At the Forefront of Change

ANNUAL REPORT 2013

For the year ended April 30, 2013

AIN PHARMACIEZ

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 their 20s to 40s.
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

Contents

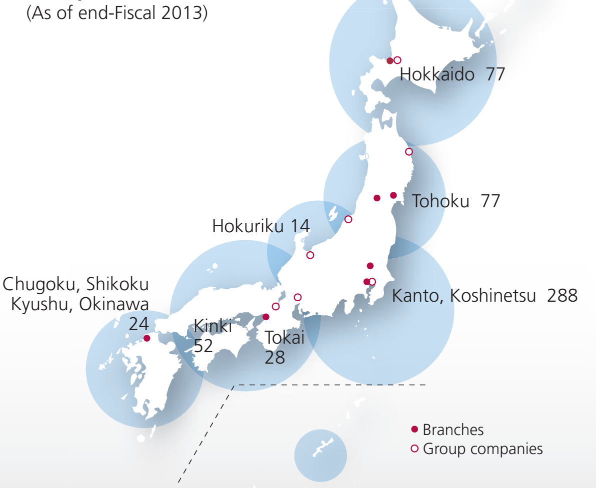
Forward-looking Statements
This annual report contains forecasts and projections concerning the plans, strategies and performance of AIN PHARMACIEZ INC. and its subsidiaries and affiliates. These forecasts and projections constitute forward-looking statements that are not historical facts, but are based 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.

No.1 Dispensing Pharmacy in Japan

Scale of Business

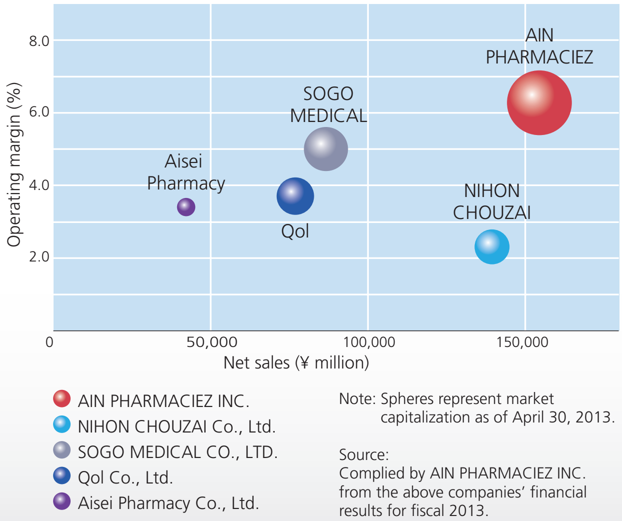
—Our Dispensing Pharmacy Store Network

560 pharmacies nationwide
(As of end-Fiscal 2013)



High Profitability

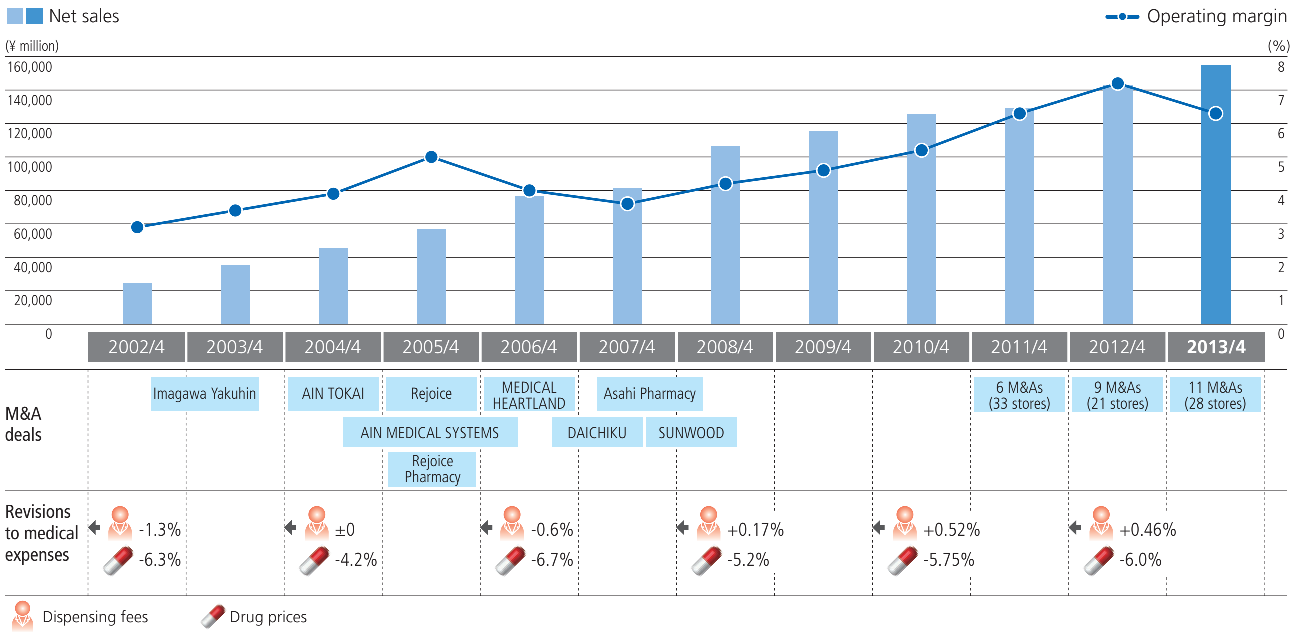
—Comparison of net sales and operating margin among major companies operating dispensing pharmacies in Japan



Note: Spheres represent market capitalization as of April 30, 2013.

Source:
Complied by AIN PHARMACIEZ INC. from the above companies' financial results for fiscal 2013.

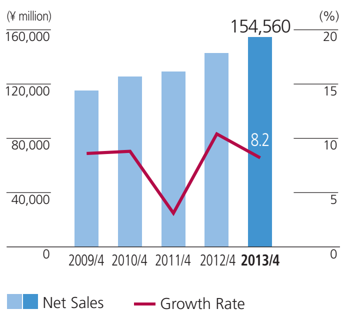
History of Growth



11-year Financial Summary

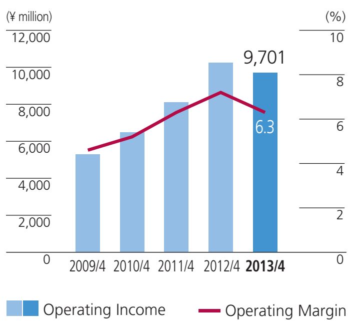
	2003/4	2004/4	2005/4	2006/4
For the year:				
Net sales	35,374	45,227	57,091	76,303
Selling, general and administrative expenses	3,268	3,886	5,230	7,145
Operating income	1,185	1,766	2,875	3,083
Net income	603	855	930	1,215
Capital expenditures*1	1,052	1,240	1,536	2,087
Depreciation and amortization*1	366	444	458	648
At the end of the year:				
Equity capital*2	7,003	8,019	9,095	10,352
Total net assets	7,003	8,019	9,095	10,352
Total assets	23,955	25,131	38,887	41,669
Number of shares outstanding (shares)	11,024,650	11,024,650	11,210,350	11,304,000
Number of employees (persons)	907	905	1,446	1,684
Number of stores : Dispensing pharmacy business	148	148	193	218
Number of stores : Drug and cosmetic store business	40	27	44	43
Per share information (¥):				
Net income	58.37	74.72	79.92	104.53
Net assets	633.22	724.57	807.68	912.43
Cash dividends	10.0	12.0	15.0	18.0
Stock information (based on the closing price as of April 30) (¥):				
Stock price	1,080	1,390	2,050	2,370
Ratios (%):				
Operating margin	3.4	3.9	5.0	4.0
Return on sales*3	1.7	1.9	1.6	1.6
Return on assets (ROA)*4	2.9	3.5	2.9	3.0
Return on equity (ROE)*5	8.6	10.7	10.9	12.5
Shareholders' equity ratio	29.2	31.9	23.4	24.8

Net Sales and Growth Rate



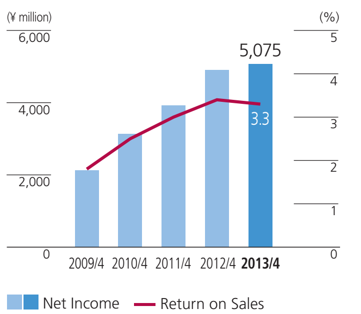
Net sales rose 8.2% year on year to ¥154,560 million, driven by M&A deals in the dispensing pharmacy business and new store openings.

Operating Income and Operating Margin



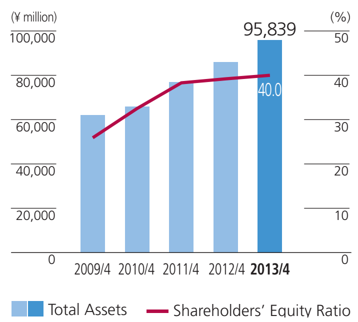
Operating income declined 5.4% year on year to ¥9,701 million, due mainly to the impact of up-front investment in the medical mall development business. The operating margin was 6.3%, down 0.9 percentage points from the previous fiscal year.

Net Income and Return on Sales



Net income rose 3.6% year on year to ¥5,075 million, mainly reflecting an increase in gains on the sale of investments in securities. The return on sales was 3.3%, down 0.1 percentage points from the previous fiscal year.

Total Assets and Shareholders' Equity Ratio



Total assets increased to ¥95,839 million, mainly reflecting investments related to new stores and an increase in fixed assets at consolidated subsidiaries acquired through M&A deals. The shareholders' equity ratio was 40.0%, up 0.8 percentage points from the previous fiscal year.

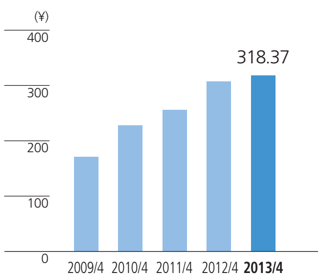
(¥ million)

2007/4	2008/4	2009/4	2010/4	2011/4	2012/4	2013/4
81,307	106,231	115,387	125,495	129,387	142,790	154,560
7,970	9,203	9,948	10,744	11,981	12,839	14,740
2,888	4,444	5,296	6,492	8,107	10,253	9,701
1,010	1,615	2,127	3,131	3,916	4,899	5,075
1,620	1,914	2,891	2,573	2,750	5,870	7,235
773	968	1,119	1,286	1,560	1,749	2,212
10,710	12,040	16,071	21,445	29,450	33,695	38,312
11,326	12,707	16,109	21,492	29,498	33,745	38,356
49,849	57,546	62,032	65,898	76,940	85,908	95,839
11,320,000	11,361,000	12,831,376	14,101,164	15,941,004	15,940,790	15,940,740
1,947	2,582	2,741	2,918	3,104	3,326	3,551
247	356	375	397	448	494	560
43	45	46	49	53	56	61
89.34	142.36	170.74	228.08	255.67	307.35	318.37
946.17	1,059.78	1,252.54	1,520.81	1,847.46	2,113.79	2,403.43
18.0	20.0	30.0	40.0	45.0	50.0	60.0
1,500	1,490	1,481	2,920	3,115	4,290	4,765
3.6	4.2	4.6	5.2	6.3	7.2	6.3
1.2	1.5	1.8	2.5	3.0	3.4	3.3
2.2	3.0	3.6	4.9	5.5	6.0	5.6
9.6	14.2	15.1	16.7	15.4	15.5	14.1
21.5	20.9	25.9	32.5	38.3	39.2	40.0

Note:
Amounts of less than one million yen were rounded down.

