Building the Foundations for Growth

ANNUAL REPORT 2015

For the year ended April 30, 2015

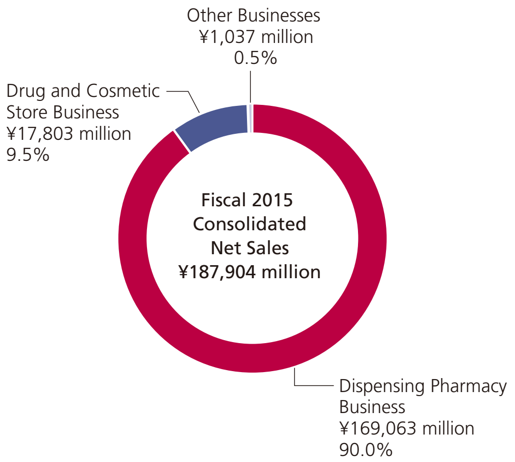
AIN PHARMACIEZ

Profile

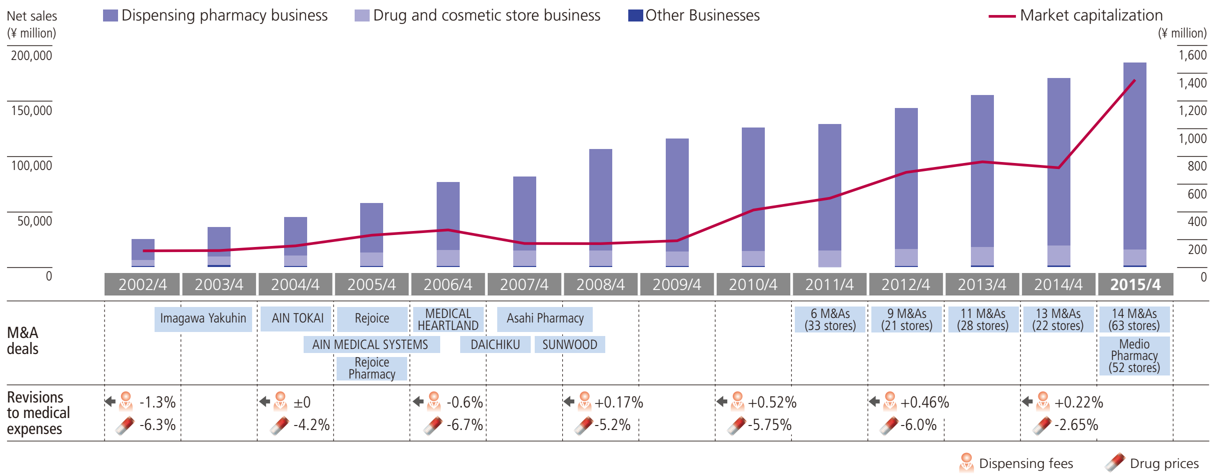
The AIN PHARMACIEZ Group operates Japan's leading dispensing pharmacy business and a unique drug and cosmetic store business focused on urban markets. We are working to expand these businesses while responding flexibly to changes in the operating environment.

In the dispensing pharmacy sector, one of Japan's few growth markets, we have channeled business resources into dispensing pharmacies located near hospitals, helping AIN PHARMACIEZ become the leading dispensing pharmacy company in Japan. Leveraging this position, we aim to play a key role in society by supporting Japan's healthcare system, while also increasing corporate value over the medium and long term. In the drug and cosmetic store business, we are rolling out new retail formats and taking other steps to prepare for the next stage of growth.

Net Sales by Segment



History of Growth

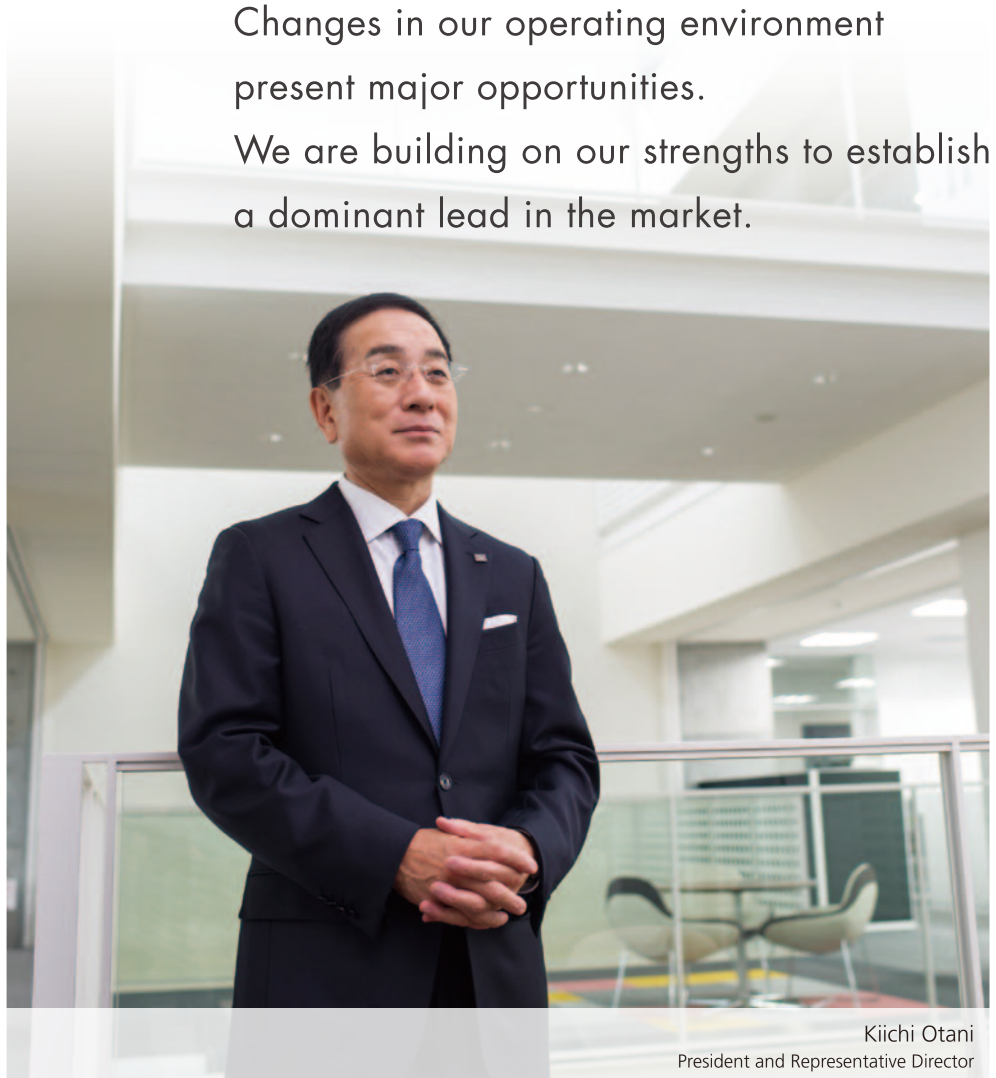


Contents

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.

Changes in our operating environment present major opportunities.
We are building on our strengths to establish a dominant lead in the market.



Kiichi Otani
President and Representative Director

Fiscal 2015 Review

In fiscal 2015, ended April 30, 2015, the Group's results were solid, with profits exceeding our forecasts despite weaker-than-expected sales.

The dispensing fee revisions in April 2014 were designed to encourage dispensing pharmacies to play a greater role in local healthcare provision, presenting major challenges for the sector. This means we have to enhance the skills of our pharmacists and step up our capabilities to create "dispensing pharmacies at the heart of local communities Note 1." Fortunately, we have anticipated these changes for some time and reinforced the Group's capabilities accordingly. The measures we have implemented are now starting to have an impact and are also feeding through to earnings, with sales and profits both rising year on year.

In fiscal 2015, net sales rose 10.4% year on year to ¥187,904 million, operating income increased 13.2% to ¥11,452 million and net income rose 17.8% to ¥6,197 million. Operating income and net income were both new records for the Group.

Improvements to our frontline capabilities are one reason for these solid results. Since 2012, we have been implementing a pharmacy-led project that encourages frontline employees to provide more efficient and high-quality services. This has improved our ability to respond dynamically to developments in the operating environment, feeding directly into stronger earnings.

Note 1:
This type of dispensing pharmacy aims to support local healthcare provision in areas such as the management of left over prescription medicines, patient health management, prevention of double medication, home-based healthcare and 24-hour dispensing services. The government is seeking to promote dispensing pharmacies at the heart of the community. Effective from the April 2014 dispensing fee revisions, dispensing pharmacies that fulfill this role are rewarded with additional reimbursement points (see P9 and P13 for more details).

Business Strategy: Dispensing Pharmacy Business

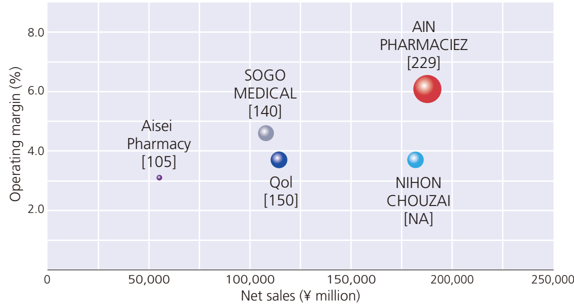
In the dispensing pharmacy business, fiscal 2015 was a year when we started to see the benefits of our pharmacy-led project to improve efficiency and services. This included clear reductions in patient waiting times and inventory turnover days. Despite an increase in the total number of dispensing pharmacies, the project has resulted in a system with the potential to reduce inventory turnover days to 15 from roughly 30 days before the project started. This success in increasing the turnover ratio while preventing stock shortages was achieved by strengthening the Group's capabilities. We are aiming to deliver a further improvement in inventory turnover.

Under our pharmacy-led project, we have worked closely with all employees to create a set of shared values, which led to a more open corporate culture and resulted in a stronger sense of unity among our staff. The dispensing pharmacy sector faces a serious shortage of pharmacists, but by using this project to prevent our experienced pharmacists from leaving the Group, we can maintain and improve service levels and profitability.

Pharmacy-led project at AIN Pharmacy ITABASHI

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



- AIN PHARMACIEZ INC.
- NIHON CHOUZAI Co., Ltd.
- Qol Co., Ltd.
- SOGO MEDICAL CO., LTD.
- Aisei Pharmacy Co., Ltd.

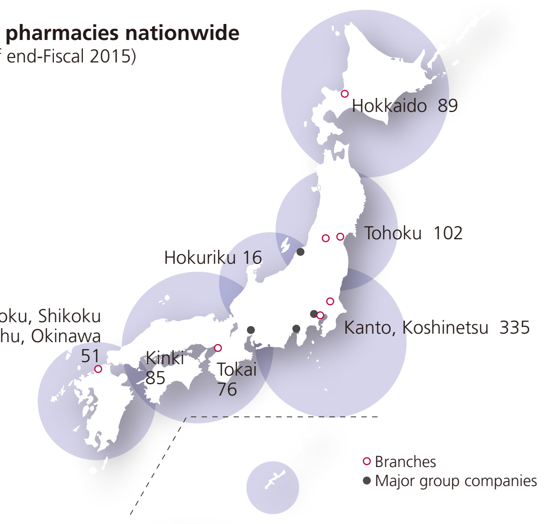
Notes: 1. Spheres represent market capitalization as of July 8, 2015.
2. The figures in square brackets [ ] represent the number of newly graduated pharmacists hired in 2015.

Source: Operating margin and net sales are compiled by AIN PHARMACIEZ from the above companies' financial results for fiscal 2015. Number of newly graduated pharmacists is based on the PHARMACY NEWSBREAK on April 13, 2015.

Scale of Business

—Our dispensing pharmacy store network

754 pharmacies nationwide
(As of end-Fiscal 2015)



Business Strategy: Drug and Cosmetic Store Business

The drug and cosmetic store business is performing very well. Over the last few years, we have channeled business resources into urban stores. We see significant growth potential in these stores, which offer better prospects for demand amid Japan's falling population and aging society. All our *ainz & tulpe* stores in the Tokyo Metropolitan Area are doing well, with the *ainz & tulpe* HARAJUKU QUEST in particular registering 50% sales growth year on year after its refurbishment in December 2014. A raft of steps to adjust product lineups and sales areas have led to major improvements in merchandising at *ainz & tulpe* and a significant increase in brand visibility, supporting higher earnings.

Building on this success, we started rolling out new variations of the *ainz & tulpe* format in fiscal 2016. One new store, opened in July 2015 near the east exit of Tokyo's Shinjuku Station, covers three floors (roughly 1,290m^2) of a large mixed-use building. A second store, opened in September 2015, is located in a mixed-use building in Sapporo called Le trois and is centered on the *ainz & tulpe* brand. This store has a total sales area of 1,490m^2. We also launched a new proprietary cosmetic brand called *LIPS and HIPS* to coincide with the roll out of the new *ainz & tulpe* formats. After initially launching the brand at *ainz & tulpe* SHINJUKU HIGASHIGUCHI and then in an internal shop at *ainz & tulpe* Le trois in Sapporo, we eventually plan to open a network of standalone *LIPS and HIPS* stores. We also intend to increase our range of private brand products in other categories, aiming to boost the gross margin and enhance our ability to attract shoppers.

ainz & tulpe HARAJUKU QUEST

LIPS and HIPS store at *ainz & tulpe* SHINJUKU HIGASHIGUCHI

ainz & tulpe SHINJUKU HIGASHIGUCHI

Le trois – Our New Drug and Cosmetic Store Format

In a new departure for the Company, Le trois is a new beauty retail complex developed and operated by AIN PHARMACIEZ and opened in Sapporo in September 2015. We have leased the entire building, comprising eight aboveground floors and two underground floors. The complex includes women-only salons and clinics and popular restaurant outlets, resulting in an exciting "beauty destination" specifically aimed at women. The building's flagship *ainz & tulpe* store is one of Japan's largest comprehensive beauty outlets, with prospects for attracting inbound demand from overseas visitors. *Ainz & tulpe* SHINJUKU HIGASHIGUCHI, opened in July 2015, and *ainz & tulpe* Le trois, are both in prime locations and are bigger than any store we have opened so far, giving us the opportunity to offer innovative comprehensive retail proposals to consumers. Both stores will play a key role in defining the future direction of the *ainz & tulpe* brand.

Personnel Strategy

In April 2015 we hired 229 newly graduated pharmacists, compared with our target of 300. Hiring conditions are likely to remain challenging, but we will implement initiatives across the Group to ensure we attract the people we need.

One of those initiatives is Ain College, a new in-house training facility for the Group set up in May 2015 amid falling pass rates for the national pharmacist exam. Aimed at students who already have job offers from the Company but failed the pharmacist exam, the college helps these prospective employees to achieve passes on the next exam. We also intend to use the college to offer enhanced specialist training for existing pharmacists. This will all cost money, but we think the investment is worthwhile, as it will enhance the Group's image and have a positive impact on recruitment, leading to even higher employee standards.

To remain competitive, dispensing pharmacy companies will have to attract sufficient numbers of high-quality pharmacists, enabling them to respond appropriately to changes in government policy. Our goal is to hire 300 new pharmacist graduates. Also, we plan to recruit 100 people in the drug and cosmetic store business, where the number of larger stores is increasing. We also need 50 people to fill back-office positions.

Corporate Governance and Risk Management

In corporate governance, we need to have a system that everyone agrees is appropriate for a listed company, but it is our outside directors that ensure the system works properly. That's why we are upgrading our governance system, including adding another outside director to increase the number to four. We will continue to look at other ways of improving corporate governance, such as adopting the "company with committees" corporate structure.

