	(9,011)	(3,882)	(111,550)
Cash flows from financing activities:			
Proceeds from short-term debts	3,100	2,940	38,376
Repayments of short-term debts	(2,777)	(4,094)	(34,377)
Proceeds from long-term debts	3,400	7,380	42,090
Repayments of long-term debts	(4,646)	(9,664)	(57,514)
Payments for redemption of bonds	(184)	(33)	(2,278)
Repayments of lease obligations	(305)	(221)	(3,776)
Proceeds from issuance of new shares	-	4,720	-
Payments for purchase of treasury stock	(1)	(0)	(12)
Cash dividends paid	(717)	(564)	(8,876)
Dividend payments to minority shareholders	-	(0)	-
Net cash (used in) provided by financing activities	(2,131)	463	(26,380)
Net increase in cash and cash equivalents	538	4,209	6,660
Cash and cash equivalents at beginning of the year	15,398	11,188	190,616
Cash and cash equivalents at end of the year (Note 2)	¥ 15,935	¥ 15,398	$ 197,264

See accompanying notes.

AIN PHARMACIEZ INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2012 AND 2011

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, 2012, which was ¥80.78 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 affiliates

The consolidated financial statements comprise the accounts of the Company and its 18 subsidiaries as of April 30, 2012 and 2011. 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 affiliates are stated at their underlying equity value. All companies are required to account for investments in affiliates (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 April 30. The account closing dates for two consolidated subsidiaries in the dispensing pharmacy business are the end of January and May, respectively. The account closing dates for two consolidated subsidiaries in the dispensing pharmacy business are the end of February. The account closing date of other consolidated subsidiaries is the end of 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.

The consolidated subsidiary closing its accounts of the end of May closed its accounts as of the account closing date of its parent company, AIN MEDIO Inc.

(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.

(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 a period (5 to 20 years).

Leased assets capitalized under finance leases are depreciated over the lease terms of the respective assets with no residual value. Finance lease transactions that do not transfer ownership that commenced prior to April 1, 2008, are accounted for under methods pertaining to standard lease transactions.

(7) Impairment of fixed assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, an amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss.

The Company and its consolidated subsidiaries identify group of assets by stores as the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. With respect to non-performing assets, real estate is regarded as an independent asset group.

The recoverable amount of the asset group is measured by the respective net selling prices. The land is assessed based on the appraisal value by an independent real estate appraiser. The fair value of construction in progress and store facilities is the disposal value from which costs of disposal are deducted.

(8) Deferred charges

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

(9) 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.

(10) 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.

(11) 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.

(12) 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. 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.

(13) Reserve for reward obligations

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

(14) Reserve for loss on disaster

A reserve was set aside as of April 30, 2011, at an estimated amount for expenses considered necessary to restore assets damaged by the Great East Japan Earthquake.

(15) 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.

(16) 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.

(17) Derivatives and hedge accounting

The Company and its consolidated subsidiaries state 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: Interest rate swap contracts
Hedged items: 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 and meet certain hedging criteria.

(18) 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.

(19) Changes of Accounting Procedures and Presentation

The Company and its consolidated subsidiaries have applied “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24, issued on December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24, issued on December 4, 2009) for changes in accounting policies and corrections of figures on and after the beginning of the fiscal year ended April 30, 2012.

(20) 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 and for the years ended April 30, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash on hand and in banks	¥ 15,935	¥ 15,438	$ 197,264
Less: Time deposits with maturities exceeding three months	-	(40)	-
Cash and cash equivalents	¥ 15,935	¥ 15,398	$ 197,264

(2) The following table summarizes assets acquired and liabilities assumed through the acquisition of shares of the companies relating acquisition cost and net disbursement:

(a) Major breakdown of assets and liabilities of companies newly included in the consolidated financial statements for the years ended April 30, 2012 and 2011 due to the acquisition of shares

(i) Acquisition of shares of nine companies in the dispensing pharmacy business for the year ended April 30, 2012

The following is the summary of assets acquired and liabilities assumed through the acquisition of shares of the companies relating acquisition cost and net disbursement.