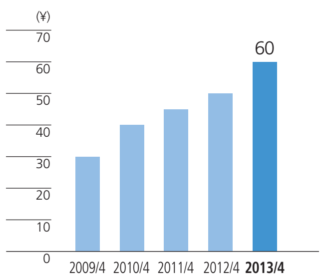
*1: The amounts of capital expenditures and depreciation and amortization prior to the fiscal year ended April 30, 2007 are on a non-consolidated basis.
*2: Equity capital = Total net assets – Minority interests
*3: Return on sales = Net income / Net sales × 100
*4: Return on assets = Net income / Total assets (yearly average) × 100
*5: Return on equity = Net income / Equity capital (yearly average) × 100

Net Income per Share



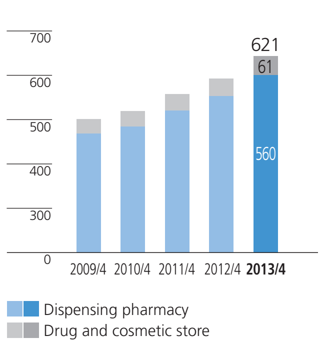
Net income per share rose ¥11.02 year on year to ¥318.37.

Cash Dividends per Share



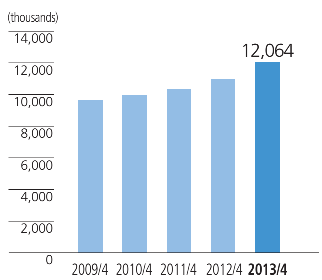
We raised the dividend per share by ¥10 year on year to ¥60. As a result, the dividend payout ratio improved 2.5 percentage points to 18.8%.

Total Number of Stores



At the end of the fiscal year, the Group operated a total of 621 stores. The number of dispensing pharmacies increased by 66 year on year to 560, while the number of drug and cosmetic stores rose by five to 61.

Prescription Volume



The number of prescriptions handled by the Group saw steady growth to 12.06 million. This mainly reflected an increase in the number of dispensing pharmacies through new store openings and M&A deals, as well as an improvement in productivity at existing dispensing pharmacies.

Results for the year under review fell slightly short of target, but we reported another year of growth in sales and net income growth. We also updated the Group's corporate identity and took other steps to lay the foundations for the next phase of growth.

From fiscal 2014, we plan to tackle issues identified in the year under review, as well as pursue M&A opportunities and boost efficiency in dispensing pharmacies, open new medical malls, and further strengthen our drug and cosmetic store brand, while ensuring risk is managed appropriately.

We will also work to secure a dominant position in the market by playing a key role in sector restructuring.

July 30, 2013

Kiichi Otani
President and Representative Director

Fiscal 2013 Review

Q. What are your thoughts on the Group's performance in fiscal 2013?

A. Sales and profits both fell slightly short of our targets, which was disappointing. However, we began implementing initiatives to support growth from fiscal 2014, including restructuring existing dispensing pharmacies.

In fiscal 2013, ended April 30, 2013, net sales rose 8.2% year on year to ¥154,560 million, operating income declined 5.4% to ¥9,701 million, and net income increased 3.6% to ¥5,075 million. Sales and profits came in slightly short of our targets. This underperformance reflected the cancellation of M&A deals, due to be completed at the start of the fiscal year, and slower-than-expected progress at new medical malls.

In fiscal 2013, the government carried out its biennial revision to drug prices and dispensing fees. Considering that the Group's earnings are typically weaker in years when revisions are implemented, results held up very well in the year under review. In existing dispensing pharmacies, we launched a far-reaching restructuring program that includes overhauling drug dispensing processes and dispensing pharmacy management methods (see Mini feature on page 15 for more details). This program has already led to improvements in sales capabilities, with existing dispensing pharmacies seeing a sales decline of only 0.4% year on year, despite a reduction of 6.25% to drug prices. We also continued to steadily open new dispensing pharmacies.

Q. How successful was the AIN PHARMACIEZ Group in pharmacist recruitment in fiscal 2013?

A. After reviewing our recruitment program, we secured 251 new pharmacists. We plan to hire around 300 pharmacists annually.

Recruiting enough pharmacists is vital to realizing our store opening strategy and delivering continued growth. We fell short of our recruitment target in 2012, prompting us to review our recruitment procedures. We have now adopted a more strategic approach, which helped us to secure 251 new pharmacists in the spring of 2013.

We expect competition for pharmacists to ease, as hiring by hospitals has peaked and the end of a ban on online sales of OTC drugs is likely to lead to reduced hiring by drug stores. We are targeting a sustained recruitment level of around 300 pharmacists each year.

Strategy

Q. How are the medical malls performing and what are your plans for the business?

A. The business has taken slightly longer to start up than we expected. However, we have identified the issues that need to be addressed, so future development is likely to be easier. We will continue to push ahead with medical mall development as a key part of our strategy.

Although progress with our medical mall business has been slower than initial forecasts, conditions are gradually improving and some medical malls are already profitable. We have clearly identified the issues that held us back, allowing us to target investment more carefully and make other improvements.

In April 2014, we plan to open one of Japan's largest medical malls in the ABENO HARUKAS building in Osaka. The medical service providers for the mall have already been confirmed, so we expect the facility to get off to a smooth start. We will continue to push ahead with medical mall development as a key part of our strategy. We expect medical malls to contribute to sales and earnings once the business becomes more established.


The ABENO HARUKAS building


AIN Pharmacy ABENO HARUKAS (perspective drawing)

The reception of the clinic mall (perspective drawing)

The medical floor (perspective drawing)

Q. What is your outlook and growth strategy for the drug and cosmetic store business?

A. We are developing unique stores that aim to satisfy all the beauty needs of our customers. We will continue to strengthen our brands while working to make our stores more appealing and profitable.

Our network of *ainz & tulpe* drug and cosmetic stores, mainly located in central urban areas, offer products and advice designed to satisfy all the inner and outer beauty needs of our target customers. This has helped our stores gain a strong following among female shoppers. *Ainz & tulpe* stores stock a unique range of products specially selected based on the latest trends, while the bright, clean store environments help make the shopping experience more enjoyable. Rival drugstores have been unable to compete with our approach. Going forward, we plan to further strengthen our store brands, reinforce our store opening capabilities so that we can secure prime locations, and boost profitability.

Also, we have made good progress in shifting our Ainz Point Club Card holders to a new mobile-based system. Out of a total of 3 million members, 227,000 are now registered on our mobile system. In general, mobile point club members tend to shop in our stores more regularly, and we plan to attract more members to the system to increase repeat business and improve cost efficiency.

ainz & tulpe SHIBUYA CENTERGAI

ainz & tulpe MIYANOSAWA

Q. Please tell us about the competitive environment in the dispensing pharmacy sector.

A. We are implementing a strategy ideally suited to the operating environment in the domestic market. I believe this strategy will ensure AIN PHARMACIEZ remains the leading company in the sector over the long term.

Dispensing pharmacies in Japan generally fall into two categories: those located near hospitals, and those that are not. AIN PHARMACIEZ is focused on specialist dispensing pharmacies located near hospitals, which means we do not usually compete with companies that operate pharmacies in other locations.

Dispensing pharmacies located near hospitals have proved to be more successful in the Japanese market, while other strategies have not generated comparable profits, mainly due to a lack of prescription volume. In Japan, most patients tend to take their prescriptions to the nearest dispensing pharmacy immediately after visiting the doctor. We think this trend is likely to continue, provided there are no significant changes to Japan's healthcare system (see the feature section on page 13 for more details). Going forward, we will work to strengthen our competitive position in the sector by continuing to channel management resources into specialist dispensing pharmacies located near major hospitals, which offer customers a high level of convenience and are also highly profitable for the Group.

We expect the pace of new dispensing pharmacy openings to remain firm. In the year under review, we opened 76 new dispensing pharmacies, exceeding our initial target of 66. We are confident we can achieve our ambitious fiscal 2014 target of 86 new stores, including drug and cosmetic stores.

AIN Pharmacy ASAHIKAWAKITA


AIN Pharmacy ITABASHI

Q. In 2014-2015, Japan will see hikes to consumption tax and revisions to drug prices and dispensing fees. How do you plan to respond to these developments?

A. We intend to secure margins by expanding the business further and increasing generic drug dispensing.

We see the dispensing pharmacy sector splitting into two clear groups after the drug price and dispensing fee revisions in 2014. We plan to expand profits by maximizing economies of scale and further increasing the ratio of generic drug dispensing.

Based on international methodology[*1], generic drugs already account for over 50% of prescriptions at our dispensing pharmacies. AIN PHARMACIEZ is one of only a handful of companies in the dispensing pharmacy sector to have a dedicated generic drug wholesaling subsidiary, WHOLESALE STARS Co., Ltd. (WSS). WSS provides significant benefits to the Group in terms of profits and efficiency (see page 14 for more details).

The Japanese government is working to promote wider use of generic drugs. To that end, the Ministry of Health, Labour and Welfare announced a new generic drug policy in April 2013 covering the next five years. The new policy ("Roadmap to Further Promote the Use of Generics") aims to raise the generic drug dispensing ratio from 44.8% (as of March 2013, based on international methodology) to at least 60% (34.3% based on previous methodology[*2]) by March 2018 (see page11 for more details).

*1: International methodology = generic drug volume/total volume of original drugs with generic versions + generic drug volume
*2: Previous methodology = generic drug volume/total volume of all drugs

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

A. Our goal is to pay a stable dividend while balancing this with a need to invest management resources in key growth areas.

We have set a dividend payout ratio target of 20%. In the near term, we plan to invest management resources in key areas to drive growth.

We will also ensure that we have immediate access to funds to pursue M&A opportunities if an appropriate target emerges. We also intend to secure loans while ensuring we remain within the limits of our internal debt-to-equity ratio criteria.

At the moment, we see no need to borrow funds to invest in store openings or medical mall development, as the Group is generating profits and accumulating sufficient cash flow to cover investment in this area.

Q. To close, what message can you give investors about your goals for the Group?

A. Our industry is likely to face a number of headwinds in 2014 and 2015. We have made preparations to overcome those challenges and build a dominant position in the market.

As mentioned earlier, the operating environment is likely to be extremely challenging in 2014 and 2015 when consumption tax hikes coincide with revisions to drug prices and dispensing fees. We expect these conditions to create a clear split between the leading companies and those that are not so strong in our sector. Japan currently has around 54,000 dispensing pharmacies. The tough environment is likely to trigger further M&A activity, centered on smaller companies that are unable to keep up with changes in the sector, leading to a wave of restructuring. These developments will obviously have a negative impact, but we view them as an opportunity to expand our operations and play a key role in sector restructuring. We have already taken a number of steps to ensure the Group is ready to overcome this challenging phase. I believe our strong financial position with then enable AIN PHARMACIEZ to become the dominant company in the sector.

We will work to further increase the corporate value of the AIN PHARMACIEZ Group by actively implementing new initiatives built on the can-do attitude of our early days as a company, while also continuing to fulfill our role as a key part of Japan's healthcare infrastructure. I hope we can count on your support as we continue to grow and evolve as a company.

At the Forefront of Change

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.
The AIN PHARMACIEZ Group has captured the leading position in the sector by implementing a strategy that is tailored to the local market and that also preempts change in the operating environment.
In this feature section, we look at the characteristics of the Japanese dispensing pharmacy market and describe our strategy to secure a dominant medium- to long-term position.

Key Characteristics of the Japanese Dispensing Pharmacy Market

Super-aging society

People aged 65 and over are projected to account for roughly 40% of Japan's population by 2060. The dispensing pharmacy sector is expected to expand further over the medium to long term, due to its relationship with the super-aging society.

Over 40%

Significant growth potential

The dispensing pharmacy market in Japan is currently worth ¥6.9 trillion. The non-hospital dispensing ratio is only 66.1% and about 35% of prescriptions are still filled by hospitals. Compared with other markets in Japan, this offers significant growth potential, albeit at a slower pace than previously, as prescriptions are increasingly filled outside hospitals.

About 35%

A fragmented market

Most dispensing pharmacies in Japan are run by small-scale family businesses, while the top five companies in the sector account for only 7.3% of the market. With many of these smaller pharmacies unable to respond to change in the operating environment, we think the sector is poised to enter a phase of restructuring.

7.3%

Drug price reductions

The Japanese government revises drug prices and dispensing fees once every two years as part of its strategy to curb national medical expenses. As a result, drug prices have been on the decline. Dispensing pharmacies generate profits from drug price margins and dispensing fees, so earnings are affected by these revisions.