In risk management, which includes systems to prevent dispensing errors, we have set up a new strategy team that is working with each business division to develop new systems and continually improve procedures. We are also automating dispensing processes to minimize risk, as well as training up people to mitigate risk and raising risk awareness. Our pharmacy-led project, mentioned earlier, is also delivering results in this area through initiatives developed by our frontline employees.

Business Strategies

Fiscal 2016, ending April 30, 2016, marks a major turning point for the dispensing pharmacy sector, because companies will have to start showing their value as dispensing pharmacies that fulfill the role set out for them in the April 2014 dispensing fee revisions.

The drug price and dispensing fee revisions scheduled for April 2016 could be the first of three successive fiscal years of revisions[Note 2]. Small and mid-size dispensing pharmacies also face a tough outlook due to a lack of people to take over their businesses and a shortage of pharmacists. This suggests there could be a sudden wave of M&A deals and sector restructuring at any time.

Note 2:
April 2016 scheduled drug price and dispensing fee revisions; April 2017: possible drug price and dispensing fee revisions related to the planned increase in consumption tax in October 2016; April 2018: scheduled drug price and dispensing fee revisions.

We will ensure our balance sheet is healthy enough to make major investments so that we can take advantage of key opportunities when they arise. I believe we are well-placed to establish a dominant position in the sector, as we have taken the necessary steps to prepare for changes in the operating environment. We will also continue to work on creating high value-added "dispensing pharmacies at the heart of local communities."

In fiscal 2016, we plan to open 120 new dispensing pharmacies, including those acquired through M&A deals. In the drug and cosmetic store business, our target is a modest four stores, but we will focus on store location and size, not on numbers. Our goal is to create large urban stores capable of generating annual sales of over ¥1 billion, while also further strengthening the drug and cosmetic store business. The business currently accounts for only about 10% of consolidated net sales, but we plan to raise this to 30%, aiming to transform the drug and cosmetic store business into the AIN PHARMACIEZ Group's second growth driver.

We are also targeting consolidated ROE of 15%. To achieve this, we plan to increase shareholders' equity but increase earnings at an even faster pace.

We are also committed to our current shareholder return policy of paying stable dividends in line with earnings.

Sound Financial Structure

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

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%

Fiscal 2015		(¥ million)
	AIN PHARMACIEZ	Average of 3 competitors
Market capitalization	171,240	53,826
Cash on hand in banks	19,553	9,058
Interest-bearing debt	13,970	30,879
Net cash	5,583	(21,820)
Shareholders' equity ratio	42.0%	27.8%

Notes:
1. Market capitalization data are as of July 8, 2015.
2. Interest-bearing debt = Short- and long-term debts + Corporate bond (excluding Lease obligations)
3. Net cash = Cash on hand and in banks – Interest-bearing debt
4. 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 2015.

Our Vision and Purpose

We have implemented various measures to prepare for anticipated changes in the dispensing pharmacy sector. As a result, our business and profits have grown, giving us the capability to move into other areas over the medium and long term. Building on our pharmacy-led project, which was launched in 2012, we are putting in place a framework to deliver consistent bottom-up improvements across all our divisions, including head office and the drug and cosmetic store business. These efforts are supporting personnel development and are creating stronger foundations for the Group.

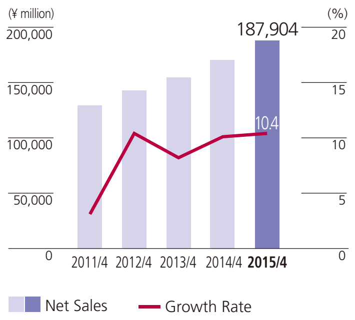
Over time, and as the operating environment becomes more challenging, these forward-looking initiatives will help set the AIN PHARMACIEZ Group apart from its competitors. I believe that growing headwinds in the sector present a major opportunity for the Group.

As the leading player in Japan's dispensing pharmacy sector and a company aiming to play a key role in society, we will continue to fulfill our responsibility as a provider of frontline healthcare, while also aiming for even higher goals to deliver sustained growth in corporate value.

July 30, 2015

Kiichi Otani
President and Representative Director

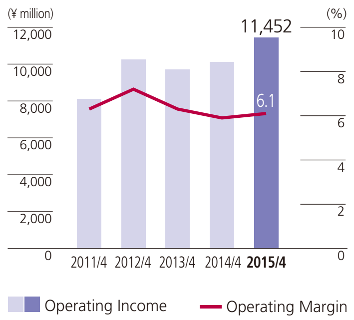
Net Sales and Growth Rate



Net Sales
Up 10.4%

Net sales increased 10.4% year on year on the back of new store openings and M&A deals.

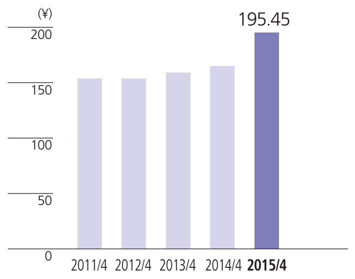
Operating Income and Operating Margin



Operating Income
Up 13.2%

Operating income increased 13.2% year on year, supported by technical fees and improvements in operating efficiency.

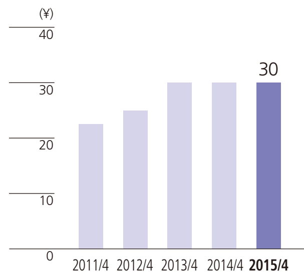
Net Income per Share*3



Net Income per Share
Up ¥30.41

The increase mainly reflected growth in net income.

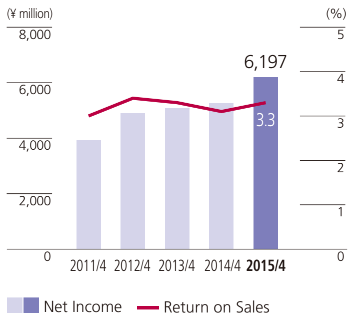
Cash Dividends per Share*3



Cash Dividends per Share
¥ ± 0

Dividend per share ¥30; dividend payout ratio 15.3%, down 2.9 percentage points year on year.

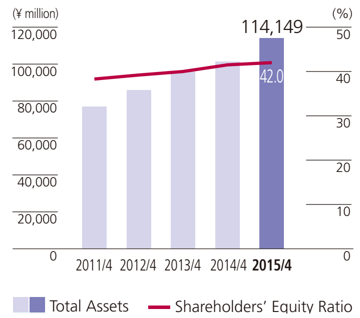
Net Income and Return on Sales



Net Income
Up 17.8%

Net income rose 17.8% year on year to reach a record high for the Group.

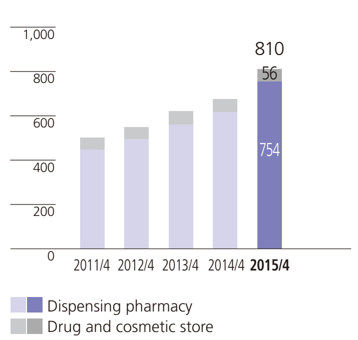
Total Assets and Shareholders' Equity Ratio



Shareholders' Equity Ratio
Up 0.5 percentage points

The shareholders' equity ratio rose 0.5 percentage points year on year due to an increase in retained earnings.

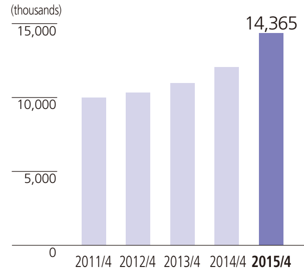
Total Number of Stores



Total Number of Stores
Up 135 stores

The Group added 162 stores through openings and M&A deals and closed 27 stores, resulting in a total of 810.

Prescription Volume



Prescription Volume
Up 11.5%

The number of prescriptions written rose 1,476 thousand year on year, reflecting growth in the Group's pharmacy network.

11-year Financial Summary

(¥ million)

	2005/4	2006/4	2007/4	2008/4	2009/4	2010/4	2011/4	2012/4	2013/4	2014/4	2015/4
For the year:											
Net sales	57,091	76,303	81,307	106,231	115,387	125,495	129,387	142,790	154,560	170,225	**187,904**
Selling, general and administrative expenses	5,230	7,145	7,970	9,203	9,948	10,744	11,981	12,839	14,740	15,635	**17,509**
Operating income	2,875	3,083	2,888	4,444	5,296	6,492	8,107	10,253	9,701	10,113	**11,452**
Net income	930	1,215	1,010	1,615	2,127	3,131	3,916	4,899	5,075	5,259	**6,197**
Capital expenditures*1	1,536	2,087	1,620	1,914	2,891	2,573	2,750	5,870	7,235	6,328	**6,413**
Depreciation and amortization*1	458	648	773	968	1,119	1,286	1,560	1,749	2,212	2,258	**2,553**
At the end of the year:											
Equity capital*2	9,095	10,352	10,710	12,040	16,071	21,445	29,450	33,695	38,312	42,122	**47,928**
Total net assets	9,095	10,352	11,326	12,707	16,109	21,492	29,498	33,745	38,356	42,240	**48,046**
Total assets	38,887	41,669	49,849	57,546	62,032	65,898	76,940	85,908	95,839	101,382	**114,149**
Number of shares outstanding (shares)	11,210,350	11,304,000	11,320,000	11,361,000	12,831,376	14,101,164	15,941,004	15,940,790	15,940,740	15,854,190	**31,707,617**
Number of employees (persons)	1,446	1,684	1,947	2,582	2,741	2,918	3,104	3,326	3,551	3,806	**4,429**
Number of stores: Dispensing pharmacy business	193	218	247	356	375	397	448	494	560	616	**754**
Number of stores: Drug and cosmetic store business	44	43	43	45	46	49	53	56	61	59	**56**
Per share information (¥):											
Net income*3	39.96	52.26	44.67	71.18	85.37	114.04	127.83	153.67	159.18	165.04	**195.45**
Net assets*3	403.84	456.21	473.08	529.89	626.27	760.40	923.73	1,056.89	1,201.71	1,328.43	**1,511.57**
Cash dividends*3	7.5	9.0	9.0	10.0	15.0	20.0	22.5	25.0	30.0	30.0	**30.0**
Stock information (based on the closing price as of April 30) (¥):											
Stock price	2,050	2,370	1,500	1,490	1,481	2,920	3,115	4,290	4,765	4,495	**4,245**
Ratios (%):											
Operating margin	5.0	4.0	3.6	4.2	4.6	5.2	6.3	7.2	6.3	5.9	**6.1**
Return on sales*4	1.6	1.6	1.2	1.5	1.8	2.5	3.0	3.4	3.3	3.1	**3.3**
Return on assets (ROA)*5	2.9	3.0	2.2	3.0	3.6	4.9	5.5	6.0	5.6	5.3	**5.8**
Return on equity (ROE)*6	10.9	12.5	9.6	14.2	15.1	16.7	15.4	15.5	14.1	13.1	**13.8**
Shareholders' equity ratio	23.4	24.8	21.5	20.9	25.9	32.5	38.3	39.2	40.0	41.5	**42.0**

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

*1: The amounts of capital expenditures and depreciation and amortization prior to the fiscal year ended April 30, 2007 are on a non-consolidated basis.
*2: Equity capital = Total net assets – Minority interests
*3: The Company conducted a 2-for-1 stock split of common shares with an effective date of October 1, 2014. Net income per share, net assets per share and cash dividends per share have been adjusted retroactively to reflect the impact of the stock split.
*4: Return on sales = Net income / Net sales × 100
*5: Return on assets = Net income / Total assets (yearly average) × 100
*6: Return on equity = Net income / Equity capital (yearly average) × 100

Growth Strategy: Building the Foundations for Growth

Japan's dispensing pharmacy sector faces a tough operating environment, but we see this as an opportunity to leverage our competitive advantage, which has been built on farsighted strategies. In this section, we look at the strategies we are implementing to generate sustained value and remain competitive in the sector.

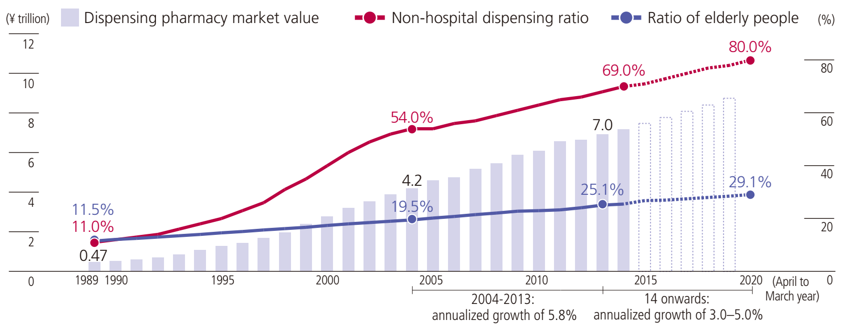
Operating Environment

Japan's dispensing pharmacy market has developed in unique ways, supported by government policy. The dispensing pharmacy sector is one of Japan's few markets offering prospects for growth over the medium to long term, but it is approaching a major turning point due to shift in government policy and intensifying competition. Companies that can generate sustained value and fulfill the new role being asked of them by the government are poised to take a leading role in sector realignment.

A Growth Market

Japan's dispensing pharmacy market was worth roughly ¥7.2 trillion in fiscal 2014 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 over 30% 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.

Dispensing Pharmacy Market

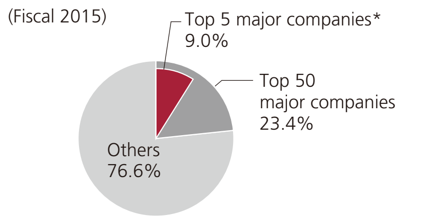


Source: AIN PHARMACIEZ estimates, based on data from the Japan Pharmaceutical Association, dispensing cost trends issued by the Ministry of Health, Labour and Welfare, Population Estimates of the Ministry of Internal Affairs and Communications Statistical Bureau, and Cabinet Office White Paper on the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

A Fragmented Market

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 9.0% of the market, including the Group's leading market share of 2.4%.

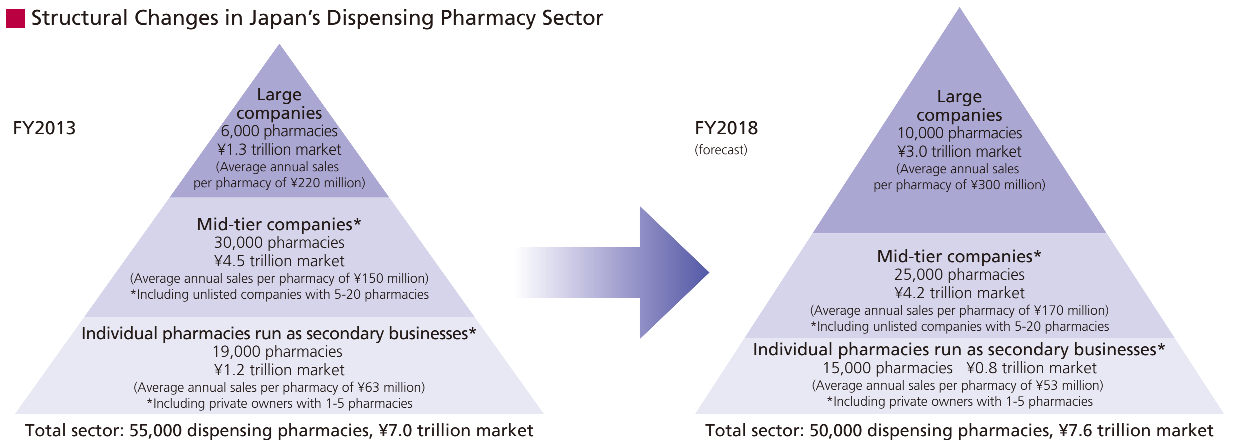
Dispensing Pharmacy Company Market Share



*Top 5 major companies: AIN PHARMACIEZ INC., NIHON CHOUZAI Co., Ltd. , KRAFT Inc., Qol Co., Ltd., Kyoso Mirai Group

Source: AIN PHARMACIEZ estimates, based on data from DRUG Magazine (July 2015) and FY2015 dispensing fee statistics released by the Ministry of Health, Labour and Welfare.

