On the Right Path

ANNUAL REPORT 2014

For the year ended April 30, 2014

AIN PHARMACIEZ

Aiming to play a key role in society as Japan's leading dispensing pharmacy company.

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.

Sales and profits rose year on year, but results fell short of our start-of-year targets due to delayed store openings and difficult negotiations with drug wholesalers. The operating environment for dispensing pharmacies is likely to remain challenging for some time after drug price and dispensing fee revisions and an increase to consumption tax in April 2014, as well as a severe shortage of qualified pharmacists.

However, I believe the current market offers significant opportunities for AIN PHARMACIEZ, because we can leverage our strengths as the leading company in the dispensing pharmacy sector.

We will continue to work on building a dominant position in the market by playing a key role in sector restructuring.

July 30, 2014

Kiichi Otani
President and Representative Director

Fiscal 2014 Review

Q. What are your thoughts about the Group's performance in fiscal 2014?

A. Our performance was slightly disappointing, because we were targeting stronger growth.

Store openings fell short of our targets due to delayed construction plans after the Great East Japan Earthquake and a slower-than-expected shift away from prescriptions filled by hospitals, leading to a shortfall in sales versus our targets. Difficult negotiations with drug wholesalers were also a factor behind the weaker-than-expected results.

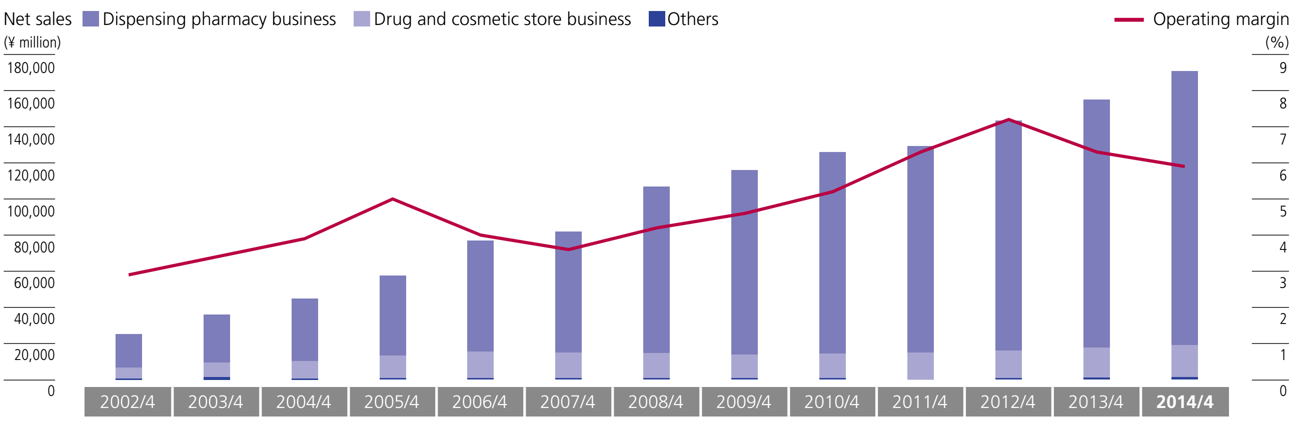
In fiscal 2014, ended April 30, 2014, net sales rose 10.1% year on year to ¥170.2 billion, operating income increased 4.3% to ¥10.1 billion, and net income rose 3.6% to ¥5.2 billion. Although sales and profits increased, results were below our forecasts.

In the dispensing pharmacy business, we planned to open a total of 80 pharmacies in fiscal 2014. Although we achieved our targets for pharmacies opened at medical malls and pharmacies acquired through M&A deals, only 62 dispensing pharmacies were opened overall due to a shortfall of 18 dispensing pharmacies near hospitals through organic business growth. Difficult negotiations with drug wholesalers were another reason behind the weaker-than-expected profits. Performance in the drug and cosmetic store business was largely flat year on year.

Q. The dispensing pharmacy sector as a whole faces a shortage of qualified pharmacists. How successful was the AIN PHARMACIEZ Group in recruiting pharmacists in fiscal 2014?

A. We recruited 251 pharmacists, less than our target of 300. However, we were the sector's leading recruiter of pharmacists in fiscal 2014 (see the figure on page 3). The shortage of pharmacists is likely to play a key role in spurring sector restructuring.

History of Growth



	2002/4	2003/4	2004/4	2005/4	2006/4	2007/4	2008/4	2009/4	2010/4	2011/4	2012/4	2013/4	2014/4
M&A deals		Imagawa Yakuhin	AIN TOKAI	Rejoice AIN MEDICAL SYSTEMS Rejoice Pharmacy	MEDICAL HEARTLAND	Asahi Pharmacy DAICHIKU	SUNWOOD			6 M&As (33 stores)	9 M&As (21 stores)	11 M&As (28 stores)	13 M&As (22 stores)
Revisions to medical expenses: Dispensing fees	-1.3%		±0		-0.6%		+0.17%		+0.52%		+0.46%		+0.22%
Revisions to medical expenses: Drug prices	-6.3%		-4.2%		-6.7%		-5.2%		-5.75%		-6.0%		-2.65%

Dispensing fees　Drug prices

Recruiting enough pharmacists is vital to realizing our store opening strategy and delivering continued growth. However, due to factors such as changes in curriculums after the shift to six-year courses at pharmacy colleges, the pass rate for students taking the national pharmacist exam has fallen. We expect this trend to continue.

Against that backdrop, I believe the Group did well to hire 251 pharmacists, despite missing our target. Our recruitment program was also the most successful in the sector (see the figure below). With a growing number of small and mid-size dispensing pharmacies struggling to hire even one pharmacist, we think many of the smaller players in the sector will be forced to close their operations due to a lack of personnel. This is likely to be a major factor driving M&A deals and sector restructuring.

Strategy

Q. Please tell us about the competitive environment in the dispensing pharmacies sector at the moment.

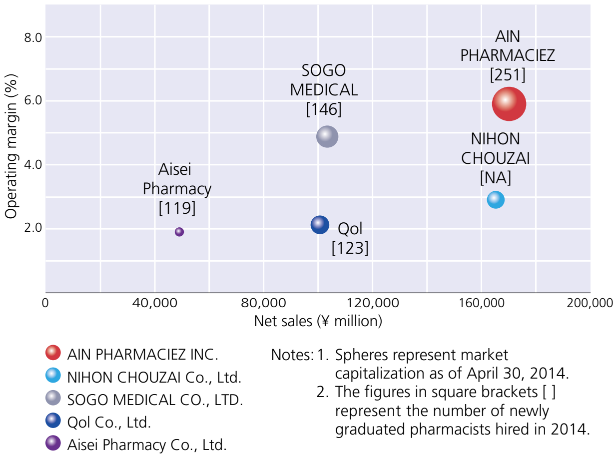
A. Some companies have weak balance sheets after overstretching themselves in M&A, but AIN PHARMACIEZ stands out in terms of business scale and the strength of its finances (see the figure below). We expect larger companies to be caught up in restructuring once M&As involving smaller dispensing pharmacies wind down. I remain confident that AIN PHARMACIEZ will be the leading company in the sector over the long term.

Declining drug price margins and changes that make it harder to secure dispensing fees, coupled with the shortage of pharmacists, are spurring increased M&A activity among smaller dispensing pharmacies that are unable to respond to those trends. Intensifying competition to acquire those companies is also driving acquisition prices higher.

At AIN PHARMACIEZ, we keep a close eye on investment efficiency, only acquire dispensing pharmacies that offer the potential for mutual synergies when they become part of the Group. This approach means we can take pride in having one of the strongest financial positions in the sector. Over

High Profitability and Stable Recruitment

—Comparison of net sales, operating margin and number of newly graduated pharmacists hired among major companies operating dispensing pharmacies in Japan



Notes: 1. Spheres represent market capitalization as of April 30, 2014.
2. The figures in square brackets [ ] represent the number of newly graduated pharmacists hired in 2014.

Source: Operating margin and net sales are complied by AIN PHARMACIEZ from the above companies' financial results for fiscal 2014. Number of newly graduated pharmacists is based on the PHARMACY NEWSBREAK on May 1, 2014.

Sound Financial Structure

—Comparison of financial indexes among major companies operating dispensing pharmacies in Japan

Fiscal 2013		(¥ million)
	AIN PHARMACIEZ	Average of 3 competitors*
Market capitalization	75,957	21,096
Cash on hand in banks	18,460	8,348
Interest-bearing debt	17,253	22,615
Net cash	1,206	-14,267
Shareholders' equity ratio	40.0%	28.4%

Fiscal 2014		(¥ million)
	AIN PHARMACIEZ	Average of 3 competitors*
Market capitalization	71,264	23,547
Cash on hand in banks	18,846	8,821
Interest-bearing debt	13,058	28,965
Net cash	5,787	-20,144
Shareholders' equity ratio	41.5%	26.9%

*3 competitors: NIHON CHOUZAI Co., Ltd., SOGO MEDICAL CO., LTD., Qol Co., Ltd.

Source: Compiled by AIN PHARMACIEZ from the above companies' financial results for fiscal 2014.

the medium and long term, I believe sector restructuring will spread to larger dispensing pharmacy companies once M&As involving smaller dispensing pharmacies wind down. We will ensure our balance sheet is strong enough to make major investments, so that we can take advantage of major opportunities when they arise.

We also plan to step up our pharmacy opening program. In fiscal 2015, we are targeting 120 new dispensing pharmacies, including pharmacies acquired through M&A deals. We will continue to open pharmacies through organic growth and through our M&A strategy in order to drive sales and profits.

Q. How do you plan to respond to the latest revisions to drug prices and dispensing fees?

A. We will secure dispensing fees by actively developing our home-based dispensing services and promoting generic drugs, two areas that the government is focusing on. We also aim to protect our margins by dealing directly with drug companies through our drug wholesaling subsidiary.

The government's policy for curbing national medical expenses became much clearer in the latest revisions to drug prices and dispensing fees. That trend is likely to continue. Drug prices account for 70–80% of sales at dispensing pharmacies, so any revisions have a significant impact on earnings structures at pharmacies.

We will continue implementing strategies to overcome this issue, such as leveraging our sector-leading economies of scale and using our generic drug wholesale subsidiary WHOLESALE STARS Co., Ltd. (WSS) to expand generic drug dispensing (see page 12 for more details). We already deal directly with makers of generic drugs, leading to higher drug price margins and a number of other benefits. Going forward, we plan to build on this advantage by strengthening the capabilities of WSS and expanding the volume of direct business with drug makers. Also, we are putting more effort into hiring and training pharmacists and into boosting the efficiency of existing dispensing pharmacies in order to secure dispensing fees and attract customers with even better services (see pages 13–15 for more details).

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

A. We are building up our expertise in the medical mall business and earnings are gaining momentum. We will continue to push ahead with the development of medical malls, as they are highly profitable and a key part of our strategy.

Some medical malls took longer than we expected to become profitable, but earnings are now starting to gain momentum. Since we started the full-scale development of medical malls, the occupancy rate for doctors has risen, which is helping to lift the overall occupancy rate for medical malls. Medical malls tend to take longer to become profitable than dispensing pharmacies near hospitals, but once they do move into the black, we expect them to make contributions to the Group's sales and profits over the medium and long term. We view medical malls as a key part of our strategy and we plan to continue actively developing the business.

AIN Pharmacy UZUMASA TENJINGAWA

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

A. We have implemented a number of initiatives in the business, but growth has remained flat. We plan to continue searching for ways to generate growth, including testing out new store formats.

We have seen success from a range of measures to change product lineups and introduce innovative sales areas at our drug and cosmetics stores. Going forward, we plan to boost the gross margin and roll out new store formats from fiscal 2016 to drive growth.

ainz & tulpe NU chayamachi

Q. What are your medium- and long-term forecasts for the Group?

A. Even though we expect to achieve double-digit growth over the medium term, we need to follow a cautious management approach. We are targeting net sales of ¥300 billion over the next few years, hopefully within the next five. I believe sales at that level would give us a dominant position in the sector.

We are targeting consolidated net sales of ¥300 billion in the next few years. When sales reach that level, we estimate the Group will have1,000 pharmacies nationwide, 4,000–5,000 pharmacists and a market share of around 4%, giving us even greater economies of scale. We expect our size, combined with various competitive advantages built up over many years, to result in a dominant position in the sector.

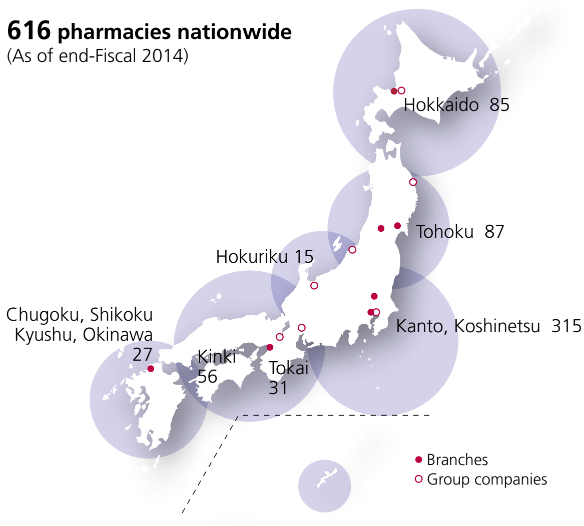
The dispensing pharmacy sector is not seeing much progress on consolidation (see the figure "Dispensing Pharmacy Company Market Share" on page 9). As the market leader, our market share is still only 2%. However, consolidation in the dispensing pharmacy sector could approach levels seen in other sectors (leading market shares of 39% in convenience store sector, 22% in electronics retailing sector) if restructuring moves ahead as expected, which could drive extremely rapid growth in the Group's market share. In other words, AIN PHARMACIEZ still has significant room to expand.