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Current assets	¥ 1,704	$ 21,094
Fixed assets	803	9,941
Goodwill	4,157	51,461
Current liabilities	(1,462)	(18,099)
Long-term liabilities	(617)	(7,638)
Acquisition cost of the companies	4,585	56,759
Cash and cash equivalents held by the companies	(463)	(5,732)
Net disbursement due to the acquisition	¥ 4,122	$ 51,027

(ii) Acquisition of shares of six companies in the dispensing pharmacy business for the year ended April 30, 2011

The following is the summary of assets acquired and liabilities assumed through the acquisition of shares of the companies relating acquisition cost and net disbursement.

	Millions of yen
	2011
Current assets	¥ 3,826
Fixed assets	1,226
Goodwill	2,608
Current liabilities	(2,427)
Long-term liabilities	(1,222)
Acquisition cost of the companies	4,010
Cash and cash equivalents held by the companies	(2,375)
Net disbursement due to the acquisition	¥ 1,635

3. Inventories

Inventories at April 30, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Merchandise	¥ 8,139	¥ 8,268	$ 100,755
Supplies	115	107	1,424
	¥ 8,253	¥ 8,376	$ 102,166

4. Financial instruments

(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 (17) 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, 2012 and 2011 are summarized in the following table:

Assets	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Carrying value			
Cash on hand and in banks	¥ 15,935	¥ 15,438	$ 197,264
Notes and accounts receivable	10,985	10,248	135,987
Investment in securities	1,307	1,965	16,180
Deposits and guarantees	5,624	4,875	69,621
Total	33,851	32,526	419,052
Fair value			
Cash on hand and in banks	15,935	15,438	197,264
Notes and accounts receivable	10,985	10,248	135,987
Investment in securities	1,307	1,965	16,180
Deposits and guarantees	5,420	4,632	67,096
Total	33,647	32,283	416,526
Difference			
Cash on hand and in banks	-	-	-
Notes and accounts receivable	-	-	-
Investment in securities	-	-	-
Deposits and guarantees	(204)	(243)	(2,525)
Total	¥ (204)	¥ (243)	$ (2,525)

Liabilities	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Carrying value			
Accounts payable	¥ 22,525	¥ 19,707	$ 278,844
Short-term debt including current portion of long-term debt	6,397	5,883	79,190
Deposits received	7,714	6,722	95,494
Long-term debt	6,318	7,148	78,212
Total	42,955	39,460	531,753
Fair value			
Accounts payable	22,525	19,707	278,844
Short-term debt including current portion of long-term debt	6,406	5,893	79,302
Deposits received	7,714	6,722	95,494
Long-term debt	6,333	7,165	78,398
Total	42,977	39,488	532,025
Difference			
Accounts payable	-	-	-
Short-term debt including current portion of long-term debt	8	10	99
Deposits received	-	-	-
Long-term debt	14	17	173
Total	¥ 23	¥ 27	$ 285

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 values of unlisted equity securities with carrying amounts of ¥ 1,519million ($ 18,804thousand) and ¥994 million as of April 30, 2012 and 2011, respectively, are not readily determinable.

The redemption schedule for monetary claims and securities with maturity dates as of April 30, 2012 are summarized as follows:

	Millions of yen			
	2012			
	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	¥ 15,610	¥ -	¥ -	¥ -
Notes and accounts receivable	10,985	-	-	-
Investment securities				
Held-to-maturity debt securities	-	119	30	-
Deposits received	369	2,627	1,682	1,080
Total	¥ 26,965	¥ 2,745	¥ 1,712	¥ 1,080

	Thousands of U.S. dollars			
	2012			
	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	$ 193,241	$ -	$ -	$ -
Notes and accounts receivable	135,987	-	-	-
Investment securities				
Held-to-maturity debt securities	-	1,473	371	-
Deposits received	4,568	32,520	20,822	13,370
Total	$ 333,808	$ 33,981	$ 21,193	$ 13,370

	Millions of yen			
	2011			
	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	¥ 15,438	¥ -	¥ -	¥ -
Notes and accounts receivable	10,248	-	-	-
Investment securities				
Held-to-maturity debt securities	450	-	-	-
Deposits received	760	1,701	1,631	899
Total	¥ 26,896	¥ 1,701	¥ 1,631	¥ 899

