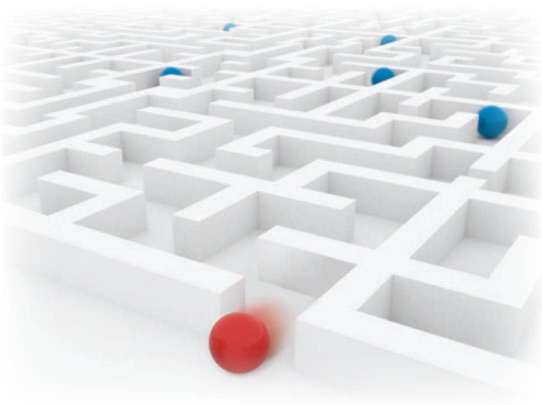


Positioned to Succeed

ANNUAL REPORT 2016

For the year ended April 30, 2016

AIN HOLDINGS

AIN HOLDINGS has grown by consistently staying ahead of change

AIN HOLDINGS INC. operates Japan's leading dispensing pharmacy business and a unique drug and cosmetic store business focused on female consumers in urban markets. We have generated sustained growth by expanding these businesses while consistently anticipating and responding flexibly to changes in the operating environment.

We aim to increase corporate value further as a distinctive corporate group.

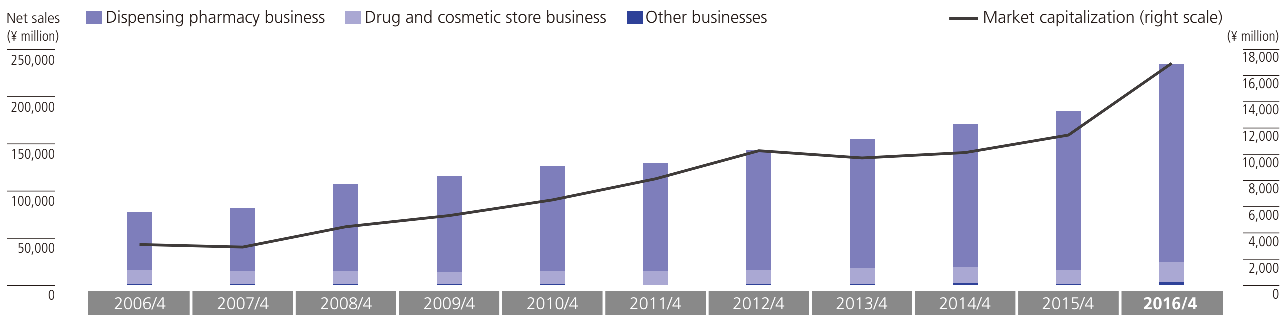
Dispensing Pharmacy Business

The dispensing pharmacy sector is one of Japan's few growth markets. By responding to new demands on dispensing pharmacies, we aim to play a key role in society by supporting Japan's healthcare system and reinforce our position as the preeminent company in the sector.

Drug and Cosmetic Store Business

We operate a chain of drug and cosmetic stores under the *ainz & tulpe* brand, which has built a distinctive position in the market in terms of target customers, store locations and products. We are developing the business into a second key source of earnings by creating and nurturing original brands and opening stores in prime locations.

History of Growth



Contents

Forward-looking Statements

This annual report contains forecasts and projections concerning the plans, strategies and performance of AIN HOLDINGS 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 HOLDINGS INC. wishes to caution readers that actual results may differ materially from those projected.

Aiming to increase corporate value by taking advantage of far-reaching change

Kiichi Otani
President and Representative Director

Fiscal 2016 Review

In fiscal 2016, ended April 30, 2016, the dispensing pharmacy business actively opened new stores, including locations acquired through M&A deals. A number of factors helped support this expansion. During the course of the year, we improved our frontline capabilities further, leading to gains in business efficiency and higher-quality services, and we put in place the necessary structures to address changes to healthcare and dispensing systems in Japan.

However, the drug and cosmetic store business reported a loss, falling short of our forecast for profits at the start of the fiscal year. Although our chain of *ainz & tulpe* stores performed well, profits in the business were hit by costs related to the opening of new retail formats, including our large flagship *ainz & tulpe* SHINJUKU HIGASHIGUCHI near the east exit of Tokyo's Shinjuku Station and *ainz & tulpe* Le trois in Sapporo, Hokkaido. Gross margins at both new formats are improving due to a tighter focus on target customers and the launch of original brands. These steps, along with the closure of a large number of suburban drug and cosmetic stores, meant fiscal 2016 marked a major turning point for the Group.

As a result of these efforts, net sales in fiscal 2016 rose 25.0% year on year to ¥234,843 million, operating income increased 27.7% to ¥14,619 million and profit attributable to owners of parent rose 27.8% to ¥7,917 million.

We also moved to a holding company structure on November 1, 2015. This step was taken to improve corporate governance by separating the Group's management and business execution functions and to create a more efficient business development structure by clarifying the roles of each Group company, allowing us to respond more rapidly to feedback from the business frontline. This is part of wider efforts to create an operating structure that will support further business expansion.