To continue expanding, we have to grow sales, increase operating efficiency and constantly adjust our business model. We are doing everything we can to prepare for any growth opportunities that emerge in the sector.

Scale of Business

—Our Dispensing Pharmacy Store Network

616 pharmacies nationwide
(As of end-Fiscal 2014)



Q. To close, what message can you give investors about your resolve and vision for the Group.

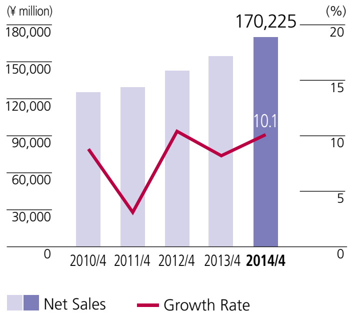
A. The dispensing pharmacy sector is likely to face a tough operating environment over the next few years. This presents significant opportunities for companies like us with strong finances, a dominant position in terms of scale, and a robust corporate culture. Our strategy at the moment may look low-key, but we are waiting quietly in the wings to make our move.

The recent hike to consumption tax and revisions to drug prices and dispensing fees are two major negatives for the sector. This is likely to create an even larger gap in the sector between well-run companies and those that are not. This in turn will drive restructuring in the sector, with dispensing pharmacies exiting the field or selling their operations because they are unable to secure drug price margins or respond to changes in the industry due to the shortage of pharmacists and other factors.

AIN PHARMACIEZ is the leading company in the sector with powerful advantages in terms of market share, profitability and finances. I believe we are well-placed to deliver rapid growth once restructuring starts in earnest and the dispensing pharmacy sector becomes more consolidated. Going forward, we will continue to boost the Group's corporate value, while also fulfilling our role as a key part of Japan's healthcare system. We remain committed to making AIN PHARMACIEZ the most trusted name in Japan's dispensing pharmacy sector.

Consolidated Financial Highlights

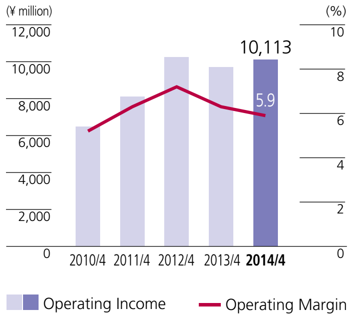
Net Sales and Growth Rate



Net Sales
Up 10.1%

Net sales grew at a double-digit pace, rising 10.1% year on year due to 65 store openings across the Group, including pharmacies acquired through M&A deals.

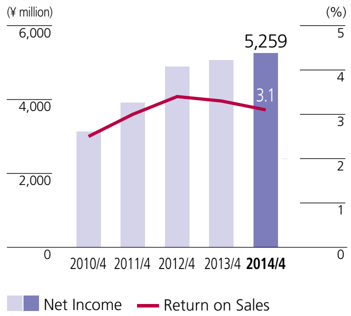
Operating Income and Operating Margin



Operating Income
Up 4.3%

Operating income increased 4.3% year on year on the back of business reforms and cost adjustments.

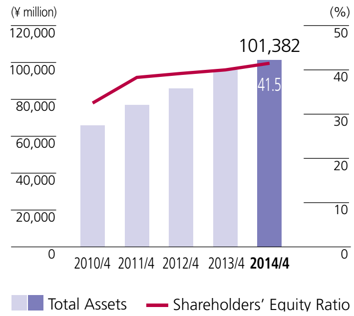
Net Income and Return on Sales



Net Income
Up 3.6%

Net income increased 3.6% year on year to ¥ 5,259 million, a new record for the Group.

Total Assets and Shareholders' Equity Ratio



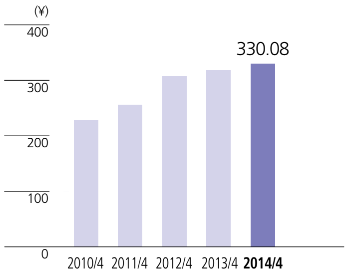
Shareholders' Equity Ratio
Up 1.5 percentage points

The shareholders' equity ratio rose due to the repayment of short- and long-term debts (down ¥4,493 million year on year).

11-year Financial Summary

	2004/4	2005/4	2006/4	2007/4
For the year:				
Net sales	45,227	57,091	76,303	81,307
Selling, general and administrative expenses	3,886	5,230	7,145	7,970
Operating income	1,766	2,875	3,083	2,888
Net income	855	930	1,215	1,010
Capital expenditures*1	1,240	1,536	2,087	1,620
Depreciation and amortization*1	444	458	648	773
At the end of the year:				
Equity capital*2	8,019	9,095	10,352	10,710
Total net assets	8,019	9,095	10,352	11,326
Total assets	25,131	38,887	41,669	49,849
Number of shares outstanding (shares)	11,024,650	11,210,350	11,304,000	11,320,000
Number of employees (persons)	905	1,446	1,684	1,947
Number of stores : Dispensing pharmacy business	148	193	218	247
Number of stores : Drug and cosmetic store business	27	44	43	43
Per share information (¥):				
Net income	74.72	79.92	104.53	89.34
Net assets	724.57	807.68	912.43	946.17
Cash dividends	12.0	15.0	18.0	18.0
Stock information (based on the closing price as of April 30) (¥):				
Stock price	1,390	2,050	2,370	1,500
Ratios (%):				
Operating margin	3.9	5.0	4.0	3.6
Return on sales*3	1.9	1.6	1.6	1.2
Return on assets (ROA)*4	3.5	2.9	3.0	2.2
Return on equity (ROE)*5	10.7	10.9	12.5	9.6
Shareholders' equity ratio	31.9	23.4	24.8	21.5

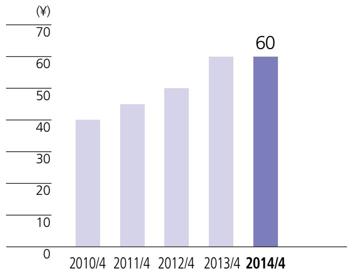
Net Income per Share



Net Income per Share
Up ¥11.71

The increase reflected growth in net income and a decline in the average number of shares outstanding during the fiscal year (down 7,254 shares year on year).

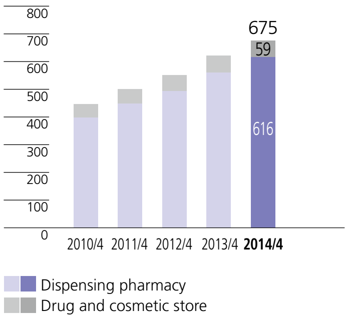
Cash Dividends per Share



Cash Dividends per Share
¥ ± 0

Dividend per share ¥60.00; dividend payout ratio 18.2%, down 0.6 percentage points year on year.

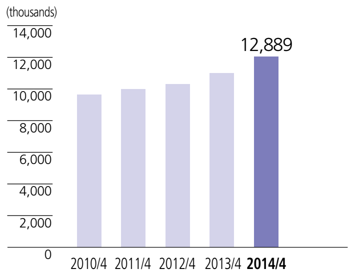
Total Number of Stores



Total Number of Stores
Up 54 stores

The Group added 65 stores through new openings and M&A deals and closed 11 stores, resulting in a total of 675.

Prescription Volume



Prescription Volume
Up 6.8%

The number of prescriptions written rose 825,000 year on year, mainly reflecting a full-year contribution from pharmacies opened in the previous fiscal year.

(¥ million)

2008/4	2009/4	2010/4	2011/4	2012/4	2013/4	2014/4
106,231	115,387	125,495	129,387	142,790	154,560	**170,225**
9,203	9,948	10,744	11,981	12,839	14,740	**15,635**
4,444	5,296	6,492	8,107	10,253	9,701	**10,113**
1,615	2,127	3,131	3,916	4,899	5,075	**5,259**
1,914	2,891	2,573	2,750	5,870	7,235	**6,328**
968	1,119	1,286	1,560	1,749	2,212	**2,258**
12,040	16,071	21,445	29,450	33,695	38,312	**42,122**
12,707	16,109	21,492	29,498	33,745	38,356	**42,240**
57,546	62,032	65,898	76,940	85,908	95,839	**101,382**
11,361,000	12,831,376	14,101,164	15,941,004	15,940,790	15,940,740	**15,854,190**
2,582	2,741	2,918	3,104	3,326	3,551	**3,806**
356	375	397	448	494	560	**616**
45	46	49	53	56	61	**59**
142.36	170.74	228.08	255.67	307.35	318.37	**330.08**
1,059.78	1,252.54	1,520.81	1,847.46	2,113.79	2,403.43	**2,656.86**
20.0	30.0	40.0	45.0	50.0	60.0	**60.0**
1,490	1,481	2,920	3,115	4,290	4,765	**4,495**
4.2	4.6	5.2	6.3	7.2	6.3	**5.9**
1.5	1.8	2.5	3.0	3.4	3.3	**3.1**
3.0	3.6	4.9	5.5	6.0	5.6	**5.3**
14.2	15.1	16.7	15.4	15.5	14.1	**13.1**
20.9	25.9	32.5	38.3	39.2	40.0	**41.5**

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

The Ability to Adapt to Change

Operating Environment

Japan's dispensing pharmacy market has grown in unique ways.
It is one of Japan's few growth markets, but the competitive environment is becoming increasingly challenging. In this section we look at medium- and long-term trends in the operating environment, focusing on the risks and opportunities for the AIN PHARMACIEZ Group.

A Growth Market

Japan's dispensing pharmacy market was worth roughly ¥7.0 trillion in fiscal 2013 and we estimate the market will continue expanding at around 3–5% annually. Japan is one of the first countries in the world to become a super-aging society, and about 35% of prescriptions are still filled by hospitals, which will increasingly be filled outside hospitals. These factors are likely to support continued growth in the dispensing pharmacy market.

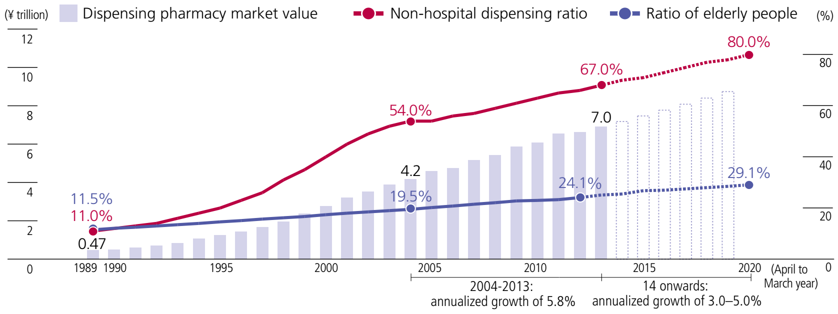
Risks

- The criteria for calculating dispensing fees could become stricter as the Japanese government works to curb national medical expenses.

Opportunities

- Opening dispensing pharmacies in locations that can effectively tap prescription demand could support growth in market share.
- Adapting to changes in the operating environment and implementing strategies tailored to government policy offers potential for further growth.
- More M&A opportunities are likely to emerge if the operating environment becomes more challenging.

Dispensing Pharmacy Market



Source: AIN PHARMACIEZ estimates, based on data from the Japan Pharmaceutical Association, dispensing cost trends issued by the Ministry of Health, Labour and Welfare, Population Estimates of the Ministry of Internal Affairs and Communications Statistical Bureau, and Cabinet Office White Paper on the Aging Society.

Generic Drug Promotion

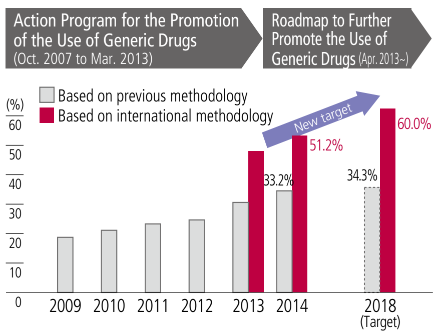
The government aims to increase the generic drug dispensing ratio from 50.1% in February 2014 to 60.0% by March 2018. At the moment, the government is actively promoting generic drugs by awarding dispensing pharmacies additional reimbursement points (premiums) for generic drug dispensing.

Risks

- Generic drugs are cheaper than new drugs, so when the generic drug dispensing ratio rises, the drug price margin shrinks, which has a negative impact on earnings at dispensing pharmacies.
- The government may end its system of premiums for generic drug dispensing.

Opportunities

- Creating an earnings structure that benefits from the promotion of generic drugs could boost the Group's competitive advantage. (In the short term, create a pharmacy network that secures premiums by promoting generic drugs; in the long term, strengthen the Group's negotiating position to secure generic drug price margins on par with margins for original drugs)



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.

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.

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. This has led to a downward trend in drug prices.

Risks

- Drug price margins are a key source of income for dispensing pharmacies, so their earnings structures are affected by drug price revisions.
- Reductions to drug prices make it harder to secure drug price margins in negotiations with prescription drug wholesalers.

Opportunities

- Building a stronger position in drug price negotiations will help to secure drug price margins.

The Changing Role of Dispensing Pharmacies

Japan has roughly 57,000 dispensing pharmacies, which are mostly run by small-scale family businesses.

Japan's dispensing pharmacy market is fragmented, with the top five major companies accounting for only 6.5% of the market, including the Group's leading market share of 2%.