Every 2 Years

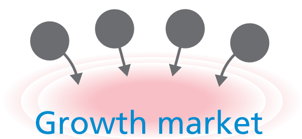
Generic drug promotion

The government aims to increase the generic drug dispensing ratio to at least 60% on a volume basis by March 2018. Under the current system, higher generic drug dispensing ratios have a positive impact on earnings at dispensing pharmacies, as they receive premiums (additional reimbursement points) for dispensing generics. However, earnings tend to decline due to lower drug price margins.

at least 60%

Intensifying competition

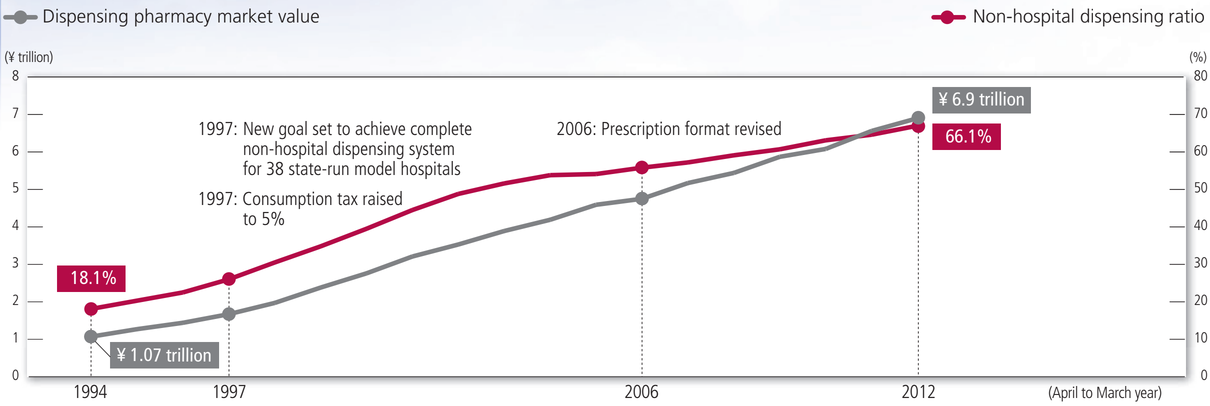
Convenience stores and drug stores, as well as drug wholesalers and trading companies, are moving into the dispensing pharmacy market.
All these companies are aiming to grab a share of the growth market, leading to intensifying competition.



Our Growth Strategy

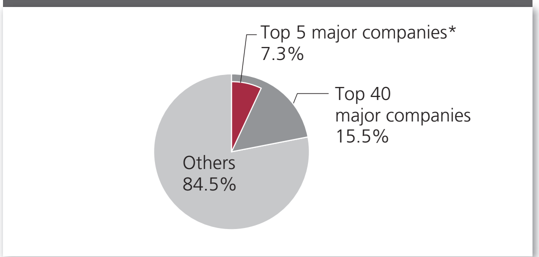
Our growth strategy is tailored to the characteristics of the local market, but is also designed to respond dynamically to changes in the operating environment, such as government policy. By building on our strengths, we plan to secure a dominant position in the market over the medium to long term.

Non-hospital Dispensing Market



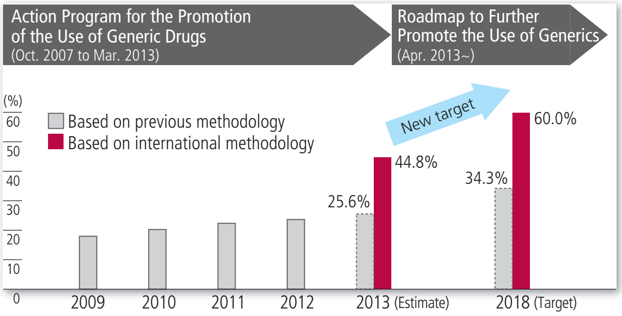
Source: Non-hospital dispensing ratio is based on data from the Japan Pharmaceutical Association; Dispensing pharmacy market value is based on data for dispensing cost trends issued by the Ministry of Health, Labour and Welfare.

Dispensing Pharmacy Company Market Share



*Top 5 major companies: AIN PHARMACIEZ, NIHON CHOZAI, KRAFT, Qol, SOGO MEDICAL

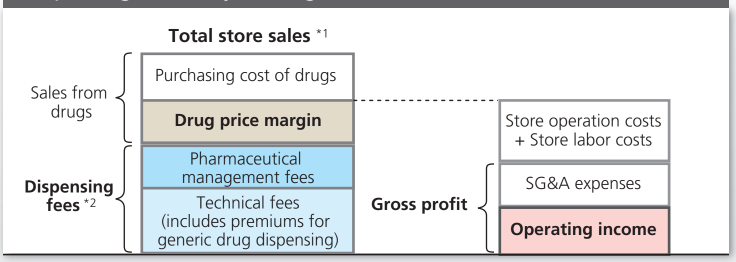
Source: AIN PHARMACIEZ estimates, based on data from DRUG Magazine (August 2012) and FY2011 dispensing fee statistics released by the Ministry of Health, Labour and Welfare.



Note: Based on data for March each year.

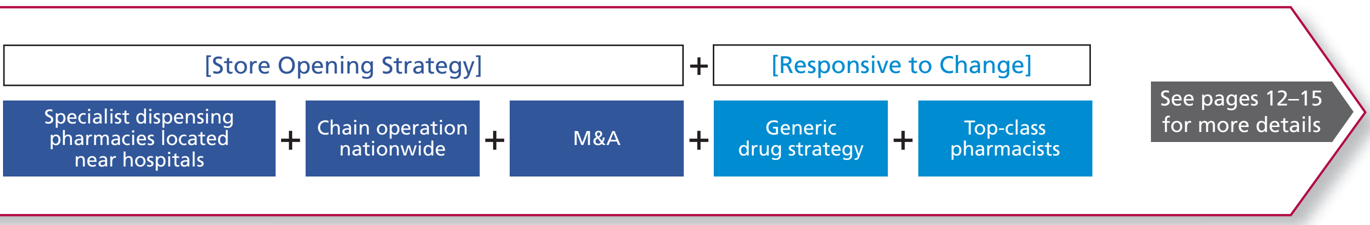
Source: AIN PHARMACIEZ compiles based on the policies released by the Ministry of Health, Labour and Welfare (see page 8 for more details).

Dispensing Pharmacy Earnings Model



*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.



Store Opening Strategy

Our focus on specialist dispensing pharmacies located near hospitals is one reason for our competitive advantage in a distinctive business field faced by intensifying competition.
We have built up our dispensing pharmacy business since the early days of the Company and we now operate a nationwide chain. Store openings and active pursuit of M&A opportunities are also key elements of our growth strategy. Based on this approach, the AIN PHARMACIEZ Group has expanded rapidly to become the leading player in the sector (see History of Growth on page 1 for more details).

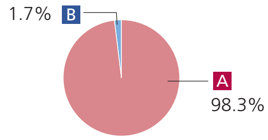
Specialist dispensing pharmacies located near hospitals

Our focus on specialist pharmacies located near hospitals has the following benefits:

- **Profitability:** This format is the most popular type of dispensing pharmacy in Japan. This means they attract a higher volume of prescriptions, supporting high margins.
- **Cost reduction:** This format allows us to reduce costs by leveraging economies of scale in areas such as drug procurement and dispensing equipment development.
- **Efficiency gains and risk mitigation:** This format enables us to standardize operating procedures, leading to improvements in operating efficiency and mitigating the risk of dispensing errors.

Earnings Models by Store Format (AIN PHARMACIEZ Group)

Ratio of Store Network



		A Specialist dispensing pharmacies located near hospitals (including pharmacies in medical malls)	B Dispensing pharmacies not located near hospitals
Store average (¥ thousand)	Monthly net sales	22,430	7,264
	Monthly operating income	2,828	(4,802)
	Operating margin	12.6%	—

Source: AIN PHARMACIEZ, fiscal 2013 data

Annual Sales per Store

(¥ million)	
National average	120
AIN PHARMACIEZ Group	241

Source: AIN PHARMACIEZ, based on Ministry of Health, Labour and Welfare fiscal 2011 data and Company fiscal 2013 data

Note: Figures in the tables are rounded down.

AIN Pharmacy NISHISHINJYUKU

Medical mall development

We began the full-scale development of medical malls from April 2012. We are involved in all stages of the process, from medical mall design and efforts to attract tenants through to the actual development of the facility. Our strategy is to create more locations for our specialist dispensing pharmacies. We plan to accelerate growth by playing an active role in the creation of medical zones.

Advantages of our medical malls

- **Convenience:** By teaming up with major property developers, we can secure highly accessible prime locations.
- **Quality healthcare:** We can attract top-class medical practitioners through our strong relationships with major medical institutions.
- **Profitable:** The above two factors help our medical malls attract patients, supporting higher prescription volumes.

We plan to continue aggressively expanding our business through store openings, active M&A and medical mall development.

AIN Pharmacy atrévie HIGASHINAKANO


NAVITAS CLINIC HIGASHINAKANO

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

In Japan, drugstores with dispensing pharmacy functions only account for a small proportion of prescriptions. Specialist dispensing pharmacies near hospitals are popular with patients in Japan due to the reasons described on the right. We do not expect this to change over the medium to long 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.

Responsive to Change

Another reason for our competitive advantage is our ability to respond changes in government policy. Revisions to drug prices and dispensing fees have a major impact on earnings at dispensing pharmacies. We have consistently implemented measures that preempt changes in government policy, supporting the Group's earnings and growth capabilities. The ability of companies to respond to government policies designed to promote generic drugs and home healthcare is likely to make a huge impact on their future in the industry. AIN PHARMACIEZ has already prepared for these upcoming changes.

Generic drug strategy

Anticipating moves by the government to expand its generic drug promotion policies, we established WHOLESALE STARS Co., Ltd. (WSS) in 2006, the first dedicated generic drug wholesaler to be set up by a dispensing pharmacy company in Japan. AIN PHARMACIEZ is one of only a handful of companies in the dispensing pharmacy sector with this type of subsidiary, which plays a key role in boosting the Group's earnings.

Normally, an increase in the generic drug dispensing ratio results in lower drug price margins, which weighs on dispensing pharmacy sales and profits. However, WSS allows AIN PHARMACIEZ to avoid this risk. The subsidiary offers other benefits as well.

One is that we can negotiate directly with generic drug makers. WSS sells most of its products to Group companies, which means it can accurately monitor drug usage volume across the Group, making it easier to negotiate with drug companies. WSS can also instruct Group dispensing pharmacies to promote certain generic drugs, giving it significant control over usage volume for specific drugs.

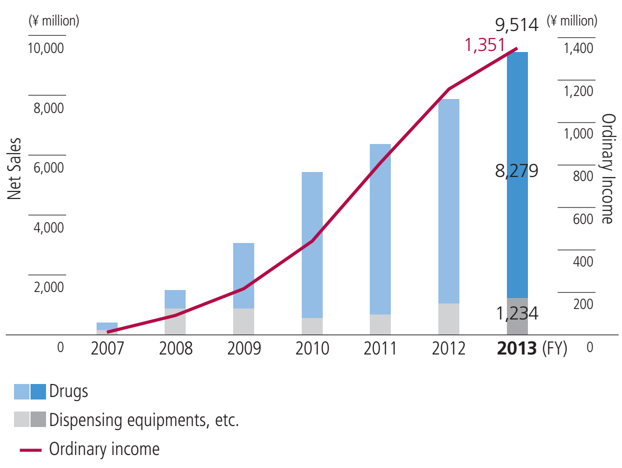
In April 2013, the government announced a new generic drug policy covering the next five years. This policy and other measures indicate that the government plans to continue promoting the use of generic drugs over the medium term (see page 8 and 11 for more details). Amid this trend, WSS will allow us to further boost the competitiveness of the AIN PHARMACIEZ Group.