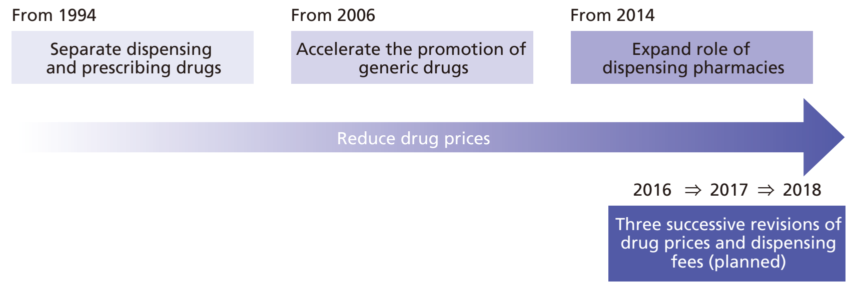
Structural Changes in Japan's Dispensing Pharmacy Sector



Source: Analyst report on February 5, 2015; Merrill Lynch Japan Securities Company, Limited

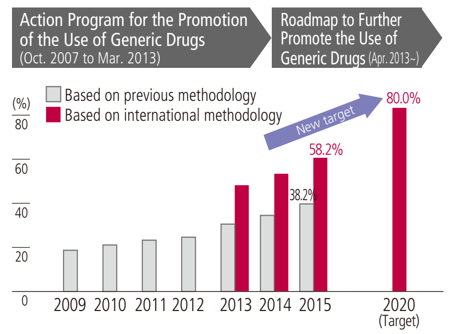
Shift in Government Policy

The Japanese government began encouraging a shift to non-hospital dispensing services in 1994, leading to rapid growth in the number of dispensing pharmacies outside hospitals. However, the government is now looking for new approaches to curb continued growth in national medical expenses.



Generic Drug Promotion

In May 2015, the government announced its new target for generic drug uptake, aiming to lift the generic drug dispensing ratio from 58.2% at the end of February 2015 to 80.0% by March 2020. The government is actively promoting generic drugs by awarding dispensing pharmacies additional reimbursement points (premiums) for generic drug dispensing.



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.

Drug Price Reductions

The Japanese government is gradually revising drug prices and dispensing fees as part of its strategy to curb national medical expenses. This has led to a downward trend in drug prices.

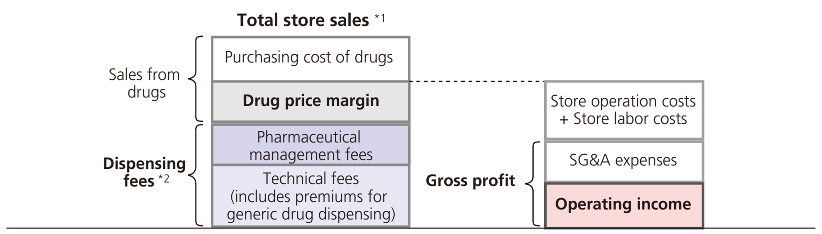
The Changing Role of Dispensing Pharmacies

As Japan's society ages, dispensing pharmacies are being asked to play a radically different role in patient health. Under the 2014 dispensing fee revisions, dispensing pharmacies receive higher fees for services such as management of left over prescription medication, support for patient health management and home-based dispensing services. This change in policy is aimed at creating "dispensing pharmacies at the heart of local communities" that contribute to local healthcare and provide high-quality services, in addition to the conventional role of drug dispensing. Dispensing fees could also be revised so that only dispensing pharmacies that can provide these types 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.

Main Roles of Dispensing Pharmacies at the Heart of Local Communities Envisaged by the Government

(1) Home-based healthcare	Expanding comprehensive care services
(2) Team-based healthcare	Work with local doctors; provide feedback to doctors about possible prescription errors; etc.
(3) Integrated and continuous management of prescriptions	Effectively use prescription medicines history and patient medication notebooks; manage left over prescription medication; prevent over-prescription and double medication; etc.
(4) Stable supplies of generic drugs and promoting wider uptake	Respond to government's target of increasing generic drug dispensing ratio to 80% by 2020
(5) 24-hour support	Open 24-hour dispensing pharmacies or provide 24-hour medication advice services for customers

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.

Management Challenges and Business Strategies

Management Challenges

The AIN PHARMACIEZ Group needs to address the following key issues to help it adapt to changes in the operating environment, deliver sustained growth in value and remain competitive.

- Increase business scale
- Secure dispensing fees
- Hire sufficient numbers of high-quality pharmacists
- Generate profits from generic drugs

Our Business Strategies

Scale

- Dispensing pharmacies located near hospitals
- Medical malls
- M&A deals

We are actively opening dispensing pharmacies and pursuing M&A opportunities to drive top-line growth. Our strategy is to channel business resources into dispensing pharmacies located near hospitals, as these locations can efficiently tap into prescription demand. We are also focusing on developing medical malls.

»» See pages 12-13

Quality

- Hiring and training pharmacists
- Increasing the efficiency of existing pharmacies

Since the early days of the Company, we have put priority on hiring and training pharmacists to support our aggressive pharmacy opening program and provide high-quality services. We are also seeing good results from initiatives to boost the efficiency of existing pharmacies.

»» See pages 14-15

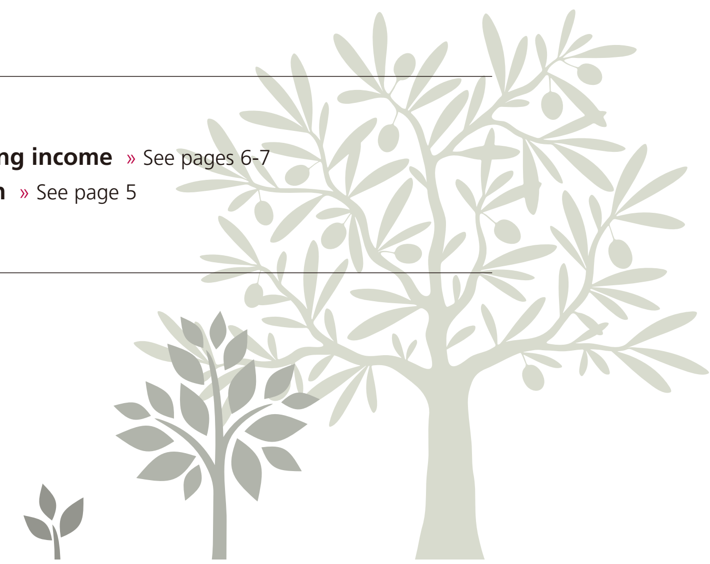
Flexibility

- Generic drug wholesale subsidiary
- Promoting home-based dispensing services
- Initiatives to provide 24-hour support

In 2006, we were the first dispensing pharmacy company to establish a dedicated generic drug wholesaler, WHOLESALE STARS Co., Ltd. (WSS), and since then have continued to take the initiative with measures that preempt changes in the government's social welfare policy, such as actively promoting home-based dispensing and 24-hour dispensing services.

»» See pages 16-17

Expected Impact	Key Performance Indicators
Efficiently tap prescription demand	• **Prescription volume** » See page 7
Expand pharmacy network and drive top-line growth	• **Number of pharmacies (new + acquired through M&A deals)** » See page 13 • **Net sales** » See pages 6-7
Build up dispensing expertise	• **Average prescription price** » See page 14
Reinforce the brand	• **Generic drug dispensing ratio** » See page 16 • **Number of pharmacies providing home-based dispensing services** » See page 17
Increase quality and number of pharmacists	• **Number of pharmacist graduates hired** » See page 15
Generate sustained growth in profits	• **Operating income** » See pages 6-7 • **Net cash** » See page 5



Our Strategies: Scale

To maintain our position as a growth company, we aim to increase the scale of our business to become the dominant player in the market. We are actively opening new dispensing pharmacies and acquiring more pharmacies through M&A deals to realize this goal. Specifically, we are channeling business resources into dispensing pharmacies located near hospitals and into the development of medical malls, as these locations are ideally suited to efficiently tapping prescription demand.

Store opening strategy

Dispensing pharmacies located near hospitals

Under Japan's current healthcare system, dispensing pharmacies near hospitals offer significant benefits for patients and also allow us to leverage our competitive advantages. Over the medium term, we plan to continue channeling business resources into these pharmacies, as we believe they are the best location to develop our dispensing pharmacy business.

These dispensing pharmacies build close links with local hospitals, exchanging information to ensure sufficient drugs are in stock and minimizing the risk of dispensing errors. We expect this format to remain the most popular type of pharmacy in Japan over the medium and long term, as they are in convenient locations and have won the trust of patients. Dispensing pharmacies near hospitals can also efficiently capture prescription demand, leading to higher profits (see figure on the right). They can also monitor prescription trends and medicine usage at local hospitals, allowing them to manage inventories more accurately.

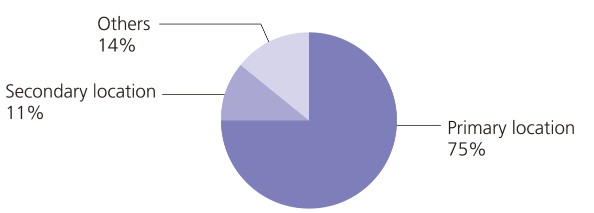
In addition, building a nationwide chain of these dispensing pharmacies generates economies of scale in drug procurement and dispensing equipment development, resulting in lower costs and more efficient pharmacy operations.

The April 2014 dispensing fee revisions have led to a major shift in the earnings structure of the dispensing pharmacy sector. Now, only dispensing pharmacies that contribute to the government's goal of curbing national medical expenses can remain profitable. Specifically, in order to cut back over-prescription of medicines, dispensing pharmacies are being asked to carefully check doctors' prescriptions, manage leftover medicines and prevent dangerous combinations of prescribed drugs. Pharmacies are also being encouraged to recommend generic drug options, as well as provide 24-hour services and home-based dispensing services. The government is implementing policies to encourage a shift to dispensing pharmacies at the heart of the community that can fulfill this role. AIN PHARMACIEZ is already taking steps to address this shift in policy (see details on the following page).

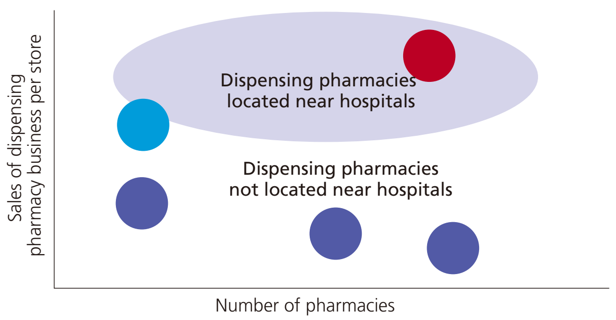
To address these changes, dispensing pharmacies also have to increase the quality and number of pharmacists and make pharmacy operations more efficient.

Recognizing that dispensing pharmacies will have to play an increasingly important role in society, we have been implementing a range of measures in recent years, such as stepping up pharmacist training and increasing the efficiency of dispensing operations (see page 15 for more details). As a result, we are now well-placed to respond to changes in government policy.

AIN PHARMACIEZ Dispensing Pharmacies Located Near Hospitals: Breakdown by Location



Comparison of Profitability by Type of Pharmacy



● Dispensing pharmacies located near hospitals - operated by AIN PHARMACIEZ Group
● Dispensing pharmacies not located near hospitals - operated by other dispensing pharmacy companies
● Dispensing pharmacies not located near hospitals - operated by drugstore companies

Creating Dispensing Pharmacies at the Heart of the Community: Initiatives and Progress

Dispensing pharmacies are now being asked to play a greater role in the community.

1 Home-based healthcare: 393 pharmacies currently provide home-based dispensing services (as of end-April 2015)

2 Team-based healthcare

3 Integrated and continuous management of prescriptions

< Dispensing pharmacy pre-avoid reports* >

	Number of cases	Ratio
Duplicated drug administration	327	17.5%
Contraindications / careful administration / interactions	253	13.6%
Side-effect history / side-effects identified	113	6.1%
Directions for use / dosage	751	40.3%
Directions for effect / efficacy	232	12.4%
Directions for formulation / dose timing / other	188	10.1%
Total	1,864	100.0%

< Free patient medication notebook app >

AIN PHARMACIEZ and NTT DOCOMO have developed a free patient medication notebook app. The app has been downloaded 60,000 times.

* Pre-avoid activities: Through their involvement in drug-based treatment and their specialist roles in drug use management, guidance and care, pharmacists carry out activities to prevent treatment that is detrimental to the health of patients, such as side effects, drug interactions, and insufficient treatment effects, and to identify potential issues at an early stage to avoid serious incidents.

4 Stable supplies of generic drugs and promoting wider uptake

Generic drug dispensing ratio	
AIN PHARMACIEZ	65.3% (as of end-April 2015)
National average	58.4% (as of end-January 2015)

5 24-hour support: Phone-based support and dispensing services where necessary, now available at almost all dispensing pharmacies; roughly 468,000 cases each year
AIN Pharmacy NOBORITO open 24 hours
(see page 17 for more details).

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 our dispensing pharmacies. We plan to accelerate growth by actively working to develop medical zones.

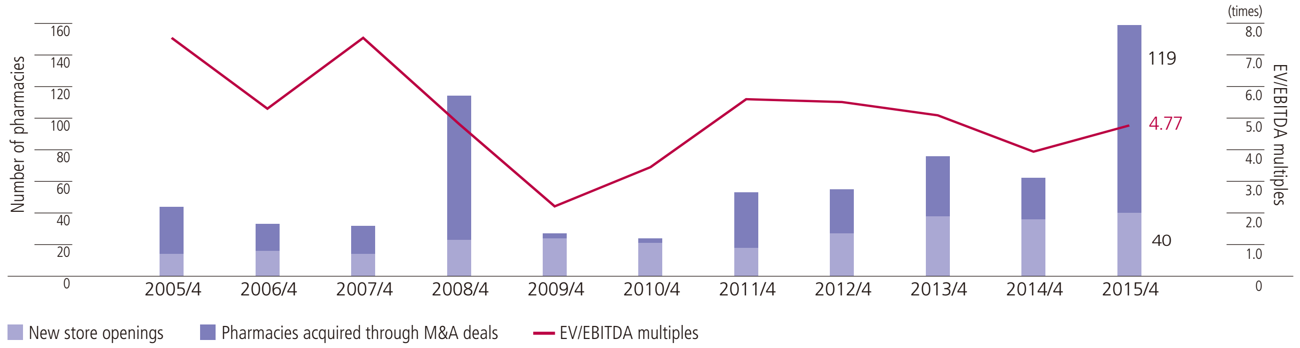
We are targeting locations in urban areas with a high level of customer traffic, such as station buildings. These locations boost the visibility of the clinics, resulting in higher profitability. We see these medical malls driving the Group's growth over the medium term, and we plan to open roughly 10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

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 increase their profitability after joining the Group. Over the last few years, M&A deal costs have been 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 and high-quality training for pharmacists.

Due to the drug price and dispensing fee revisions in April 2014, dispensing pharmacies are likely to find it harder to remain competitive, particularly small and mid-tier operators. We plan to target M&A deals that are a good fit for the Group, seizing opportunities when they emerge while also ensuring investment efficiency.