As Japan's society ages, dispensing pharmacies are being asked to play a radically different role in patient health. Dispensing pharmacies now need to be able to offer higher-quality services such as management of left over prescription medicines, patient health management, and support for community healthcare, in addition to their conventional role of drug dispensing. Dispensing fees could also be revised so that only dispensing pharmacies that can provide these kinds of services will receive premiums. Dispensing pharmacies that step up to this new role by adapting to changes will be rewarded appropriately, while those that cannot could fall by the wayside.

Risks

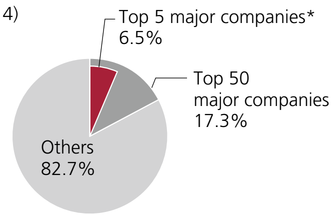
- Failure to attract or train pharmacists could limit the ability of dispensing pharmacies to provide high-quality services.
- Dispensing pharmacy performance could be negatively affected if they fail to respond to dispensing fee revisions.

Opportunities

- Hiring top-class pharmacists and providing them with training on an ongoing basis will enable the provision of high-quality services.
- Only companies that can adapt to changes in the operating environment will be able to deliver sustained growth.

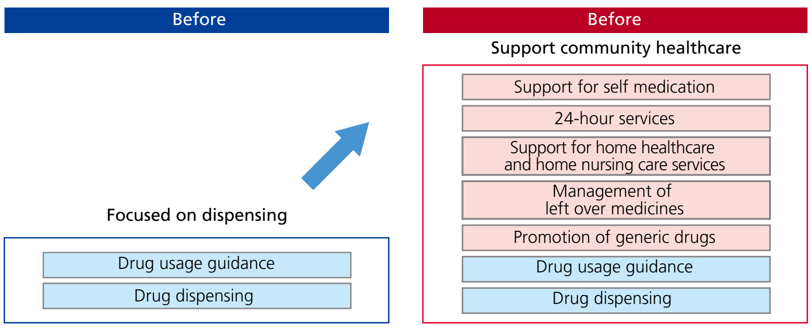
Dispensing Pharmacy Company Market Share

(Fiscal 2014)



*Top 5 major companies:
AIN PHARMACIEZ INC., NIHON CHOUZAI Co., Ltd. , KRAFT Inc., Qol Co., Ltd., SOGO MEDICAL CO., LTD.
Source: AIN PHARMACIEZ estimates, based on data from DRUG Magazine (July 2013) and FY2012 dispensing fee statistics released by the Ministry of Health, Labour and Welfare.

The Changing Role of Dispensing Pharmacies

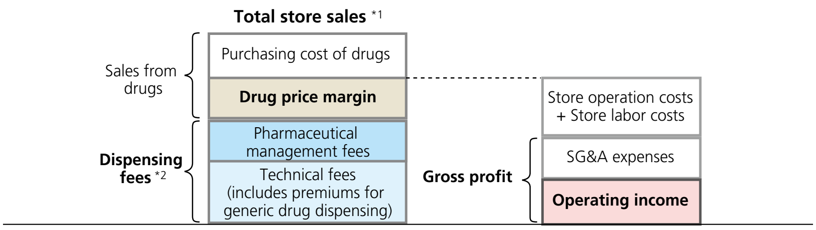


Characteristics of Dispensing Pharmacies in Japan

Healthcare system

- All Japan's citizens are enrolled in public health insurance.
- Patients can use any hospital or dispensing pharmacy.
- The government sets official drug prices.
- Patients have to return to their doctors for repeat prescriptions.
- The over-the-counter drug market accounts for less than 10% of the total pharmaceutical market.

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 + Increasing Earnings from Generic Drugs + Hiring and Training Pharmacists + Increasing the Efficiency of Existing Dispensing Pharmacies

See pages 10–15 for more details

Store Opening Strategy

We are actively opening stores and pursuing M&A opportunities to drive top-line growth.

We are channeling business resources into dispensing pharmacies located near major hospitals, as these locations are ideally suited to efficiently tapping prescription demand in the Japanese market over the medium and long term. We are also developing medical malls as an important medium- and long-term growth strategy and actively using M&A to rapidly expand our network of dispensing pharmacies.

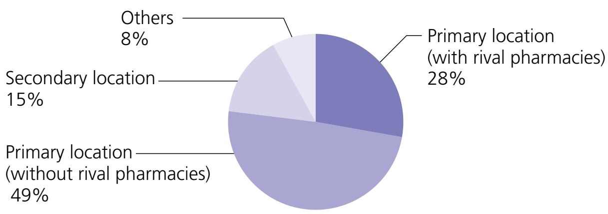
Dispensing pharmacies located near hospitals

Dispensing pharmacies near hospitals offer significant benefits for users and allow us to leverage our competitive advantages. We therefore plan to continue channeling business resources into this format.

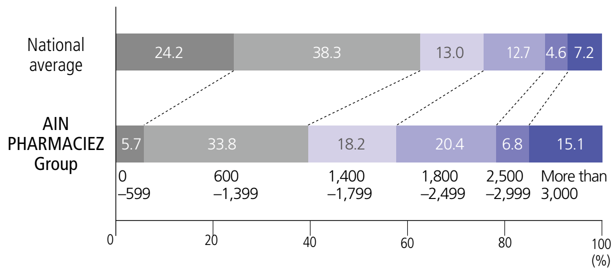
AIN Pharmacy AIZU WAKAMATSU

Dispensing pharmacies build close links with local hospitals, exchanging information to ensure sufficient drugs are in stock and minimizing the risk of dispensing errors. This format is the most popular type of pharmacy in Japan, as they are in convenient locations and have won the trust of patients. These locations can efficiently target prescription demand, leading to higher profits (see the figures below for more details). The close proximity of

AIN PHARMACIEZ Dispensing Pharmacies Located Near Hospitals: Breakdown by Location



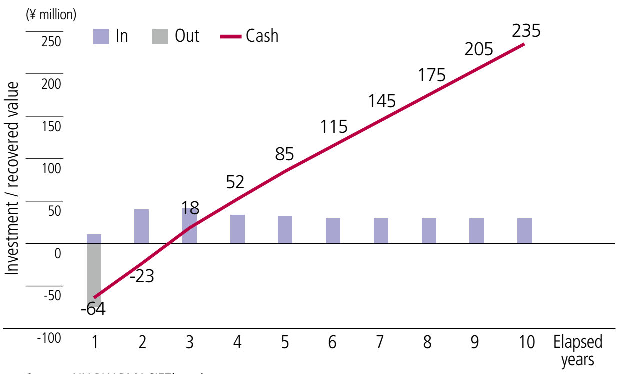
Comparison of Dispensing Pharmacies by Number of Monthly Prescriptions



Source: Comparison of dispensing pharmacies by number of prescriptions (Ministry of Health, Labour and Welfare data for March 2013) and AIN PHARMACIEZ dispensing pharmacies (As of October 2013)

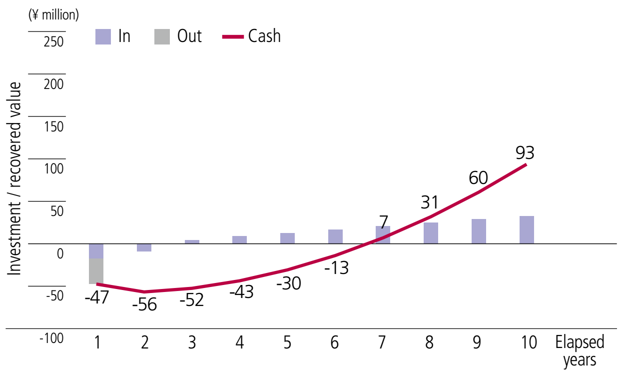
Comparison of Investment Efficiency

Dispensing pharmacies located near hospitals



Source: AIN PHARMACIEZ's estimates

Dispensing pharmacies not located near hospitals



dispensing pharmacies to local hospitals also means they can carefully monitor prescription trends and drug usage, allowing them to manage inventories more accurately.

In addition, building a nationwide chain of these dispensing pharmacies can generate economies of scale in drug procurement and dispensing equipment development, leading to lower costs and more efficient pharmacy operations.

AIN Pharmacy HIGASHINAEBO

Medical Malls

We began the full-scale development of medical malls in 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 dispensing pharmacies. We plan to accelerate growth by actively working to develop medical zones.

We are targeting locations in urban areas with a high level of customer traffic, such as station buildings. These locations boost the visibility of the clinics, resulting in higher profitability. We see these medical malls driving the Group's growth over the medium term, and we plan to open roughly 10 medical malls each year.

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 strong relationships with leading medical institutions.
- **Profitable:** The above two factors ensure our medical malls attract patients, supporting higher prescription volumes.

M&A Deals

In conjunction with store openings, we are actively pursuing M&A opportunities as another important part of our growth strategy.

Under our M&A strategy, we emphasize investment efficiency, only targeting dispensing pharmacies with the potential to improve their profitability after joining the Group. Currently, M&A deal costs are rising due to increased competition for acquisition targets. Due to our leading position in the sector, we have access to extensive information about M&A opportunities, allowing us to consistently acquire new targets while ensuring we pay a fair price. The Group has other advantages in M&A negotiations, such as a solid financial base, strong cash flow (see the figure "Sound Financial Structure" on page 3) and high-quality training for dispensing pharmacists (see page 13 for more details).

One of Japan's largest medical floors and AIN Pharmacy ABENO HARUKAS opened in ABENO HARUKAS in April 2014

AIN Pharmacy ABENO HARUKAS

The reception of the medical floor

Increasing Earnings from Generic Drugs

The Japanese government is actively promoting wider use of generic drugs as part of its policy to curb national medical expenses. The future of dispensing pharmacy companies will largely depend on their ability to contribute to this policy by increasing the generic drug dispensing ratio, and on whether they can build operating structures that are resilient to declines in earnings caused by lower generic drug price margins and other factors. One of our strengths has been the steps we have taken to preempt changes in the government's generic drug policy.

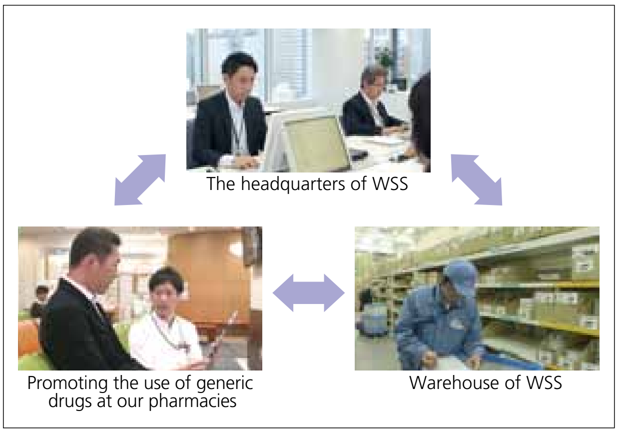
Anticipating moves by the government to expand its generic drug promotion policies, we established WHOLESALE STARS Co., Ltd. (WSS) in 2006, the first dedicated generic drug wholesaler to be set up by a dispensing pharmacy company in Japan. WSS is playing a key role in boosting the Group's earnings.

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

Benefits of using WSS

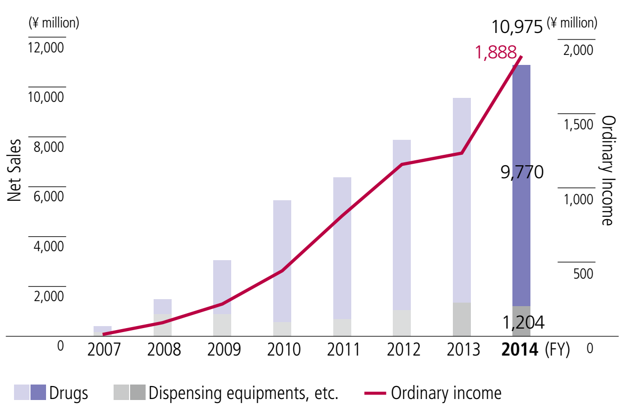
- WSS allows us to negotiate directly with generic drug makers, so wholesaler margins also flow the Group.
- WSS sells roughly 90% of its products to Group companies, which means it can accurately monitor total generic drug usage volume across the Group, making it easier to negotiate with drug companies. AIN PHARMACIEZ is also the largest buyer of generic drugs in Japan's dispensing pharmacy sector, giving us a strong position in negotiations with drug makers.
- WSS can instruct Group dispensing pharmacies to promote certain generic drugs, giving it significant control over drug selection and usage volume and enabling it to maintain margins.

Close Cooperation Between WSS and Our Pharmacies

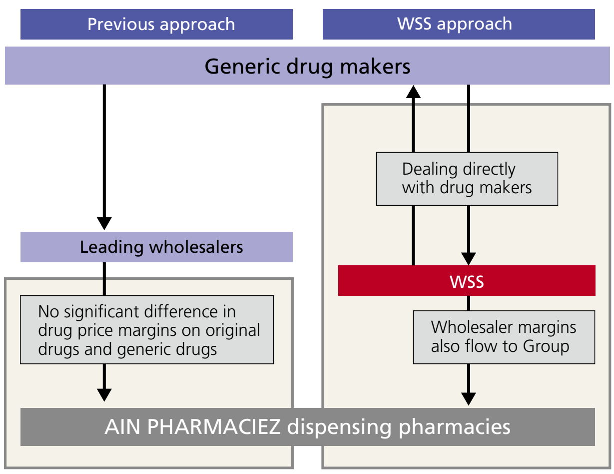


In April 2013, the government announced a new generic drug policy for the next five years. This policy and other measures indicate that the government plans to continue promoting the use of generic drugs over the medium term. Amid this trend, WSS will allow us to further boost the competitiveness of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

Net Sales and Ordinary Income of WSS



Advantages of Generic Drug Procurement Using WSS



Hiring and Training Pharmacists

Amid rising national medical expenses caused by Japan's aging society, dispensing pharmacies are likely to play a key role in local healthcare provision. One of those areas is home healthcare, and dispensing pharmacies will need to hire enough pharmacists to provide this service. Hiring and training pharmacists on a sustained basis is also vital to support an aggressive dispensing pharmacy opening program. AIN PHARMACIEZ has therefore put the highest priority on securing personnel.