5. Securities

(1) The following tables summarize acquisition costs, carrying values and differences of securities with available fair values as of April 30, 2012 and 2011:

Other securities:

Securities with carrying values exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Acquisition cost			
Equity securities	¥ 108	¥ 15	$ 1,337
Bonds	-	-	-
Limited partnerships and similar investments	-	-	-
Other	-	-	-
Total	108	15	1,337
Carrying value			
Equity securities	126	38	1,560
Bonds	-	-	-
Limited partnerships and similar investments	-	-	-
Other	-	-	-
Total	126	38	1,560
Difference			
Equity securities	18	22	223
Bonds	-	-	-
Limited partnerships and similar investments	-	-	-
Other	-	-	-
Total	¥ 18	¥ 22	$ 223

Other securities:

Securities with carrying values not exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Acquisition cost			
Equity securities	¥ 914	¥ 1,435	$ 11,315
Bonds	149	450	1,845
Limited partnerships and similar investments	365	338	4,518
Other	206	277	2,550
Total	1,634	2,500	20,228
Carrying value			
Equity securities	500	914	6,190
Bonds	149	450	1,845
Limited partnerships and similar investments	362	329	4,481
Other	169	234	2,092
Total	1,180	1,928	14,608
Difference			
Equity securities	(414)	(521)	(5,125)
Bonds	-	-	-
Limited partnerships and similar investments	(3)	(8)	(37)
Other	(37)	(43)	(458)
Total	¥ (453)	¥ (573)	$ (5,608)

Equity securities included stocks of non-consolidated subsidiaries and affiliates of ¥381 million ($4,717 thousand) and ¥322 million at April 30, 2012 and 2011, 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, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Total sales of other securities sold	¥ 575	¥ 54	$ 7,118
Related gains	21	45	260
Related losses	193	3	2,389

(3) The following table summarizes impairment loss on other securities in the years ended April 30, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Other securities with fair value	¥ 1	¥ 2	$ 12
Other securities without fair value	51	26	631

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. There were no outstanding derivative transactions for which hedge accounting has been applied at April 30, 2012. The notional amounts were ¥20 million at April 30, 2011. As discussed in Note 1 (17), 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, 2012 and 2011, 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, 2012 and 2011, 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
	2012	2011	2012
Acquisition cost			
Buildings	¥ 344	¥ 411	$ 4,258
Other fixed assets	362	857	4,481
Intangible fixed assets	120	371	1,486
Total	827	1,639	10,238
Accumulated depreciation			
Buildings	287	333	3,553
Other fixed assets	303	706	3,751
Intangible fixed assets	104	306	1,287
Total	694	1,344	8,591
Impairment loss			
Buildings	-	-	-
Other fixed assets	-	2	-
Intangible fixed assets	-	-	-
Total	-	2	-
Net balance			
Buildings	58	79	718
Other fixed assets	58	149	718
Intangible fixed assets	17	65	210
Total	¥ 133	¥ 293	$ 1,646

Future minimum lease payments as of April 30, 2012 and 2011 for finance leases currently accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥ 74	¥ 197	$ 916
Due after one year	135	187	1,671
Total	¥ 208	¥ 383	$ 2,575

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
	2012	2011	2012
Lease expense	¥ 168	¥ 362	$ 2,080
Reversal of impairment loss for leased assets	-	2	-
Depreciation	158	300	1,956
Interest expense	5	43	62

Equivalent interest is calculated by applying the interest method to allocate for each fiscal year over the term of the lease the difference between the total lease amount and the equivalent acquisition price of the leased asset.