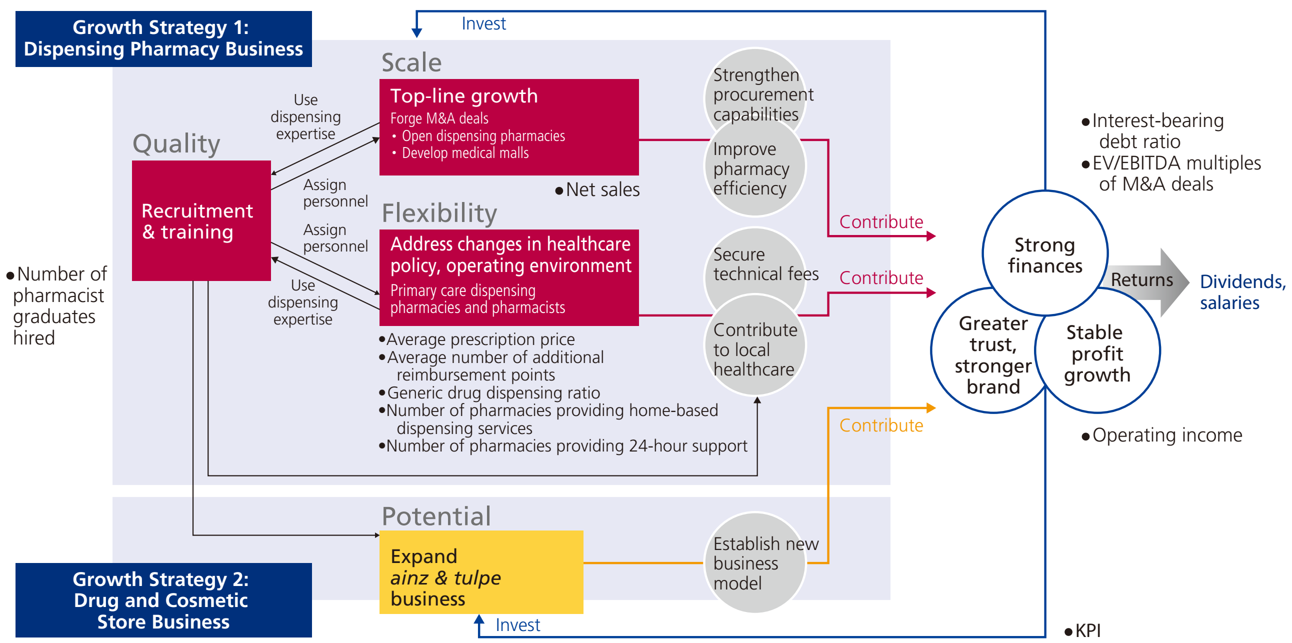
AIN HOLDINGS Growth Strategy

Our medium-term growth strategy is anchored by four key objectives:

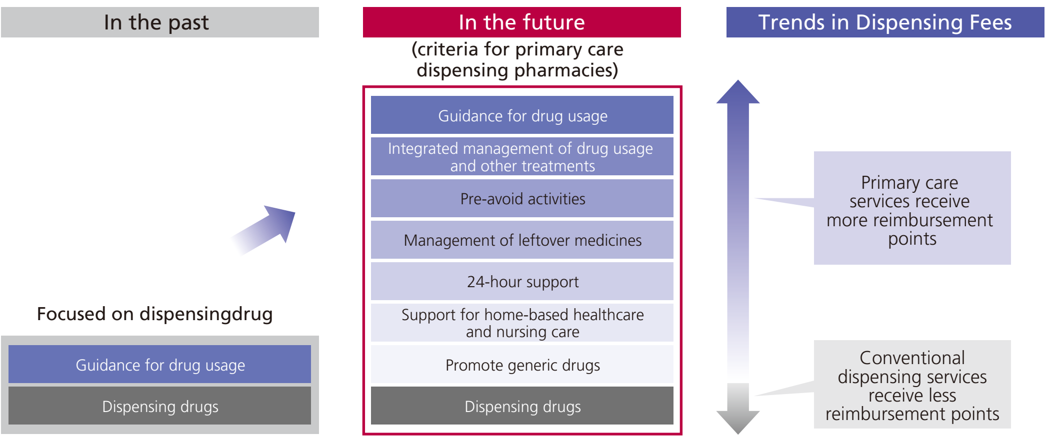
1. Top-line growth
2. Improve the primary care capabilities of pharmacists and dispensing pharmacies*
3. Attract and train personnel
4. Grow the *ainz & tulpe* business

* In the April 2016 dispensing fee revisions, the government used the terms *Kakaritsuke* pharmacists and *Kakaritsuke* dispensing pharmacies, which roughly translates as primary care pharmacists and primary care dispensing pharmacies. For the first time, the government defined the criteria for *Kakaritsuke* pharmacists, stepping up its efforts to promote the primary care role of pharmacists in the community (see pages 10-11 for more details).

In order to generate further growth, we also need to anticipate and respond to changes in the market. Moving to the holding company structure means we can easily integrate new companies acquired through M&A deals without changing our operating structure. Going forward, we plan to consolidate some Group companies to leverage business synergies.



The Changing Role of Dispensing Pharmacies



See pages 7, 10-11, for more details.

Business Strategy: Dispensing Pharmacy Business

Our strategy has been to grow the dispensing pharmacy business by expanding our nationwide network of pharmacies located near hospitals. Top-line growth has increased our buying power, which in turn has lifted margins at each pharmacy, creating a positive business cycle. We have also focused on hiring and training pharmacists, a key driver of growth, improved the efficiency of existing dispensing pharmacies and systemized pharmacy operations. These efforts have helped us counter the impact of drug price and dispensing fee revisions, supporting sector-leading profit margins and a healthy financial position.

The government is currently promoting the concept of primary care dispensing pharmacies. We plan to step up our efforts in this area, as it gives us the potential to fully leverage our competitive advantages and continue playing a key role in society.

Over the last few years, companies in the sector have been targeting other dispensing pharmacy chains for acquisition or merger, particularly small and medium-sized companies that are struggling to hire pharmacists. We have also been expanding our network at an annual pace of around 120 dispensing pharmacies, including locations acquired through M&A deals. An opportunity in the future to forge a major M&A deal would significantly boost that pace of expansion (see pages 8-13 for more details about our growth strategy for the dispensing pharmacy business).

Sound Financial Structure

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

Fiscal 2015		(¥ million)
	AIN HOLDINGS	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%

Fiscal 2016		(¥ million)
	AIN HOLDINGS	Average of 3 competitors
Market capitalization	226,087	61,578
Cash on hand in banks	22,647	18,428
Interest-bearing debt	22,410	34,452
Net cash	236	(16,024)
Shareholders' equity ratio	38.1%	30.0%

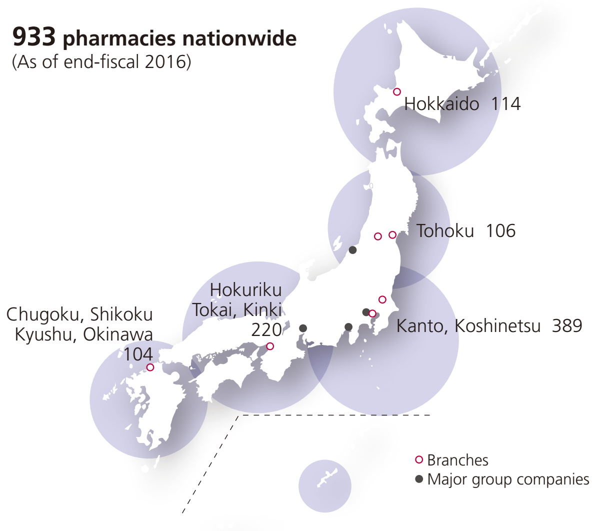
Notes:
1. Market capitalization data are as of July 29, 2016.
2. Interest-bearing debt = Short- and long-term debts + Corporate bond (excluding Lease obligations)
3. Net cash = Cash on hand and in banks – Interest-bearing debt
4. 3 competitors: NIHON CHOUZAI Co., Ltd., SOGO MEDICAL CO., LTD., Qol Co., Ltd.