The role of pharmacists is changing rapidly. Pharmacists now need to be able to provide high-quality services, such as management of left over prescription medication and support for patient health management, including self-medication using over-the-counter drugs, in addition to their conventional role of drug dispensing. Also, the government is encouraging dispensing pharmacies to play a greater role in community healthcare by teaming up with medical institutions to provide home-based dispensing services. Japan is likely to face a lack of dispensing pharmacies that are capable of meeting these demands.

Since its founding, AIN PHARMACIEZ has focused on hiring and training pharmacists on an ongoing basis as part of consistent efforts to improve the quality and number of its pharmacists.

- **Quality:** Pharmacists involved in home healthcare services and patient health management have a much closer connection to the lives of patients, so they need to have an even 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. In fiscal 2014, the AIN PHARMACIEZ Group hired 251 pharmacists, the most in the sector, for a total of 2,916 pharmacists as of April 30, 2014.

Specialist skills are needed to ensure sterile preparation of prescriptions f or home-based dispensing services

Our ability to attract large numbers of high-quality pharmacists will allow us to contribute to the government's policy of community healthcare and boost profits by securing more reimbursement points. We plan to continue actively hiring pharmacists to support our bold plans for business expansion over the medium and long term.

Training for newly qualified pharmacists

Comparison of Ability to Secure Dispensing Premiums

Ratio of Dispensing Pharmacies that Meet Standards for Dispensing System Premiums*

	National Average	AIN PHARMACIEZ
Standards for dispensing system premiums 1	46.8%	79.4%
Standards for dispensing system premiums 2	5.8%	4.8%
Total	52.6%	84.2%

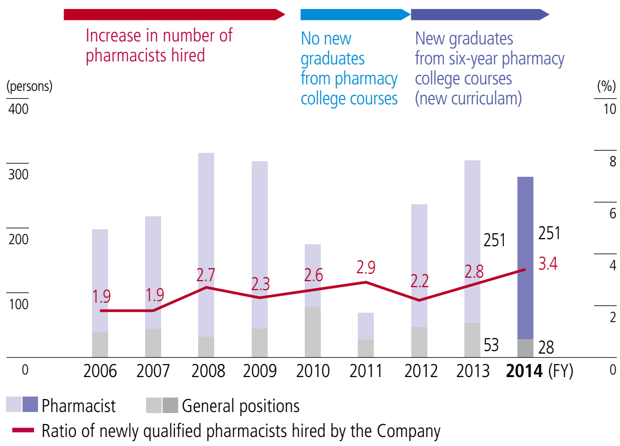
Note: Standards for dispensing system premiums: Dispensing pharmacies receive additional reimbursement points (premiums) if they meet certain standards requested by the government, such as the number of visits for home-based dispensing services and the required number of inventory items.
Source: National average based on data as of April 1, 2014, disclosed by RISFAX on June 26, 2014; AIN PHARMACIEZ as of April 2014.

Ratio of Dispensing Pharmacies that Receive Premiums for Generic Drug Dispensing Systems

	National Average	AIN PHARMACIEZ
Generic drug dispensing system premiums 1	27.7%	39.5%
Generic drug dispensing system premiums 2	20.2%	39.9%
Total	47.9%	79.4%

Source: National average based on data as of July 2014, disclosed by PHARMACY NEWSBREAK on July 17, 2014; AIN PHARMACIEZ as of July 2014.

Number of Graduates Hired

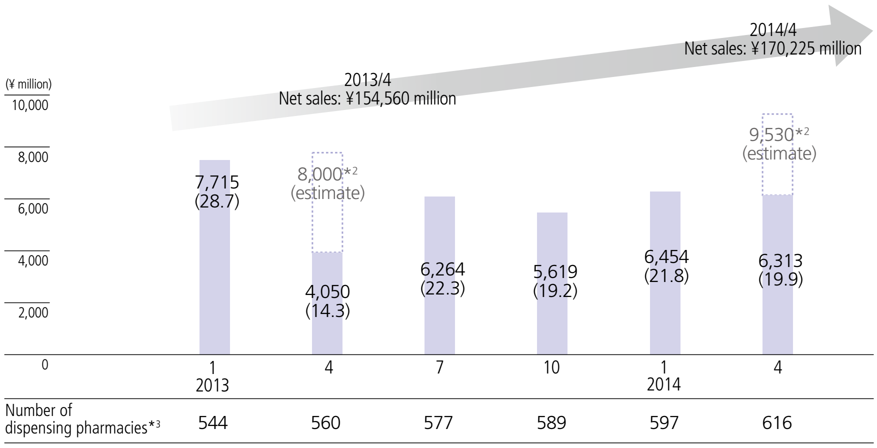


Increasing the Efficiency of Existing Dispensing Pharmacies

We are working to increase the efficiency of existing dispensing pharmacies in order to boost earnings and improve service provision. We launched a new pharmacy-led project in autumn 2012 to reinforce the dispensing pharmacy operating structure ahead of the increase in consumption tax and dispensing fee revisions in April 2014. We are now rolling out the project across our network.

Under the project, we are ensuring drug inventories are at appropriate levels and reviewing dispensing operations based on feedback from dispensing pharmacy staff. The project has delivered significant results so far, with the number of inventory turnover days falling from 28.7 in January 2013 to 19.9 in April 2014, the inventory value down roughly 18% year on year and labor costs also declining. Patient waiting times have also fallen substantially, leading to an increase in the ratio of prescriptions filled.

Progress of Our Pharmacy-led Project: Optimizing Inventory Value*1

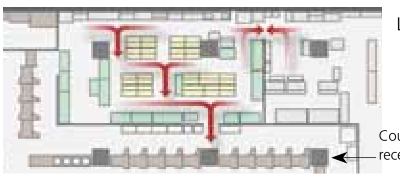


*1: Total for dispensing pharmacies at four core companies including WSS inventories. (Inventory turnover days shown in brackets.)
*2: The estimated values are based on pro-rata calculations for the number of stores and inventory items using a benchmark inventory value for January 2013.
*3: Total at end of each quarter period.

Renovation at the AIN Pharmacy NISHISHINJUKU

Know-how from our pharmacy-led project was used to renovate AIN Pharmacy NISHISHINJUKU, which made it more efficient.

< Before >

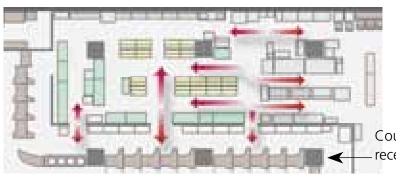


Layout figure

Counters where customers receive their medicine

Dispensing room

< After>



Layout figure

Counters where customers receive their medicine

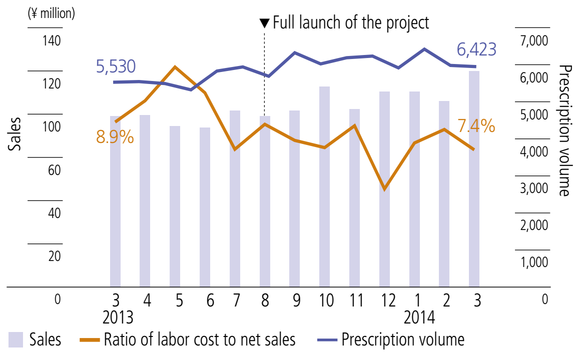
Dispensing room

Case study: AIN Pharmacy ITABASHI

Of the 13 model pharmacies where the project has been implemented, the AIN Pharmacy ITABASHI achieved a particularly fast improvement in earnings. Annual costs at the pharmacy have been reduced by around ¥1 million through the following measures.

AIN Pharmacy ITABASHI

Progress at the AIN Pharmacy ITABASHI



< Measures >

From the point the prescription is received until the drugs are dispensed, time savings of six seconds were identified for each process, with the savings applied to a total of 100 possible processes (6 seconds × 100 processes = 10 minutes).

This was achieved without changing the pharmacy's layout or installing new equipment.

Project meeting in the pharmacy

< Results >

(May-Oct 2013)

- **Waiting times reduced**

▶ Increase in customer satisfaction

- Waiting time:

Before		After
24 minutes	→	14 minutes

- **Increase in number of prescriptions filled by pharmacists**

▶ Higher profits

- Personnel:

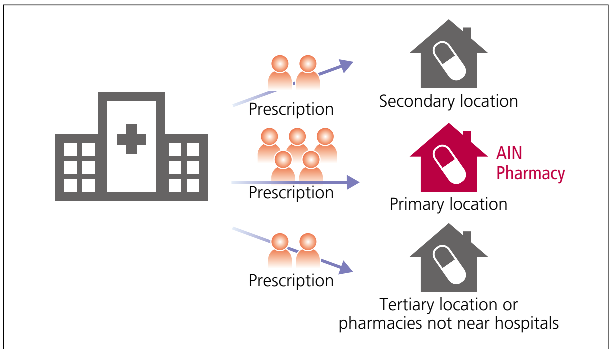
	Before		After
Pharmacists	18	→	16
Back office staffs	10	→	7

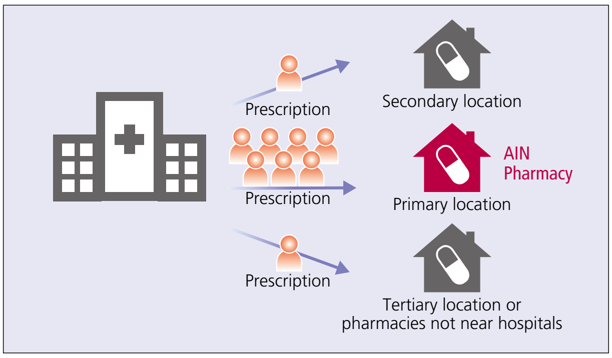
- Gross margin:

6.3%	→	10.5%

How our pharmacy-led project is improving the ratio of prescriptions filled

The ratio of prescriptions filled tends to be affected by the location of the dispensing pharmacy. Our pharmacy-led project to revitalize existing pharmacies has led to a reduction in patient waiting times. This is helping to attract customers from rival dispensing pharmacies, which is supporting an improvement in the ratio of prescriptions filled.





Dispensing Pharmacy Business

AIN PHARMACIEZ will expand its business through M&A deals and new dispensing pharmacy openings, focusing on locations near hospitals and in medical malls. The role of dispensing pharmacies is changing in Japan as healthcare becomes more sophisticated and the population ages. Dispensing pharmacies now have to play a part in home healthcare and become centers of healthcare provision for local communities. Recognizing the importance of this trend, the AIN PHARMACIEZ Group is actively taking steps to provide home-based dispensing services through all its dispensing pharmacies.

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

Home-based Dispensing Services (AIN PHARMACIEZ Group)

	Fiscal 2013	Fiscal 2014		Fiscal 2015 targets
No. of dispensing pharmacies *1	51	175	▶	600
Home-based dispensing service sales (¥ thousand) *2	2,163,170	2,671,389		3,000,000
No. of visits *2	224,393	254,917		300,000

*1 Number of AIN PHARMACIEZ dispensing pharmacies that have received technical fees for home-based dispensing services.
*2 Includes visits those are not eligible for technical fees for home-based dispensing services.

Case study: Promoting Home Healthcare

Aiming to promote the provision of home healthcare by all our pharmacists, whenever and wherever patients need support, the 13 dispensing pharmacies in the Group's No.1 North Kanto area worked to boost dispensing pharmacy efficiency and actively participated in home-based dispensing services. As of September 2013, we had provided these services to 272 patients. Also, the gross margin for dispensing pharmacies in the whole area improved 2.28 percentage points compared with the previous fiscal year and the ratio of labor costs to net sales declined 0.61 percentage point, contributing to a significant improvement in earnings.

Progress in the No.1 North Kanto Area

	Sep. 2012	Sep. 2013
Technical fees related to home-based dispensing services (¥ tnousand)	866	1,624
Gross margin (%)	8.39	10.67
Ratio of labor costs to net sales (%)	15.51	14.90

Home-based dispensing services

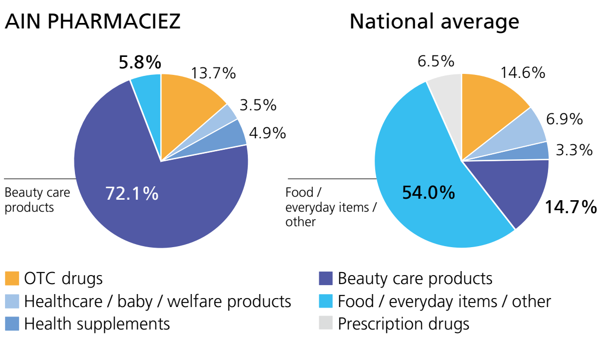
An AIN PHARMACIEZ vehicle used for home-based dispensing services

Drug and Cosmetic Store Business

The drug and cosmetic store business specializes in selecting and selling highly original drug & cosmetics products. Consequently, beauty care products account for roughly 70% of sales, which sets our stores apart from conventional drug stores (see the figure below). Our stores mainly target female shoppers and are located in urban areas with high customer traffic. We have put considerable effort into designing our stores so that they are clean and bright, encouraging customers to spend more time browsing for products. Going forward, we plan to create an even more appealing product lineup and refresh our branding, along with efforts to boost gross margins.