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

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥ 576	¥ 536	$ 7,130
Due after one year	3,859	3,724	47,772
Total	¥ 4,435	¥ 4,259	$ 54,902

8. Short-term debt and long-term debt

Short-term debt and long-term debt at April 30, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Short-term bank loans with a weighted-average interest rate of 1.0%	¥ 2,503	¥ 2,135	$ 30,985
Subsidiaries' unsecured bond maturing in 2015 with a fixed interest rate of 0.80%-0.92%	-	184	-
Current portion of long-term debt with a weighted-average interest rate of 0.8%	3,895	3,748	48,217
Current portion of lease obligation with a weighted-average interest rate of 1.6%	345	245	4,271
Long-term debt (2013-2021) with a weighted-average interest rate of 0.8%	6,318	7,148	78,212
Lease obligation (2013-2017) with a weighted-average interest rate of 1.4%	676	548	8,368
Total	¥ 13,736	¥ 14,008	$ 170,042

At April 30, 2012 and 2011, the carrying amounts of assets pledged as collateral for accounts payable are as follows:

Assets pledged as collateral:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Investments in securities	¥ 6	¥ 6	$ 74

Liabilities corresponding to collateral:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Accounts payable	¥ 7	¥ 12	$ 87

The aggregate annual maturities of long-term debt at April 30, 2012 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2013	¥ 3,895	$ 48,217
2014	2,944	36,445
2015	2,086	25,823
2016	994	12,305
2017	236	2,922

The aggregate annual maturities of lease obligations at April 30, 2012 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2013	¥ 345	$ 4,271
2014	287	3,553
2015	196	2,426
2016	135	1,671
2017	59	730

9. Sales, disposal and impairment of fixed assets

(1) Gain and loss on sales of fixed assets for the years ended April 30, 2012 and 2011 are as follows:

Gain on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Buildings and structures	¥ 16	¥ 1	$ 198
Other property, plant and equipment	2	0	25
Total	¥ 17	¥ 1	$ 210

Loss on sales of fixed assets:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Buildings and structures	¥ 1	$ 12
Land	9	111
Other property, plant and equipment	12	149
Disposal cost	1	12
Total	¥ 24	$ 297

The details of loss on sales of fixed assets for the year ended April 30, 2011 have been omitted as the amounts are immaterial.

(2) Loss on disposal of fixed assets for the years ended April 30, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Buildings and structures	¥ 29	¥ 33	$ 359
Other property, plant and equipment	13	4	161
Goodwill	26	-	322
Other intangible fixed assets	0	0	0
Deposits and guarantees	26	49	322
Other investments and other assets	4	2	50
Disposal cost	26	47	322
Total	¥ 124	¥ 134	$ 1,535

(3) For the years ended April 30, 2012 and 2011, the Company recognized impairment losses for the following property groups:

		Millions of yen		Thousands of U.S. dollars
		2012	2011	2012
Property group	Description of assets			
Stores	Store facilities	¥ 168	¥ 10	$ 2,080
Real estate	Land	-	66	-
Shops and real estate	Store facilities and land	50	156	619
Shops scheduled for opening	Store facilities	21	-	260
Shop to be closed	Store facilities	5	-	62
		¥ 244	¥ 232	$ 3,021

(4) Losses resulting from the Great East Japan Earthquake during the fiscal year ended April 30, 2011, were recorded in "loss on disaster" in the accompanying consolidated statements of income. A breakdown of this total is provided below.

	Millions of yen
	2011
Losses on inventories, property, plant and equipment and intangible fixed assets destroyed in the disaster	¥ 28
Repair, removal and other restoration expenses	7
Other	25
Total	¥ 60

Of the ¥60 million for loss on disaster, ¥11 million was an allocation to reserve for loss on disaster for the year ended April 30, 2011.

10. Retirement benefits

Allowance for retirement benefits as of April 30, 2012 and 2011 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligation	¥ (2,020)	¥ (1,623)	$ (25,006)
Plan assets at fair value	251	198	3,107
Unfunded retirement benefit obligation	(1,768)	(1,425)	(21,887)
Unrecognized actuarial gains	320	155	3,961
Net retirement benefit obligation	(1,449)	(1,270)	(17,938)
Allowance for retirement benefits	¥ (1,449)	¥ (1,270)	$ (17,938)

Retirement benefit expenses for the years ended April 30, 2012 and 2011 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service costs	¥ 292	¥ 254	$ 3,615
Interest cost on projected benefit obligation	16	13	198
Expected return on plan assets	(1)	(1)	(12)
Amortization of actuarial losses	50	51	619
Retirement benefit expenses	¥ 356	¥ 317	$ 4,407