New Store Openings, Pharmacies acquired through M&A deals and EV/EBITDA Multiples



Notes: 1. EV/EBITDA multiples = EV (M&A: acquisition price) / EBITDA (Operating income + Depreciation and amortization)
2. From fiscal 2011, number of pharmacies includes pharmacies that were subsequently closed.

Our Strategies: Quality

The role of dispensing pharmacies is changing in Japan (see page 9 for more details). Today's pharmacies now need to be able to provide a wider range of high-quality services, such as home-based and 24-hour dispensing. In order to address these changes, the biggest issue for dispensing pharmacy companies is how to increase the quality and number of pharmacists. Hiring and training pharmacists on a sustained basis is also vital to support an active dispensing pharmacy opening program. AIN PHARMACIEZ has therefore put the highest priority on securing personnel. We are also pushing ahead with initiatives to increase the efficiency of existing pharmacies, which is delivering concrete results.

Personnel strategy

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 pharmacists. In home healthcare, pharmacists 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 works to continually improve the skills of its pharmacists after they join the Group as new graduates. As part of this approach, we opened a new training facility called Ain College in May 2015 to address falling pass rates for the national pharmacist exam. Aimed at students who already have job offers from the Company but failed the pharmacist exam, the college helps prospective employees work to achieve passes on the next exam.

By attracting large numbers of high-quality pharmacists, we can contribute to the government's policy of community healthcare and boost profits by securing more additional reimbursement points (premiums).

To support aggressive business expansion over the medium and long term, we plan to improve on our sector-leading employing training and education programs and continue actively hiring pharmacists.

Ain College

Comparison of Ability to Secure Dispensing Premiums

Ratio of Prescriptions that Meet Standards for Dispensing System Premiums*

	National Average	AIN PHARMACIEZ
Standards for dispensing system premiums 1	51.7%	63.9%
Standards for dispensing system premiums 2	8.2%	16.0%
Total	59.9%	80.0%

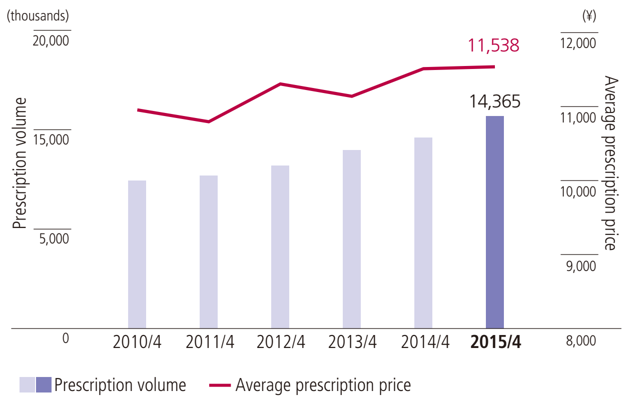
Note: Standards for dispensing system premiums: Dispensing pharmacies receive premiums if they meet certain standards requested by the government, such as the number of visits for home-based dispensing services and the required number of inventory items.
Source: National average based on Survey of Medical Care Activities in Public Health Insurance 2014, Ministry of Health, Labour and Welfare; AIN PHARMACIEZ as of April 2015.

Ratio of Prescriptions that Meet Standards for Generic Drug Dispensing Premiums

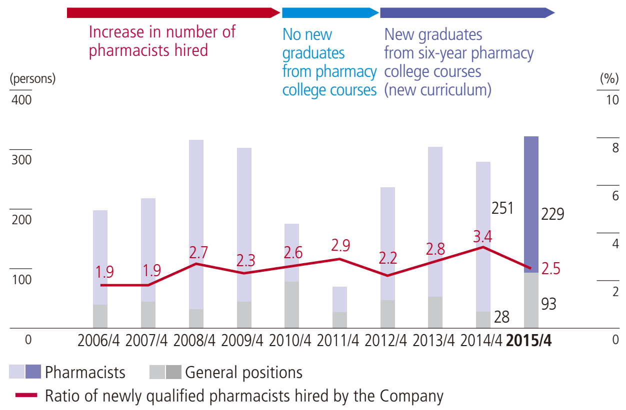
	National Average	AIN PHARMACIEZ
Generic drug dispensing system premiums 1	27.5%	19.7%
Generic drug dispensing system premiums 2	17.9%	67.2%
Total	45.4%	86.9%

Source: National average based on Survey of Medical Care Activities in Public Health Insurance 2014, Ministry of Health, Labour and Welfare; AIN PHARMACIEZ as of April 2015.

Prescription Volume and Average Prescription Price



Number of New Pharmacist Graduates Hired



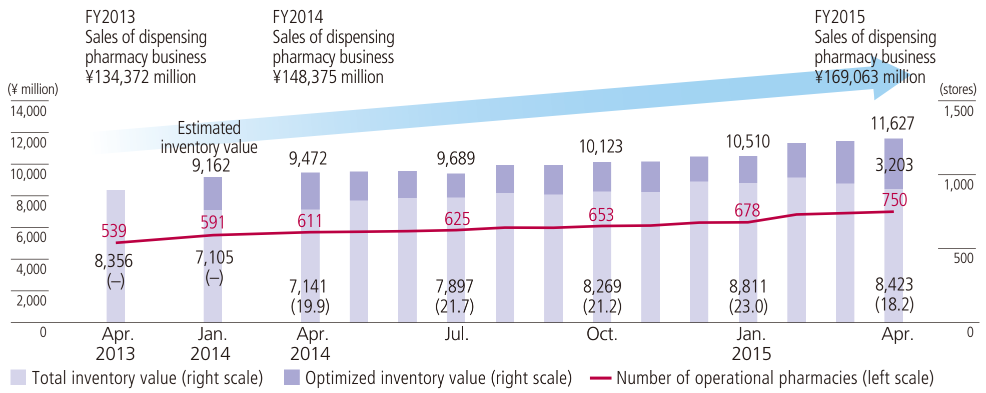
A dedecated vehicle for home-based dispensing services

Increasing the efficiency of existing pharmacies

As part of efforts to curb national medical expenses, the government is changing the dispensing fee system with every revision. This is having a major impact on the earnings of dispensing pharmacies. Against this backdrop, we launched a new pharmacy-led project in autumn 2012 as one of our strategies to reinforce the operations of existing dispensing pharmacies.

Under this project, pharmacists at all of our dispensing pharmacies are being asked to find new ways of increasing efficiency, improving profitability and enhancing service provision. The project has yielded a range of outcomes in the two years since it was launched. The biggest improvement has been in inventory value. Despite the addition of 211 dispensing pharmacies to the Group's network compared with April 2013, before the project started, inventory value as of April 2015 was roughly ¥3.2 billion lower than estimated inventory value under the previous system (see graph below). This reduction in inventories has contributed to an increase in cash flow. The project has clarified issues that need to be addressed and delivered clear results, helping to change thinking among frontline personnel and boost motivation, leading to a lower level of staff turnover.

Impact of Pharmacy-led Project: Optimizing Inventories



Notes:
1. Total inventory value = (AIN PHARMACIEZ, AIN MEDIO, DAICHIKU, Asahi Chozai + inventories of those four companies at WSS) ÷ number of operational pharmacies at those four companies x total number of operational dispensing pharmacies
2. Optimized inventory value = total inventory value – estimated inventory value; estimated inventory value is projected value of inventories due to growth in number of pharmacies
3. The number of operational pharmacies is as of the end of each quarter.
4. Inventory turnover days shown in brackets.

AIN Pharmacy NISHI-SHINJUKU

Our Strategies: Flexibility

Changes in social welfare policy have a major impact on the dispensing pharmacy sector. That's why we need to respond flexibly to developments in the operating environment in order to fulfill the role envisaged for dispensing pharmacies. Over the years, we have consistently prepared for these changes, including setting up a generic drug wholesale company. These steps have resulted in the competitive advantage we have today. We aim to build a dominant position in the sector by enhancing this competitive advantage and setting ourselves apart more clearly from our competitors.

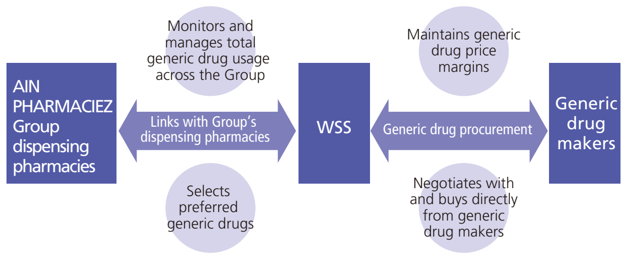
Generic drug strategy

The government is actively promoting wider use of generic drugs to help reduce 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 factors such as lower generic drug price margins. 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 allows AIN PHARMACIEZ to avoid this risk. The subsidiary offers other benefits as well.

Roles and Merits of WSS

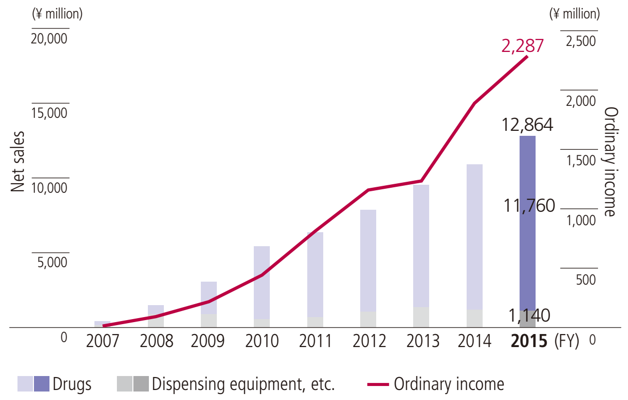


Benefits of using WSS

- **Secure profits:** WSS allows us to negotiate directly with generic drug makers, so wholesaler margins also feed through to Group profits.
- **Negotiating power:** 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.
- **Maintain margins:** 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.

The government is accelerating plans to promote generic drug uptake. In May 2015, it announced a new target, aiming to sharply lift the generic drug dispensing ratio to 80% by March 2020. In this environment, WSS will allow us to further boost the competitiveness of the AIN PHARMACIEZ Group.

Net Sales and Ordinary Income of WSS



Home-based dispensing

As healthcare becomes more advanced and Japan's population ages, dispensing pharmacies are being asked to play a greater role as local health centers supporting home-based healthcare and other services. The AIN PHARMACIEZ Group started implementing initiatives in home-based dispensing from 2012, realizing it was likely to become an important function of dispensing pharmacies. As of end-April 2015, 64% (393 stores) of our dispensing pharmacies provide home-based dispensing. We plan to expand these services to all our pharmacies as part of active efforts to support home-based healthcare.

24-hour support

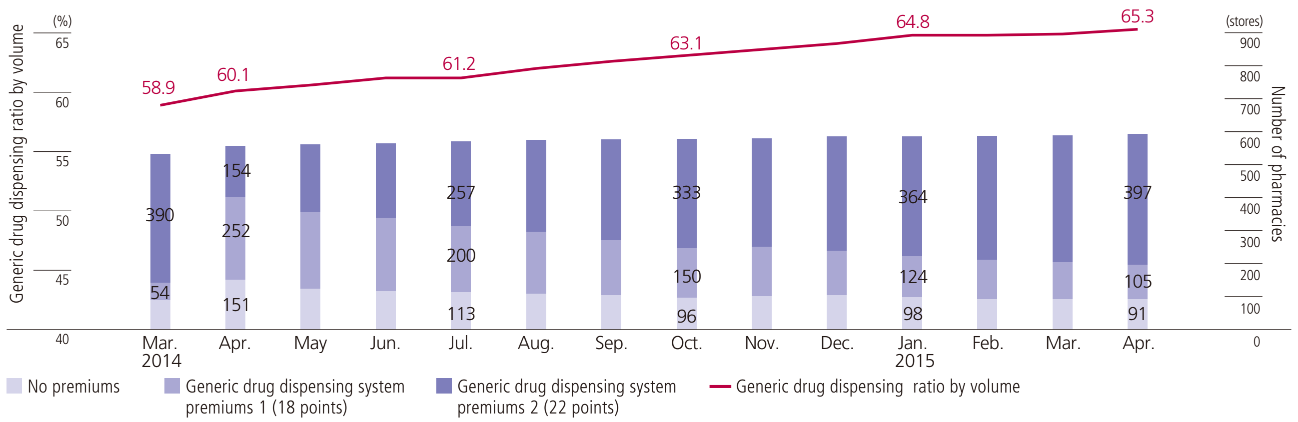
The AIN PHARMACIEZ Group has started shifting to 24-hour opening hours* in response to changes in the April 2014 dispensing fee revisions. In August 2014, Ain Pharmacy NOBORITO (Kanagawa Prefecture) became our first pharmacy to open all day. The store has full security measures, the most important feature for pharmacies that stay open all night. We are using this location to gain know-how about running a 24-hour pharmacy and build an optimum operating structure. The Group has access to a large number of pharmacists and operates an extensive network, giving us the scope to create nightshifts schedules that are not taxing on our pharmacists.

We will continue to implement initiatives in this area, while also increasing efficiency, because we recognize that 24-hour services will be crucial to ensuring dispensing pharmacies fulfill their role in supporting localized healthcare.

*All our pharmacies already offer 24-hour support via mobile phone.

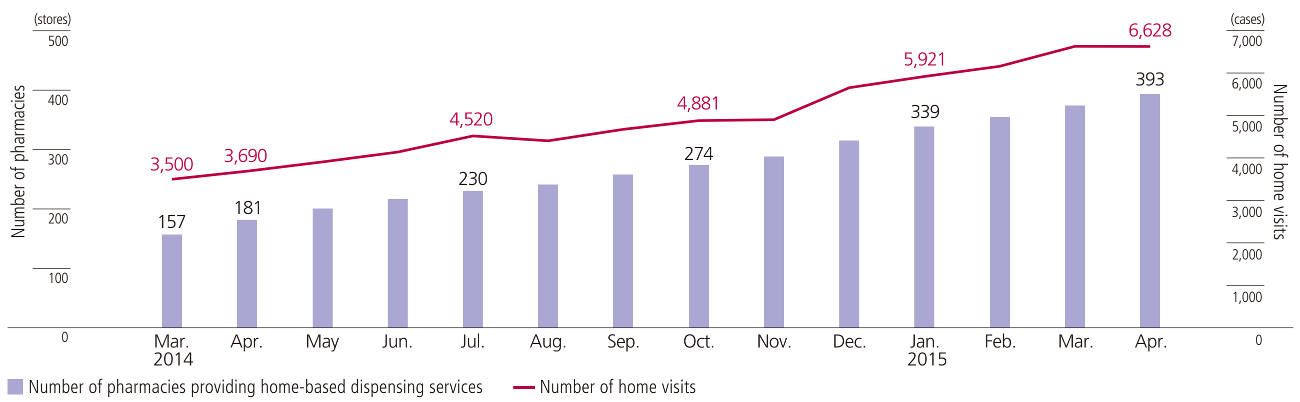
AIN Pharmacy NOBORITO offering 24-hour services

Growth in Generic Drug Dispensing



Notes: 1. Graph shows breakdown of Group pharmacies based on premiums received for generic drug dispensing.
2. 1 point = ¥ 10

Number of Pharmacies Providing Home-based Dispensing Services



(As of July 30, 2015)

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.