Kaori Suzuki
General Manager of
Drug and Cosmetic Store Division

Sales by Item



Source: AIN PHARMACIEZ is FY 2014 sales data; national average is June 2014 data from "Monthly Report on the Current Survey of Mass Merchandise Specialty Retailers," Ministry of Economy, Trade and Industry.

ainz & tulpe SANNOMIYA SANKITA-DORI

ainz & tulpe ABENO solaha

Case Study: Handling OTC Drugs at Our Dispensing Pharmacies

Leveraging the expertise we have built up supplying OTC drugs through our drug and cosmetic stores, we now handle a wide range of OTC drugs at our dispensing pharmacies, such as AIN Pharmacy ABENO HARUKAS and AIN Pharmacy OTEMACHI. Through close cooperation with the dispensing pharmacy business, we plan to promote self-medication and help customers improve their quality of life by supplying category 1 medicines, as well as products such as cosmetics for serious skin conditions and health supplements.

OTC drug sales area in AIN Pharmacy ABENO HARUKAS

OTC drug sales area in AIN Pharmacy OTEMACHI

(As of July 31, 2014)

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

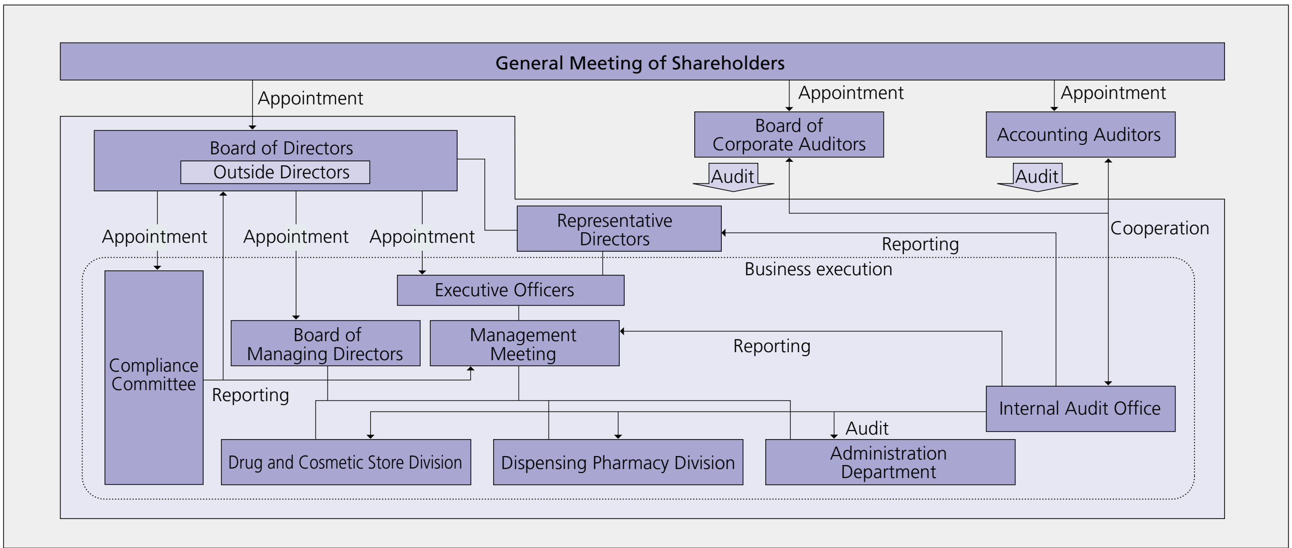
Dispensing pharmacies and drug and cosmetic store chains are the key business areas being developed by AIN PHARMACIEZ. Both of these businesses are characterized by a responsibility towards people's health, and as such, we recognize the indispensability of continuing with sound and transparent business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

OUTLINE OF CORPORATE GOVERNANCE

Corporate governance structure	Corporate Auditor Governance System
Chairman of the Board	Kiichi Otani
Number of directors	13 (including three outside directors)
Number of corporate auditors	Four (including three outside corporate auditors)
Board of Directors meetings in fiscal 2014	Number of meetings: 18 (more than once every month) Examples of resolutions: Annual budget, issues related to new businesses, store openings
Board of Corporate Auditor meetings in fiscal 2014	Number of meetings: 18 Examples of resolutions: Audit policy, audit plans and business division audits
Management Meetings in fiscal 2014	51
Key meetings attended by corporate auditors	Board of Directors meetings, Board of Corporate Auditor meetings, Management Meetings
Independent director appointment	The Company specifies Toshiaki Kobayashi as an Independent Corporate Auditors pursuant to the regulations of the Tokyo Stock Exchange and has notified them to the said stock exchange.
Systems to strengthen and promote Group management	Group Management Meetings (weekly)
Accounting auditor	Ernst & Young ShinNihon LLC



OUTSIDE DIRECTORS AND OUTSIDE CORPORATE AUDITORS

The Board of Directors is comprised of 13 members, including three 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. One of these outside corporate auditors has been designated as the Company's independent officer.

Reasons for selection of outside directors	
Hikaru Minami	Hikaru Minami has specialist knowledge and experience as a senior manager at a leading retailer and in the logistics division of a major trading company. We believe he can contribute to all areas of the Company's management by providing advice to the Board of Directors and other bodies and by monitoring business execution.
Tsuyoshi Kobayashi	Tsuyoshi Kobayashi has specialist knowledge and experience as a senior manager at a leading retailer, particularly in the financial and planning divisions. We believe he can contribute to all areas of the Company's management by providing advice to the Board of Directors and other bodies and by monitoring business execution.
Ko Mori	Ko Mori's background is with Marubeni Corporation, which contributes to the Retirement Benefit Trust (Marubeni Corporation account managed by Mizuho Trust & Banking Co., Ltd.), a major shareholder in the Company. Ko Mori also has experience working at MARUBENI SAFENET CO., LTD., which has a business relationship with the Company through insurance contracts.

Reasons for selection of outside corporate auditors	
Akira Ibayashi	Akira Ibayashi has specialist knowledge from working at financial institutions and experience as a corporate auditor at other companies. We believe he can contribute to the Company's internal control system by providing advice to the Board of Directors, the Board of Corporate Auditors and other bodies and by monitoring business execution.
Toshiaki Kobayashi	Toshiaki Kobayashi has accumulated significant experience through an extensive career with the former Ministry of Finance and other organizations. We believe he can contribute to the Company's internal control system by providing advice to the Board of Directors, the Board of Corporate Auditors and other bodies and by monitoring business execution.
Tomonori Ito	Tomonori Ito has specialist knowledge from working at an investment bank and experience as a graduate school professor. We believe he can contribute to the Company's internal control system by providing advice to the Board of Directors, the Board of Corporate Auditors and other bodies and by monitoring business execution.

REMUNERATION FOR DIRECTORS AND AUDITORS

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 2014 is as follows.

Item	Total remuneration (¥ million)	Remuneration by type (¥ million)		Number of eligible individuals
		Basic remuneration	Bonus	
Directors (excluding outside directors)	191	162	28	8
Corporate auditors (excluding outside corporate auditors)	6	6	–	1
Outside directors and outside corporate auditors	26	26	1	5

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 2014 are as follows.

(¥ thousand)

	Compensation paid for audit certification activities	Compensation paid for non-audit activities
The Company	40,300	–
Consolidated subsidiaries	–	–
Total	40,300	–

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 and dispensing fees 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 drug price revisions in April 2014, the average drug price was reduced by 2.65%. Also, under dispensing fee revisions, the dispensing fee system is being changed to reflect the functions of dispensing pharmacies in order to improve pharmaceutical management and promote home-based dispensing services. The dispensing fee revisions are also designed to encourage even wider use of generic drugs.

The gap in performance is widening between companies in the industry, which are struggling with changes to their profit structures resulting from revisions to dispensing fees and other systems. However, the Group regards these changes in the operating environment as a perfect opportunity to push ahead with its strategy of further increasing 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, 2014, the Japanese economy recovered steadily, despite signs of a pullback in demand after spiking ahead of the consumption tax hike. The upturn in the economy reflected an improvement in corporate earnings and employment conditions, as well as a broader-based pickup in capital expenditure and other areas.

In this economic environment, the Group worked to expand its business by opening new dispensing pharmacies and using M&A, while also pushing ahead with the comprehensive development of medical malls and the urban drug and cosmetic store business. The Group also aimed to boost profitability by revitalizing existing stores and dispensing pharmacies.

For the fiscal year under review, the Group reported net sales of ¥170,225 million, an increase of 10.1% year on year, reflecting the opening of new dispensing pharmacies and M&As. Operating income rose 4.3% to ¥10,113 million and net income increased 3.6% year on year to ¥5,259 million.

As of the end of the fiscal year, the number of stores in the Group totaled 675, a net increase of 54 stores from the end of the previous fiscal year.

BUSINESS OVERVIEW FOR THE FISCAL YEAR UNDER REVIEW

Dispensing Pharmacy Business

In the dispensing pharmacy business, sales continued to rise at existing dispensing pharmacies, supported by growth in average sales per prescription due to an increase in longer-term prescriptions.

Under the dispensing fee revisions in April 2014, dispensing pharmacies are being encouraged to play a much greater role in community healthcare and to promote even wider use of generic drugs.

For some time, the Group has been preparing for the impact of these dispensing fee revisions through a pharmacy-led project that reviews and rebuilds all dispensing processes at each dispensing pharmacy in order to improve dispensing pharmacy efficiency and upgrade patient services. The Group is also building links with local healthcare service providers, mainly in the area of home-based dispensing, and working to promote wider use of generic drugs in order to fulfill the new roles being asked of dispensing pharmacies.

In business development, the Group continued to push ahead with business expansion by opening new dispensing pharmacies, primarily dispensing pharmacies near hospitals and medical malls, and through M&A deals. In medical mall development, the Group was involved in the development of one of Japan's largest medical floors, in ABENO HARUKAS, a new mixed-use skyscraper (Osaka). This culminated in the opening of a new medical mall dispensing pharmacy called Ain Pharmacy ABENO HARUKAS in April 2014.

During the fiscal year under review, the Group opened 62 dispensing pharmacies, including those operated by 13 companies that became Group subsidiaries through M&A deals, and closed six dispensing pharmacies, resulting in a total of 616.

The dispensing pharmacy business reported net sales of ¥151,472 million, an increase of 10.3% year on year, and segment income of ¥12,772 million, up only 0.9% due to higher drug procurement costs.

Drug and Cosmetic Store Business

In the drug and cosmetic store business, the market environment remained challenging due to a narrowing competitive gap between companies in the sector and the emergence of new competitors from sector consolidation and realignment that also extends to other business sectors, as well as regulatory changes related to online sales of OTC drugs.

Against this backdrop, the Group continued to open *ainz & tulpe* urban drug stores to meet consumer needs.

Ainz & tulpe is a specialist, highly original drug and cosmetic store retail concept that the Group is rolling out in urban areas with high customer traffic. The Group continued to reinforce merchandising lineups at *ainz & tulpe* stores, particularly drug and cosmetic products, in order to boost sales capabilities and increase the gross margin.

In sales promotion, the Group worked to expand the customer base using a range of different communication tools tailored to customer segments, such as emails for Ainz Point Club members and communication apps such as LINE and Twitter.

During the fiscal year under review, the Group opened a number of *ainz & tulpe* format stores. These included *ainz & tulpe* SANNOMIYA SANKITA-DORI (Chuo-ku, Kobe), *ainz & tulpe* ABENO solaha (Abeno-ku, Osaka) and *ainz & tulpe* NU chayamachi (Kita-ku, Osaka), opened as part of efforts to build a dominant position in the Kyoto-Osaka-Kobe area. The Group also closed five stores, mainly suburban stores, resulting in a Group total of 59 stores at the end of the fiscal year.

The drug and cosmetic store business reported net sales of ¥17,985 million, an increase of 7.5% year on year, mainly reflecting a rush in demand before the increase to consumption tax and contributions from new stores. Although gross profit declined due to the closure of five stores, segment income rose 65.8% year on year to ¥23 million.

Other Businesses

Net sales of other businesses totaled ¥767 million, an increase of 43.9% year on year, and segment losses totaled ¥218 million, an improvement of ¥179 million year on year.

FINANCIAL POSITION

Total assets at the end of the fiscal year under review totaled ¥101,382 million, up ¥5,542 million due to an increase in inventories and fixed assets related to new store openings and M&A.

Consolidated current assets at the end of the fiscal year under review increased by ¥1,172 million to ¥44,334 million.

This mainly reflected cash on hand and in banks of ¥18,846 million, an increase of ¥386 million compared with the previous fiscal year, merchandise of ¥9,578 million, an increase of ¥1,762 million due to business expansion, and other accounts receivable of ¥5,679 million, down ¥1,500 million.

Fixed assets at the end of the fiscal year under review increased by ¥4,371 million to ¥57,048 million compared to ¥52,676 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, mainly buildings and structures, increased by ¥2,033 million to ¥19,583 million, while goodwill rose ¥442 million to ¥20,017 million.

In addition, investments and other assets increased by ¥1,814 million year on year to ¥16,334 million, chiefly reflecting an increase in deposits and guarantees.

Liabilities increased by ¥1,659 million to ¥59,142 million compared to ¥57,483 million at the end of the previous fiscal year.

This mainly reflected accounts payable of ¥28,002 million, up ¥3,917 million year on year due to growth in procurement related to new store openings and store acquisitions through M&A, versus short-term debt of ¥6,535 million, down ¥947 million, and long-term debt of ¥4,502 million, down ¥3,545 million, due to progress with debt repayments.