Actuarial assumptions used in accounting for the Company's plans as of April 30, 2012 and 2011 are principally as follows:

	2012	2011
Discount rate	1.0-2.0%	1.0-2.0%
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

11. Income taxes

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

(1) 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, 2012 and 2011:

	2012	2011
Statutory tax rate	40.4%	40.4%
Non-deductible expenses	0.5	0.4
Per capita inhabitant tax	1.5	1.8
Amortization of goodwill	4.5	4.6
Valuation allowance	-	1.5
Reversal of deferred tax assets due to changes in the corporate income tax rate	1.8	-
Other	1.2	0.0
Effective tax rates	49.9%	48.7%

(2) Significant components of deferred tax assets and liabilities as of April 30, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Impairment losses	¥ 469	¥ 552	$ 5,806
Excess of allowance for bonuses	357	379	4,419
Excess of reserve for rewards obligation	114	127	1,411
Allowance for retirement benefits	516	510	6,388
Net unrealized holding gains on securities	153	222	1,894
Other	1,017	837	12,590
Sub-total deferred tax assets	2,626	2,627	32,508
Valuation allowance	512	465	6,338
Total deferred tax assets	2,114	2,162	26,170
Deferred tax liabilities:			
Capitalized removal costs	(100)	-	(1,238)
Valuation of land	(59)	-	(730)
Total deferred tax liabilities	(159)	-	(1,968)
Net deferred tax assets	¥ 1,955	¥ 2,162	$ 24,202

(3) Adjustment of deferred tax assets and deferred tax liabilities due to changes in the corporate income tax rate

Following the promulgation of the “Act for Partial Amendment of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114, 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No. 117, 2011) on December 2, 2011, the corporate income tax rate will be lowered and a special restoration surtax will be imposed from fiscal years beginning on or after April 1, 2012.

Accordingly, the statutory tax rate of 40.4% previously used for the calculation of deferred tax assets and deferred tax liabilities is changed to 37.7% for temporary differences expected to be reversed from May 1, 2012 to April 30, 2015 and 35.3% for temporary differences expected to be reversed after April 30, 2015.

As a result of this change, net deferred tax assets and unrealized holding losses on securities decreased by ¥201 million ($2,488 thousand) and ¥22 million ($272 thousand), respectively, and deferred income tax increased by ¥179 million ($2,216 thousand) for the year ended April 30, 2012.

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. Commitment

The Company entered into overdraft agreements with 20 and 22 banks as of April 30, 2012 and 2011, respectively, to finance working capital requirements. The outstanding balances of such overdrafts as of April 30, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Total overdraft available	¥ 13,365	¥ 13,450	$ 165,449
Amount utilized	2,305	1,310	28,534
Outstanding balance	¥ 11,060	¥ 12,140	$ 136,915

14. Contingencies

The Company has contingent liabilities for the payment of lease deposits and guarantee deposits to owners of shops that the Company has rented. Such transferred contingent liabilities amounted to ¥1,674 million ($20,723 thousand) and ¥1,847 million as of April 30, 2012 and 2011, respectively.

15. Amounts per share

Net assets per share at April 30, 2012 and 2011 and basic and diluted net income per share for the years then ended are as follows:

	Yen		U.S. dollars
	2012	2011	2012
Net assets per share	¥ 2,114	¥ 1,847	$ 26.17
Basic net income per share	307	256	3.80
Diluted net income per share	-	-	-
Cash dividends per share attributable to the year	50	45	0.62

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.

16. Segment information

(1) Overview of reporting segments

Reporting segments of the Company and its consolidated subsidiaries are composed of those individual business units for which separate financial information is available, from which the board of directors makes decisions regarding the allocation of management resources and for which operating performance can be evaluated, allowing the reporting segments to be analyzed periodically.