Top-class pharmacists

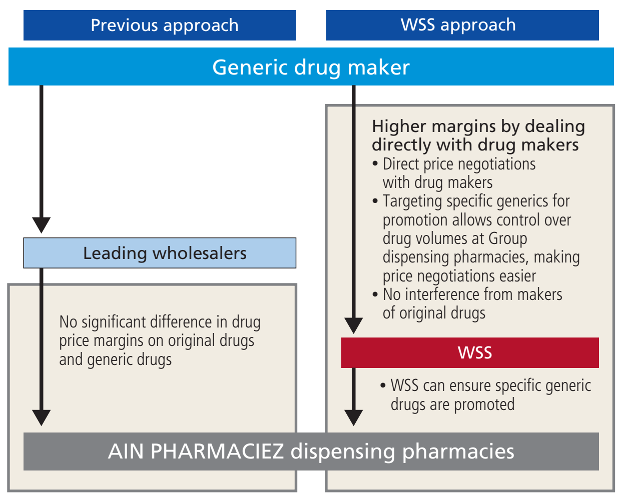
The government is clearly planning to put greater emphasis on home healthcare. Although AIN PHARMACIEZ already boasts a leading position in pharmacist number and quality, we will need to attract pharmacists to respond to this trend.

- **Quality:** Pharmacists involved in home healthcare services have an even closer connection to the lives of patients, so they will need to have a higher level of expertise and communication skills. AIN PHARMACIEZ has one of the best personnel training and education systems in the sector, helping newly hired pharmacists to progressively improve their skills.
- **Numbers:** The shift to home healthcare will lead to a wider scope of work for pharmacists, creating a need for more personnel. As of April 30, 2013, the AIN PHARMACIEZ Group employed 2,676 pharmacists.

WHOLESALE STARS Co., Ltd. (WSS)



Advantages of Generic Drug Procurement Using WSS

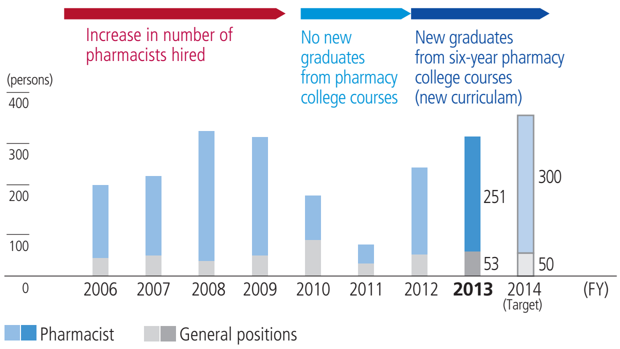


We also recruit a large number of newly graduated pharmacists each year.

In this way, we are attracting large numbers of high-quality pharmacists, giving us an even greater competitive advantage in our store opening strategy and in our ability to respond accurately to government policy, including the shift to home healthcare.

Moreover, we launched a new pharmacy-led project in autumn 2012 to improve productivity (see the mini feature below for more details). The project includes measures to boost the earnings capabilities and service provision of our dispensing pharmacies by enhancing operating efficiency.

Number of Graduates Hired



Mini feature: Dispensing pharmacies leading efforts to improve productivity

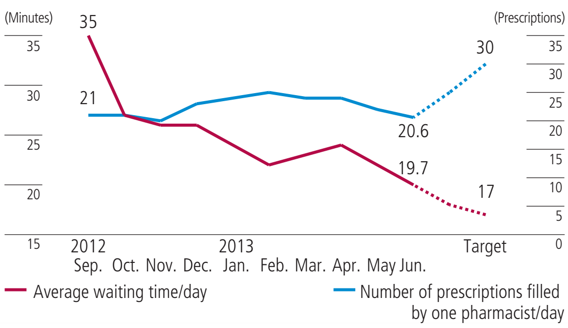
As part of business process reengineering, we launched a new project in autumn 2012 to revitalize our existing dispensing pharmacies. Initially focused on two model dispensing pharmacies in the Tokyo metropolitan area, the project is designed to increase efficiency in areas such as drug inventory and patient waiting times, based on feedback from dispensing pharmacy staff. Our new approaches have already generated significant benefits and we are now extending the project across our entire network.

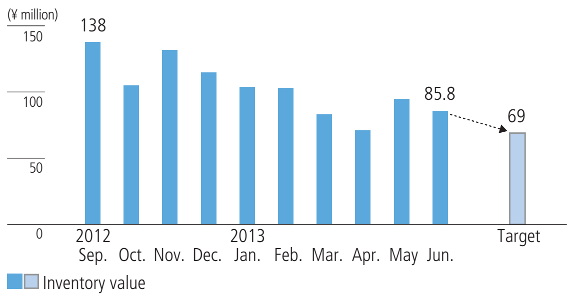

Our pharmacists work hard to ensure high-quality services.

Initiatives and progress at model dispensing pharmacies

- Remedial measures developed based on feedback from pharmacy staff
- Improvements to pharmacy efficiency and reductions in inventories through use of automated ordering system
- Flexible pharmacy operation based on conditions specific to each location
- Pharmacy layouts changed and stores refurbished

- Increased ability to respond to demand through improvements to customer service due to shorter waiting times
- Pharmacy earnings boosted due to increase in number of prescriptions filled per pharmacist





Dispensing Pharmacy Business

Constantly Evolving in Response to Change

"We are seeing rapid changes in medical and healthcare administration in Japan, prompted by sharp increases in social welfare spending due to the aging population. Dispensing pharmacies need to be able to respond flexibly to these developments.
One of the strengths of our corporate culture is a willingness to constantly embrace change, driven by ideas from every one of our employees in the dispensing pharmacy business."

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

Fiscal 2013 Review

In fiscal 2013, the dispensing pharmacy sector faced a downward trend in earnings at existing dispensing pharmacies due to the impact of drug price and dispensing fee revisions in April 2012. Against this backdrop, we worked to increase profits through business expansion by continuing to actively open new dispensing pharmacies and by pursing M&A opportunities with good prospects for investment returns. Full-scale development of medical malls also got under way, with 15 new locations opened in fiscal 2013, mainly in the Tokyo metropolitan area. As of the end of fiscal 2013, the business operated a total of 560 dispensing pharmacies.

Net sales rose 8.0% year on year to ¥137,291 million and segment income increased 3.0% to ¥12,655 million, reflecting further efficiency gains in operations at existing dispensing pharmacies and technical fees secured by actively dispensing generic drugs.

AIN Pharmacy HIGASHINAEBO

Medium- to Long-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 80 dispensing pharmacies in fiscal 2014.

In addition, we plan to continue developing medical malls while ensuring investment is targeted more carefully. We expect our medical mall dispensing pharmacies to attract prescription volumes on par with our existing large-scale specialist dispensing pharmacies. We therefore see significant potential for sales and earnings contributions from medical malls once the business becomes more established.

Also, we will work to further enhance safety and productivity at existing dispensing pharmacies by extending business process reengineering initiatives launched in autumn 2012 across our entire network (see the mini feature on page 15 for more details).

In generic drugs, which are likely to become more widespread in Japan, we aim to secure technical fees by promoting wider use of generics. We will also work to boost profit margins across the Group by actively using our generic drug wholesale subsidiary WHOLESALE STARS Co., Ltd.

AIN Pharmacy OTEMACHI

Drug and Cosmetic Store Business

Increasing Profits with Larger Stores and More Products

"The *ainz & tulpe* brand is highly regarded among consumers as a select chain of stores selling OTC drugs and cosmetics. We work to support the beauty and well-being of our female customers by giving them access to the very latest products through our bright and immaculately clean stores."

Kaori Suzuki
General Manager of
Drug and Cosmetic Store Division

Fiscal 2013 Review

Market conditions in the drug store sector remained challenging in fiscal 2013. Against this backdrop, we continued to open new urban drug and cosmetic stores under the *ainz & tulpe* brand and implemented initiatives to increase the appeal of our stores. We also worked to shift the Ainz Point Club Card to a mobile-based system.

In fiscal 2013, net sales rose 8.7% year on year to ¥16,735 million. However, segment income declined 88.6% to ¥14 million, with sales growth insufficient to offset the impact of store opening costs and a fall back in demand from the large rise after the Great East Japan Earthquake.

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 2013, the business operated a total of 61 drug and cosmetics stores.

Medium- to Long-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 cosmetics stores, our aim is to encourage customers to spend time in-store and enjoy the shopping experience, not simply offer them products at low prices. In particular, *ainz & tulpe* stores target style-conscious women in their 20s to 40s, and these stores have been well received by the market. Our drug and cosmetic stores are also strong in OTC drug retailing, underpinned by the expertise we have accumulated in the dispensing pharmacy business.

Going forward, we plan to continue opening stores in prime locations in densely populated areas, and we will shift to larger store formats and offer a wider choice of products in order to lift sales per store. We will also encourage more Ainz Point Club Cardholders to move to our mobile-based system to increase the ratio of repeat customers and enhance cost efficiency.

ainz & tulpe YOKOHAMA PORTA

ainz & tulpe SAKURANO HIROSAKI

(As of July 31, 2013)

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.

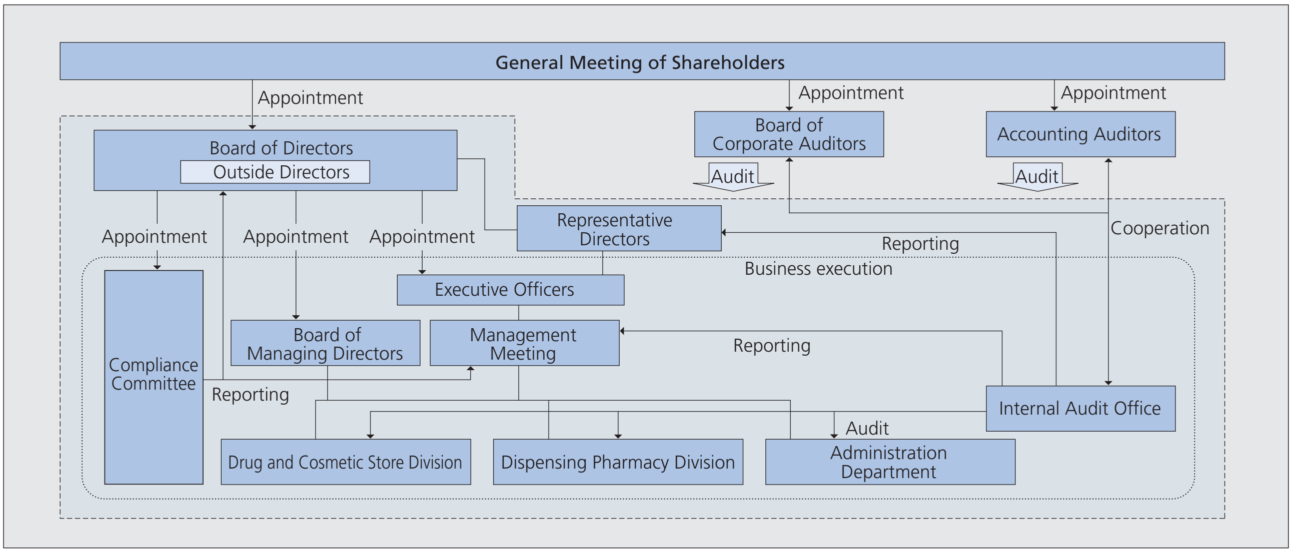
Executives in charge of internal audits and internal control work closely with the Board of Corporate Auditors from a directorial standpoint and attend Board of Directors meetings where they report on internal audits and internal controls. This helps maintain a system that can secure the confidence of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

Three 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 25 subsidiaries and one affiliate as of April 30, 2013. 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 five person structure. It also audits subsidiaries and verifies the condition of respective internal audits.

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

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

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

OUTSIDE DIRECTORS AND OUTSIDE CORPORATE AUDITORS

The Board of Directors is comprised of 12 members, including four outside directors. Three of the Company's four 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 directors was determined by a resolution at the 44th Ordinary General Meeting of Shareholders held on July 30, 2013 to be ¥300 million annually (does not include payments made to directors for their duties as employees; the maximum total amount for outside directors was determined to be ¥50 million annually). The maximum total amount of remuneration for corporate auditors was set at ¥30 million annually at the 22th 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 2013 is as follows.