As a result of the above, the balance of current liabilities increased by ¥4,662 million from the previous year-end balance of ¥45,686 million to ¥50,349 million, and the balance of long-term liabilities decreased by ¥3,003 million from the previous year-end balance of ¥11,796 million to ¥8,793 million.

Net assets increased by ¥3,883 million to ¥42,240 million compared to ¥38,356 million at the end of the previous fiscal year.

Retained earnings increased ¥4,302 million year on year to ¥26,007 million due to growth in surplus funds, while treasury stock increased ¥411 million to ¥417 million due to a share buyback.

As a result of the above factors, the shareholders' equity ratio improved 1.5 percentage points to 41.5%, compared with 40.0% at the end of the previous fiscal year. ROA declined 0.3 percentage point from the previous fiscal year to 5.3%, while ROE dropped 1.0 percentage point to 13.1%.

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 plans to pay a dividend from retained earnings of ¥60 per share, the same level as the dividend for the previous fiscal year.

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, 2015, the same level as the planned dividend for the fiscal year under review.

CASH FLOWS

In the fiscal year under review, cash on hand and in banks increased ¥295 million (1.6%) year on year to ¥18,735 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.

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

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥14,662 million, an increase of 43.7% year on year.

The main items that were positive for cash flow were income before income taxes and minority interests of ¥10,265 million, as well as depreciation and amortization of ¥2,258 million, amortization of goodwill of ¥2,033 million and increase in notes and accounts payable-trade of ¥3,075 million related to business expansion through new store openings and M&A.

The main items that were negative for cash flow was income taxes paid of ¥4,603 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥7,749 million, a decrease of 8.9% year on year.

This mainly reflected payments of ¥3,460 million for purchases of property, plant and equipment related to the opening of new urban drug stores and dispensing pharmacies, and ¥2,410 million for purchases of shares in subsidiaries due to changes in the scope of consolidation related to shares acquired in 13 companies through M&A deals.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥6,617 million, compared with cash of ¥803 million provided the previous fiscal year.

This was mainly attributable to net short-term debt repayment of ¥318 million and net long-term debt repayment of ¥4,373 million.

Purchase of treasury stock of ¥411 million and cash dividends paid of ¥956 million also had a negative impact on cash flows from financing activities.

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 judgments by the AIN PHARMACIES 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. Business Overview

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

As the dispensing pharmacy business accounted for 89.0% of net sales in the fiscal year under review, we plan to continue the multi-store operation mainly based on dispensing pharmacies. Accordingly, the Group's operating results may be affected by the success or failure of the store opening policies and by trends in competitors' store openings.

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

3. Industry Trends

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

4. Attracting Qualified Staff

Dispensing pharmacies and drugstores (stores for Category 1 Drugs) are required by the Pharmaceutical Affairs Law to have at least one 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 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 Business Strategy Risk

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 ¥18,846 million, while the balance of short- and long-term debts of the Group was ¥11,038 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.

AIN PHARMACIEZ INC.
CONSOLIDATED BALANCE SHEET
AS OF APRIL 30, 2014

ASSETS	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 1(1)) 2014
Current assets:			
Cash on hand and in banks (Notes 2 and 4)	¥ 18,847	¥ 18,460	$ 183,855
Notes and accounts receivable (Note 4)	6,719	7,044	65,545
Other accounts receivable	5,680	7,181	55,409
Inventories (Note 3)	9,759	7,944	95,200
Deferred tax assets (Note 10)	1,245	955	12,145
Short-term loans	708	445	6,907
Other current assets	1,376	1,142	13,423
Allowance for doubtful accounts	-	(10)	-
Total current assets	44,335	43,162	432,494
Property, plant and equipment (Note 6):			
Buildings and structures, net	9,962	8,248	97,181
Land	6,699	6,031	65,350
Construction in progress	682	1,102	6,653
Other property, plant and equipment, net	2,241	2,170	21,861
Total property, plant and equipment	19,584	17,550	191,045
Investments and other assets:			
Investments in securities (Notes 4 and 5)	2,559	2,790	24,963
Deferred tax assets (Note 10)	1,068	946	10,418
Long-term loans	1,801	1,348	17,569
Deposits and guarantees	8,081	6,986	78,831
Goodwill	20,017	19,575	195,269
Other intangible fixed assets	1,112	1,031	10,848
Other investments and other assets	3,065	2,720	29,900
Allowance for doubtful accounts	(240)	(268)	(2,341)
Total investments and other assets	37,464	35,128	365,467
Total assets	¥ 101,383	¥ 95,840	$ 989,006

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 1(1)) 2014
Current liabilities:			
Accounts payable (Note 4)	¥ 28,002	¥ 24,085	$ 273,164
Short-term debt (Notes 4 and 7)	6,535	7,483	63,750
Accrued income taxes	3,080	2,427	30,046
Deposits received	8,687	7,906	84,743
Allowance for bonuses to employees	1,149	1,099	11,209
Allowance for bonuses to directors	12	13	117
Reserve for reward obligations	332	316	3,239
Other current liabilities	2,551	2,358	24,885
Total current liabilities	50,349	45,687	491,162
Long-term liabilities:			
Long-term debt (Notes 4 and 7)	4,503	8,049	43,927
Lease obligations	1,454	1,223	14,184
Allowance for retirement benefits (Note 9)	-	1,659	-
Net defined benefit liability	1,927	-	18,798
Other long-term liabilities	909	866	8,867
Total long-term liabilities	8,793	11,797	85,777
Net Assets: (Note 11)			
Shareholders' equity			
Common stock	8,683	8,683	84,704
Authorized - 44,000,000 shares in 2014 and 2013			
Issued - 15,944,106 shares in 2014 and 2013			
Capital surplus	7,873	7,873	76,802
Retained earnings	26,007	21,705	253,702
Treasury stock (89,916 shares in 2014 and 3,366 shares in 2013)	(417)	(6)	(4,068)
Total shareholders' equity	42,146	38,255	411,140
Accumulated other comprehensive income (loss):			
Unrealized holding gains on securities	35	58	341
Remeasurments of defined benefit plans	(58)	-	(566)
Total accumulated other comprehensive (loss) income	(24)	58	(234)
Minority interests	118	44	1,151
Total net assets	42,240	38,357	412,057
Total liabilities and net assets	¥ 101,383	¥ 95,840	$ 989,006

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED APRIL 30, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2014	2013	2014
Net sales (Note 15)	¥ 170,226	¥ 154,561	$ 1,660,579
Cost of sales	144,477	130,118	1,409,394
Gross profit	25,749	24,442	251,185
Selling, general and administrative expenses	15,635	14,741	152,522
Operating income (Note 15)	10,113	9,701	98,654
Other income (expense):			
Interest and dividend income	111	118	1,083
Gains on investments in partnership	45	80	439
Commissions received	33	71	322
Real estate rental revenue	74	91	722
Consignment income	144	134	1,405
Interest expenses	(102)	(144)	(995)
Losses on sales of accounts receivables	(86)	(79)	(839)
Gains on sales of investments in securities	50	119	488
Refund of premium for cancelled insurance	214	-	2,088
Losses on sales of investments in securities	-	(124)	-
Losses on disposal and sales of fixed assets	(336)	(132)	(3,278)
Impairment losses on fixed assets	(190)	(159)	(1,853)
Directors' retirement benefits	-	(320)	-
Other, net	194	337	1,892
	153	(7)	1,493
Income before income taxes and minority interests	10,266	9,695	100,146
Income taxes (Note 10):			
Current	5,207	4,597	50,795
Deferred	(274)	29	(2,673)
	4,933	4,626	48,122
Income before minority interests	5,333	5,069	52,024
Minority interests in income (loss)	74	(6)	722
Net income	¥ 5,259	¥ 5,075	$ 51,302

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED APRIL 30, 2014

	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 1(1))
	2014	2013	2014
Income before minority interests	¥ 5,333	¥ 5,069	$ 52,024
Other comprehensive income			
Unrealized holding (losses) gains on securities	(23)	339	(224)
Total other comprehensive (loss) income	(23)	339	(224)
Total comprehensive income	5,310	5,408	51,800
Comprehensive income attributable to shareholders of the parent	5,236	5,414	51,078
Comprehensive income (loss) attributable to minority interests	74	(6)	722

See accompanying notes.

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2014

	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	Remeasurments of defined benefit plans	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
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
Net income	-	-	-	5,259	-	5,259	-	-	-	-	5,259
Cash dividends paid	-	-	-	(956)	-	(956)	-	-	-	-	(956)
Acquisition of treasury stock	-	-	-	-	(412)	(412)	-	-	-	-	(412)
Net change in items other than those in shareholders' equity	-	-	-	-	-	-	(23)	(58)	(81)	74	(8)
Net changes during the year	-	-	-	4,303	(412)	3,891	(23)	(58)	(81)	74	3,884
Balance at April 30, 2014	15,944	¥ 8,683	¥ 7,873	¥ 26,007	¥ (417)	¥ 42,146	¥ 35	¥ (58)	¥ (24)	¥ 118	¥ 42,240

	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	Remeasurments of defined benefit plans	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 30, 2013	$ 84,704	$ 76,802	$ 211,735	$ (59)	$ 373,183	$ 566	$ -	$ 566	$ 429	$ 374,178
Net income	-	-	51,302	-	51,302	-	-	-	-	51,302
Cash dividends paid	-	-	(9,326)	-	(9,326)	-	-	-	-	(9,326)
Acquisition of treasury stock	-	-	-	(4,019)	(4,019)	-	-	-	-	(4,019)
Net change in items other than those in shareholders' equity	-	-	-	-	-	(224)	(566)	(790)	722	(78)
Net changes during the year	-	-	41,976	(4,019)	37,957	(224)	(566)	(790)	722	37,889
Balance at April 30, 2014	$ 84,704	$ 76,802	$ 253,702	$ (4,068)	$ 411,140	$ 341	$ (566)	$ (234)	$ 1,151	$ 412,057

See accompanying notes.

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 10,266	¥ 9,695	$ 100,146
Depreciation and amortization	2,259	2,213	22,037
Impairment losses on fixed assets	190	159	1,853
Amortization of goodwill	2,033	1,784	19,832
Decrease in allowance for doubtful accounts	(45)	(7)	(439)
Increase in reserve for reward obligations	16	14	156
Increase in allowance for retirement benefits	-	202	-
Increase in net defined benefit liability	154	-	1,502
Increase in allowance for bonuses to employees	38	115	371
Interest and dividend income	(111)	(118)	(1,083)
Interest expenses	102	144	995
Gains on investments in partnerships	(45)	(80)	(439)
Gains on donations of property, plant and equipment	(12)	(18)	(117)
(Gains) losses on sales of investments in securities	(50)	5	(488)
Losses on disposal and sales of fixed assets	332	112	3,239
Gains on transfer of business	-	(12)	-
Decrease in accounts receivable	1,110	4,673	10,828
(Increase) decrease in inventories	(1,485)	505	(14,486)
Increase in other assets	(199)	(196)	(1,941)
Decrease (increase) in other accounts receivable	1,552	(4,269)	15,140
Increase in accounts payable	3,075	475	29,997
Increase (decrease) in other liabilities	84	(223)	819
Subtotal	19,264	15,171	187,923
Interest and dividends received	105	125	1,024
Interest paid	(103)	(145)	(1,005)
Income taxes paid	(4,604)	(4,948)	(44,913)
Net cash provided by operating activities	14,663	10,204	143,040
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(3,460)	(3,267)	(33,753)
Proceeds from sales of property, plant and equipment	466	325	4,546
Proceeds from transfer of business	-	65	-
Payments for purchases of investments in securities	(121)	(559)	(1,180)
Proceeds from sales of investments in securities	322	1,240	3,141
Purchases of subsidiaries' shares resulting in obtaining controls	(2,410)	(2,923)	(23,510)
Payments for loans receivable	(3,173)	(579)	(30,953)
Proceeds from collections of loans receivable	2,545	734	24,827
Payments for investments in capital	(0)	(743)	(0)
Payments for purchase of intangible fixed assets	(794)	(956)	(7,746)
Increase in other investments	(1,126)	(1,839)	(10,984)
Net cash used in investing activities	(7,749)	(8,503)	(75,593)
Cash flows from financing activities:			
Net (repayments) proceeds from short-term debts	(318)	851	(3,102)
Proceeds from long-term debts	137	6,440	1,336
Repayments of long-term debts	(4,510)	(5,258)	(43,996)
Repayments of lease obligations	(558)	(431)	(5,443)
Payments for purchase of treasury stock	(412)	(0)	(4,019)
Cash dividends paid	(956)	(797)	(9,326)
Net cash (used in) provided by financing activities	(6,618)	804	(64,560)
Net increase in cash and cash equivalents	296	2,504	2,888
Cash and cash equivalents at beginning of year	18,440	15,935	179,885
Cash and cash equivalents at end of the year (Note 2)	¥ 18,735	¥ 18,440	$ 182,763

See accompanying notes.

AIN PHARMACIEZ INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2014 AND 2013

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, 2014, which was ¥102.51 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 24 and 19 subsidiaries as of April 30, 2014 and 2013, 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 April. The account closing date for two 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) 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.

(13) 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 Company and some of its consolidated subsidiaries employ the simplified method when computing retirement benefit obligations for the year ended April 30, 2014.

In calculating the retirement benefit obligation, the straight-line basis is used to attribute the expected benefit attributable to the respective fiscal year. Unrecognized prior service cost is amortized on a straight-line basis over a period (six years) within the employees' average remaining service period at incurrence. Unrecognized 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.

(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) 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.