The Company and its consolidated subsidiaries divide their operations into two main businesses, the Dispensing Pharmacy business and the Drug and Cosmetic Store business, and the Other business. The Dispensing Pharmacy business primarily includes the dispensing pharmacy business, sale of generic drugs, staff dispatching and introduction services and consulting business. The Drug and Cosmetic Store business primarily includes the urban and suburban drug stores and cosmetic specialty stores. The Other business primarily involves real estate rental business. The Company and its consolidated subsidiaries plan and execute strategies for each business.

Consequently, the business operations of the Company and its consolidated subsidiaries are classified into the three following reporting segments: Dispensing Pharmacy, Drug and Cosmetic Store and Other.

(2) Methods of calculating sales, income (loss), assets and other items by reporting segment

Methods of accounting for reported business segments are in principle the same as those indicated in Note 1 "Summary of Significant Accounting Policies." Income or losses of reporting segments are based on ordinary income. Income or losses between segments and transfer amounts are based on market prices.

(3) Information on sales, income (loss), assets and other items by reporting segment as of and for the years ended April 30, 2012 and 2011 is summarized as follows:

	Millions of yen					
	2012					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 127,134	¥ 15,395	¥ 261	¥ 142,791	¥ -	¥ 142,791
Intersegment sales	-	-	19	19	(19)	-
Total sales	127,134	15,395	280	142,809	(19)	142,791
Segment income (loss)	12,287	126	(144)	12,269	(1,721)	10,548
Segment assets	¥ 77,142	¥ 7,204	¥ 2,446	¥ 86,792	¥ (883)	¥ 85,908
Other						
Depreciation and amortization	¥ 1,276	¥ 220	¥ 29	¥ 1,525	¥ 28	¥ 1,553
Amortization of goodwill	1,258	5	-	1,263	-	1,263
Impairment loss	177	55	12	244	-	244
Increase of tangible and intangible assets	3,645	457	139	4,241	2	4,243

	Thousands of U.S. dollars					
	2012					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	$ 1,573,830	$ 190,579	$ 3,231	$ 1,767,653	$ -	$ 1,767,653
Intersegment sales	-	-	235	235	(235)	-
Total sales	1,573,830	190,579	3,466	1,767,876	(235)	1,767,653
Segment income (loss)	152,104	1,560	(1,783)	151,882	(21,305)	130,577
Segment assets	$ 954,964	$ 89,180	$ 30,280	$ 1,074,424	$ (10,931)	$ 1,063,481
Other						
Depreciation and amortization	$ 15,796	$ 2,723	$ 359	$ 18,878	$ 347	$ 19,225
Amortization of goodwill	15,573	62	-	15,635	-	15,635
Impairment loss	2,191	681	149	3,021	-	3,021
Increase of tangible and intangible assets	45,123	5,657	1,721	52,501	25	52,525

	Millions of yen					
	2011					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 114,354	¥ 14,821	¥ 211	¥ 129,387	¥ -	¥ 129,387
Intersegment sales	-	31	19	49	(49)	-
Total sales	114,354	14,852	230	129,437	(49)	129,387
Segment income (loss)	10,210	(207)	(79)	9,924	(1,713)	8,210
Segment assets	¥ 67,116	¥ 6,881	¥ 1,162	¥ 75,160	¥1,781	¥ 76,940
Other						
Depreciation and amortization	¥ 1,108	¥ 222	¥ 15	¥ 1,346	¥ 28	¥ 1,374
Amortization of goodwill	969	5	-	974	-	974
Impairment loss	76	156	-	232	-	232
Increase of tangible and intangible assets	1,488	404	132	2,024	55	2,079

(1) Amortization of goodwill and unamortized balances by reporting segment as of and for the years ended April 30, 2012 and 2011 are summarized as follows:

	Millions of yen				
	2012				
	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	¥ 1,258	¥ 5	¥ -	¥ -	¥ 1,263
Unamortized balances of goodwill	17,655	10	-	-	17,665

	Thousands of U.S. dollars				
	2012				
	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	$ 15,573	$ 62	$ -	$ -	$ 15,635
Unamortized balances of goodwill	218,557	124	-	-	218,680

	Millions of yen				
	2011				
	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	¥ 969	¥ 5	¥ -	¥ -	¥ 974
Unamortized balances of goodwill	13,852	15	-	-	13,867

17. Comprehensive income

"Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued June 30, 2010) became effective for consolidated financial statements for the fiscal years ending on or after March 31, 2011. Accordingly, the Company and its consolidated subsidiaries have applied this standard.