Source: Compiled by AIN HOLDINGS from the above companies' financial results for fiscal 2016.

Scale of Business

—Our dispensing pharmacy store network

933 pharmacies nationwide
(As of end-fiscal 2016)



Business Strategy: Drug and Cosmetic Store Business

The AIN Group initially started out as drug store business, but as the non-hospital dispensing system expanded, we channeled business resources into dispensing pharmacies, leading to rapid growth and the Group's current focus on dispensing pharmacy operations. We aim to expand the drug and cosmetic store business into a second key source of earnings.

Amid Japan's falling birthrate and aging society, we see significant growth potential for urban drug and cosmetic stores. In recent years, we have therefore been focusing business resources on our chain of *ainz & tulpe* drug and cosmetic stores targeting female consumers in urban markets. We are aiming for rapid growth, supported by a raft of initiatives such as improvements in staff training and product development.

In 2015, we opened two new formats – *ainz & tulpe* SHINJUKU HIGASHIGUCHI, a new flagship store near the east exit of Tokyo's Shinjuku Station, and *ainz & tulpe* Le trois in Sapporo, Hokkaido. All our existing *ainz & tulpe* urban stores also performed well.

Going forward, we plan to boost margins by increasing the sales ratio for original brands. We also aim to open stores in prime locations to strengthen the *ainz & tulpe* brand and create a more distinct position in the market. Our goal is to create a second major stream of earnings by establishing a retail format that is completely different to existing drug stores in the sector (see pages 14-17 for more details about our growth strategy for the drug and cosmetic store business).

Personnel Strategy

In April 2016 we hired 375 pharmacists, exceeding our target of 300. AIN Group dispensing pharmacies have captured 2.9% of the domestic market based on sales, but we recruited around 8% of all newly graduated pharmacists who started work at dispensing pharmacies in April 2016. We think that reflects growing trust in the AIN Group among universities and students due to increased awareness of our high-level training systems and good working conditions. But we will need to attract even more pharmacists in the future to help our dispensing pharmacies improve their primary care capabilities. Japan currently faces a severe structural shortage of pharmacists, so the ability of companies to attract new pharmacists has a direct impact on their ability to do business. Our business scale and healthy financial position means we have a major advantage in the job market, as we have the resources to consistently invest in hiring new personnel.

The drug and cosmetic store business also hired 94 new employees in fiscal 2016. We plan to hire and train around 100 new people each year to support growth in the business, including major new store openings.

We are also actively promoting women to management positions. There are currently 30.8% (as of April 2016) female managers in the AIN Group and we are aiming to increase the ratio of female managers to 50% by the end of April 2019. The first step in this process is to conduct opinion surveys at each level of the Group and implement training programs.

Capital Strategy

In fiscal 2016, we raised the full-year dividend to ¥40 per share, an increase of ¥10 from the previous fiscal year. In future, we plan to increase the dividend payout ratio from the current 16% to 20%.

At the moment, we are putting priority on investment to drive growth, such as store openings, rather than on shareholder returns.

M&A deals are likely to be the main use of capital. We are receiving a growing number of inquiries about potential deals. We plan to actively acquire or merge with other dispensing pharmacy companies while maintaining a stable EV/EBITDA ratio, in order to expand our business and increase our market capitalization.

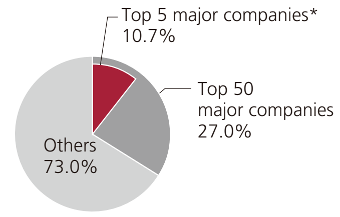
We aim to maintain ROE at around 15% and continue growing profits.

Targeting Sustained Growth

The dispensing pharmacy market in Japan is currently worth ¥7.2 trillion and is projected to reach ¥9 trillion over the next decade. The dispensing pharmacy sector is one of Japan's few growth markets. However, it remains highly fragmented, with the top five companies accounting for only 10.7% of the market, including the Group's leading share of 2.9%. We therefore see considerable scope for further growth in market share. We expect our share to increase as the dispensing pharmacy market expands.

Dispensing Pharmacy Company Market Share

(Fiscal 2016)



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

Source: AIN HOLDINGS estimates, based on data from DRUG Magazine (March 9, 2016) and FY2016 dispensing fee statistics released by the Ministry of Health, Labour and Welfare.

Although the sector is likely to face growing headwinds from regular revisions to drug prices and dispensing fees, we see those changes as an opportunity due to our strong finances. We plan to use funds to actively invest in M&A deals and pharmacist recruitment in order to sustain growth, while also maintaining margins.

The drug and cosmetic store business currently accounts for 10% of consolidated sales, with the remaining 90% coming from the dispensing pharmacy business. Going forward, we will overhaul our business portfolio in order to increase the drug and cosmetic store sales ratio to 30%, using our new retail formats to expand the *ainz & tulpe* brand.

The AIN Group has consistently adapted to change in the operating environment, to the extent that constant change is at the heart of our corporate philosophy. Our dispensing pharmacy business and drug and cosmetic store business both face major challenges in their operating environments. Against that backdrop, to continue contributing to society and increasing corporate value, we need to constantly evolve as a unique corporate group that provides products and services that customers and society really value.

July 30, 2016

Kiichi Otani
President and Representative Director

Operating Environment of Dispensing Pharmacy Sector in Japan

The dispensing pharmacy business is our core business and has the leading position in the sector.

The dispensing pharmacy sector is one of only a few markets in Japan with prospects for growth over the medium to long term. However, with successive governments revising social insurance policy as part of wider efforts to curb national medical expenses, dispensing pharmacies face an increasingly challenging operating environment, raising the possibility of restructuring in the sector. However, after pushing ahead with strategies that anticipated those changes, we view them as a business opportunity.

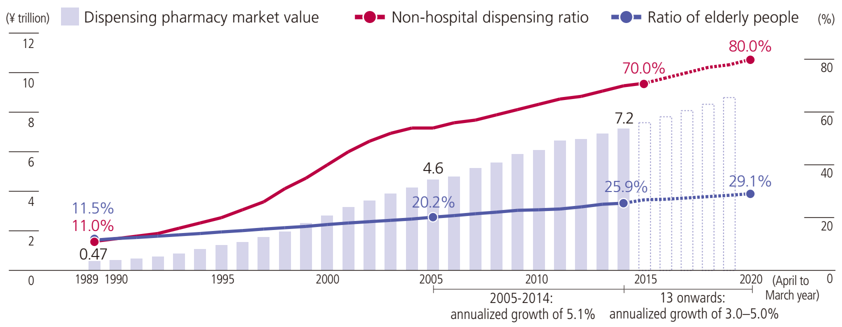
In this section, we look at the nature of the operating environment in Japan and our strategy for generating sustained value in our dispensing pharmacy business under those conditions.