(17) Changes in accounting policies due to application of revised accounting standards

The Company and its subsidiaries have adopted the “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 26, revised on May 17, 2012, the “Accounting Standard”) and the Guidance on “Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, revised on May 17, 2012, the “Guidance”) applicable from the fiscal year ended April 30, 2014 (excluding the provisions set out in the main text of Paragraph 35 and Paragraph 67 of the Accounting Standard and the Guidance, respectively). Accordingly, the amount deducted plan assets from retirement benefit obligation, unrecognized actuarial gains (losses) and unrecognized prior service cost are reported as “Net defined benefit liability” from the fiscal year ended April 30, 2014.

In accordance with the transitional treatment stipulated in Paragraph 37 of the Accounting Standard, the effect of the changes is reported as “Remeasurements of defined benefit plans” in “Accumulated other comprehensive income” from the fiscal year ended April 30, 2014.

As a result of this change, ¥1,927 million ($18,798 thousand) was recognized as “Net defined benefit liability.” Accumulated other comprehensive income decreased by ¥58 million ($566 thousand). Net assets per share decreased by ¥3.67 ($0.036).

(18) Unapplied accounting standards

(a) Accounting Standard for Retirement Benefits (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 retirement benefit obligation and service cost.

The Company and its subsidiaries intend to adopt the changes on calculation methods for retirement benefit obligation and service cost from the fiscal year beginning on May 1, 2014.

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

(b) Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21, revised on September 13, 2013)
Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, revised on September 13, 2013)
Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7, revised on September 13, 2013)
Revised Accounting Standard for Earnings per Share (ASBJ Statement No. 2, revised on September 13, 2013)
Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, revised on September 13, 2013)
Revised Guidance on Accounting Standard for Earnings per Share (ASBJ Guidance No. 4, revised on September 13, 2013)

The accounting standard has been revised mainly on (i) the treatment of a change in the parent company’s ownership interest in a subsidiary in the case where the parent company retains control over the subsidiary upon additionally acquiring the shares of the subsidiary or other cases, (ii) the treatment of acquisition-related costs, (iii) the presentation of net income and the change in presentation from minority interests to non-controlling interests, and (iv) the provisional accounting treatment.

The Company and its consolidated subsidiaries intend to adopt (i) to (iii) from the fiscal year beginning on May 1, 2015, and (iv) for business combinations after the fiscal year beginning on May 1, 2015.

Effects of adoption of the accounting standard are currently being examined.

(19) Reclassification and restatement

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

2. Cash and cash equivalents

(1) Reconciliations of cash on hand and in banks shown in the consolidated balance sheet and cash and cash equivalents shown in the consolidated statement of cash flows as of and for the years ended April 30, 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash on hand and in banks	¥ 18,847	¥ 18,460	$183,855
Less: Time deposits with maturities exceeding three months	(111)	(21)	(1,083)
Cash and cash equivalents	¥ 18,735	¥ 18,440	$ 182,763

(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, 2014 and 2013 due to the acquisition of shares

(i) Acquisition of shares of 13 companies in the dispensing pharmacy business for the year ended April 30, 2014

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
	2014	2014
Current assets	¥ 2,111	$ 20,593
Fixed assets	936	9,131
Goodwill	2,165	21,120
Current liabilities	(1,863)	(18,174)
Long-term liabilities	(225)	(2,195)
Acquisition cost of the companies	3,125	30,485
Cash and cash equivalents held by the companies	(714)	(6,965)
Net disbursement due to the acquisition	¥ 2,410	$ 23,510

(ii) 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
	2013
Current assets	¥ 1,463
Fixed assets	826
Goodwill	3,104
Current liabilities	(1,547)
Long-term liabilities	(592)
Acquisition cost of the companies	3,254
Cash and cash equivalents held by the companies	(331)
Net disbursement due to the acquisition	¥ 2,923

3. Inventories

Inventories at April 30, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Merchandise	¥ 9,579	¥ 7,817	$ 93,445
Supplies	181	128	1,766
	¥ 9,759	¥ 7,944	$ 95,200

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.

(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 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 twenty one years from the date of borrowing, at the longest.

(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. 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, 2014 and 2013 are summarized in the following table:

Assets	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Carrying value			
Cash on hand and in banks	¥ 18,847	¥ 18,460	$ 183,855
Notes and accounts receivable	6,719	7,044	65,545
Other accounts receivable	5,680	7,181	55,409
Investment in securities	1,762	2,102	17,189
Deposits and guarantees	7,948	6,852	77,534
Total	40,955	41,639	399,522
Fair value			
Cash on hand and in banks	18,847	18,460	183,855
Notes and accounts receivable	6,719	7,044	65,545
Other accounts receivable	5,680	7,181	55,409
Investment in securities	1,778	2,126	17,345
Deposits and guarantees	7,718	6,702	75,290
Total	40,741	41,513	397,434
Difference			
Cash on hand and in banks	-	-	-
Notes and accounts receivable	-	-	-
Other accounts receivable	-	-	-
Investment in securities	16	24	156
Deposits and guarantees	(230)	(150)	(2,244)
Total	¥ (214)	¥ (126)	$ (2,088)

Liabilities	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Carrying value			
Accounts payable	¥ 28,002	¥ 24,085	$ 273,164
Short-term debt including current portion of long-term debt	6,535	7,483	63,750
Deposits received	8,687	7,906	84,743
Long-term debt	4,503	8,049	43,927
Total	47,727	47,523	465,584
Fair value			
Accounts payable	28,002	24,085	273,164
Short-term debt including current portion of long-term debt	6,539	7,490	63,789
Deposits received	8,687	7,906	84,743
Long-term debt	4,512	8,056	44,015
Total	47,740	47,537	465,711
Difference			
Accounts payable	-	-	-
Short-term debt including current portion of long-term debt	4	7	39
Deposits received	-	-	-
Long-term debt	9	7	88
Total	¥ 12	¥ 15	$ 117

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 ¥797 million ($7,775 thousand) and ¥688 million as of April 30, 2014 and 2013, respectively, are not readily determinable.

The redemption schedule for monetary claims and securities with maturity dates as of April 30, 2014 and 2013 are summarized as follows:

	Millions of yen			
	2014			
	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	¥ 18,455	¥ -	¥ -	¥ -
Notes and accounts receivable	6,719	-	-	-
Other accounts receivable	5,680	-	-	-
Investment securities				
Debt securities	480	89	-	-
Deposits received	1,526	2,392	2,609	1,554
Total	¥ 32,859	¥ 2,482	¥ 2,609	¥ 1,554

	Thousands of U.S. dollars			
	2014			
	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	$ 180,031	$ -	$ -	$ -
Notes and accounts receivable	65,545	-	-	-
Other accounts receivable	55,409	-	-	-
Investment securities				
Debt securities	4,682	868	-	-
Deposits received	14,886	23,334	25,451	15,159
Total	$ 320,544	$ 24,212	$ 25,451	$ 15,159

	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

5. Securities

(1) The following tables summarize acquisition costs, carrying values and differences of securities with available fair values as of April 30, 2014 and 2013:

Other securities:

Securities with carrying values exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Acquisition cost			
Equity securities	¥ 368	¥ 510	$ 3,590
Bonds	-	-	-
Limited partnerships and similar investments	92	110	897
Other	-	103	-
Total	460	724	4,487
Carrying value			
Equity securities	455	585	4,439
Bonds	-	-	-
Limited partnerships and similar investments	103	115	1,005
Other	-	117	-
Total	558	817	5,443
Difference			
Equity securities	87	74	849
Bonds	-	-	-
Limited partnerships and similar investments	11	5	107
Other	-	14	-
Total	¥ 98	¥ 93	$ 956

Other securities:

Securities with carrying values not exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Acquisition cost			
Equity securities	¥ 369	¥ 355	$ 3,600
Bonds	569	599	5,551
Limited partnerships and similar investments	301	335	2,936
Other	10	-	98
Total	1,248	1,289	12,174
Carrying value			
Equity securities	324	352	3,161
Bonds	569	599	5,551
Limited partnerships and similar investments	301	335	2,936
Other	10	-	98
Total	1,204	1,285	11,745

Difference			
Equity securities	(44)	(3)	(429)
Bonds	-	-	-
Limited partnerships and similar investments	-	-	-
Other	-	-	-
Total	¥ (44)	¥ (3)	$ (429)

Equity securities included stocks of non-consolidated subsidiaries and affiliates of ¥2 million ($20 thousand) and ¥2 million at April 30, 2014 and 2013, 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, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total sales of other securities sold	¥ 293	¥ 1,333	$ 2,858
Related gains	50	119	488
Related losses	-	124	-

(3) The following table summarizes impairment losses on other securities in the years ended April 30, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Other securities with fair value	¥ -	¥ -	$ -
Other securities without fair value	1	2	10

6. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation, impairment losses and net balance of leased assets as of April 30, 2014 and 2013, 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
	2014	2013	2014
Acquisition cost			
Buildings	¥ 207	¥ 207	$ 2,019
Other fixed assets	56	82	546
Intangible fixed assets	23	65	224
Total	286	354	2,790
Accumulated depreciation			
Buildings	170	160	1,658
Other fixed assets	36	56	351
Intangible fixed assets	23	42	224
Total	229	258	2,234
Impairment losses			
Buildings	-	-	-
Other fixed assets	-	-	-
Intangible fixed assets	-	-	-
Total	-	-	-
Net balance			
Buildings	37	47	361
Other fixed assets	20	26	195
Intangible fixed assets	-	24	-
Total	¥ 57	¥96	$ 556

Future minimum lease payments as of April 30, 2014 and 2013 for finance leases currently accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due within one year	¥ 28	¥ 27	$ 273
Due after one year	88	109	858
Total	¥ 116	¥ 135	$1,132

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
	2014	2013	2014
Lease expense	¥ 45	¥ 100	$ 439
Reversal of impairment losses for leased assets	-	-	-
Depreciation	16	66	156
Interest expense	21	25	205
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
	2014	2013	2014
Due within one year	¥ 608	¥ 569	$ 5,931
Due after one year	4,139	4,109	40,377
Total	¥ 4,746	¥4,678	$46,298

7. Short-term debt and long-term debt

Short-term debt and long-term debt at April 30, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Short-term bank loans with a weighted-average interest rate of 0.4%	¥ 3,307	¥ 3,555	$ 32,260
Current portion of long-term debt with a weighted-average interest rate of 0.6%	3,229	3,928	31,499
Current portion of lease obligation with a weighted-average interest rate of 1.3%	567	499	5,531
Long-term debt (2015-2034) with a weighted-average interest rate of 0.6%	4,503	8,049	43,927
Lease obligation (2015-2022) with a weighted-average interest rate of 1.5%	1,454	1,223	14,184
Total	¥ 13,059	¥ 17,254	$ 127,392

At April 30, 2014 and 2013, 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
	2014	2013	2014
Buildings	¥ 20	¥ 5	$ 195
Land	11	28	107
Investments in securities	6	6	59
Total	¥ 37	¥ 39	$ 361

Liabilities corresponding to collateral:	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Accounts payable	¥ 2	¥ 3	$ 20
Long-term debt	60	25	585
Total	¥ 62	¥ 28	$ 605

The aggregate annual maturities of long-term debt at April 30, 2014 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2015	¥ 3,229	$ 31,499
2016	2,589	25,256
2017	1,237	12,067
2018	394	3,844
2019	142	1,385

The aggregate annual maturities of lease obligations at April 30, 2014 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2015	¥ 567	$ 5,531
2016	518	5,053
2017	438	4,273
2018	288	2,809
2019	109	1,063

8. Sales, disposal and impairment of fixed assets

(1) Gains and losses on sales of fixed assets for the years ended April 30, 2014 and 2013 are as follows:

Gains on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Buildings and structures	¥ -	¥ 17	$ -
Land	4	1	39
Other property, plant and equipment	0	3	0
Other intangible fixed assets	0	-	0
Total	¥ 4	¥ 21	$ 39

Losses on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Buildings and structures	¥ 6	¥ 84	$ 59
Land	174	-	1,697
Construction in progress	-	11	-
Other property, plant and equipment	0	11	0
Other intangible fixed assets	-	9	-
Other investments and other assets	-	0	-
Disposal cost	-	16	-
Total	¥ 181	¥ 132	$ 1,766

(2) Losses on disposal of fixed assets for the years ended April 30, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Buildings and structures	¥ 27	¥ 0	$ 263
Other property, plant and equipment	8	0	78
Goodwill	2	-	20
Other intangible fixed assets	5	-	49
Deposits and guarantees	63	-	615
Other investments and other assets	21	-	205
Disposal cost	30	-	293
Total	¥ 155	¥ 0	$ 1,512

(3) For the years ended April 30, 2014 and 2013, the Company recognized impairment losses for the following property groups:

		Millions of yen		Thousands of U.S. dollars
		2014	2013	2014
Property group	Description of assets			
Stores	Store facilities	¥ 120	¥ 136	$ 1,171
Real estate	Land	21	7	205
Stores and real estate	Store facilities and land	43	-	419
Leasehold properties	Store facilities	6	15	59
	Total	¥ 190	¥ 159	$ 1,853

9. Retirement benefits

(1) Defined-benefit pension plan

(a) Reconciliation of the beginning and the ending balance of retirement benefit obligation (excluding the amount of the simplified method)

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance as of May 1, 2013	¥ 1,803	$ 17,589
Service costs	225	2,195
Interest cost on retirement benefit obligation	18	176
Actuarial gains (losses) incurred	102	995
Pension and severance payments	(60)	(585)
Other	(1)	(10)
Balance as of April 30, 2014	¥ 2,087	$ 20,359