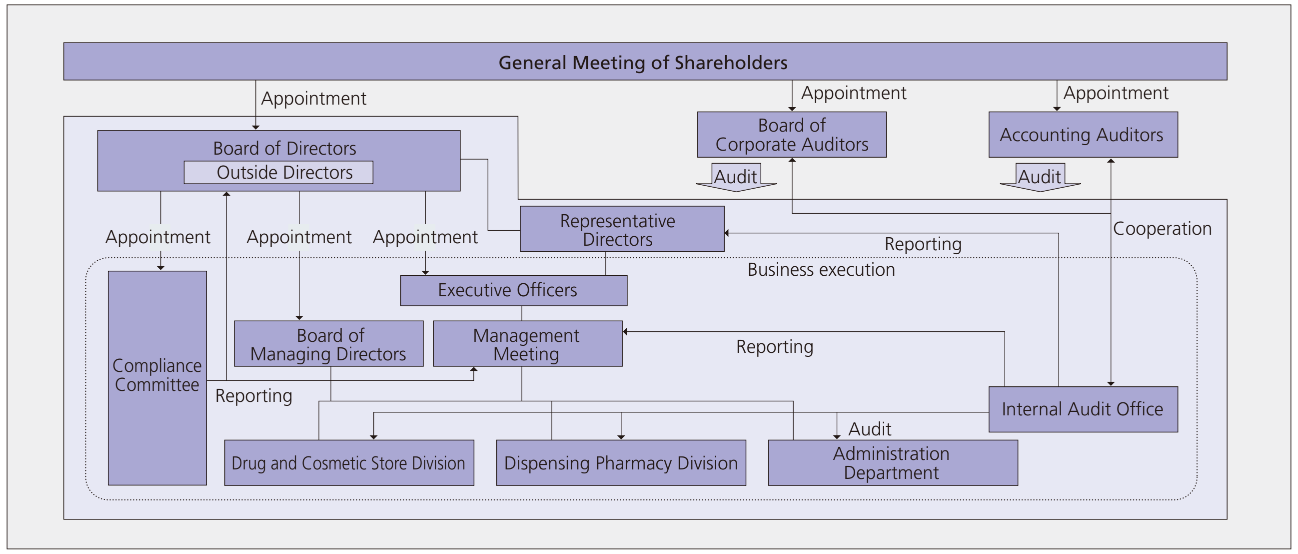
We have adopted a corporate auditor system to oversee not only key management decisions and the business execution of directors, but also general corporate management. In order to ensure the effective mutual management oversight of directors, the Board of Directors convenes more than once a month, while 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.

As part of efforts to enhance corporate governance, we have established a Compliance Committee to promote and embed systems that ensure compliance with business ethics, laws and regulations. The committee is made up of all the Company's directors and auditors and legal advisors.

OUTLINE OF CORPORATE GOVERNANCE

Corporate governance structure	Corporate Auditor System
Chairman of the Board	Kiichi Otani
Number of directors	14 (including 4 outside directors)
Number of corporate auditors	3 (including 2 outside corporate auditors)
Board of Directors meetings in fiscal 2015	Number of meetings: 18 (more than once every month) Examples of resolutions: Annual budget, issues related to new businesses, store openings
Outside Director attendance at Board of Directors meetings:	87%
Outside Corporate Auditor attendance at Board of Directors meetings:	91%
Board of Corporate Auditor meetings in fiscal 2015	Number of meetings: 18 Examples of resolutions: Audit policy, audit plans and business division audits
Management Meetings in fiscal 2015	52
Key meetings attended by corporate auditors	Board of Directors meetings, Board of Corporate Auditor meetings, Management Meetings
Independent director appointment	Outside directors Ko Mori, Koji Kabumoto, Seiichiro Sato and Yasuyuki Hamada, and outside corporate auditor Toshiaki Kobayashi have all been designated as independent officers in accordance with the provisions of the Tokyo 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 14 members, including four outside directors. Two of the Company's three corporate auditors are outside corporate auditors. There are no conflicts of interest between the Company and its outside directors and outside corporate auditors. The outside directors and outside corporate auditors have a number of functions and roles to fulfill in the Group's corporate governance system. Drawing on their specialist knowledge and experience, they contribute to the Group's business strategy, discussions on board resolutions, and internal control mainly by monitoring business execution and providing input at meetings of the Board of Directors from a neutral, independent and objective standpoint.

The Company has no specific standards in place at the moment, but the basic policy for appointing outside directors and outside corporate auditors is to ensure they can effectively fulfill the above roles. Four outside directors and one outside corporate auditor have been designated as independent officers in accordance with the provisions of the Tokyo Stock Exchange.

Reasons for selection of outside directors	
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.
Koji Kabumoto	Koji Kabumoto has specialist knowledge and experience from working in the IT and logistics departments of a major trading company. He was selected as an outside director to contribute to all areas of the Company's management by drawing on his knowledge and experience to provide input to meetings of the Board of Directors and monitor business execution.
Seiichiro Sato	Seiichiro Sato has specialist knowledge and experience from working in the legal and planning departments of a major retailer. He was selected as an outside director to contribute to all areas of the Company's management by drawing on his knowledge and experience to provide input to meetings of the Board of Directors and monitor business execution.
Yasuyuki Hamada	Yasuyuki Hamada has specialist knowledge and experience as an academic, with a particular focus on economics and finance. He was selected as an outside director to contribute to all areas of the Company's management by drawing on his knowledge and experience to provide input to meetings of the Board of Directors and monitor business execution.

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.

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 2015 is as follows.

Item	Total remuneration (¥ million)	Remuneration by type (¥ million)		Number of eligible individuals
		Basic remuneration	Bonus	
Directors (excluding outside directors)	176	164	11	12
Corporate auditors (excluding outside corporate auditors)	6	6	–	1
Outside directors and outside corporate auditors	19	19	–	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 2015 are as follows.

(¥ thousand)

	Compensation paid for audit certification activities	Compensation paid for non-audit activities
The Company	40,200	–
Consolidated subsidiaries	–	–
Total	40,200	–

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.

The Japanese government is progressively revising drug prices and dispensing fees as part of its policy to curb national medical expenses. 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 healthcare 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, 2015, the Japanese economy recovered steadily, supported by firm consumer spending and an upturn in corporate earnings and employment conditions.

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 ¥187,904 million, an increase of 10.4% year on year, reflecting the opening of new dispensing pharmacies and M&As. Operating income rose 13.2% to ¥11,452 million and net income increased 17.8% year on year to ¥6,197 million, a new record for the Group.

As of the end of the fiscal year, the number of stores in the Group totaled 810, a net increase of 135 stores from the end of the previous fiscal year.

BUSINESS RESULTS BY SEGMENT

Dispensing Pharmacy Business

In the dispensing pharmacy business, average sales per prescription continued to rise at existing dispensing pharmacies due to increases in the number of new drugs and in longer-term prescriptions, offsetting the impact from wider use of generic drugs.

In order to fulfill the new role being asked of dispensing pharmacies, the Group will build links with local medical service providers, mainly in the area of home-based dispensing, and promote wider use of generic drugs. The Group will also continue to implement its pharmacy-led project aimed at reviewing and rebuilding all dispensing processes at each dispensing pharmacy in order to improve efficiency and upgrade patient services.

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. During the fiscal year under review, 15 dispensing pharmacy companies joined the Group, including Medio Pharmacy Co., Ltd. which became a subsidiary in February 2015. Medio Pharmacy Co., Ltd. is based in Numazu City, Shizuoka Prefecture and operates a chain of 52 dispensing pharmacies, mainly in Shizuoka Prefecture.

The dispensing pharmacy business reported net sales of ¥169,063 million, an increase of 11.6% year on year, and segment income of ¥14,449 million, up 13.1%. During the fiscal year under review, the Group opened 159 dispensing pharmacies, including M&A deals, and closed 21 dispensing pharmacies, resulting in a total of 754.

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.

Ainz & tulpe is a specialist, highly original drug and cosmetic store brand 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 private brand products, leading to higher sales at existing stores compared with the previous fiscal year.

In response to growing inbound demand, spurred by new rules from October 2014 that expand the type of products on which overseas visitors to Japan are exempt from consumption tax, the Group now offers duty-free services at 28 of its drug and cosmetic stores (as of April 30, 2015), making a large contribution to improvements in profitability.

The Group also actively refurbished urban stores to revitalize its store network. In December 2014, the Group refurbished the *ainz & tulpe* HARAJUKU QUEST (Shibuya Ward, Tokyo), which included adding organic and natural cosmetic products to the merchandise lineup, and upgraded other urban locations such as the *ainz & tulpe* IKEBUKURO SEIBU (Toshima Ward, Tokyo) and the *ainz & tulpe* frente MINAMI-OSAWA (Hachioji City, Tokyo).

During the fiscal year under review, the Group opened a number of *ainz & tulpe* stores, including the *ainz & tulpe* SANNOMIYA Yuzawaya (Chuo Ward, Kobe City), the *ainz & tulpe* OYAMA STATION (Oyama City, Tochigi Prefecture), and the *ainz & tulpe* HIGASHI KUYAKUSHO MAE, (Higashi Ward, Sapporo City), aiming to increase the number of stores in prime locations near stations. At the same time, the Group closed six stores, mainly in suburban locations, resulting in a total of 56 stores.

As a result, the drug and cosmetic store business reported net sales of ¥17,803 million, a decrease of 1.0% year on year, and segment income of ¥117 million, up 394.7%.

Furthermore, the Group opened an *ainz & tulpe* store on three floors of the MIRRAZA SHINJUKU Building near the east exit of Shinjuku Station (Shinjuku Ward, Tokyo) in July 2015, and a specialist health and beauty retail complex focused on the *ainz & tulpe* brand in Le troi Building in Sapporo's Odori area (Chuo Ward, Sapporo; 10 floors) in September 2015.

Other Businesses

Net sales of other businesses totaled ¥1,037 million, an increase of 35.2% year on year, and segment losses totaled ¥614 million, an increase of 181.3% year on year.

FINANCIAL POSITION

Total assets at the end of the fiscal year under review totaled ¥114,149 million, up ¥12,767 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 ¥2,031 million to ¥46,365 million compared to ¥44,334 million at the end of the previous fiscal year. This mainly reflected cash on hand and in banks of ¥19,553 million, an increase of ¥706 million compared with the previous fiscal year, notes and accounts receivable of ¥8,369 million, an increase of ¥1,650 million and merchandise of ¥9,747 million, an increase of ¥168 million due to business expansion, and other accounts receivable of ¥5,291 million, down ¥388 million.

Fixed assets at the end of the fiscal year under review increased by ¥10,735 million to ¥67,783 million compared to ¥57,048 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 ¥2,888 million to ¥22,472 million, while goodwill rose ¥6,322 million to ¥26,340 million.

In addition, investments and other assets increased by ¥1,353 million year on year to ¥17,688 million, chiefly reflecting an increase in deposits and guarantees.

Liabilities increased by ¥6,960 million to ¥66,103 million compared to ¥59,142 million at the end of the previous fiscal year. This primarily reflected accounts payable of ¥31,826 million, up ¥3,824 million year on year, short-term debt of ¥6,330 million, down ¥204 million, and long-term debt of ¥7,640 million, up ¥3,137 million.

As a result of the above, the balance of current liabilities increased by ¥4,083 million from the previous year-end balance of ¥50,349 million to ¥54,433 million, and the balance of long-term liabilities increased by ¥2,876 million from the previous year-end balance of ¥8,793 million to ¥11,669 million.

Net assets increased by ¥5,806 million to ¥48,046 million compared to ¥42,240 million at the end of the previous fiscal year.

Retained earnings increased ¥5,632 million year on year to ¥31,639 million due to growth in surplus funds.

As a result of the above factors, the shareholders' equity ratio increased 0.5 percentage points to 42.0%, compared with 41.5% at the end of the previous fiscal year. ROA improved 0.5 percentage points to 5.8%, while ROE rose 0.7 percentage points to 13.8%.

BASIC POLICIES FOR PROFIT DISTRIBUTION

The Company considers the return of profits to shareholders as an important management issue. Our basic policy is to repay our investors proportionate to the profit we make, and to maintain these at stable levels.

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

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

For the fiscal year under review, the Company paid a dividend from retained earnings of ¥30 per share, compared with the previous fiscal year's ordinary dividends of ¥60. On October 1, 2014, the Company conducted a 2-for-1 stock split of common shares. Dividends for the fiscal year under review are based on the number of shares after the 2-for-1 stock split. Based on the number of shares before the stock split, the full-year dividend is ¥60 per share, the same as in the previous fiscal year.

In view of our profit forecasts, plans for investment and other factors, we intend to pay an ordinary dividend from retained earnings of ¥40 per share in the fiscal year ending April 30. 2016, an increase of ¥10 from the fiscal year ended April 30, 2015.

CASH FLOWS

In the fiscal year under review, cash and cash equivalents ("cash") increased ¥653 million (3.5%) year on year to ¥19,389 million. This reflected operating cash flow generated by dispensing pharmacy and drug and cosmetic store businesses, which was mainly used to actively invest in new store openings and M&A. Some cash was also retained to provide constant access to a certain level of funds.

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

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥14,839 million, an increase of 1.2% year on year.

The main items that were positive for cash flow were income before income taxes and minority interests of ¥10,832 million, as well as depreciation and amortization of ¥2,553 million, amortization of goodwill of ¥2,278 million, decrease in inventories of ¥969 million, and increase in notes and accounts payable—trade of ¥1,544 million related to business expansion through new store openings and M&A.

The main item that was negative for cash flow was income taxes paid of ¥5,126 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥14,560 million, an increase of 87.9% year on year.

This mainly reflected payments of ¥2,848 million for purchases of property, plant and equipment related to the opening of new urban drug stores and dispensing pharmacies, and ¥10,024 million for purchases of shares in subsidiaries due to changes in the scope of consolidation related to shares acquired in 16 companies through M&A deals.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥374 million, compared with cash of ¥6,617 million used in the previous fiscal year.

This was mainly attributable to net short-term debt repayment of ¥1,593 million and net long-term debt procurement of ¥3,567 million.

Cash dividends paid of ¥951 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. Statements in the text referring to the future reflect the judgment of the Group at the end of the fiscal year under review.

1. Laws and Regulations

a. Regulations under the Law for Ensuring the Quality, Efficacy, and Safety of Pharmaceuticals and Medical Devices

We operate dispensing pharmacy business under various permits, licenses, registrations and notifications including those set forth by the Law for Ensuring the Quality, Efficacy, and Safety of Pharmaceuticals and Medical Devices (the Pharmaceutical and Medical Device 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 business also involves drug sales, which are similarly regulated under the Pharmaceutical and Medical Device Law.

b. Easing of drug sales regulations

In sales of over-the-counter (OTC) drugs, the Pharmaceutical and Medical Device Law classifies drugs into different categories based on risk. Only qualified pharmacists are permitted to sell drugs requiring guidance and category 1 drugs, while registered sellers, as well as pharmacists, are permitted to sell category 2 and category 3 drugs.

In addition, the "Law for Partial Revision of the Pharmaceutical Affairs Law" (enacted June 12, 2014) ended restrictions on the sale of OTC drugs online. Factors such as the entry into the market of firms from other industries as a result of a continuing trend in the future to deregulate drug sales may affect the Group's performance.

2. Details of Business

The Group's dispensing pharmacy business operates a chain of dispensing pharmacies. These dispensing pharmacies are mainly located near major hospitals (national health insurance scheme dispensing pharmacies, located near hospitals for user convenience) and in medical malls developed by the Group (national health insurance scheme dispensing pharmacies, located near mixed medical facilities for user convenience).

As the dispensing pharmacy business accounted for 90.0% 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 store openings by competitors in the same industry.