A Growth Market

Japan's dispensing pharmacy market has developed in unique ways, supported by government policy.

The market was worth roughly ¥7.2 trillion in fiscal 2014 and we estimate it will continue to expand at around 3–5% annually. Japan is one of the first countries in the world to become a super-aging society and roughly 30% of prescriptions are still filled by hospitals. As more prescriptions are filled outside hospitals and more hospitals are rebuilt and relocated, we see scope for further growth in dispensing pharmacies located near hospitals.

■ Dispensing Pharmacy Market



Source: AIN HOLDINGS 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.

Successive Changes to Government Policy

Separation of drug prescription and dispensing (growth in dispensing pharmacies) → Promotion of generic drugs → Promotion of primary care dispensing pharmacies (restructuring in the dispensing pharmacy sector)

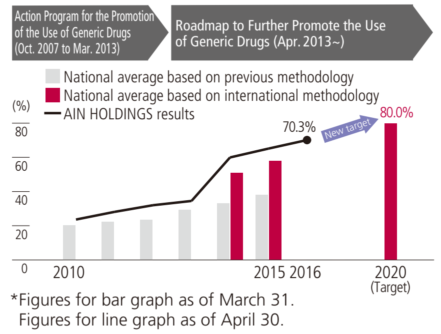
In Japan, the government determines drug prices and dispensing fees, which are usually adjusted once every two years. The government began encouraging a shift to non-hospital dispensing services in 1994, spurring rapid growth in the number of dispensing pharmacies. However, the government is now shifting its policy from a hospital-based healthcare model to a home-based one, as part of efforts to curb a continued rise in national medical expenses. As part of those changes, the government is adjusting the reimbursement point system for dispensing fees to encourage growth in dispensing pharmacies that can act as primary healthcare service providers.

The Changing Role of Pharmacists and Trends in Dispensing Fees

As Japan's society ages and national medical expenses rise, dispensing pharmacies are being asked to play a radically different role in local healthcare services. The April 2016 dispensing fee revisions include new criteria for primary care pharmacists that support local communities (see pages 10–11 for more details). Pharmacists are now required to provide an even higher level of services, such as management of leftover prescription medication and support for patient health management and local healthcare provision, in addition to dispensing prescription drugs. Dispensing fees are gradually being revised so that only dispensing pharmacies that provide these services will be able to generate profits. Dispensing pharmacies that can adapt to these changes will be rewarded accordingly, while those that cannot could fall by the wayside.

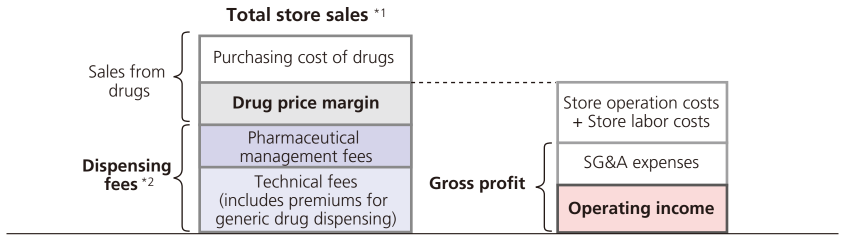
Promoting Generic Drugs

The government is actively promoting wider use of generic drugs to help reduce national medical expenses. As of February 31, 2016, generic drugs accounted for 62.4% of all prescriptions. The government aims to increase the ratio to 80.0% by March 2020 by awarding dispensing pharmacies additional reimbursement points (premiums) for generic drug dispensing. The future of dispensing pharmacies 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.



*Figures for bar graph as of March 31.
Figures for line graph as of April 30.

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.

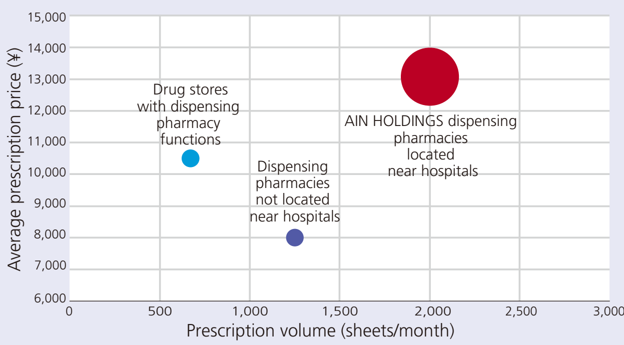
*2: Dispensing fees comprise pharmaceutical management fees and technical fees for pharmacists.
These fees are added depending on the services at pharmacies.

Characteristics of Japan's Dispensing Pharmacy Sector

Universal healthcare and free access
Japan introduced a universal healthcare system in 1961. The public bears between 10% and 30% of treatment costs depending on factors such as income and age. The system does not restrict treatment or drug dispensing to certain hospitals or pharmacies based on the type of insurance or other conditions, allowing any patient to chose when and where they want their illness or injury to be treated.

Unique industry structure
Japan has three main types of dispensing pharmacy. Patients chose which type to use based on convenience and other factors, but dispensing pharmacies located near hospitals tend to have the highest average prescription price and number of prescriptions, supporting high margins (see page 7 for more details about why dispensing pharmacies located near hospitals are popular in Japan).

Market distribution of dispensing pharmacies in Japan



Source: Compiled by AIN HOLDINGS from various data.

Why dispensing pharmacies located near hospitals are popular in Japan
Dispensing pharmacies located near hospitals are the most popular format in Japan because of clear benefits for users. We expect this format to remain popular over the medium and long term, as many pharmacies located near hospitals satisfy the government's conditions for primary care dispensing pharmacies in the heart of local communities, rather than drugstores with dispensing pharmacy functions.

•Familiarity
Non-hospital dispensing services really began gaining ground from around 1994. Many patients in Japan currently pick up their prescription drugs from pharmacies located near hospitals due to convenience and familiarity, because their local hospital dispensed drugs to them in the past.

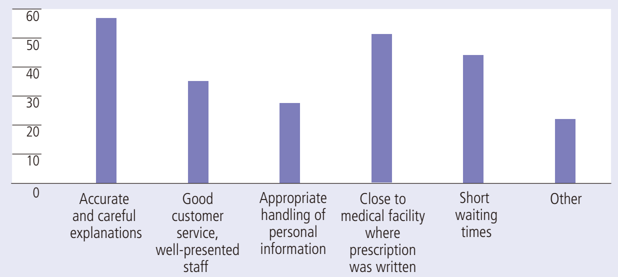
•Well stocked
Many prescriptions written in Japan specify certain drug brands, which means pharmacies need to stock a wide range of drugs. Dispensing pharmacies located near hospitals work closely with their local hospital to ensure they stock the right brands, so patients usually get the drugs they have been prescribed. This cooperation also supports efficient inventory management, as dispensing pharmacies know which drugs they do not need to stock.