Each component of other comprehensive income for the year ended April 30, 2012 was the following:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized holding losses on securities:		
Losses arising during the year	¥ (64)	$ (792)
Reclassification adjustments to loss	179	2,216
Amount before income tax effect	115	1,424
Income tax effect	68	842
Total Unrealized holding losses on securities	47	582
Total other comprehensive income	¥ 47	$ 582

18. Business combinations

For the year ended April 30, 2012

(1)Business combinations

During the fiscal year ended April 30, 2012, the Company and its consolidated subsidiaries AIN MEDICAL SYSTEMS Inc., Daichiku Co., Ltd. and AIN MEDIO Inc., acquired for cash consideration the shares in nine companies in the dispensing pharmacy business, which became consolidated subsidiaries.

Through this business combination, the AIN PHARMACIEZ Group aims to increase its market share in the dispensing pharmacy business and anticipates greater management economies of scale. The Group decided to conduct this acquisition after taking into due consideration the profitability of the acquired companies, their potential return on investment and their ability to secure stable revenues and profits above and beyond the amortizable goodwill generated through this acquisition.

(2)Acquisition price and details

Consideration for acquisition	¥4,463 million ($55,249 thousand)
Expenses related directly to acquisition	¥122 million ($1,510 thousand)
Cost of acquisition	¥4,585 million ($56,759 thousand)

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

(a) Amount of goodwill generated

¥4,157 million ($51,461 thousand)

The cost of acquisition was allocated based on the reasonable information available at April 30, 2012.The amount of goodwill would change if more information is available.

(b) Sources of goodwill

Goodwill is the excess amount paid for the acquired companies in anticipation that the application of the AIN PHARMACIEZ Group's management resources and economies of scale will generate this amount.

(c) Goodwill amortization method and term

Straight-line method over 10 years

For the year ended April 30, 2011

(1)Business combinations

During the fiscal year ended April 30, 2011, the Company and its consolidated subsidiaries AIN MEDICAL SYSTEMS Inc. and Asahi Pharmacy Co., Ltd., acquired for cash consideration the shares in six companies in the dispensing pharmacy business, which became consolidated subsidiaries.

Through this business combination, the AIN PHARMACIEZ Group aims to increase its market share in the dispensing pharmacy business and anticipates greater management economies of scale. The Group decided to conduct this acquisition after taking into due consideration the profitability of the acquired companies, their potential return on investment and their ability to secure stable revenues and profits above and beyond the amortizable goodwill generated through this acquisition.

(2)Acquisition price and details

Consideration for acquisition	¥3,974 million
Expenses related directly to acquisition	¥36 million
Cost of acquisition	¥4,010 million

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

(a) Amount of goodwill generated

¥2,608 million

(b) Sources of goodwill

Goodwill is the excess amount paid for the acquired companies in anticipation that the application of the AIN PHARMACIEZ Group's management resources and economies of scale will generate this amount.

(c) Goodwill amortization method and term

Straight-line method over 10–15 years

19. Subsequent events

Not applicable.

20. Quarterly Information

(1) Quarterly net sales for the year ended April 30, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Three months ended July 31, 2011	¥ 33,941	$ 420,166
Six months ended October 31, 2011	68,833	852,104
Nine months ended January 31, 2012	105,389	1,304,642
Twelve months ended April 30, 2012	142,791	1,767,653

(2) Quarterly income before income taxes and minority interests for the year ended April 30, 2012 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Three months ended July 31, 2011	¥ 2,114	$ 26,170
Six months ended October 31, 2011	4,531	56,091
Nine months ended January 31, 2012	7,207	89,218
Twelve months ended April 30, 2012	9,782	121,094

(3) Quarterly net income for the year ended April 30, 2012 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Three months ended July 31, 2011	¥ 1,048	$ 12,974
Six months ended October 31, 2011	2,365	29,277
Nine months ended January 31, 2012	3,674	45,482
Twelve months ended April 30, 2012	4,899	60,646