Furthermore, sales of dispensing pharmacies significantly depend on the medical institutions that write prescriptions. Therefore, uncertainties such as 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 drugs based on prescriptions. The drug prices and dispensing fees are set by the Ministry of Health, Labour and Welfare. As a way to contract national medical expenses, both medical treatment fees and drug prices are being revised incrementally. In the future as well, 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. Securing qualified staff

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

5. Risks of loss of trust in the Company

a. Dispensing operation

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 to avoid the risk from all aspects.

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 from the Ainz Point Club Card and Tulpe Mobile Club.

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 the Group's performance but also lead to a loss of society's confidence in the Group.

6. Risk in business strategy

The Group has promoted the expansion of the business scale of dispensing pharmacies through actively promoting new store openings and M&A.

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

7. Interest rate risks

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 internal funds within the range of operating cash flow, while in large-scale M&A, costs are sometimes financed by borrowings from financial institutions.

In order to ensure flexible access to funds to support these activities, the Group maintains a certain level of liquidity on its balance sheet. As of the end of the fiscal year under review, cash on hand and in banks totaled ¥19,553 million, compared with a total balance of short- and long-term debts of ¥13,970 million.

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

AIN PHARMACIEZ INC.
CONSOLIDATED BALANCE SHEET
AS OF APRIL 30, 2015

ASSETS	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1(1)) 2015
Current assets:			
Cash on hand and in banks (Notes 2 and 4)	¥ 19,553	¥ 18,846	$ 164,435
Notes and accounts receivable (Note 4)	8,369	6,718	70,380
Other accounts receivable	5,291	5,679	44,495
Inventories (Note 3)	9,909	9,759	83,331
Deferred tax assets (Note 10)	894	1,245	7,518
Short-term loans	739	708	6,214
Other current assets	1,765	1,376	14,843
Allowance for doubtful accounts	(157)	-	(1,320)
Total current assets	46,365	44,334	389,916
Property, plant and equipment (Note 6):			
Buildings and structures, net	11,678	9,962	98,208
Land	7,931	6,698	66,697
Construction in progress	519	681	4,364
Other property, plant and equipment, net	2,342	2,241	19,695
Total property, plant and equipment	22,472	19,583	188,983
Investments and other assets:			
Investments in securities (Notes 4 and 5)	2,872	2,559	24,152
Deferred tax assets (Note 10)	984	1,068	8,275
Net defined benefit asset (Note 9)	12	-	100
Long-term loans	1,369	1,801	11,512
Deposits and guarantees	9,710	8,081	81,658
Goodwill	26,340	20,017	221,512
Other intangible fixed assets	1,283	1,111	10,789
Other investments and other assets	3,262	3,065	27,432
Allowance for doubtful accounts	(522)	(240)	(4,389)
Total investments and other assets	45,311	37,464	381,052
Total assets	¥ 114,149	¥ 101,382	$ 959,961

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1(1)) 2015
Current liabilities:			
Accounts payable (Note 4)	¥ 31,826	¥ 28,002	$ 267,647
Short-term debt (Notes 4 and 7)	6,330	6,535	53,233
Accrued income taxes	2,320	3,079	19,510
Deposits received	9,052	8,686	76,124
Allowance for bonuses to employees	1,353	1,149	11,378
Allowance for bonuses to directors	11	11	92
Reserve for reward obligations	338	332	2,842
Other current liabilities	3,199	2,551	26,902
Total current liabilities	54,433	50,349	457,766
Long-term liabilities:			
Long-term debt (Notes 4 and 7)	7,640	4,502	64,250
Lease obligations	1,341	1,454	11,277
Net defined benefit liability (Note 9)	1,636	1,927	13,758
Other long-term liabilities	1,052	909	8,847
Total long-term liabilities	11,669	8,793	98,133
Net Assets: (Note 11)			
Shareholders' equity			
Common stock (Note 14)	8,682	8,682	73,013
Authorized - 44,000,000 shares in 2015 and 2014			
Issued - 31,888,212 shares in 2015 and 15,944,106 shares in 2014			
Capital surplus	7,872	7,872	66,201
Retained earnings	31,639	26,007	266,075
Treasury stock (180,595 shares in 2015 and 89,916 shares in 2014)	(419)	(417)	(3,523)
Total shareholders' equity	47,776	42,146	401,782
Accumulated other comprehensive income:			
Unrealized holding gains on securities	227	34	1,909
Remeasurments of defined benefit plans	(75)	(58)	(630)
Total accumulated other comprehensive (loss) income	151	(23)	1,269
Minority interests	118	117	992
Total net assets	48,046	42,240	404,053
Total liabilities and net assets	¥ 114,149	¥ 101,382	$ 959,961

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED APRIL 30, 2015

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1(1)) 2015
Net sales (Note 15)	¥ 187,904	¥ 170,225	$ 1,580,220
Cost of sales	158,943	144,476	1,336,666
Gross profit	28,961	25,748	243,553
Selling, general and administrative expenses	17,509	15,635	147,245
Operating income (Note 15)	11,452	10,113	96,308
Other income (expense):			
Interest and dividend income	99	111	832
Gains on investments in partnership	108	45	908
Commissions received	50	33	420
Real estate rental revenue	159	74	1,337
Consignment income	157	144	1,320
Interest expenses	(84)	(101)	(706)
Losses on sales of accounts receivables	(81)	(85)	(681)
Provision of allowance for doubtful accounts	(282)	-	(2,371)
Gains on sales of investments in securities	7	49	58
Refund of premium for cancelled insurance	-	214	-
Losses on disposal and sales of fixed assets	(345)	(336)	(2,901)
Impairment losses on fixed assets	(371)	(189)	(3,120)
Directors' retirement benefits	(106)	-	(891)
Other, net	70	193	588
	(619)	152	(5,205)
Income before income taxes and minority interests	10,832	10,265	91,094
Income taxes (Note 10):			
Current	4,428	5,206	37,238
Deferred	143	(273)	1,202
	4,571	4,932	38,440
Income before minority interests	6,260	5,333	52,644
Minority interests in income	63	73	529
Net income	¥ 6,197	¥ 5,259	$ 52,115

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED APRIL 30, 2015

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1(1)) 2015
Income before minority interests	¥ 6,260	¥ 5,333	$ 52,644
Other comprehensive income			
Unrealized holding gains (losses) on securities	192	(23)	1,614
Remeasurements of defined benefit plans, net of tax	(16)	-	(134)
Total other comprehensive income (loss)	175	(23)	1,471
Total comprehensive income	6,436	5,309	54,124
Comprehensive income attributable to shareholders of the parent	6,372	5,236	53,586
Comprehensive income attributable to minority interests	63	73	529

See accompanying notes.

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2015

	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, 2013	15,944	¥ 8,682	¥ 7,872	¥ 21,704	¥ (5)	¥ 38,254	¥ 57	¥ -	¥ 57	¥ 44	¥ 38,356
Net income	-	-	-	5,259	-	5,259	-	-	-	-	5,259
Cash dividends paid	-	-	-	(956)	-	(956)	-	-	-	-	(956)
Acquisition of treasury stock	-	-	-	-	(411)	(411)	-	-	-	-	(411)
Net change in items other than those in shareholders' equity	-	-	-	-	-	-	(23)	(58)	(81)	73	(7)
Net changes during the year	-	-	-	4,302	(411)	3,891	(23)	(58)	(81)	73	3,883
Balance at April 30, 2014	15,944	8,682	7,872	26,007	(417)	42,146	34	(58)	(23)	117	42,240
Cumulative effect of changes in accounting policies	-	-	-	386	-	386	-	-	-	-	386
Effect of 2-for-1 stock split of common shares	15,944	-	-	-	-	-	-	-	-	-	-
Balance at May 1, 2014	31,888	8,682	7,872	26,393	(417)	42,532	34	(58)	(23)	117	42,626
Net income	-	-	-	6,197	-	6,197	-	-	-	-	6,197
Cash dividends paid	-	-	-	(951)	-	(951)	-	-	-	-	(951)
Acquisition of treasury stock	-	-	-	-	(1)	(1)	-	-	-	-	(1)
Net change in items other than those in shareholders' equity	-	-	-	-	-	-	192	(16)	175	0	176
Net changes during the year	-	-	-	5,245	(1)	5,243	192	(16)	175	0	5,419
Balance at April 30, 2015	31,888	¥ 8,682	¥ 7,872	¥ 31,639	¥ (419)	¥ 47,776	¥ 227	¥ (75)	¥ 151	¥ 118	¥ 48,046

	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, 2014	$ 73,013	$ 66,201	$ 218,711	$ (3,506)	$ 354,436	$ 285	$ (487)	$ (193)	$ 983	$ 355,226
Cumulative effect of changes in accounting policies	-	-	3,246	-	3,246	-	-	-	-	3,246
Effect of 2-for-1 stock split of common shares	-	-	-	-	-	-	-	-	-	-
Balance at May 1, 2014	73,013	66,201	221,957	(3,506)	357,682	285	(487)	(193)	983	358,472
Net income	-	-	52,115	-	52,115	-	-	-	-	52,115
Cash dividends paid	-	-	(7,997)	-	(7,997)	-	-	-	-	(7,997)
Acquisition of treasury stock	-	-	-	(8)	(8)	-	-	-	-	(8)
Net change in items other than those in shareholders' equity	-	-	-	-	-	1,614	(134)	1,471	0	1,480
Net changes during the year	-	-	44,108	(8)	44,092	1,614	(134)	1,471	0	45,572
Balance at April 30, 2015	$ 73,013	$ 66,201	$ 266,075	$ (3,523)	$ 401,782	$ 1,909	$ (630)	$ 1,269	$ 992	$ 404,053

See accompanying notes.

AIN PHARMACIEZ INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2015	2014	2015
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 10,832	¥ 10,265	$ 91,094
Depreciation and amortization	2,553	2,258	21,470
Impairment losses on fixed assets	371	189	3,120
Amortization of goodwill	2,278	2,033	19,157
Increase (decrease) in allowance for doubtful accounts	419	(44)	3,523
Increase in reserve for reward obligations	6	16	50
Increase in net defined benefit liability	114	153	958
Increase in allowance for bonuses to employees	130	38	1,093
Interest and dividend income	(99)	(111)	(832)
Interest expenses	84	101	706
Gains on investments in partnerships	(108)	(45)	(908)
Gains on donations of property, plant and equipment	(12)	(12)	(100)
Gains on sales of investments in securities	(7)	(49)	(58)
Losses on disposal and sales of fixed assets	324	332	2,724
Decrease in accounts receivable	455	1,110	3,826
Decrease (increase) in inventories	969	(1,485)	8,149
Increase in other assets	(214)	(199)	(1,799)
Decrease in other accounts receivable	414	1,551	3,481
Increase in accounts payable	1,544	3,075	12,984
(Decrease) increase in other liabilities	(109)	84	(916)
Subtotal	19,948	19,264	167,757
Interest and dividends received	100	105	840
Interest paid	(82)	(102)	(689)
Income taxes paid	(5,126)	(4,603)	(43,108)
Net cash provided by operating activities	14,839	14,662	124,791
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(2,848)	(3,460)	(23,950)
Proceeds from sales of property, plant and equipment	98	466	824
Payments for purchases of investments in securities	(145)	(120)	(1,219)
Proceeds from sales of investments in securities	559	322	4,701
Purchases of subsidiaries' shares resulting in obtaining controls	(10,024)	(2,410)	(84,299)
Payments for loans receivable	(2,233)	(3,172)	(18,778)
Proceeds from collections of loans receivable	2,655	2,545	22,327
Payments for purchase of intangible fixed assets	(926)	(793)	(7,787)
Proceeds from withdrawal of time deposits	260	27	2,186
Increase in other investments	(1,955)	(1,153)	(16,441)
Net cash used in investing activities	(14,560)	(7,749)	(122,445)
Cash flows from financing activities:			
Net repayments from short-term debts	(1,593)	(318)	(13,396)
Proceeds from long-term debts	8,650	137	72,744
Repayments of long-term debts	(5,082)	(4,510)	(42,738)
Repayments of lease obligations	(646)	(558)	(5,432)
Payments for purchase of treasury stock	(1)	(411)	(8)
Cash dividends paid	(951)	(956)	(7,997)
Net cash provided (used in) by financing activities	374	(6,617)	3,145
Net increase in cash and cash equivalents	653	295	5,491
Cash and cash equivalents at beginning of year	18,735	18,439	157,556
Cash and cash equivalents at end of the year (Note 2)	¥ 19,389	¥ 18,735	$ 163,056

See accompanying notes.

AIN PHARMACIEZ INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2015 AND 2014

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, 2015, which was ¥118.91 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 37 and 24 subsidiaries as of April 30, 2015 and 2014, 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 four consolidated subsidiaries in the dispensing pharmacy business is the end of February. The account closing date for two consolidated subsidiaries in the dispensing pharmacy business is the end of April. The account closing date for a consolidated subsidiary in the dispensing pharmacy business is the end of September. 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) Allowance for doubtful accounts

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

(9) Bonuses to employees

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

(10) Bonuses to directors

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

(11) 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.

(12) Retirement benefits

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

The Company and some of its consolidated subsidiaries employ the simplified method when computing retirement benefit obligations.

In calculating the retirement benefit obligation, the benefit formula 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.

(13) Income taxes

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

(14) Amounts per share of common stock

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

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

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

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

(15) 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.

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

The Company and its subsidiaries have adopted Paragraph 35 of "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26 issued on May 17, 2012, the "Accounting Standard") and Paragraph 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on March 26, 2015, the "Guidance") from the beginning of the fiscal year ended April 30, 2015. Accordingly, the Company and its subsidiaries reviewed its calculation methods for the projected benefit obligation and service cost, and changed the method for attributing the expected benefit to periods of service from a straight-line basis to a benefit formula basis. In addition, the method of determining the discount rates applied in the calculation of projected benefit obligation was changed from the method using the maturity period of bonds close to the employees' average remaining service period as a basis of the discount rate to the method using the single weighted-average discount rate that reflects the estimated period and amount of benefit payment in each period.

In accordance with the transitional treatment stipulated in Paragraph 37 of the Accounting Standard, the effect of the changes is reflected in retained earnings as of the beginning of the fiscal year ended April 30, 2015.

As a result, net defined benefit asset increased by ¥8 million ($67 thousand), net defined benefit liability decreased by ¥592 million ($4,978 thousand) and retained earnings increased by ¥386 million ($3,246 thousand) as of the beginning of the fiscal year ended April 30, 2015. The effect of these changes on operating income, ordinary income and income before income taxes and minority interests for the fiscal year ended April 30, 2015 is immaterial. Net assets per share as of April 30, 2015 increased by ¥11 ($0).

(17) Unapplied accounting standards

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 beginning of the fiscal year ending April 30, 2016, and (iv) for business combinations made at the beginning of the fiscal year ending April 30, 2016 and thereafter.