•Convenient
In Japan, patients have to see their doctor again to receive repeat prescriptions. The elderly and patients with chronic disorders who have to visit hospitals regularly tend to use dispensing pharmacies near hospitals because of the convenience.

•Safe and reassuring
Dispensing pharmacies located near hospitals handle complex prescriptions and a much greater volume than drugstores with dispensing pharmacy functions, which means pharmacists who work at dispensing pharmacies near hospitals gain more experience, supporting a higher level of specialization at those locations. Dispensing pharmacies near hospitals also regularly share information with their local hospital, helping to mitigate risk related to inappropriate combinations of prescribed drugs and dispensing errors, which supports a high level of safety and peace of mind for patients.

Consumer survey: What makes a good dispensing pharmacy?

(multiple responses allowed)



Source: DRUG Magazine (March 9, 2016)

Growth Strategy: Dispensing Pharmacy Business

Top-line Growth

The number of M&A deals in the dispensing pharmacy sector is rising amid changes in the operating environment. We plan to step up M&A activity even further while also keeping a close eye on investment efficiency. We will also continue to channel 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. Our goal is to expand the dispensing pharmacy business further to build a dominant position in the sector.

Stepping up M&A activity

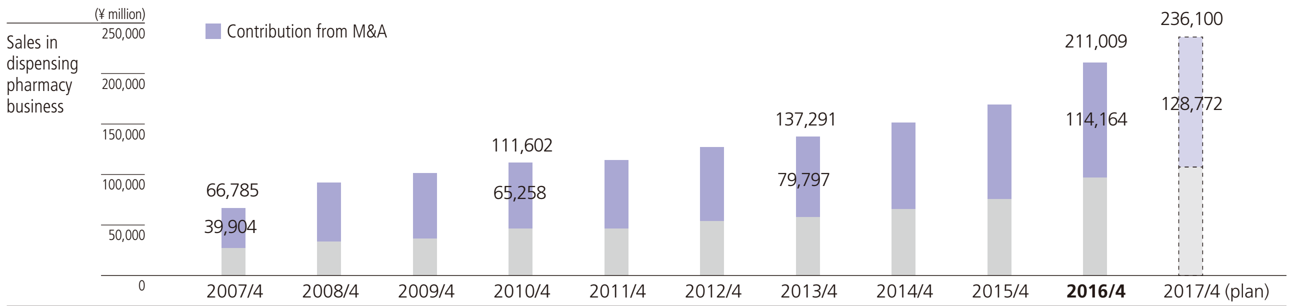
The dispensing fee revisions in April 2016 underscored the government's policy of favoring dispensing pharmacies that can help reduce national medical expenses and support community-based healthcare. Criteria for securing additional reimbursement points were adjusted to reflect that policy. To address these changes, dispensing pharmacies have to increase the quality and number of pharmacists and make pharmacy operations more efficient. However, many dispensing pharmacy operators are struggling to secure enough pharmacists, which is adding to the increasingly tough operating environment. As a result, the number of M&A deals is on the rise.

The AIN Group has been actively opening new stores and using M&A to expand its dispensing pharmacy network for some time. That track record, along with the trust we have built up as the leading company in the sector, as well as our strong financial position and high-quality training programs for pharmacists, means we are often given first refusal on a large number of potential M&A deals. Using those opportunities, we plan to further step up M&A activity to accelerate business expansion, while also taking into account investment efficiency.

We have narrowed our investment focus to potential deals with prospective EV/EBITDA multiples no higher than five to seven times and companies that can contribute to profits in their first fiscal year in the AIN Group.

After deals are completed, we work to integrate the business systems and corporate culture of the acquired companies into the AIN Group in order to improve dispensing pharmacy efficiency and enhance the skills of pharmacists. On average, this process more than doubles profit margins at acquired companies, so the deals have a significant impact on the Group's bottom line, as well as on sales and the number of pharmacists.

Impact of M&A on sales



	2007/4	2008/4	2009/4	2010/4	2011/4	2012/4	2013/4	2014/4	2015/4	2016/4	2017/4 (plan)
M&As of dispensing pharmacy companies	1 company (18 stores)	2 companies (91 stores)	1 company (3 stores)	— (3 stores)	6 companies (35 stores)	9 companies (28 stores)	11 companies (38 stores)	13 companies (26 stores)	15 companies (119 stores)	23 companies (110 stores)	73 stores

Impact of M&A on operating margin

	Before M&A	After M&A	Increase/decrease
Average for fiscal 2011 to fiscal 2015	2.3%	11.6%	+9.3%

Before M&A: based on due diligence documents; after M&A: full year of results in fiscal year following the M&A

Reasons for improvement in operating margin after M&A

1) Decline in procurement costs due to switch to AIN Group's drug procurement pricing standards
2) Increase in operational efficiency due to introduction of AIN Group's business systems
3) Drop in personnel expenses due to optimal positioning of AIN Group employees, reducing the need for high-cost temporary and contract staff
4) Greater success in securing reimbursements for intelligent fees due to introduction of AIN Group training systems

Channeling business resources into dispensing pharmacies located near hospitals and medical malls

Under Japan's current healthcare system, dispensing pharmacies located near hospitals offer significant benefits for patients (see page 7 for more details). This format is also the closest to the government's vision for primary care dispensing pharmacies, giving us the opportunity to fully 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 format to develop our dispensing pharmacy business. We will also continue to focus on developing medical malls, aiming to open them near stations and other urban areas with high customer traffic.


Ain Pharmacy NEWoMan SHINJUKU


Ain Pharmacy Medical Garden SHINURAYASU

A Message from the Managing Director


Miya Oishi
(Managing Director and
Senior General Manager, Operations Department)

In the fiscal year ended April 30, 2016, there was no impact on earnings from dispensing fee revisions and the initiatives that we have been implementing started to bear fruit. In other words, it was an important year on our path to the next phase of growth.

Our pharmacy-led project to improve efficiency and services encouraged more employees to think for themselves about ways of expanding the business through our dispensing pharmacy operations, rather than just following steps in operating manuals to the letter. This approach delivered incremental progress, with frontline staff developing their own ideas to achieve targets for inventory control and other performance indicators.