(b) Reconciliation of the beginning and the ending balance of plan assets (excluding the amount of the simplified method)

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance as of May 1, 2013	¥ 325	$ 3,170
Expected return on plan assets	2	20
Actuarial gains (losses) incurred	7	68
Business owner’s contribution	86	839
Pension and severance payments	(14)	(137)
Balance as of April 30, 2014	¥ 406	$ 3,961

(c) Reconciliation of the beginning and the ending balance of liabilities of the simplified method

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance as of May 1, 2013	¥ 213	$ 2,078
Retirement benefit expenses	72	702
Business owner’s contribution	(36)	(351)
Pension and severance payments	(27)	(263)
Other	24	234
Balance as of April 30, 2014	¥ 246	$ 2,400

(d) Reconciliation of the retirement benefit obligation and plan assets to net defined benefit liability and net defined benefit asset reported on the consolidated balance sheet

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligation	¥ 2,311	$ 22,544
Plan assets	(451)	(4,400)
Subtotal	1,860	18,145
Unfunded retirement benefit obligation	67	654
Net of liability and asset reported on the consolidated balance sheet	1,927	18,798
Net defined benefit liability	1,927	18,798
Net of liability and asset reported on the consolidated balance sheet	¥ 1,927	$ 18,798

(e) Retirement benefit expenses for the years ended April 30, 2014 comprised the following:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service costs	¥ 225	$ 2,195
Interest cost on retirement benefit obligation	18	176
Expected return on plan assets	(2)	(20)
Amortization of actuarial losses	68	663
Amortization of prior service costs	(35)	(341)
Retirement benefit expenses calculated under the simplified method	72	702
Retirement benefit expenses	¥ 347	$ 3,385

(f) Remeasurements of defined benefit plans

The breakdown of remeasurements of defined benefit plans (before deducting tax effect) is as shown below:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized prior service costs	¥ (152)	$ (1,483)
Unrecognized actuarial gains	244	2,380
Total	¥ 92	$ 897

(g) Plan assets

(i) Percentages for major categories within total plan assets are as follows:

	2014
Bonds	6%
Stocks	5%
General account	63%
Other	26%
Total	100%

(ii) Method of establishing the long-term expected return on plan assets
The long-term expected return on plan assets is determined by taking into consideration current and expected allocation of plan assets, as well as the current and future long-term expected profitability of the diverse assets that constitute the plan assets.

(h) Actuarial assumptions used in accounting for the Company's plans as of April 30, 2014 are principally as follows:

	2014
Weighted average discount rate	1.0%
Weighted average expected rate of return on plan assets	0.75%

(2) Retirement benefit obligation as of April 30, 2013 consists of the following:

	Millions of yen
	2013
Retirement benefit obligation	¥ (2,015)
Plan assets at fair value	325
Unfunded retirement benefit obligation	(1,690)
Unrecognized actuarial gains	218
Unrecognized prior service costs	(187)
Net retirement benefit obligation	(1,659)
Allowance for retirement benefits	¥ (1,659)

(3) Retirement benefit expenses for the years ended April 30, 2013 comprised the following:

	Millions of yen
	2013
Service costs	¥ 325
Interest cost on retirement benefit obligation	15
Expected return on plan assets	(2)
Amortization of actuarial losses	102
Amortization of prior service costs	(21)
Additional retirement allowance paid	22
Retirement benefit expenses	¥ 440

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

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

10. Income taxes

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities for the years ended April 30, 2014 and 2013 was 37.7%.

(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, 2014 and 2013:

	2014	2013
Statutory tax rate	37.7%	37.7%
Non-deductible expenses	0.6	0.7
Per capita inhabitant tax	1.8	1.7
Amortization of goodwill	4.9	5.2
Valuation allowance	0.5	0.2
Other	2.6	2.2
Effective tax rates	48.1%	47.7%

(2) Significant components of deferred tax assets and liabilities as of April 30, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Impairment losses	¥ 463	¥ 445	$ 4,517
Excess of allowance for bonuses	404	412	3,941
Excess of reserve for rewards obligation	117	119	1,141
Net defined benefit liabilities	649	-	6,331
Allowance for retirement benefits	-	589	-
Other	1,290	931	12,584
Sub-total deferred tax assets	2,923	2,495	28,514
Valuation allowance	476	461	4,643
Total deferred tax assets	2,447	2,034	23,871
Deferred tax liabilities:			
Capitalized removal costs	(88)	(95)	(858)
Net unrealized holding gains on securities	(19)	(32)	(185)
Valuation of land	-	(61)	-
Other	(57)	(50)	(556)
Total deferred tax liabilities	(165)	(237)	(1,610)
Net deferred tax assets	¥ 2,283	¥ 1,797	$ 22,271

(3) Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates
The “Act on Partial Revision of the Income Tax Act” was promulgated on March 31, 2014, repealing the “Special Reconstruction Corporation Tax” effective for fiscal years beginning on or after April 1, 2014. Accordingly, the statutory effective tax rate used for calculating deferred income tax assets and deferred income tax liabilities was reduced from 37.7% to 35.3%, resulting in a temporary difference in assets or liabilities realized in the fiscal year beginning April 1, 2014.

The effect of this change in the tax rate is immaterial to the consolidated financial statements.

11. 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.

12. Commitment

The Company entered into overdraft agreements with 20 and 21 banks as of April 30, 2014 and 2013, respectively, to finance working capital requirements. The outstanding balances of such overdrafts as of April 30, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total overdraft available	¥ 23,950	¥ 22,100	$ 233,636
Amount utilized	3,300	3,550	32,192
Outstanding balance	¥ 20,650	¥ 18,550	$ 201,444

13. 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 ¥1,256 million ($12,252 thousand) and ¥1,462 million as of April 30, 2014 and 2013, respectively.

14. Amounts per share

Net assets per share at April 30, 2014 and 2013 and basic and diluted net income per share for the years then ended are as follows:

	Yen		U.S. dollars
	2014	2013	2014
Net assets per share	¥ 2,657	¥ 2,403	$ 25.92
Basic net income per share	330	318	3.22
Diluted net income per share	-	-	-
Cash dividends per share attributable to the year	60	60	0.59

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.

15. 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, 2014 and 2013 is summarized as follows:

	Millions of yen					
	2014					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 151,473	¥ 17,986	¥ 767	¥ 170,226	¥ 0	¥ 170,226
Intersegment sales	-	-	479	479	(479)	-
Total sales	151,473	17,986	1,247	170,705	(479)	170,226
Segment income (loss)	12,772	24	(219)	12,577	(1,990)	10,587
Segment assets	¥ 85,491	¥ 7,650	¥ 5,419	¥ 98,560	¥ 2,823	¥ 101,383
Other						
Depreciation and amortization	¥ 1,633	¥ 235	¥ 91	¥ 1,958	¥ 129	¥ 2,087
Amortization of goodwill	2,028	5	-	2,033	-	2,033
Impairment losses	77	106	6	190	-	190
Increase of tangible and intangible assets	3,062	369	378	3,809	760	4,569

Thousands of U.S. dollars 2014	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	$ 1,477,641	$ 175,456	$ 7,482	$ 1,660,579	$ 0	$ 1,660,579
Intersegment sales	-	-	4,673	4,673	(4,673)	-
Total sales	1,477,641	175,456	12,165	1,665,252	(4,673)	1,660,579
Segment income (loss)	124,593	234	(2,136)	122,690	(19,413)	103,278
Segment assets	$ 833,977	$ 74,627	$ 52,863	$ 961,467	$ 27,539	$ 989,006
Other						
Depreciation and amortization	$ 15,930	$ 2,292	$ 888	$ 19,101	$ 1,258	$ 20,359
Amortization of goodwill	19,783	49	-	19,832	-	19,832
Impairment losses	751	1,034	59	1,853	-	1,853
Increase of tangible and intangible assets	29,870	3,600	3,687	37,157	7,414	44,571

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

Amortization of goodwill and unamortized balances by reporting segment as of and for the years ended April 30, 2014 and 2013 are summarized as follows:

Millions of yen 2014	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	¥ 2,028	¥ 5	¥ -	¥ -	¥ 2,033
Unamortized balances of goodwill	20,017	-	-	-	20,017

Thousands of U.S. dollars 2014	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	$ 19,783	$ 49	$ -	$ -	$ 19,832
Unamortized balances of goodwill	195,269	-	-	-	195,269

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

16. Comprehensive income

Each component of other comprehensive income (loss) for the years ended April 30, 2014 and 2013 was the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unrealized holding gains (losses) on securities:			
Gains arising during the year	¥ 14	¥ 491	$ 137
Reclassification adjustments to gains (losses)	(50)	33	(488)
Amount before income tax effect	(36)	524	(351)
Income tax effect	(13)	185	(127)
Total Unrealized holding (losses) gains on securities	(23)	339	(224)
Total other comprehensive (loss) income	¥ (23)	¥ 339	$ (224)

17. Business combinations

For the year ended April 30, 2014

(1) Business combinations

During the fiscal year ended April 30, 2014, the Company and its consolidated subsidiaries AIN MEDIO Inc. and Daichiku Co., Ltd. acquired for cash consideration the shares in thirteen 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	¥2,937 million ($28,651 thousand)
Expenses related directly to acquisition	¥187 million ($1,824 thousand)
Cost of acquisition	¥3,125 million ($30,485 thousand)

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

(a) Amount of goodwill generated

¥2,165 million ($21,120 thousand)

The identification or evaluation of assets and liabilities, such as estimates of deferred tax assets, valuations of land and estimates of various reserves, are based on reasonable information available as of April 30, 2014. As the period between their acquisition and the end of the fiscal year is short, the available information is insufficient, therefore 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 15–20 years

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
Expenses related directly to acquisition	¥76 million
Cost of acquisition	¥3,254 million

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

(a) Amount of goodwill generated

¥3,104 million

The identification or evaluation of assets and liabilities, such as estimates of deferred tax assets, valuations of land and estimates of various reserves, are 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, therefore 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

18. Subsequent events

Not applicable.

19. Quarterly Information

(1) Quarterly net sales for the year ended April 30, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Three months ended July 31, 2013	¥ 41,215	$ 402,058
Six months ended October 31, 2013	83,025	809,921
Nine months ended January 31, 2014	126,043	1,229,568
Twelve months ended April 30, 2014	170,226	1,660,579

(2) Quarterly income before income taxes and minority interests for the year ended April 30, 2014 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Three months ended July 31, 2013	¥ 2,675	$ 26,095
Six months ended October 31, 2013	5,318	51,878
Nine months ended January 31, 2014	7,899	77,056
Twelve months ended April 30, 2014	10,266	100,146

(3) Quarterly net income for the year ended April 30, 2014 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Three months ended July 31, 2013	¥ 1,517	$ 14,799
Six months ended October 31, 2013	2,899	28,280
Nine months ended January 31, 2014	4,284	41,791
Twelve months ended April 30, 2014	5,259	51,302

(4) Quarterly net income per share for the year ended April 30, 2014 is as follows:

	Yen	U.S. dollars
	2014	2014
Three months ended July 31, 2013	¥ 95.16	$ 0.93
Six months ended October 31, 2013	181.89	1.77
Nine months ended January 31, 2014	268.77	2.62
Twelve months ended April 30, 2014	330.08	3.22

(5) Quarterly net income per share for each accounting period of the year ended April 30, 2014 is as follows:

	Yen	U.S. dollars
	2014	2014
Three months ended July 31, 2013	¥ 95.16	$ 0.93
Three months ended October 31, 2013	86.72	0.85
Three months ended January 31, 2014	86.88	0.85
Three months ended April 30, 2014	61.31	0.60

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, 2014, 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, 2014, 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, 2014
Sapporo, Japan

DIRECTORS AND CORPORATE AUDITORS

(As of July 31, 2014)

President and Representative Director
Kiichi Otani

Executive Vice Presidents and Representative Director
Hiromi Kato

Senior Managing Directors
Masahito Sakurai
Shoichi Shudo
Toshihide Mizushima

Managing Director
Miya Oishi

Directors
Mitsugu Takazawa
Rieko Kimei
Hidehiro Awaji
Masato Sakai
Hikaru Minami*[1]
Tsuyoshi Kobayashi*[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 2014)

Corporate Name
AIN PHARMACIEZ INC.

Head Office
5-2-4-30, Higashisapporo,
Shiroishi-ku, Sapporo,
Hokkaido 003-0005, Japan

Established
August 1969

Paid-in Capital
¥ 8,682 million

Number of Employees
Consolidated: 3,806
Non-consolidated: 2,517

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 2014)

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
2,072

Major Shareholders

(As of April 30, 2014)

Shareholders	Number of shares held (thousand shares)	Share-holding ratio (%)
Kiichi Otani	1,654	10.43
Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd. (Marubeni Corporation account)*[2]; Trust & Custody Services Bank, Ltd. as a Trustee of Retrust	1,240	7.82
Seven & i Holdings Co., Ltd.	1,240	7.82
The Hokkaido Bank, Ltd.	786	4.96
ML PRO SEGREGATION ACCOUNT	500	3.15
Japan Trustee Services Bank, Ltd. (Trust Account)	372	2.35
Yoshiaki Imagawa	351	2.22
STATE STREET BANK AND TRUST COMPANY	341	2.15
The Norinchukin Bank	300	1.89
BBH FOR FIDELITY PURITAN TR: FIDELITY SR INTRINSIC OPPORTUNITIES FUND	300	1.89

Notes: 1. The figure excludes 89,916 shares of the treasury stock owned by the Company.
2. 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.

AIN PHARMACIEZ

AIN PHARMACIEZ INC.