Item	Total remuneration (¥ million)	Remuneration by type (¥ million)		Number of eligible individuals
		Basic remuneration	Bonus	
Directors (excluding outside directors)	174	146	28	8
Corporate auditors (excluding outside corporate auditors)	6	6	—	2
Outside directors and outside corporate auditors	25	24	1	8

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 2013 are as follows.

(¥ thousand)

	Compensation paid for audit certification activities	Compensation paid for non-audit activities
The Company	35,300	–
Consolidated subsidiaries	–	–
Total	35,300	–

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 6.25% 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.

* Dispensing fees comprise pharmaceutical management fees and technical fees for pharmacists.

BUSINESS OVERVIEW FOR THE FISCAL YEAR UNDER REVIEW

During the fiscal year ended April 30, 2013, there were growing expectations that the Japanese economy was gradually heading for recovery. This reflected signs of an upturn in corporate earnings, particularly at major companies, due to an improvement in the export environment and the impact of economic stimulus measures and monetary policy, as well as a pickup in consumer spending and production activity supported by improving consumer confidence.

In this economic environment, the AIN PHARMACIEZ Group (the Group) aggressively expanded its dispensing pharmacy business and drug and cosmetic store business by opening new stores and using M&A, and launched a number of new initiatives, such as the comprehensive development of medical malls and the revitalization of existing stores.

For the fiscal year under review, the Group reported net sales of ¥154,560 million, an increase of 8.2% year on year due to the opening of new dispensing pharmacies and urban drug and cosmetic stores, as well as the impact of M&A in the dispensing pharmacy business. Operating income declined 5.4% to ¥9,701 million, mainly reflecting the impact of upfront investment in the medical mall development business. Net income increased 3.6% year on year to ¥5,075 million. As of the end of the fiscal year, the number of stores in the Group totaled 621, a net increase of 71 stores from the end of the previous fiscal year.

Performance by business segment was as follows.

BUSINESS RESULTS BY SEGMENT

Dispensing Pharmacy Business

The earnings capacity of the existing dispensing pharmacies has declined slightly due to the impact of drug price and dispensing fee revisions in April 2012, which included an average reduction in drug prices of 6.25%.

Under these conditions, the Group is aiming to boost profits by expanding the scale of the business. Specifically, the Group is maintaining steady sales by continuing to actively open and develop new stores. It is also seeking to aggressively tap the growing number of M&A opportunities in the sector due to changes in the business environment, while emphasizing returns on investment.

In addition, the Group began implementing measures at existing dispensing pharmacies to fundamentally rebuild drug dispensing processes and dispensing pharmacy management methods in order to enhance safety and boost productivity.

The medical mall development business requires comprehensive support from across the Group, including the operation of dispensing pharmacies —the Group's core business— property development and marketing to attract clinics to the malls. The medical mall development business began full-scale operations from the fiscal year under review. The business has already opened 15 medical malls, mainly in the Tokyo metropolitan area, and has finalized a joint project with Kintetsu Corporation to develop one of Japan's largest medical floors in ABENO HARUKAS, a new skyscraper that is set to become the country's tallest mixed-use building (Abeno-ku, Osaka; 60 above ground floors, five below ground; scheduled to open April 2014).

During the fiscal year under review, the Group opened 76 dispensing pharmacies, including those operated by 11 companies that became Group subsidiaries through M&A deals, and closed 10 dispensing pharmacies, resulting in a total of 560.

The dispensing pharmacy business posted net sales of ¥137,291 million, an increase of 8.0% year on year, reflecting firm sales at existing dispensing pharmacies and sales contributions from new pharmacy openings and M&A. Although segment income was slightly lower than forecast mainly due to an increase in costs related to pharmacy openings, the dispensing pharmacy business reported an increase of 3.0% year on year to ¥12,655 million.

Drug and Cosmetic Store Business

There were some signs of an upturn in the retail sector as a whole from the fourth quarter of the fiscal year under review, but the drugstore sector continued to face a challenging market environment due to market entrants from different sectors and a narrowing strategic gap and price competition between companies within the sector. This was compounded by a decline in demand compared with the previous fiscal year, when demand spiked after the Great East Japan Earthquake.

Against this backdrop, the business is working to secure profits by continuing to open urban drug and cosmetic stores under the *ainz & tulpe* brand and by enhancing the appeal of existing stores.

With *ainz & tulpe*, the business is aiming to boost sales capabilities and increase the gross margin by continually strengthening merchandise lineups, particularly for drug and cosmetic products, in order to clearly communicate to consumers the shop's concept as a drug and cosmetics retailer.

Also, in sales promotion, the business joined the Smapo smartphone application-based shopping points program, and worked on transferring Ainz Point Club Card holders to a mobile-based system.

As of the end of the fiscal year under review, 227,000 point club card holders, out of a total of 3 million, had become mobile-based members. This number includes existing members who have been transferred to the mobile system and newly signed up members. In general, mobile club card holders tend to shop in our stores more regularly, and we plan to attract more members to the system to increase the number of repeat customers and enhance cost efficiency.

During the period under review, the business opened a number of new *ainz & tulpe* format stores in station retail areas and prime locations near stations. These included the *ainz & tulpe* NAKANO CENTRAL PARK EAST (Nakano-ku, Tokyo), the *ainz & tulpe* MARUI KINSHICHO (Sumida-ku, Tokyo), the *ainz & tulpe* SHIBUYA CENTERGAI (Shibuya-ku, Tokyo), the *ainz & tulpe* YOKOHAMA PORTA (Nishi-ku, Yokohama City), the *ainz & tulpe* TOKOROZAWA STATION (Tokorozawa City, Saitama Prefecture), the *ainz & tulpe* KYOTO AVANTI (Minami-ku, Kyoto) and the *ainz & tulpe* SAKURANO HIROSAKI (Hirosaki City, Aomori Prefecture), resulting in a Group total of 61 drug and cosmetics stores.

As a result, the drug and cosmetic store business reported net sales of ¥16,735 million, an increase of 8.7% year on year. However, segment income declined 88.6% to ¥14 million, with the increase in sales insufficient to offset the impact of store opening costs and a fall back in demand from the sharp rise after the Great East Japan Earthquake.

Other Businesses

Net sales of other businesses totaled ¥533 million, an increase of 104.2% year on year, and the segment losses totaled ¥398 million, a deterioration of 176.9% year on year mainly due to upfront rental costs incurred ahead of the opening of new medical malls.

FINANCIAL POSITION

Total assets at the end of the fiscal year under review totaled ¥95,839 million, an increase of ¥9,931 million due to new store openings and M&A.

Consolidated current assets at the end of the fiscal year under review increased by ¥2,842 million to ¥43,162 million compared to ¥40,320 million at the end of the previous fiscal year.

This mainly reflected cash on hand and in banks of ¥18,460 million, up ¥2,525 million year on year due to wider use of the securitization of dispensing fee receivables, notes and accounts receivable of ¥7,043 million, down ¥3,941 million, and other accounts receivable of ¥7,180 million, up ¥4,422 million.

Fixed assets at the end of the fiscal year under review increased by ¥7,106 million to ¥52,676 million compared to ¥45,570 million at 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, which is mainly buildings and structures, increased by ¥2,293 million to ¥17,550 million, while goodwill rose ¥1,909 million to ¥19,574 million.

In addition, investments and other assets increased by ¥2,862 million year on year to ¥14,520 million, chiefly reflecting an increase in deposits and guarantees.

Liabilities increased by ¥5,321 million to ¥57,483 million compared to ¥52,162 million at the end of the previous fiscal year.

This primarily reflected accounts payable of ¥24,084 million, up ¥1,559 million year on year, short-term debt of ¥7,483 million, up ¥1,085 million, and long-term debt of ¥8,048 million, up ¥1,730 million.

As a result of the above, the balance of current liabilities increased by ¥2,741 million from the previous year-end balance of ¥42,945 million to ¥45,686 million, and the balance of long-term liabilities increased by ¥2,579 million from the previous year-end balance of ¥9,216 million to ¥11,796 million.

Net assets increased by ¥4,610 million to ¥38,356 million compared to ¥33,745 million at the end of the previous fiscal year.

This was because the balance of retained earnings rose ¥4,278 million to ¥21,704 million due to the growth of retained earnings during the fiscal year.

Unrealized holding gains on securities totaled ¥57 million.

As a result of the above factors, shareholders' equity ratio improved 0.8 percentage points to 40.0%, compared with 39.2% at the end of the previous fiscal year.

BASIC POLICIES FOR PROFIT DISTRIBUTION

The Company considers the return of profits to shareholders as an important management issue.

Our basic policy is to repay our investors proportionate to the profit we make, and to maintain these at stable levels.

Internal reserves are held to strengthen the corporate structure and in preparation for new store openings and future development of the business. We will make effective use of these funds to generate profits to be returned to shareholders in the future.

The Company's basic policy is to pay dividends from retained earnings once per year at the end of the fiscal year.

For the fiscal year under review, the Company paid a dividend of ¥60 per share, an increase of ¥10 per share compared with the previous fiscal year's ordinary dividend of ¥50.

In view of profit forecasts, plans for investment and other factors, the Company intends to pay an ordinary dividend from retained earnings of ¥60 per share for the fiscal year ending April 30, 2014, the same level as the planned dividend for the fiscal year under review.

CASH FLOWS

In the fiscal year under review, cash and cash equivalents at end of year ("cash") increased ¥2,504 million (15.7%) year on year to ¥18,439 million. This reflected operating cash flow generated by dispensing pharmacy and drug and cosmetic store businesses, which was mainly used to actively invest in new store openings and M&A. Some cash was also retained to provide constant access to a certain level of funds.

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

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥10,203 million, a decrease of 12.6% year on year.

The main items that were positive for cash flow were income before income taxes and minority interests of ¥9,694 million, as well as depreciation and amortization of ¥2,212 million and amortization of goodwill of ¥1,784 million related to business expansion through new store openings and M&A. Decrease in accounts receivable of ¥4,672 million, related to wider use of the securitization of dispensing fee receivables, also had a positive impact on operating cash flow.

The main items that were negative for cash flow were increase in other accounts receivable of ¥4,268 million and income taxes paid of ¥4,947 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥8,503 million, a decrease of 5.6% year on year.

This was mainly due to payments of ¥3,266 million for purchases of property, plant and equipment related to new openings and refurbishments of urban drug and cosmetic stores and dispensing pharmacies, and ¥2,923 million for purchases of subsidiaries' shares resulting in obtaining controls related to shares acquired in eleven companies through M&A deals.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥803 million, compared with cash of ¥2,131 million used in the previous fiscal year.

This was mainly attributable to net short-term debt procurement of ¥850 million and net long-term debt procurement of ¥1,181 million.

Cash dividends paid totaled ¥797 million.