Some people in the industry believe the latest dispensing fee revisions will have a particularly severe impact on large dispensing pharmacy chains. However, the revisions increased the number of additional reimbursement points companies can claim for essential pharmacist duties, such as providing guidance about high-risk medicines and carrying out pre-avoid activities (see pages 10 and 13 for more details). A key point of the revisions is that dispensing pharmacies can leverage the qualifications of individual pharmacists to secure additional reimbursement points. We will focus on areas that attract points, or in other words, ensure our pharmacists fill the role the government is asking of them. In that sense, the government is testing the abilities of pharmacists. We believe the latest dispensing fee revisions mark a major turning point for the industry, creating a clear line between companies that can satisfy the new criteria and those that cannot.

There are likely to be fewer locations for new dispensing pharmacies as the healthcare sector moves increasingly towards non-hospital dispensing. That means M&A deals will become more important for business expansion. As somebody who joined the Group via a company absorbed by AIN HOLDINGS, I plan to use my own experience to communicate our approach and spread our corporate culture to other companies that join us in the future. I believe that process will enhance service quality and profit margins at acquired companies, contributing to growth for the entire AIN Group.

We are also working to make the Group a place where as many pharmacists as possible take the initiative and expand their area of responsibility, giving them even more job satisfaction and a greater role in the local community.

Growth Strategy: Dispensing Pharmacy Business

Initiatives to Create Primary Care Dispensing Pharmacies

AIN HOLDINGS is well aware that dispensing pharmacies play an important role in society. Based on that thinking, our strategy has been to focus on dispensing pharmacies located near hospitals[*1], nurture highly qualified pharmacists and improve the efficiency of existing pharmacies[*2]. The government is currently promoting its vision for primary care dispensing pharmacies[*3], which gives us an opportunity to fully leverage our competitive advantages. We therefore plan to step up our initiatives in this area to give all our pharmacies the capabilities to play a key role in healthcare provision for local communities.

*1 See pages 7-9 for more details *2 See pages 12-13 for more details *3 See pages 2 and 11 for more details

Integrated, continuous management of prescriptions

The government has raised the number of additional reimbursement points for high-quality guidance about medicines. As a result, pharmacist one-on-one communication with patients is set to become an important area in performance evaluations. AIN Group pharmacists provide detailed advice about medicine usage, maintain up-to-date medication histories and encourage patients to keep track of usage with their medication notebooks. We are also using IT to improve convenience for patients, including the development of a patient medication notebook app.

Working with local medical facilities

Dispensing pharmacies are being asked to reinforce their links with local medical facilities. Through our growing network of dispensing pharmacies located near hospitals, we have been exchanging information and enhancing cooperation with local hospitals for some time. We are now working to build even closer links through home-based healthcare, prescription checks and the provision of feedback to doctors about medication and other areas.

Pre-avoid activities

Pharmacists carry out pre-avoid activities to prevent treatment that is detrimental to the health of patients, such as duplicated drug administration, dangerous combinations of prescribed drugs and side effects, and to identify potential issues at an early stage. We have been actively focusing on this area for some time using the specialist skills of our pharmacists. This has helped up us build up experience, which we are now sharing with other pharmacists across the Group (see page 13 for more details).

Management of leftover medicines

Managing drug usage and leftover medicines is a key role of pharmacists. In the AIN Group, we strive to maximize the efficacy of drug treatments by ensuring appropriate use of prescription medicines, such as using dialog with patients to confirm how much medicine is unused. We also provide feedback to medical facilities about leftover medicine in order to reduce over-prescription.

24-hour support

Ain Pharmacy NOBORITO offering 24-hour services

All our dispensing pharmacies offer 24-hour support via mobile phone and Ain Pharmacy NOBORITO (Kanagawa Prefecture) is open all day. We are using lessons learnt at this pharmacy to accumulate the expertise and build the operating structure we need for 24-hour operations. 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 local healthcare.

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 Group started implementing initiatives in home-based dispensing in 2012 after realizing it was likely to become an important function of dispensing pharmacies. As of April 30, 2016, over 80% of our dispensing pharmacies provide home-based dispensing services. We plan to expand these services to all our pharmacies as part of active efforts to support home-based healthcare.

Promoting wider use of generic drugs

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 helps us mitigate the risk of falling drug price margins caused by the rising generic drug dispensing ratio. The company also offers other benefits such as access to stable supplies of generic drugs. WSS is a key competitive advantage for the Group, as any increase in the generic drug dispensing ratio significantly boosts our earnings capabilities.

Advice about OTC drugs and health

Dispensing pharmacies are being asked to become centers of health provision embedded in local communities. The AIN Group is responding to this call, using its pharmacists to promote self-medication by selling OTC medication and providing support and advice about health. Since 2010, we have also been working with partner hospitals to provide advice about how to quit smoking.

What is the role of primary care pharmacists?

Primary care pharmacists that support local communities are required to provide a number of services, such as the integrated and continuous management of patient drug usage, which they use to tailor guidance for each patient. They also work with local doctors to check the details of prescriptions and offer suggestions about prescriptions. The April 2016 dispensing fee revisions incorporated new criteria for pharmacists that support local communities. In addition to receiving points for providing existing services via primary care dispensing pharmacies, companies can now receive higher points for guidance provided by primary care pharmacists if they meet the new set of criteria.

New criteria for primary care pharmacists
- More than three years working in dispensing pharmacies
- More than six months at current dispensing pharmacy
- Working week of more than 32 hours
- Certified training course completed
- Participation in local healthcare activities
- Approval from patients

Growth Strategy: Dispensing Pharmacy

Human Resources

Today's dispensing pharmacies now need to be able to provide a wider range of high-quality services. To address these demands, 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 HOLDINGS therefore puts the highest priority on attracting and retaining personnel. We are also pushing ahead with initiatives to increase the efficiency of existing pharmacies, which is delivering significant improvements.

Continuous recruitment and high-quality training

Since its founding, the AIN Group has focused on hiring and training pharmacists on an ongoing basis.

To ensure our dispensing pharmacies fulfill their primary care role in communities by working closely with local medical facilities and providing 24-hour services and home-based dispensing, our pharmacists need to have more expertise and experience and better communication skills. We also need to hire more pharmacists to deliver the higher level of service provision.

After joining the AIN Group, our pharmacists undergo an extensive and sustained training program tailored to the current stage in their careers. Our pharmacists also build up a high level of expertise because they work at AIN Group dispensing pharmacies that tend to handle a large number of complex prescriptions.

Japan is currently facing a shortage of pharmacists, making it hard for dispensing pharmacies to secure the staff they need. This problem is particularly acute for small and medium-sized companies. However, thanks to our track record in the industry and growing awareness of our high-quality training system, we have been able to hire enough staff.