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

(18) 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, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash on hand and in banks	¥ 19,553	¥ 18,846	$ 164,435
Less: Time deposits with maturities exceeding three months	(164)	(111)	(1,379)
Cash and cash equivalents	¥ 19,389	¥ 18,735	$ 163,056

(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, 2015 and 2014 due to the acquisition of shares

(i) Acquisition of shares of 15 companies in the dispensing pharmacy business and one other company for the year ended April 30, 2015

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
	2015	2015
Current assets	¥ 5,312	$ 44,672
Fixed assets	2,549	21,436
Goodwill	8,266	69,514
Current liabilities	(3,498)	(29,417)
Long-term liabilities	(932)	(7,837)
Acquisition cost of the companies	11,697	98,368
Cash and cash equivalents held by the companies	(1,672)	(14,061)
Net disbursement due to the acquisition	¥ 10,024	$ 84,299

(ii) 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
	2014
Current assets	¥ 2,111
Fixed assets	936
Goodwill	2,164
Current liabilities	(1,862)
Long-term liabilities	(224)
Acquisition cost of the companies	3,124
Cash and cash equivalents held by the companies	(714)
Net disbursement due to the acquisition	¥ 2,410

3. Inventories

Inventories at April 30, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Merchandise	¥ 9,747	¥ 9,578	$ 81,969
Supplies	162	180	1,362
	¥ 9,909	¥ 9,759	$ 83,331

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 8 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, 2015 and 2014 are summarized in the following table:

Assets	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Carrying value			
Cash on hand and in banks	¥ 19,553	¥ 18,846	$ 164,435
Notes and accounts receivable	8,369	6,718	70,380
Other accounts receivable	5,291	5,679	44,495
Investment in securities	1,885	1,761	15,852
Deposits and guarantees	9,577	7,947	80,539
Total	44,676	40,954	375,712
Fair value			
Cash on hand and in banks	19,553	18,846	164,435
Notes and accounts receivable	8,369	6,718	70,380
Other accounts receivable	5,291	5,679	44,495
Investment in securities	1,918	1,777	16,129
Deposits and guarantees	9,408	7,717	79,118
Total	44,540	40,740	347,569
Difference			
Cash on hand and in banks	-	-	-
Notes and accounts receivable	-	-	-
Other accounts receivable	-	-	-
Investment in securities	33	15	277
Deposits and guarantees	(168)	(230)	(1,412)
Total	¥ (135)	¥ (214)	$ (1,135)

Liabilities	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Carrying value			
Accounts payable	¥ 31,826	¥ 28,002	$ 267,647
Short-term debt including current portion of long-term debt	6,330	6,535	53,233
Deposits received	9,052	8,686	76,124
Long-term debt	7,640	4,502	64,250
Total	54,849	47,727	461,264
Fair value			
Accounts payable	31,826	28,002	267,647
Short-term debt including current portion of long-term debt	6,332	6,539	53,250
Deposits received	9,052	8,686	76,124
Long-term debt	7,628	4,511	64,149
Total	54,840	47,739	461,189
Difference			
Accounts payable	-	-	-
Short-term debt including current portion of long-term debt	1	3	8
Deposits received	-	-	-
Long-term debt	(11)	8	(92)
Total	¥ (9)	¥ 12	$ (75)

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 ¥986 million ($8,291 thousand) and ¥797 million as of April 30, 2015 and 2014, respectively, are not readily determinable.

The redemption schedule for monetary claims and securities with maturity dates as of April 30, 2015 and 2014 are summarized as follows:

	Millions of yen			
	2015			
	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	¥ 18,962	¥ -	¥ -	¥ -
Notes and accounts receivable	8,369	-	-	-
Other accounts receivable	5,291	-	-	-
Investment securities				
Debt securities	179	69	100	-
Deposits received	1,759	3,018	2,721	2,210
Total	¥ 34,561	¥ 3,087	¥ 2,821	¥ 2,210

	Thousands of U.S. dollars			
	2015			
	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	$ 159,465	$ -	$ -	$ -
Notes and accounts receivable	70,380	-	-	-
Other accounts receivable	44,495	-	-	-
Investment securities				
Debt securities	1,505	580	840	-
Deposits received	14,792	25,380	22,882	18,585
Total	$ 290,648	$ 25,960	$ 23,723	$ 18,585

	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	6,718	-	-	-
Other accounts receivable	5,679	-	-	-
Investment securities				
Debt securities	479	89	-	-
Deposits received	1,525	2,392	2,609	1,553
Total	¥ 32,859	¥ 2,481	¥ 2,609	¥ 1,553

5. Securities

(1) The following tables summarize acquisition costs, carrying values and differences of securities with available fair values as of April 30, 2015 and 2014:

Other securities:

Securities with carrying values exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Acquisition cost			
Equity securities	¥ 716	¥ 368	$ 6,021
Bonds	-	-	-
Limited partnerships and similar investments	51	91	428
Other	-	-	-
Total	768	459	6,458
Carrying value			
Equity securities	1,034	455	8,695
Bonds	-	-	-
Limited partnerships and similar investments	70	102	588
Other	-	-	-
Total	1,105	557	9,292
Difference			
Equity securities	318	87	2,674
Bonds	-	-	-
Limited partnerships and similar investments	19	10	159
Other	-	-	-
Total	¥ 337	¥ 97	$ 2,834

Other securities:

Securities with carrying values not exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Acquisition cost			
Equity securities	¥ 22	¥ 368	$ 185
Bonds	349	568	2,934
Limited partnerships and similar investments	390	300	3,279
Other	19	10	159
Total	781	1,248	6,567
Carrying value			
Equity securities	20	324	168
Bonds	349	568	2,934
Limited partnerships and similar investments	390	300	3,279
Other	19	10	159
Total	779	1,204	6,551
Difference			
Equity securities	(2)	(44)	(16)
Bonds	-	-	-
Limited partnerships and similar investments	-	-	-
Other	(0)	-	(0)
Total	¥ (2)	¥ (44)	$ (16)

Equity securities included stocks of non-consolidated subsidiaries and affiliates of ¥114 million ($958 thousand) and ¥2 million at April 30, 2015 and 2014, 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, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Total sales of other securities sold	¥ 229	¥ 292	$ 1,925
Related gains	7	49	58
Related losses	-	-	-

(3) The following table summarizes impairment losses on other securities in the years ended April 30, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Other securities with fair value	¥ -	¥ -	$ -
Other securities without fair value	6	0	50

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, 2015 and 2014, 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
	2015	2014	2015
Acquisition cost			
Buildings	¥ 68	¥ 206	$ 571
Other fixed assets	-	56	-
Intangible fixed assets	-	22	-
Total	68	285	571
Accumulated depreciation			
Buildings	61	170	512
Other fixed assets	-	36	-
Intangible fixed assets	-	22	-
Total	61	228	512
Impairment losses			
Buildings	-	-	-
Other fixed assets	-	-	-
Intangible fixed assets	-	-	-
Total	-	-	-
Net balance			
Buildings	7	36	58
Other fixed assets	-	20	-
Intangible fixed assets	-	-	-
Total	¥ 7	¥ 56	$ 58

Future minimum lease payments as of April 30, 2015 and 2014 for finance leases currently accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Due within one year	¥ 9	¥ 28	$ 75
Due after one year	12	87	100
Total	¥ 22	¥ 116	$ 185

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
	2015	2014	2015
Lease expense	¥ 23	¥ 45	$ 193
Reversal of impairment losses for leased assets	-	-	-
Depreciation	6	16	50
Interest expense	10	20	84
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
	2015	2014	2015
Due within one year	¥ 584	¥ 607	$ 4,911
Due after one year	4,807	4,138	40,425
Total	¥ 5,392	¥ 4,746	$ 45,345

7. Short-term debt and long-term debt

Short-term debt and long-term debt at April 30, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Short-term bank loans with a weighted-average interest rate of 0.5%	¥ 1,964	¥ 3,306	$ 16,516
Current portion of long-term debt with a weighted-average interest rate of 0.4%	4,365	3,228	36,708
Current portion of lease obligation with a weighted-average interest rate of 1.0%	628	566	5,281
Long-term debt (2016-2022) with a weighted-average interest rate of 0.4%	7,640	4,502	64,250
Lease obligation (2016-2022) with a weighted-average interest rate of 1.1%	1,341	1,454	11,277
Total	¥ 15,940	¥ 13,058	$ 134,050

At April 30, 2015 and 2014, 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
	2015	2014	2015
Buildings	¥ -	¥ 19	$ -
Land	-	11	-
Investments in securities	5	5	42
Total	¥ 5	¥ 36	$ 42

Liabilities corresponding to collateral:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Accounts payable	¥ 1	¥ 1	$ 8
Long-term debt	-	60	-
Total	¥ 1	¥ 61	$ 8

The aggregate annual maturities of long-term debt at April 30, 2015 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2016	¥ 4,365	$ 36,708
2017	3,084	25,935
2018	2,320	19,510
2019	1,686	14,178
2020	532	4,473

The aggregate annual maturities of lease obligations at April 30, 2015 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2016	¥ 628	$ 5,281
2017	553	4,650
2018	402	3,380
2019	223	1,875
2020	94	790

8. Sales, disposal and impairment of fixed assets

(1) Gains and losses on sales of fixed assets for the years ended April 30, 2015 and 2014 are as follows:

Gains on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Buildings and structures	¥ 10	¥ -	$ 84
Land	3	4	25
Other property, plant and equipment	8	0	67
Other intangible fixed assets	-	0	-
Total	¥ 21	¥ 4	$ 176

Losses on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Buildings and structures	¥ 4	¥ 6	$ 33
Land	31	174	260
Construction in progress	12	-	100
Other property, plant and equipment	0	0	0
Other intangible fixed assets	0	-	0
Total	¥ 49	¥ 180	$ 412

(2) Losses on disposal of fixed assets for the years ended April 30, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Buildings and structures	¥ 224	¥ 26	$ 1,883
Construction in progress	1	-	8
Other property, plant and equipment	7	7	58
Goodwill	7	2	58
Other intangible fixed assets	15	4	126
Deposits and guarantees	12	62	100
Other investments and other assets	5	20	42
Disposal cost	21	30	176
Total	¥ 296	¥ 155	$ 2,489

(3) For the years ended April 30, 2015 and 2014, the Company recognized impairment losses for the following property groups:

Property group	Description of assets	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Stores	Store facilities	¥ 224	¥ 119	$ 1,883
Stores	Land	11	-	92
Stores and Leasehold properties	Store facilities	135	-	1,135
Real estate	Land	-	20	-
Stores and real estate	Store facilities and land	-	43	-
Leasehold properties	Store facilities	-	6	-
	Total	¥ 371	¥ 189	$ 3,120

9. Retirement benefits

Defined-benefit pension plan

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

	Millions of yen 2015	Thousands of U.S. dollars 2015
Balance as of April 30, 2014	¥ 2,087	$ 17,551
Cumulative effect of changes in accounting policies	(600)	(5,045)
Balance as of May 1, 2014	1,486	12,496
Service costs	235	1,976
Interest cost on retirement benefit obligation	10	84
Actuarial gains (losses) incurred	86	723
Pension and severance payments	(92)	(773)
Other	(1)	(8)
Balance as of April 30, 2015	¥ 1,724	$ 14,498

	Millions of yen 2014
Balance as of May 1, 2013	¥ 1,802
Service costs	225
Interest cost on retirement benefit obligation	18
Actuarial gains (losses) incurred	101
Pension and severance payments	(59)
Other	(0)
Balance as of April 30, 2014	¥ 2,087

(2) 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
	2015	2015
Balance as of May 1, 2014	¥ 406	$ 3,414
Expected return on plan assets	3	25
Actuarial gains (losses) incurred	21	176
Business owner's contribution	91	765
Pension and severance payments	(28)	(235)
Balance as of April 30, 2015	¥ 493	$ 4,145

	Millions of yen
	2014
Balance as of May 1, 2013	¥ 325
Expected return on plan assets	2
Actuarial gains (losses) incurred	7
Business owner's contribution	86
Pension and severance payments	(14)
Balance as of April 30, 2014	¥ 406

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

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Balance as of May 1, 2014	¥ 246	$ 2,068
Retirement benefit expenses	66	555
Business owner's contribution	(34)	(285)
Pension and severance payments	(24)	(201)
Other	138	1,160
Balance as of April 30, 2015	¥ 392	$ 3,296

	Millions of yen
	2014
Balance as of May 1, 2013	¥ 212
Retirement benefit expenses	72
Business owner's contribution	(35)
Pension and severance payments	(26)
Other	23
Balance as of April 30, 2014	¥ 246

(4) 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
	2015	2014	2015
Funded retirement benefit obligation	¥ 758	¥ 849	$ 6,374
Plan assets	(590)	(451)	(4,961)
Subtotal	167	398	1,404
Unfunded retirement benefit obligation	1,455	1,528	12,236
Net of liability and asset reported on the consolidated balance sheet	1,623	1,927	13,648
Net defined benefit liability	1,636	1,927	13,758
Net defined benefit asset	(12)	-	(100)
Net of liability and asset reported on the consolidated balance sheet	¥ 1,623	¥ 1,927	$ 13,648

(5) Retirement benefit expenses for the years ended April 30, 2015 and 2014 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service costs	¥ 235	¥ 225	$ 1,976
Interest cost on retirement benefit obligation	10	18	84
Expected return on plan assets	(3)	(2)	(25)
Amortization of actuarial losses	77	68	647
Amortization of prior service costs	(34)	(34)	(285)
Retirement benefit expenses calculated under the simplified method	66	72	555
Retirement benefit expenses	¥ 352	¥ 346	$ 2,960

(6) Remeasurements of defined benefit plans

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

(a) Current

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized actuarial gains	¥ 64	¥ -	$ 538
Total	¥ 64	¥ -	$ 538

(b) Accumulated

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized prior service costs	¥ (117)	¥ (152)	$ (983)
Unrecognized actuarial gains	231	244	1,942
Total	¥ 113	¥ 92	$ 950

(7) Plan assets

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

	2015	2014
Bonds	7%	6%
Stocks	5%	5%
General account	60%	63%
Other	28%	26%
Total	100%	100%

(b) 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.

(8) Actuarial assumptions used in accounting for the Company's plans as of April 30, 2015 and 2014 are principally as follows:

	2015	2014
Weighted average discount rate	0.91%	1.0%
Weighted average expected rate of return on plan assets	0.75%	0.75%
Expected rates of salary increase	1.00%-4.24%	1.00%-4.24%

10. Income taxes

The aggregate statutory income tax rates used for calculation of deferred income tax assets and liabilities for the years ended April 30, 2015 and 2014 were 35.3% and 37.7%, respectively.

(1) The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for consolidated financial statement purposes for the years ended April 30, 2015 and 2014:

	2015	2014
Statutory tax rate	35.3%	37.7%
Non-deductible expenses	0.6	0.6
Per capita inhabitant tax	1.8	1.8
Amortization of goodwill	6.9	4.9
Valuation allowance	0.1	0.5
Tax credits on tax system to expand income	(2.4)	-
Tax credits on tax system for promoting equipments and investment to improve productivity	(0.3)	-
Other	0.2	2.6
Effective tax rates	42.2%	48.1%

(2) Significant components of deferred tax assets and liabilities as of April 30, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Impairment losses	¥ 254	¥ 463	$ 2,136
Excess of depreciation	305	133	2,564
Excess of allowance for bonuses	417	403	3,506
Excess of reserve for rewards obligation	110	117	925
Net defined benefit liabilities	438	649	3,683
Other	911	1,156	7,661
Sub-total deferred tax assets	2,439	2,923	20,511
Valuation allowance	354	475	2,977
Total deferred tax assets	2,084	2,447	17,525
Deferred tax liabilities:			
Capitalized removal costs	(94)	(88)	(790)
Net unrealized holding gains on securities	(106)	(18)	(891)
Other	(102)	(57)	(857)
Total deferred tax liabilities	(303)	(164)	(2,548)
Net deferred tax assets	¥ 1,780	¥ 2,282	$ 14,969

(3) Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates
The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.9, 2015) and the "Act to Amend the Local Taxation Act, etc." (Act No.2, 2015) were promulgated on March 31, 2015.

Accordingly, the statutory tax rate of 35.3% previously used for calculating deferred income tax assets and deferred income tax liabilities, which are reversed on or after May 1, 2015, is changed to 32.7% for temporary differences expected to be reversed from May 1, 2015 to April 30, 2016 and 32.0% for temporary differences expected to be reversed after April 30, 2016.