(4) Quarterly net income per share for the year ended April 30, 2012 is as follows:

	Yen	U.S. dollars
	2012	2012
Three months ended July 31, 2011	¥ 65.71	$ 0.81
Six months ended October 31, 2011	148.34	1.84
Nine months ended January 31, 2012	230.48	2.85
Twelve months ended April 30, 2012	307.35	3.80

(5) Quarterly net income per share for each accounting period of the year ended April 30, 2012 is as follows:

	Yen	U.S. dollars
	2012	2012
Three months ended July 31, 2011	¥ 65.71	$ 0.81
Three months ended October 31, 2011	82.62	1.02
Three months ended January 31, 2012	82.14	1.02
Three months ended April 30, 2012	76.88	0.95

Independent Auditor's Report

The Board of Directors
AIN PHARMACIEZ INC.

We have audited the accompanying consolidated financial statements of AIN PHARMACIEZ INC. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at April 30, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AIN PHARMACIEZ INC. and its consolidated subsidiaries as at April 30, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.(1).

Ernst & Young ShinNihon LLC

July 26, 2012
Sapporo, Japan

Investor Information

DIRECTORS AND CORPORATE AUDITORS
(As of July 28, 2012)

President and Representative Director
Kiichi Otani

Executive Vice Presidents and Representative Directors
Tadashi Nagumo
Hiromi Kato

Senior Managing Directors
Junichi Kawai
Masato Sakurai
Shoichi Shudo
Toshihide Mizushima

Directors
Miya Oishi
Hikaru Minami*1
Tsuyoshi Kobayashi*1
Masao Kiuchi*1
Ko Mori*1

Corporate Auditors
Kouichi Kawamura
Akira Ibayashi*2
Toshiaki Kobayashi*2

Notes: 1. Outside directors
2. Outside corporate auditors

CORPORATE DATA
(Fiscal 2012)

Corporate Name
AIN PHARMACIEZ INC.

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

Established
August 1969

Paid-in Capital
¥ 8,682 million

Number of Employees
5,125
(includiing part-time workers)

Business Lines
- **Dispensing Pharmacy Business**
  Management and franchise operation of dispensing pharmacies and consulting services for the opening of dispensing pharmacies
- **Drug and Cosmetic Store Business**
  Management of drug and cosmetic stores and consulting services for the opening of shopping centers

STOCK INFORMATION
(Fiscal 2012)

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
15,944,106 shares
(including treasury stock)

Number of Shareholders
2,165

Major Shareholders

(As of April 30, 2012)

Shareholders	Number of shares held (thousand shares)	Share-holding ratio (%)
Kiichi Otani	1,654	10.37
Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd. (Marubeni Corporation account); Trust & Custody Services Bank, Ltd. as a Trustee of Retrust	1,240	7.78
Seven & i Holdings Co., Ltd.	1,240	7.78
The Hokkaido Bank, Ltd.	786	4.93
Japan Trustee Services Bank, Ltd.	611	3.84
JPMorgan Chase Bank 385174 (Standing agent: Mizuho Corporate Bank, Ltd., Settlement Division)	594	3.73
The Master Trust Bank of Japan, Ltd.	514	3.22
J.P. MORGAN CLEARING CORP-SEC (Standing agent: Citibank Japan Ltd.)	494	3.10
State Street Bank and Trust Company (Standing agent: The Hongkong and Shanghai Banking Corporation, Custody Division Tokyo Branch)	486	3.05
Yoshiaki Imagawa	442	2.77

Notes: 1. Shares held in the Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd. (Marubeni Corporation account) are part of Marubeni Corporation's retirement benefit trust.
2. Shares held by Japan Trustee Services Bank, Ltd. and The Master Trust Bank of Japan, Ltd. are all related to trust services.

AIN PHARMACIEZ

AIN PHARMACIEZ INC.

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

MIX
Paper from responsible sources
FSC® C022291

VEGETABLE OIL INK

This annual report is printed using vegetable oil ink on FSC®-certified paper.

Printed in Japan