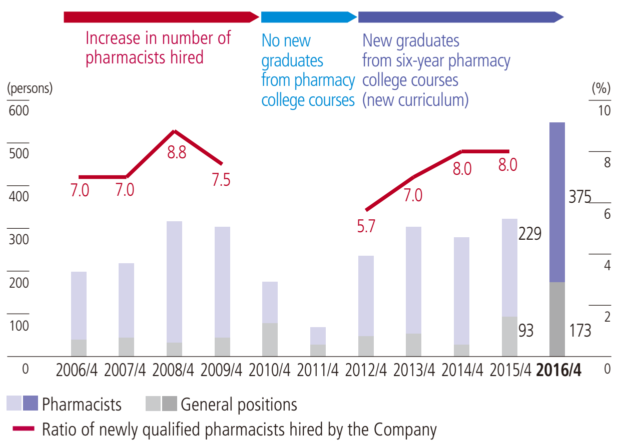

An initiation ceremony


On-the job training

This success in attracting large numbers of high-quality pharmacists allows us to contribute to the government's policy of community healthcare and helps us to boost profits by securing more reimbursement points.

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

Number of New Pharmacist Graduates Hired



Improving pharmacy efficiency from the bottom up

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. In response, we launched a new pharmacy-led project in autumn 2012 as one of our strategies to reinforce the operations of existing dispensing pharmacies.

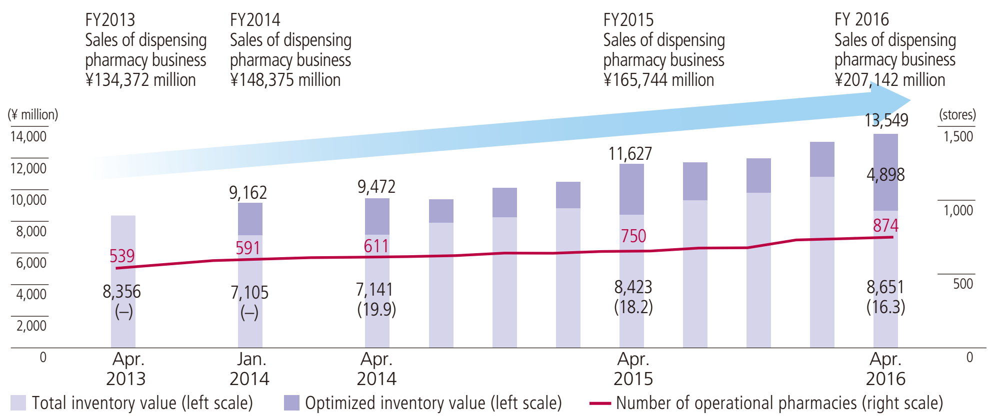
Under this project, pharmacists at all our dispensing pharmacies are being asked to find new ways of increasing efficiency, improving profitability and enhancing service provision. The project has already yielded a range of outcomes, with new ideas first trialed at model dispensing pharmacies then rolled out nationwide. The biggest improvement has been in inventory value. As of April 30, 2016, there were 335 more dispensing pharmacies in our network than in April 2013, before the project started. Despite this expansion, we estimate inventory value was roughly ¥4.9 billion lower than it would have been before the project started, contributing 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.


In-house training


Providing accurate dispensing services

Impact of Pharmacy-led Project: Optimizing Inventories



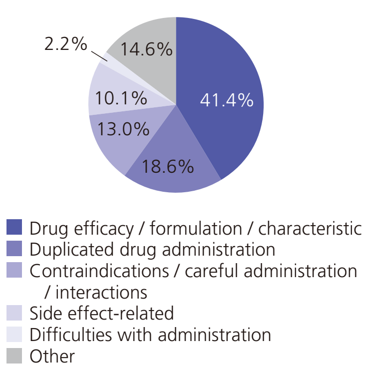
Notes:
1. Total inventory value = (AIN PHARMACIEZ, AIN MEDIO, DAICHIKU, Asahi Chozai + inventories of those four companies at WSS) ÷ number of operational pharmacies at those four companies x total number of operational dispensing pharmacies
2. Optimized inventory value = total inventory value – estimated 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.

Pre-avoid activities – one of the essential roles of pharmacists

Pre-avoid activities are carried out by pharmacists through their direct involvement in drug-based treatments and are designed to avoid or mitigate negative pharmaceutical impacts, such as side effects and insufficient treatment effects. AIN HOLDINGS is actively promoting pre-avoid activities as one of the core roles of dispensing pharmacists. This approach was validated by the April 2016 drug price revisions, which increased the number of reimbursement points for pre-avoid activities. Also, through a partnership with Professor Yasufumi Sawada at the University of Tokyo, we compile information on roughly 6,000 pre-avoid cases each year, which is shared within the Group and the University of Tokyo. Some of those cases are used in "The Pre-avoid Activity Databook" that we publish to improve the skills and understanding of pharmacists inside and outside the Group.

Pre-avoid cases by category

(data for July 2015 to June 2016)



Pre-avoid Activity Databook

Growth Strategy: Drug and Cosmetic Store Business

Differentiation

Our drug and cosmetic store business is focused on the *ainz & tulpe* brand. In recent years, we have been channeling business resources into urban stores, working to establish our brand and improve profitability by implementing a strategy that sets our stores apart from general drugstores. Our goal is to create a second earnings stream to complement our dispensing pharmacy business.

Over the last few years, we have withdrawn from suburban locations due to a narrowing quality gap and falling margins in that segment. Instead, we have been redirecting business resources into our chain of *ainz & tulpe* urban stores, which target female consumers.

Our main target customer segment is fashion-conscious women in their 20s and 30s, and we are opening stores in prime locations in city centers, retail facilities and station buildings to raise brand awareness.

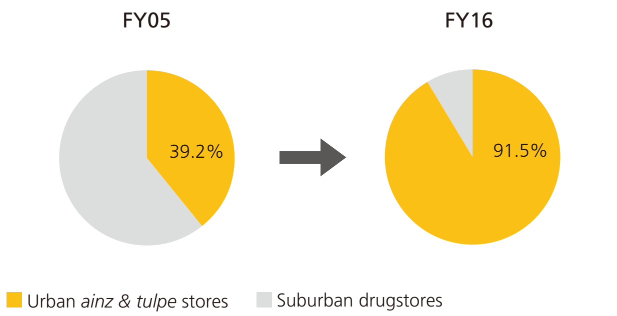
We are also working to create a unique lineup of products. To counter rising competition in the sector due to a narrowing quality gap, drug stores have typically increased the ratio of food items in their merchandise lineup to stand out in the market. However, we made a conscious decision not to compete with chains that offer OTC drugs, food and daily necessities, instead choosing to focus on beauty products. Cosmetics, accessories and other beauty items account for more than 70% of merchandise at *ainz & tulpe* stores.