As a result of this change, net deferred tax assets decreased by ¥130 million ($1,093 thousand), deferred income taxes and unrealized holding gains on securities increased by ¥141 million ($1,185 thousand) and ¥10 million ($84 thousand), respectively.

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 22 and 20 banks as of April 30, 2015 and 2014, respectively, to finance working capital requirements. The outstanding balances of such overdrafts as of April 30, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Total overdraft available	¥ 25,260	¥ 23,950	$ 212,429
Amount utilized	1,960	3,300	16,483
Outstanding balance	¥ 23,300	¥ 20,650	$ 195,946

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 ¥1,153 million ($9,696 thousand) and ¥1,256 million as of April 30, 2015 and 2014, respectively.

14. Amounts per share

Net assets per share at April 30, 2015 and 2014 and basic and diluted net income per share for the years then ended are as follows:

	Yen		U.S. dollars
	2015	2014	2015
Net assets per share	¥1,511.57	¥1,328.43	$ 12.71
Basic net income per share	195.45	165.04	1.64
Diluted net income per share	-	-	-
Cash dividends per share attributable to the year	30	60	0.25

On October 1, 2014, the Company conducted a 2-for-1 stock split of common shares. Net assets per share and net income per share is calculated, assuming that stock splits occurred at the beginning of the previous fiscal year.

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, 2015 and 2014 is summarized as follows:

	Millions of yen					
	2015					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 169,063	¥ 17,803	¥ 1,037	¥ 187,904	¥ -	¥ 187,904
Intersegment sales	-	-	323	323	(323)	-
Total sales	169,063	17,803	1,361	188,228	(323)	187,904
Segment income (loss)	14,449	117	(614)	13,951	(2,254)	11,697
Segment assets	¥ 105,238	¥ 8,852	¥ 6,852	¥ 120,943	¥ (6,793)	¥ 114,149
Other						
Depreciation and amortization	¥ 1,810	¥ 206	¥ 131	¥ 2,149	¥ 146	¥ 2,295
Amortization of goodwill	2,271	-	6	2,278	-	2,278
Impairment losses	166	144	60	371	-	371
Increase of tangible and intangible assets	2,525	553	1,268	4,347	40	4,388

	Thousands of U.S. dollars					
	2015					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	$ 1,421,772	$ 149,718	$ 8,720	$ 1,580,220	$ -	$ 1,580,220
Intersegment sales	-	-	2,716	2,716	(2,716)	-
Total sales	1,421,772	149,718	11,445	1,582,945	(2,716)	1,580,220
Segment income (loss)	121,512	983	(5,163)	117,324	(18,955)	98,368
Segment assets	$ 885,022	$ 74,442	$ 57,623	$ 1,017,096	$ (57,127)	$ 959,961
Other						
Depreciation and amortization	$ 15,221	$ 1,732	$ 1,101	$ 18,072	$ 1,227	$ 19,300
Amortization of goodwill	19,098	-	50	19,157	-	19,157
Impairment losses	1,396	1,210	504	3,120	-	3,120
Increase of tangible and intangible assets	21,234	4,650	10,663	36,557	336	36,901

	Millions of yen					
	2014					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 151,472	¥ 17,985	¥ 767	¥ 170,225	¥ -	¥ 170,225
Intersegment sales	-	-	479	479	(479)	-
Total sales	151,472	17,985	1,246	170,704	(479)	170,225
Segment income (loss)	12,772	23	(218)	12,577	(1,990)	10,587
Segment assets	¥ 85,490	¥ 7,649	¥ 5,419	¥ 98,559	¥ 2,822	¥ 101,382
Other						
Depreciation and amortization	¥ 1,632	¥ 234	¥ 90	¥ 1,957	¥ 129	¥ 2,086
Amortization of goodwill	2,028	5	-	2,033	-	2,033
Impairment losses	77	106	6	189	-	189
Increase of tangible and intangible assets	3,062	369	377	3,809	759	4,568

Amortization of goodwill and unamortized balances by reporting segment as of and for the years ended April 30, 2015 and 2014 are summarized as follows:

	Millions of yen				
	2015				
	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	¥ 2,271	¥ -	¥ 6	¥ -	¥ 2,278
Unamortized balances of goodwill	26,286	-	53	-	26,340

	Thousands of U.S. dollars				
	2015				
	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	$ 19,098	$ -	$ 50	$ -	$ 19,157
Unamortized balances of goodwill	221,057	-	445	-	221,512

	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

16. Comprehensive income

Each component of other comprehensive income (loss) for the years ended April 30, 2015 and 2014 was the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrealized holding gains (losses) on securities:			
Gains arising during the year	¥ 287	¥ 13	$ 2,413
Reclassification adjustments to losses	(6)	(49)	(50)
Amount before income tax effect	280	(35)	2,354
Income tax effect	88	(12)	740
Total unrealized holding gains (losses) on securities	192	(23)	1,614
Remeasurments of defined benefit plans:			
Losses arising during the year	(64)	-	(538)
Reclassification adjustments to gains	43	-	361
Amount before income tax effect	(21)	-	(176)
Income tax effect	(4)	-	(33)
Total remeasurments of defined benefit plans	(16)	-	(134)
Total other comprehensive income (loss)	¥ 175	¥ (23)	$ 1,471

17. Business combinations

For the year ended April 30, 2015

(1) Business combinations

During the fiscal year ended April 30, 2015, the Company and its consolidated subsidiaries Asahi Pharmacy Co., Ltd. and MEDIO Pharmacy Co., Ltd. acquired for cash consideration the shares in 15 companies in the dispensing pharmacy business and one other company, 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	¥11,489 million ($96,619 thousand)
Expenses related directly to acquisition	¥208 million ($1,749 thousand)
Cost of acquisition	¥11,697 million ($98,368 thousand)

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

(a) Amount of goodwill generated

¥8,266 million ($69,514 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, 2015. 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 9–20 years

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 13 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
Expenses related directly to acquisition	¥187 million
Cost of acquisition	¥3,124 million

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

(a) Amount of goodwill generated

¥2,164 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, 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

18. Subsequent events

Transition to a Holding Company by Company Split

At a Board of Directors meeting on June 24, 2015, a resolution was reached to transfer the rights and obligations of all the AIN PHARMACIEZ Group's operations excluding management and administrative departments (the "Business"), with an effective date of November 1, 2015, to a wholly owned subsidiary, Ain Company Split Preparation Co., Ltd. (the "Split Preparation Company") by absorption-type company split (the "Absorption-Type Company Split"). By entering into an absorption-type company split agreement (the "Absorption-Type Company Split Agreement") and to establish Ain Company Split Preparation Co., Ltd. as a wholly owned subsidiary to prepare for the split.

At a Board of Directors meeting on the same day, it was the Company's name to Ain Holdings Co., Ltd., effective November 1, 2015, and to revise the Company's Articles of Incorporation to reflect the business objectives of the post-transition holding company (the "Revisions to the Articles of Incorporation.")

The Absorption-Type Company Split Agreement and the partial revisions to the Articles of Incorporation (change of business name and partial revision of business objectives, etc.) were approved at its 46th General Ordinary Meeting of Shareholders on July 30, 2015.

In line with its transition to a holding company structure, as of November 1, 2015, the Company's name will be changed to AIN HOLDINGS INC. , and the name of the succeeding company, Ain Company Split Preparation Co., Ltd., will be changed to AIN PHARMACEIZ INC.

(1) Background of and Objective for Transition to a Holding Company System

The Group operates a nationwide chain of dispensing pharmacies under the AIN Pharmacy brand and is developing *ainz & tulpe* urban drugstores in Japan's leading metropolises.

The dispensing pharmacy business comprises more than 760 Group stores. These shops operate as insurance pharmacies response to the needs by regional communities and promote generic drugs, provide medical cooperation mainly by home dispensing and also 24-hour service that connect closely with their communities.

Regarding store strategy, in addition to new business developments by the Company and Group companies, the Group actively pursues M&A opportunities and is promoting economy of scale by expanding the scale of its business. In line with the changes taking place in the dispensing pharmacy business environment, the number of M&A projects is increasing. During the past three years, 39 companies have joined the Group through share transfers.

In Drug and Cosmetic Store Business, the Group is increasing its level of specialization in the drug and cosmetic stores based on the *ainz & tulpe* urban drugstore concept. In addition to launching new stores focused on originality and stepping up the refurbishment of existing stores, the Group is promoting the development of commercial complexes specializing in beauty and health, with new *ainz & tulpe* stores as key tenants.

In the dispensing pharmacy business, the Group is accelerating its business development through new store launches and M&A activity. In addition, the Group is enhancing its drugstore function through “family pharmacies” and expanding the scale of its urban drugstores. To achieve further growth, the Group has decided to transition to a holding company system in order to clarify authority and responsibility of Group company in each segment, to promote management autonomy and to bolster corporate competitiveness as a group. In addition, separating group management and administration from business execution, we intend to enhance corporate governance, and we believe the holding company structure is best suited to realizing continues increases in corporate value in this manner.

(2) The Absorption-Type Company Split Method
When the Company changes to a holding company, the company plans to establish the Split Preparation Company as a 100% subsidiary in advance of absorption-type split, and to transfer the business to the Split Preparation Company by absorption-type split, in order to start the business smoothly from the effective date of this absorption-type split.

(3) Overview of the Splitting Company

	The Splitting Company as of April 30 2015	The Split Preparation Company as of June 24, 2015
(a) Corporate Name	AIN PHARMACIEZ INC.	Ain Company Split Preparation Co., Ltd.
(b) Head office	5-2-4-30, Higashisapporo, Shiroishi-ku, Sapporo	5-2-4-30, Higashisapporo, Shiroishi-ku, Sapporo
(c) Name and Title of representative	Kiichi Otani President and Representative Director	Kiichi Otani President and Representative Director
(d) Business	Operating dispensing pharmacies and drug stores	Operating dispensing pharmacies and drug stores
(e) Paid-in capital	¥8,682 million ($73,013 thousand)	¥10 million ($84 thousand)
(f) Date of incorporation	August 2, 1969	June 24, 2015
(g) Number of Shares outstanding	31,888,212	1,000
(h) End of the fiscal year	April 30	April 30
(i) Major shareholders and their percentage of shares outstanding	Kiichi Otani .... 10.37% Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd. (Marubeni Corporation account) .... 7.78% Seven & i Holdings Co., Ltd. 7.78% The Hokkaido Bank, Ltd....... 4.62%	AIN PHARMACIEZ INC. 100%
(j) Operating results and financial position		
Net assets	¥48,046 million ($404,053 thousand)	¥10 million ($84 thousand)
Total assets	¥114,149 million ($959,961 thousand)	¥10 million ($84 thousand)
Net assets per share	¥1,511.57 ($12.71)	¥10,000 ($84.09)
Sales	¥187,904 million ($1,580,220thousand)	-
Operating income	¥11,452 million ($96,308 thousand)	-
Ordinary income	¥11,697 million ($98,368 thousand)	-
Net income	¥6,197 million ($52,115 thousand)	-
Net income per share	¥195.45 ($1.64)	-
Cash dividends per share	¥30 ($0.25)	-

Note:
(i) On October 1, 2014, the Company conducted a 2-for-1 stock split of common shares. Net assets per share and net income per share is calculated, assuming that stock splits occurred at May 1, 2014.
(ii) The operating results and financial positon of the splitting company are consolidated amounts except the cash dividends per share.
(iii) The Split Preparation Company that will be the successor was established on June 24, 2015. As the company has no preceding business year, net assets and total assets are indicated as of its establishment date.

(4) Outline of accounting method used
In accordance with "Accounting Standard for Business Combinations" and " Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures, we will treat the merger as a transaction under common control.

19. Quarterly Information

(1) Quarterly net sales for the year ended April 30, 2015 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Three months ended July 31, 2014	¥ 43,354	$ 364,595
Six months ended October 31, 2014	88,220	741,905
Nine months ended January 31, 2015	136,394	1,147,035
Twelve months ended April 30, 2015	187,904	1,580,220

(2) Quarterly income before income taxes and minority interests for the year ended April 30, 2015 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Three months ended July 31, 2014	¥ 1,706	$ 14,346
Six months ended October 31, 2014	4,197	35,295
Nine months ended January 31, 2015	7,512	63,173
Twelve months ended April 30, 2015	10,832	91,094

(3) Quarterly net income for the year ended April 30, 2015 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Three months ended July 31, 2014	¥ 1,004	$ 8,443
Six months ended October 31, 2014	2,525	21,234
Nine months ended January 31, 2015	4,471	37,599
Twelve months ended April 30, 2015	6,197	52,115

(4) Quarterly net income per share for the year ended April 30, 2015 is as follows:

	Yen	U.S. dollars
	2015	2015
Three months ended July 31, 2014	¥ 31.67	$ 0.26
Six months ended October 31, 2014	79.64	0.66
Nine months ended January 31, 2015	141.04	1.18
Twelve months ended April 30, 2015	195.45	1.64

On October 1, 2014, the Company conducted a 2-for-1 stock split of common shares. Quarterly net income per share for the year ended April 30, 2015 is calculated, assuming that stock splits occurred at the beginning of the previous fiscal year.

(5) Quarterly net income per share for each accounting period of the year ended April 30, 2015 is as follows:

	Yen	U.S. dollars
	2015	2015
Three months ended July 31, 2014	¥ 31.67	$ 0.26
Three months ended October 31, 2014	47.97	0.40
Three months ended January 31, 2015	61.40	0.51
Three months ended April 30, 2015	54.41	0.45

On October 1, 2014, the Company conducted a 2-for-1 stock split of common shares. Quarterly net income per share for each accounting period for the year ended April 30, 2015 is calculated, assuming that stock splits occurred at the beginning of the previous fiscal year.

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, 2015, 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, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 18 to the consolidated financial statements, which describes that the resolution was reached to transfer the company to a holding company structure in absorption-type company split at its Board of Directors meeting on June 24, 2015 and at its General Ordinary Meeting of Shareholders on July 30, 2015. Our opinion is not qualified in respect of this matter.

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 Shin Nihon LLC

July 30, 2015
Sapporo, Japan

DIRECTORS AND CORPORATE AUDITORS
(As of July 31, 2015)

President and Representative Director
Kiichi Otani

Executive Vice President 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
Ko Mori*[1]
Koji Kabumoto*[1]
Seiichiro Sato*[1]
Yasuyuki Hamada*[1]

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

Notes: 1. Outside directors
2. Outside corporate auditors

CORPORATE DATA
(Fiscal 2015)

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: 4,429
Non-consolidated: 2,596

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 2015)

Transfer Agent
Mizuho Trust & Banking Co., Ltd.

Stock Listings
First Section of the Tokyo Stock Exchange and Sapporo Securities 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
31,888,212 shares
(including treasury stock)
* The Company conducted a 2-for-1 stock split of common shares with an effective date of October 1, 2014.

Number of Shareholders
4,084

Major Shareholders

(As of April 30, 2015)

Shareholders	Number of shares held (thousand shares)	Share-holding ratio (%)
Kiichi Otani	3,308	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	2,480	7.82
Seven & i Holdings Co., Ltd.	2,480	7.82
The Hokkaido Bank, Ltd.	1,472	4.64
Japan Trustee Services Bank, Ltd. (Trust Account)	929	2.93
ML PRO SEGREGATION ACCOUNT	866	2.73
Yoshiaki Imagawa	637	2.01
The Master Trust Bank of Japan, Ltd.	617	1.95
The Norinchukin Bank	600	1.89
STATE STREET BANK AND TRUST COMPANY	566	1.79

Notes: 1. The figure excludes 180,595 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