BUSINESS AND OTHER RISKS

The following factors may affect the Group's operating 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 88.8% 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 ¥18,460 million, while the balance of interest-bearing debt of the Group was ¥15,531 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 or hiked 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 SHEET
AS OF APRIL 30, 2013

ASSETS	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (Note 1(1)) 2013
Current assets:			
Cash on hand and in banks (Notes 2 and 4)	¥ 18,460	¥ 15,935	$ 188,695
Notes and accounts receivable (Note 4)	7,044	10,985	72,002
Other accounts receivable	7,181	2,758	73,403
Inventories (Note 3)	7,944	8,253	81,202
Deferred tax assets (Note 11)	955	892	9,762
Short-term loans	445	606	4,549
Other current assets	1,142	918	11,673
Allowance for doubtful accounts	(10)	(27)	(102)
Total current assets	43,162	40,320	441,194
Property, plant and equipment (Note 7):			
Buildings and structures, net	8,248	7,049	84,310
Land	6,031	5,622	61,648
Construction in progress	1,102	825	11,264
Other property, plant and equipment, net	2,170	1,761	22,181
Total property, plant and equipment	17,550	15,257	179,393
Investments and other assets:			
Investments in securities (Notes 4 and 5)	2,790	2,826	28,519
Deferred tax assets (Note 11)	946	1,123	9,670
Long-term loans	1,348	1,326	13,779
Deposits and guarantees	6,986	5,758	71,410
Goodwill	19,575	17,665	200,092
Other intangible fixed assets	1,031	991	10,539
Other investments and other assets	2,720	900	27,803
Allowance for doubtful accounts	(268)	(257)	(2,739)
Total investments and other assets	35,128	30,331	359,072
Total assets	¥ 95,840	¥ 85,908	$ 979,659

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (Note 1(1)) 2013
Current liabilities:			
Accounts payable (Note 4)	¥ 24,085	¥ 22,525	$ 246,192
Short-term debt (Notes 4 and 8)	7,483	6,397	76,490
Accrued income taxes	2,427	2,740	24,808
Deposits received	7,906	7,714	80,814
Allowance for bonuses to employees	1,099	965	11,234
Allowance for bonuses to directors	13	13	133
Reserve for reward obligations	316	302	3,230
Other current liabilities	2,358	2,289	24,103
Total current liabilities	45,687	42,945	467,004
Long-term liabilities:			
Long-term debt (Notes 4 and 8)	8,049	6,318	82,275
Lease obligations	1,223	676	12,501
Allowance for retirement benefits (Note 10)	1,659	1,449	16,958
Other long-term liabilities	866	774	8,852
Total long-term liabilities	11,797	9,217	120,587
Net Assets: (Note 12)			
Shareholders' equity			
Common stock	8,683	8,683	88,756
Authorized - 44,000,000 shares in 2013 and 2012			
Issued - 15,944,106 shares in 2013 and 2012			
Capital surplus	7,873	7,873	80,476
Retained earnings	21,705	17,426	221,864
Treasury stock (3,366 shares in 2013 and 3,316 shares in 2012)	(6)	(6)	(61)
Total shareholders' equity	38,255	33,977	391,035
Accumulated other comprehensive income (loss):			
Unrealized holding gains (losses) on securities	58	(281)	593
Total accumulated other comprehensive income (loss)	58	(281)	593
Minority interests	44	51	450
Total net assets	38,357	33,746	392,078
Total liabilities and net assets	¥ 95,840	¥ 85,908	$ 979,659

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED APRIL 30, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2013	2012	2013
Net sales (Note 16)	¥ 154,561	¥ 142,791	$ 1,579,894
Cost of sales	130,118	119,698	1,330,042
Gross profit	24,442	23,093	249,842
Selling, general and administrative expenses	14,741	12,839	150,680
Operating income (Note 16)	9,701	10,254	99,162
Other income (expense):			
Interest and dividend income	118	94	1,206
Gains on investments in partnership	80	-	818
Commissions received	71	59	726
Real estate rental revenue	91	132	930
Consignment income	134	124	1,370
Interest expenses	(144)	(159)	(1,472)
Losses on sales of accounts receivables	(79)	(71)	(808)
Gains on sales of investments in securities	119	21	1,216
Gains on sales of shares of subsidiaries and affiliates	-	23	-
Losses on sales of investments in securities	(124)	(193)	(1,268)
Losses on disposal and sales of fixed assets	(132)	(147)	(1,349)
Losses on devaluation of investments in securities	(2)	(52)	(20)
Impairment losses on fixed assets	(159)	(244)	(1,625)
Directors' retirement benefits	(320)	(12)	(3,271)
Other, net	339	(45)	3,465
	(7)	(472)	(72)
Income before income taxes and minority interests	9,695	9,782	99,100
Income taxes (Note 11):			
Current	4,597	4,652	46,990
Deferred	29	229	296
	4,626	4,881	47,286
Income before minority interests	5,069	4,901	51,814
Minority interests in income (loss)	(6)	2	(61)
Net income	¥ 5,075	¥ 4,899	$ 51,876

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED APRIL 30, 2013

	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 1(1))
	2013	2012	2013
Income before minority interests	¥ 5,069	¥ 4,901	$ 51,814
Other comprehensive income			
Unrealized holding gains on securities	339	47	3,465
Total other comprehensive income	339	47	3,465
Total comprehensive income	5,408	4,948	55,280
Comprehensive income attributable to shareholders of the parent	5,414	4,946	55,341
Comprehensive (loss) income attributable to minority interests	(6)	2	(61)

See accompanying notes.

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2013

	Thousands of shares	Millions of yen								
		Shareholders' equity					Accumulated other comprehensive income (loss)			
	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 (loss)	Minority interests	Total net assets
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
Net income	-	-	-	5,075	-	5,075	-	-	-	5,075
Cash dividends paid	-	-	-	(797)	-	(797)	-	-	-	(797)
Acquisition of treasury stock	-	-	-	-	(0)	(0)	-	-	-	(0)
Net change in items other than those in shareholders' equity	-	-	-	-	-	-	339	339	(6)	333
Net changes during the year	-	-	-	4,278	(0)	4,278	339	339	(6)	4,611
Balance at April 30, 2013	15,944	¥ 8,683	¥ 7,873	¥ 21,705	¥ (6)	¥ 38,255	¥ 58	¥ 58	¥ 44	¥ 38,357

	Thousands of U.S. dollars (Note 1(1))								
	Shareholders' equity					Accumulated other comprehensive income (loss)			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 30, 2012	$ 88,756	$ 80,476	$ 178,125	$ (61)	$ 347,307	$ (2,872)	$ (2,872)	$ 521	$ 344,945
Net income	-	-	51,876	-	51,876	-	-	-	51,876
Cash dividends paid	-	-	(8,147)	-	(8,147)	-	-	-	(8,147)
Acquisition of treasury stock	-	-	-	(0)	(0)	-	-	-	(0)
Net change in items other than those in shareholders' equity	-	-	-	-	-	3,465	3,465	(61)	3,404
Net changes during the year	-	-	43,729	(0)	43,729	3,465	3,465	(61)	47,133
Balance at April 30, 2013	$ 88,756	$ 80,476	$ 221,864	$ (61)	$ 391,035	$ 593	$ 593	$ 450	$ 392,078

See accompanying notes.

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 9,695	¥ 9,782	$ 99,100
Depreciation and amortization	2,213	1,750	22,621
Impairment losses on fixed assets	159	244	1,625
Amortization of goodwill	1,784	1,263	18,236
Impairment losses on investments in securities	2	52	20
Gains on sales of shares of subsidiaries and affiliates	-	(23)	-
Decrease in allowance for doubtful accounts	(7)	(79)	(72)
Increase (decrease) in reserve for reward obligations	14	(11)	143
Increase in allowance for retirement benefits	202	175	2,065
Increase in allowance for bonuses to employees	115	2	1,176
Increase in allowance for bonuses to directors	0	3	10
Decrease in allowance for losses on disaster	-	(11)	-
Interest and dividend income	(118)	(94)	(1,206)
Interest expenses	144	159	1,472
(Gains) losses on investments in partnerships	(80)	19	(818)
Gains on donations of property, plant and equipment	(18)	(28)	(184)
Losses on sales of investments in securities	5	172	51
Losses on disposal and sales of fixed assets	112	130	1,145
Gains on transfer of business	(12)	-	(123)
Decrease in accounts receivable	4,673	70	47,767
Decrease in inventories	505	405	5,162
(Increase) decrese in other assets	(196)	10	(2,003)
Increase in other accounts receivable	(4,269)	(687)	(43,637)
Increase in accounts payable	475	1,862	4,855
(Decrease) increase in other liabilities	(225)	1,007	(2,300)
Subtotal	15,171	16,172	155,075
Interest and dividends received	125	84	1,278
Interest paid	(145)	(159)	(1,482)
Income taxes paid	(4,948)	(4,418)	(50,578)
Net cash provided by operating activities	10,204	11,680	104,303
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(3,267)	(2,378)	(33,395)
Proceeds from sales of property, plant and equipment	325	166	3,322
Proceeds from transfer of business	65	-	664
Payments for purchases of investments in securities	(559)	(478)	(5,714)
Proceeds from sales of investments in securities	1,240	575	12,675
Purchase of shares in affiliates	-	(8)	-
Purchases of subsidiaries' shares resulting in obtaining controls	(2,923)	(4,122)	(29,878)
Proceeds from subsidiaries' shares resulting in losses of controls	-	205	-
Payments for loans receivable	(579)	(1,061)	(5,918)
Proceeds from collections of loans receivable	734	183	7,503
Payments for investments in capital	(743)	(4)	(7,595)
Proceeds from returns of investments in capital	0	6	0
Payments for purchase of intangible fixed assets	(956)	(1,228)	(9,772)
Increase in other investments	(1,840)	(866)	(18,808)
Net cash used in investing activities	(8,503)	(9,011)	(86,916)
Cash flows from financing activities:			
Proceeds from short-term debts	7,735	3,100	79,066
Repayments of short-term debts	(6,884)	(2,777)	(70,367)
Proceeds from long-term debts	6,440	3,400	65,828
Repayments of long-term debts	(5,258)	(4,646)	(53,746)
Payments for redemption of bonds	-	(184)	-
Repayments of lease obligations	(431)	(305)	(4,406)
Payments for purchase of treasury stock	(0)	(1)	(0)
Cash dividends paid	(797)	(717)	(8,147)
Net cash provided by (used in) financing activities	804	(2,131)	8,218
Net increase in cash and cash equivalents	2,504	538	25,595
Cash and cash equivalents at beginning of year	15,935	15,398	162,885
Cash and cash equivalents at end of the year (Note 2)	¥ 18,440	¥ 15,935	$ 188,490

See accompanying notes.

AIN PHARMACIEZ INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2013 AND 2012

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 reclassified 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, 2013, which was ¥97.83 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 statement of cash flows

In preparing the consolidated statement 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 19 and 18 subsidiaries as of April 30, 2013 and 2012, respectively. All significant intercompany accounts and transactions have been eliminated in consolidation. All companies are required to consolidate all significant investees which are controlled through ownership of majority voting rights or existence of certain conditions.

The investments in 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 date for a consolidated subsidiary in the dispensing pharmacy business is the end of January. The account closing date for three consolidated subsidiaries in the dispensing pharmacy business is 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.

(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 other than leased assets 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 other than leased assets 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 store 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 defined-benefit 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 and some of its consolidated subsidiaries revised a retirement benefits plan in October, 2012 and recognize prior service costs for the year ended April 30, 2013.

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 (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) 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.

(15) 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.

(16) 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.

(17) 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 not subject to deduction, the related expenses are reported in the fiscal year in which they are incurred.

However, consumption taxes and other taxes that are not subject to deduction but 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.

(18) Changes in accounting policies that are difficult to distinguish from changes in accounting estimates

In accordance with the revision of the Corporation Tax Act, the Company and its consolidated subsidiaries have changed the depreciation method for property, plant and equipment acquired on or after May 1, 2012 and April 1, 2012, respectively, to the method under the revised act from the year ended April 30, 2013. The impact of this change to operating income and income before income taxes and minority interests is immaterial.

(19) Unapplied accounting standards
Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, revised on May 17, 2012)
Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No.25 revised on May 17, 2012)

The accounting standard has been revised in light of improving financial reporting and trend toward international convergence, mainly on changes in accounting methods for unrecognized net actuarial gains or losses and unrecognized prior service cost and enhancement of disclosure items as well as changes of calculation methods for projected benefit obligation and service cost.

The Company and its subsidiaries intends to adopt the revised accounting standard from the end of the fiscal year ending April 30, 2014, and to adopt the changes on calculation methods for projected benefit obligation and service cost from the fiscal year beginning May 1, 2014.

Effects of adoption of the revised accounting standard are currently evaluated.

(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 sheet and cash and cash equivalents shown in the consolidated statement of cash flows as of and for the year ended April 30, 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash on hand and in banks	¥ 18,460	¥ 15,935	$188,695
Less: Time deposits with maturities exceeding three months	(21)	-	(215)
Cash and cash equivalents	¥ 18,440	¥ 15,935	$ 188,490

(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, 2013 and 2012 due to the acquisition of shares

(i) Acquisition of shares of 11 companies in the dispensing pharmacy business for the year ended April 30, 2013

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
	2013	2013
Current assets	¥ 1,463	$ 14,955
Fixed assets	826	8,443
Goodwill	3,104	31,729
Current liabilities	(1,547)	(15,813)
Long-term liabilities	(592)	(6,051)
Acquisition cost of the companies	3,254	33,262
Cash and cash equivalents held by the companies	(331)	(3,383)
Net disbursement due to the acquisition	¥ 2,923	$ 29,878

(ii) 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
	2012
Current assets	¥ 1,704
Fixed assets	803
Goodwill	4,157
Current liabilities	(1,462)
Long-term liabilities	(617)
Acquisition cost of the companies	4,585
Cash and cash equivalents held by the companies	(463)
Net disbursement due to the acquisition	¥ 4,122

3. Inventories

Inventories at April 30, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Merchandise	¥ 7,817	¥ 8,139	$ 79,904
Supplies	128	115	1,308
	¥ 7,944	¥ 8,253	$ 81,202

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 drug and cosmetic stores 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 trade receivables, are mostly composed of prescription dispensing fees receivable from National Health Insurance associations and the Social Insurance Medical Care Fee Payment Fund. In addition, most of other accounts receivable are collected in a short period. Therefore, these 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 twelve years from the date of borrowing, at the longest. A portion of these instruments carry floating interest rates and are therefore subject to interest rate fluctuation risk. Derivative transactions (interest rate swap transactions) are used to hedge against such risk.

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

(c) Policies and systems for risk management

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

As the Company's notes and accounts receivable, which relate to sales, are mostly composed of prescription dispensing fees receivable from National Health Insurance associations and the Social Insurance Medical Care Fee Payment Fund, and most of other accounts receivable are also collected in a short period, 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 credit control upon making contract periods and regular credit screening.

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

The Company and its consolidated subsidiaries raise funds mainly 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, 2013 are summarized in the following table:

Assets

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Carrying value			
Cash on hand and in banks	¥ 18,460	¥ 15,935	$ 188,695
Notes and accounts receivable	7,044	10,985	72,002
Other accounts receivable	7,181	-	73,403
Investment in securities	2,102	1,307	21,486
Deposits and guarantees	6,852	5,624	70,040
Total	41,639	33,851	425,626
Fair value			
Cash on hand and in banks	18,460	15,935	188,695
Notes and accounts receivable	7,044	10,985	72,002
Other accounts receivable	7,181	-	73,403
Investment in securities	2,126	1,307	21,732
Deposits and guarantees	6,702	5,420	68,507
Total	41,513	33,647	424,338
Difference			
Cash on hand and in banks	-	-	-
Notes and accounts receivable	-	-	-
Other accounts receivable	-	-	
Investment in securities	24	-	245
Deposits and guarantees	(150)	(204)	(1,533)
Total	¥ (126)	¥ (204)	$ (1,288)

Liabilities

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Carrying value			
Accounts payable	¥ 24,085	¥ 22,525	$ 246,192
Short-term debt including current portion of long-term debt	7,483	6,397	76,490
Deposits received	7,906	7,714	80,814
Long-term debt	8,049	6,318	82,275
Total	47,523	42,955	485,771
Fair value			
Accounts payable	24,085	22,525	246,192
Short-term debt including current portion of long-term debt	7,490	6,406	76,561
Deposits received	7,906	7,714	80,814
Long-term debt	8,056	6,333	82,347
Total	47,537	42,977	485,914
Difference			
Accounts payable	-	-	-
Short-term debt including current portion of long-term debt	7	8	72
Deposits received	-	-	-
Long-term debt	7	14	72
Total	¥ 15	¥ 23	$ 153

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, notes and accounts receivable, and other accounts receivable

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

(b) Investment in 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, or the Company determines credit risk from the standpoint of credit management, according to repayment amount and contract period, and these amounts are discounted to their present value using appropriate rates of interest.

(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 present 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 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 ¥688 million ($7,033 thousand) and ¥1,519 million as of April 30, 2013 and 2012, respectively, are not readily determinable.

The redemption schedule for monetary claims and securities with maturity dates as of April 30, 2013 and 2012 are summarized as follows:

	Millions of yen			
	2013			
	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	¥ 18,193	¥ -	¥ -	¥ -
Notes and accounts receivable	7,044	-	-	-
Other accounts receivable	7,181	-	-	-
Investment securities				
Debt securities	480	119	-	-
Deposits received	901	3,017	2,046	1,021
Total	¥ 33,798	¥ 3,136	¥ 2,046	¥ 1,021

	Thousands of U.S. dollars			
	2013			
	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	$ 185,965	$ -	$ -	$ -
Notes and accounts receivable	72,002	-	-	-
Other accounts receivable	73,403	-	-	-
Investment securities				
Debt securities	4,906	1,216	-	-
Deposits received	9,210	30,839	20,914	10,436
Total	$ 345,477	$ 32,056	$ 20,914	$ 10,436

	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				
Debt securities	-	119	30	-
Deposits received	369	2,627	1,682	1,080
Total	¥ 26,965	¥ 2,745	¥ 1,712	¥ 1,080

5. Securities

(1) The following tables summarize acquisition costs, carrying values and differences of securities with available fair values as of April 30, 2013 and 2012:

Other securities:

Securities with carrying values exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Acquisition cost			
Equity securities	¥ 510	¥ 108	$ 5,213
Bonds	-	-	-
Limited partnerships and similar investments	110	-	1,124
Other	103	-	1,053
Total	724	108	7,401
Carrying value			
Equity securities	585	126	5,980
Bonds	-	-	-
Limited partnerships and similar investments	115	-	1,176
Other	117	-	1,196
Total	817	126	8,351
Difference			
Equity securities	74	18	756
Bonds	-	-	-
Limited partnerships and similar investments	5	-	51
Other	14	-	143
Total	¥ 93	¥ 18	$ 951

Other securities:

Securities with carrying values not exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Acquisition cost			
Equity securities	¥ 355	¥ 914	$ 3,629
Bonds	599	149	6,123
Limited partnerships and similar investments	335	365	3,424
Other	-	206	-
Total	1,289	1,634	13,176
Carrying value			
Equity securities	352	500	3,598
Bonds	599	149	6,123
Limited partnerships and similar investments	335	362	3,424
Other	-	169	-
Total	1,285	1,180	13,135

Difference			
Equity securities	(3)	(414)	(31)
Bonds	-	-	-
Limited partnerships and similar investments	-	(3)	-
Other	-	(37)	-
Total	¥ (3)	¥ (453)	$ (31)

Equity securities included stocks of non-consolidated subsidiaries and affiliates of ¥2 million ($20 thousand) and ¥381 million at April 30, 2013 and 2012, 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, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Total sales of other securities sold	¥ 1,333	¥ 575	$ 13,626
Related gains	119	21	1,216
Related losses	124	193	1,268

(3) The following table summarizes impairment losses on other securities in the years ended April 30, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Other securities with fair value	¥ -	¥ 1	$ -
Other securities without fair value	2	51	20

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, 2013 and 2012. As discussed in Note 1 (16), if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed. Therefore, the fair value of long-term debt includes the fair value of the interest rate swap contracts.

At April 30, 2013 and 2012, 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 losses and net balance of leased assets as of April 30, 2013 and 2012, 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
	2013	2012	2013
Acquisition cost			
Buildings	¥ 207	¥ 344	$ 2,116
Other fixed assets	82	362	838
Intangible fixed assets	65	120	664
Total	354	827	3,619
Accumulated depreciation			
Buildings	160	287	1,635
Other fixed assets	56	303	572
Intangible fixed assets	42	104	429
Total	258	694	2,637
Impairment losses			
Buildings	-	-	-
Other fixed assets	-	-	-
Intangible fixed assets	-	-	-
Total	-	-	-
Net balance			
Buildings	47	58	480
Other fixed assets	26	58	266
Intangible fixed assets	24	17	245
Total	¥96	¥ 133	$ 981

Future minimum lease payments as of April 30, 2013 and 2012 for finance leases currently accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Due within one year	¥ 27	¥ 74	$ 276
Due after one year	109	135	1,114
Total	¥ 135	¥ 208	$ 1,380

The following table summarizes details of lease expenses, reversal of impairment losses for leased assets, depreciation, interest expense and impairment losses, if they had been capitalized:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Lease expense	¥ 100	¥ 168	$ 1,022
Reversal of impairment losses for leased assets	-	-	-
Depreciation	66	158	675
Interest expense	25	5	256
Impairment losses	-	-	-

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
	2013	2012	2013
Due within one year	¥ 569	¥ 576	$ 5,816
Due after one year	4,109	3,859	42,001
Total	¥4,678	¥ 4,435	$47,818

8. Short-term debt and long-term debt

Short-term debt and long-term debt at April 30, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Short-term bank loans with a weighted-average interest rate of 0.4%	¥ 3,555	¥ 2,503	$ 36,339
Current portion of long-term debt with a weighted-average interest rate of 0.7%	3,928	3,895	40,151
Current portion of lease obligation with a weighted-average interest rate of 1.4%	499	345	5,101
Long-term debt (2014-2024) with a weighted-average interest rate of 0.6%	8,049	6,318	82,275
Lease obligation (2014-2022) with a weighted-average interest rate of 1.6%	1,223	676	12,501
Total	¥ 17,254	¥ 13,736	$ 176,367

At April 30, 2013 and 2012, the carrying amounts of assets pledged as collateral for long-term debt are as follows:

Assets pledged as collateral:	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Buildings	¥ 5	¥ -	$ 51
Land	28	-	286
Investments in securities	6	6	61
Total	¥ 39	¥ 6	$ 399

Liabilities corresponding to collateral:	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Accounts payable	¥ 3	¥ 7	$ 31
Long-term debt	25	-	256
Total	¥ 28	¥ 7	$ 286

The aggregate annual maturities of long-term debt at April 30, 2013 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2014	¥ 3,928	$ 40,151
2015	3,457	35,337
2016	2,604	26,618
2017	1,276	13,043
2018	426	4,354

The aggregate annual maturities of lease obligations at April 30, 2013 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2014	¥ 499	$ 5,101
2015	404	4,130
2016	339	3,465
2017	270	2,760
2018	133	1,360

9. Sales, disposal and impairment of fixed assets

(1) Gains and losses on sales of fixed assets for the years ended April 30, 2013 and 2012 are as follows:

Gains on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Buildings and structures	¥ 17	¥ 16	$ 174
Land	1	-	10
Other property, plant and equipment	3	2	31
Total	¥ 21	¥ 17	$ 215

Losses on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Buildings and structures	¥ 84	¥ 1	$ 859
Land	-	9	-
Construction in progress	11	-	112
Other property, plant and equipment	11	12	112
Other intangible fixed assets	9	-	92
Other investments and other assets	0	-	0
Disposal cost	16	1	164
Total	¥ 132	¥ 24	$ 1,349

(2) Losses on disposal of fixed assets for the years ended April 30, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Buildings and structures	¥ 0	¥ 29	$ 0
Other property, plant and equipment	0	13	0
Goodwill	-	26	-
Other intangible fixed assets	-	0	-
Deposits and guarantees	-	26	-
Other investments and other assets	-	4	-
Disposal cost	-	26	-
Total	¥ 0	¥ 124	$ 0

(3) For the years ended April 30, 2013 and 2012, the Company recognized impairment losses for the following property groups:

		Millions of yen		Thousands of U.S. dollars
		2013	2012	2013
Property group	Description of assets			
Stores	Store facilities	¥ 136	¥ 168	$ 1,390
Real estate	Land	7	-	72
Stores and real estate	Store facilities and land	-	50	-
Stores scheduled for opening	Store facilities	-	21	-
Stores to be closed	Store facilities	-	5	-
Leasehold properties	Store facilities	15	-	153
	Total	¥ 159	¥ 244	$ 1,625

10. Retirement benefits

Allowance for retirement benefits as of April 30, 2013 and 2012 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥ (2,015)	¥ (2,020)	$ (20,597)
Plan assets at fair value	325	251	3,322
Unfunded retirement benefit obligation	(1,690)	(1,768)	(17,275)
Unrecognized actuarial gains	218	320	2,228
Unrecognized prior service costs	(187)	-	(1,911)
Net retirement benefit obligation	(1,659)	(1,449)	(16,958)
Allowance for retirement benefits	¥ (1,659)	¥ (1,449)	$ (16,958)

Retirement benefit expenses for the years ended April 30, 2013 and 2012 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service costs	¥ 325	¥ 292	$ 3,322
Interest cost on projected benefit obligation	15	16	153
Expected return on plan assets	(2)	(1)	(20)
Amortization of actuarial losses	102	50	1,043
Amortization of prior service costs	(21)	-	(215)
Additional retirement allowance paid	22	-	225
Retirement benefit expenses	¥ 440	¥ 356	$4,498

Actuarial assumptions used in accounting for the Company's plans as of April 30, 2013 and 2012 are principally as follows:

	2013	2012
Discount rate	1.0%	1.0-2.0%
Expected rate of return on plan assets	0.75%	0.75%
Allocation of estimated amount of retirement benefits	Straight-line method	Straight-line method
Amortization period for actuarial gains or losses	6 years	1-6 years
Amortization period for changes in accounting standards	1	1
Amortization period for prior service costs	6	-

11. Income taxes

The aggregate statutory income tax rates used for calculation of deferred income tax assets and liabilities for the years ended April 30, 2013 and 2012 were 37.7% and 40.4%, respectively.

(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, 2013 and 2012:

	2013	2012
Statutory tax rate	37.7%	40.4%
Non-deductible expenses	0.7	0.5
Per capita inhabitant tax	1.7	1.5
Amortization of goodwill	5.2	4.5
Valuation allowance	0.2	-
Reversal of deferred tax assets due to changes in the corporate income tax rate	-	1.8
Other	2.2	1.2
Effective tax rates	47.7%	49.9%

(2) Significant components of deferred tax assets and liabilities as of April 30, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Impairment losses	¥ 445	¥ 469	$ 4,549
Excess of allowance for bonuses	412	357	4,211
Excess of reserve for rewards obligation	119	114	1,216
Allowance for retirement benefits	589	516	6,021
Net unrealized holding losses on securities	-	153	-
Other	931	1,017	9,517
Sub-total deferred tax assets	2,495	2,626	25,503
Valuation allowance	461	512	4,712
Total deferred tax assets	2,034	2,114	20,791
Deferred tax liabilities:			
Capitalized removal costs	(95)	(100)	(971)
Net unrealized holding gains on securities	(32)	-	(327)
Valuation of land	(61)	(59)	(624)
Other	(50)	-	(511)
Total deferred tax liabilities	(237)	(159)	(2,423)
Net deferred tax assets	¥ 1,797	¥ 1,955	$18,369

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 21 and 20 banks as of April 30, 2013 and 2012, respectively, to finance working capital requirements. The outstanding balances of such overdrafts as of April 30, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Total overdraft available	¥ 22,100	¥ 13,365	$ 225,902
Amount utilized	3,550	2,305	36,287
Outstanding balance	¥ 18,550	¥ 11,060	$ 189,615

14. Contingencies

The Company has contingent liabilities for the claims for lease deposits and guarantee deposits paid to owners of shops, due to their transfers to third parties. Such contingent liabilities amounted to ¥1,462 million ($14,944 thousand) and ¥1,674 million as of April 30, 2013 and 2012, respectively.

15. Amounts per share

Net assets per share at April 30, 2013 and 2012 and basic and diluted net income per share for the years then ended are as follows:

	Yen		U.S. dollars
	2013	2012	2013
Net assets per share	¥ 2,403	¥ 2,114	$ 24.56
Basic net income per share	318	307	3.25
Diluted net income per share	-	-	-
Cash dividends per share attributable to the year	60	50	0.61

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 loss of reporting segments are based on ordinary income. Income or loss 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, 2013 and 2012 is summarized as follows:

	Millions of yen					
	2013					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 137,292	¥ 16,736	¥ 533	¥ 154,561	¥ -	¥ 154,561
Intersegment sales	-	-	137	137	(137)	-
Total sales	137,292	16,736	670	154,697	(137)	154,561
Segment income (loss)	12,656	14	(398)	12,272	(1,980)	10,293
Segment assets	¥ 80,710	¥ 7,049	¥ 3,962	¥ 91,720	¥ 4,119	¥ 95,840
Other						
Depreciation and amortization	¥ 1,577	¥ 260	¥ 71	¥ 1,909	¥ 38	¥ 1,947
Amortization of goodwill	1,779	5	-	1,784	-	1,784
Impairment losses	7	129	15	152	7	159
Increase of tangible and intangible assets	3,575	373	812	4,761	550	5,310

	Thousands of U.S. dollars					
	2013					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	$ 1,403,373	$ 171,072	$ 5,448	$ 1,579,894	$ -	$ 1,579,894
Intersegment sales	-	-	1,400	1,400	(1,400)	-
Total sales	1,403,373	171,072	6,849	1,581,284	(1,400)	1,579,894
Segment income (loss)	129,367	143	(4,068)	125,442	(20,239)	105,213
Segment assets	$ 825,003	$ 72.054	$ 40,499	$ 937,545	$ 42,104	$ 979,659

Other						
Depreciation and amortization	$ 16,120	$ 2,658	$ 726	$ 19,513	$ 388	$ 19,902
Amortization of goodwill	18,185	51	-	18,236	-	18,236
Impairment losses	72	1,319	153	1,554	72	1,625
Increase of tangible and intangible assets	36,543	3,813	8,300	48,666	5,622	54,278

	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 losses	177	55	12	244	-	244
Increase of tangible and intangible assets	3,645	457	139	4,241	2	4,243

Amortization of goodwill and unamortized balances by reporting segment as of and for the years ended April 30, 2013 and 2012 are summarized as follows:

	Millions of yen				
	2013				
	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	¥ 1,779	¥ 5	¥ -	¥ -	¥ 1,784
Unamortized balances of goodwill	19,569	5	-	-	19,575

	Thousands of U.S. dollars				
	2013				
	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	$ 18,185	$ 51	$ -	$ -	$ 18,236
Unamortized balances of goodwill	200,031	51	-	-	200,092

	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

17. Comprehensive income

Each component of other comprehensive income for the years ended April 30, 2013 and 2012 was the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized holding gains (losses) on securities:			
Gains (losses) arising during the year	¥ 491	¥ (64)	$ 5,019
Reclassification adjustments to losses	33	179	337
Amount before income tax effect	524	115	5,356
Income tax effect	185	68	1,891
Total Unrealized holding gains on securities	339	47	3,465
Total other comprehensive income	¥ 339	¥ 47	$ 3,465

18. Business combinations

For the year ended April 30, 2013

(1)Business combinations

During the fiscal year ended April 30, 2013, the Company and its consolidated subsidiary Asahi Pharmacy Co., Ltd. acquired for cash consideration the shares in eleven 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 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	¥3,178 million ($32,485 thousand)
Expenses related directly to acquisition	¥76 million ($777 thousand)
Cost of acquisition	¥3,254 million ($33,262 thousand)

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

(a) Amount of goodwill generated

¥3,104 million ($31,729 thousand)

The identification or evaluation of assets and liabilities, such as estimates of deferred tax assets, valuations of land and estimates of various reserves, is based on reasonable information available as of April 30, 2013. As the period between their acquisition and the end of the fiscal year is short, the available information is insufficient, so the allocation of acquisition costs is not complete. Consequently, asset and liability amounts, including goodwill, may change.

(b) Sources of goodwill

Goodwill is the cost amount paid over the fair value of asset acquired and liabilities assumed and recoverable through the future operation by utilizing the AIN PHARMACIEZ Group's management resources and economies of scale.

(c) Goodwill amortization method and term

Straight-line method over 10–15 years

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 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
Expenses related directly to acquisition	¥122 million
Cost of acquisition	¥4,585 million

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

(a) Amount of goodwill generated

¥4,157 million

The identification or evaluation of assets and liabilities, such as estimates of deferred tax assets, valuations of land and estimates of various reserves, is based on reasonable information available as of April 30, 2013. As the period between their acquisition and the end of the fiscal year is short, the available information is insufficient, so the allocation of acquisition costs is not complete. Consequently, asset and liability amounts, including goodwill, may change.

(b) Sources of goodwill

Goodwill is the cost amount paid over the fair value of asset acquired and liabilities assumed and recoverable through the future operation by utilizing the AIN PHARMACIEZ Group's management resources and economies of scale.

(c) Goodwill amortization method and term

Straight-line method over 10 years

19. Subsequent events

Not applicable.

20. Quarterly Information

(1) Quarterly net sales for the year ended April 30, 2013 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Three months ended July 31, 2012	¥ 36,258	$ 370,623
Six months ended October 31, 2012	75,091	767,566
Nine months ended January 31, 2013	114,671	1,172,146
Twelve months ended April 30, 2013	154,561	1,579,894

(2) Quarterly income before income taxes and minority interests for the year ended April 30, 2013 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Three months ended July 31, 2012	¥ 1,708	$ 17,459
Six months ended October 31, 2012	3,970	40,581
Nine months ended January 31, 2013	6,736	68,854
Twelve months ended April 30, 2013	9,695	99,100

(3) Quarterly net income for the year ended April 30, 2013 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Three months ended July 31, 2012	¥ 912	$ 9,322
Six months ended October 31, 2012	2,138	21,854
Nine months ended January 31, 2013	3,690	37,718
Twelve months ended April 30, 2013	5,075	51,876

(4) Quarterly net income per share for the year ended April 30, 2013 is as follows:

	Yen	U.S. dollars
	2013	2013
Three months ended July 31, 2012	¥ 57.22	$ 0.58
Six months ended October 31, 2012	134.10	1.37
Nine months ended January 31, 2013	231.47	2.37
Twelve months ended April 30, 2013	318.37	3.25

(5) Quarterly net income per share for each accounting period of the year ended April 30, 2013 is as follows:

	Yen	U.S. dollars
	2013	2013
Three months ended July 31, 2012	¥ 57.22	$ 0.58
Three months ended October 31, 2012	76.88	0.79
Three months ended January 31, 2013	97.38	1.00
Three months ended April 30, 2013	86.90	0.89

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, 2013, 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, 2013, 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 30, 2013
Sapporo, Japan

DIRECTORS AND CORPORATE AUDITORS
(As of July 31, 2013)

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
Tomonori Ito*2

Notes: 1. Outside directors
2. Outside corporate auditors

CORPORATE DATA
(Fiscal 2013)

Corporate Name
AIN PHARMACIEZ INC.

Head Office
(From November 2013)
5-2-4-30, Higashisapporo,
Shiroishi-ku, Sapporo,
Hokkaido 003-0005, Japan

(Until October 2013)
5-1-2-1, Higashinaebo,
Higashi-ku, Sapporo,
Hokkaido 007-8755, Japan

Established
August 1969

Paid-in Capital
¥ 8,682 million

Number of Employees
Consolidated: 3,551
Non-consolidated: 2,273

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 2013)

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
2,402

Major Shareholders

(As of April 30, 2013)

Shareholders	Number of shares held (thousand shares)	Share-holding ratio (%)
Kiichi Otani	1,654	10.38
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
Goldman Sachs International	759	4.76
THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	501	3.14
ML PRO SEGREGATION ACCOUNT	500	3.14
Japan Trustee Services Bank, Ltd. (Trusut Account)	489	3.07
JPMorgan Chase Bank 385174	440	2.76
Yoshiaki Imagawa	393	2.47

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.

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VEGETABLE OIL INK

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