We are aiming to make the business profitable in the fiscal year ending April 30, 2018. In the next fiscal year, ending April 30, 2017, we plan to open six new stores and grow existing store sales by 2% year on year. We also aim to improve the gross margin by 2.5 percentage points by introducing more original brand products.

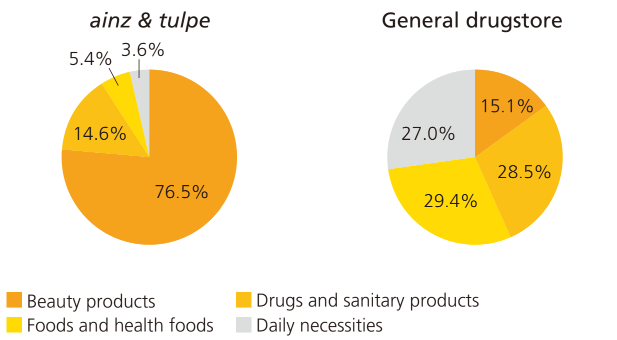
ainz & tulpe Le trois

Looking further ahead, we are targeting net sales of ¥50 billion and an operating margin of 10% in the fiscal year ending April 30, 2020. To achieve those goals, we will open more stores in prime locations to raise brand visibility and support aggressive business expansion.

Drug and cosmetic store business: sales by store type



Comparison of *ainz & tulpe* and general drugstores: product mix and target



Source: Monthly Report on the Current Survey of Commerce (April 2016), Ministry of Economy, Trade and Industry

ainz & tulpe SHINJUKU HIGASHIGUCHI

ainz & tulpe CHITOSE AIRPORT

Drug and Cosmetic Store Business: Message from General Manager

Kaori Ishikawa
(General Manager of Drug and Cosmetic Store Business)

Ainz & tulpe is aimed at women with a youthful outlook and a strong curiosity in the latest trends. By targeting that type of consumer, we aim to expand our fan base across an even broader range of customer segments.

We are also making inroads into new customer segments with our latest formats – the *ainz & tulpe* SHINJUKU HIGASHIGUCHI flagship store near the east exit of Tokyo's Shinjuku Station and *ainz & tulpe* Le trois in Sapporo. Our entire chain of urban *ainz & tulpe* drug and cosmetic stores is also currently performing well. One factor in this success is our decision to let store staff have more input about how stores are designed and set up, rather than personnel at head office.

The opening of the *ainz & tulpe* SHINJUKU HIGASHIGUCHI has led to an increase in building owners offering us retail space. We plan to take up those opportunities by first developing stores with 300–700m² of retail space in locations near or inside stations, then two to three years from now, look for sites with around 1,000m² of space. By putting more emphasis on profit margins, we will open stores at sites that will generate profits two years after opening.

Over the medium to long term, we plan to strengthen our lineup of original brands and enhance the skills of our store staff. We will also constantly refresh the product range in each original brand. And given our plans to open larger stores two to three years from now, we will continue to hire and train around 100 new people each year.

We will continue to aggressively develop the drug and cosmetic store business. Over the long term, this will involve establishing new formats and raising awareness of the *ainz & tulpe* brand so that it is recognized as a retail format in its own right. To achieve those objectives, everyone in the drug and cosmetic store business will have to push themselves to excel.

Growth Strategy: Drug and Cosmetic Store Business

New Formats and Original Brands

The drug and cosmetic store business began the full-scale development of new retail formats and original brands in the fiscal year under review. We are now aggressively developing the business, aiming to establish new formats that are completely different to general drugstores and department stores.

After carefully tweaking merchandise lineups and retail areas, we achieved rapid growth in sales at the *ainz & tulpe* HARAJUKU QUEST following its refurbishment in December 2014. This and other initiatives have supported a dramatic improvement in *ainz & tulpe* merchandising and brand visibility, reinforcing our earnings capabilities. We took this approach a step further in the fiscal year under review with the launch of new retail formats: the *ainz & tulpe* SHINJUKU HIGASHIGUCHI (Shinjuku, Tokyo; retail space: roughly 1,290m²) and the Le trois beauty retail complex (Sapporo, Hokkaido; retail space: 1,490m²), both major flagship stores for the *ainz & tulpe* brand.

We also launched a new original cosmetics brand called *LIPS and HIPS* and a new beauty supply brand called *cocodecica* to coincide with the roll out of the retail formats.

Going forward, we will develop these brands by expanding merchandise lineups, opening standalone street-level stores and growing sales using online channels. We also intend to increase our range of original brand products in other categories such as skincare and inner wear, aiming to boost the gross margin and enhance our ability to attract shoppers.

In the fiscal year ended April 30, 2016, we sold 1,900 SKUs (Stock Keeping Units) of our original brands, accounting for 4.1% of sales in the drug and cosmetic store business. We aim to grow sales to 15,500 SKUs and 36% of sales in the business by the fiscal year ending April 30, 2020.

LIPS and HIPS

After initially launching the brand at the *ainz & tulpe* SHINJUKU HIGASHIGUCHI and then in an internal shop at *ainz & tulpe* Le trois in Sapporo, we plan to eventually open a network of standalone *LIPS and HIPS* stores.

LIPS and HIPS is now available in 13 *ainz & tulpe* stores. We plan to carefully cultivate *LIPS and HIPS* as a complete cosmetics brand, setting up small retail corners in all of our stores.

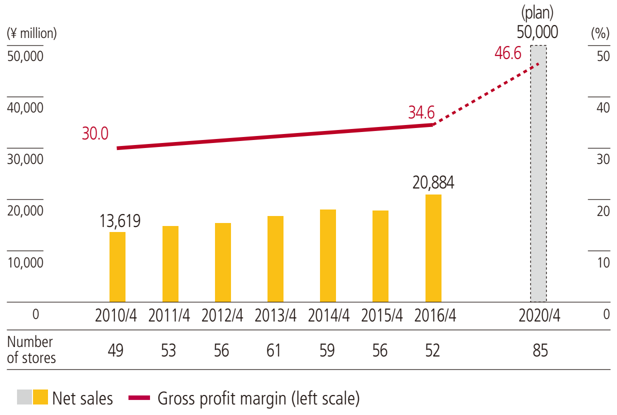
cocodecica

We are using this beauty supply brand to make the shopping experience more fun, giving our customers more choice by constantly updating the lineup of merchandise.

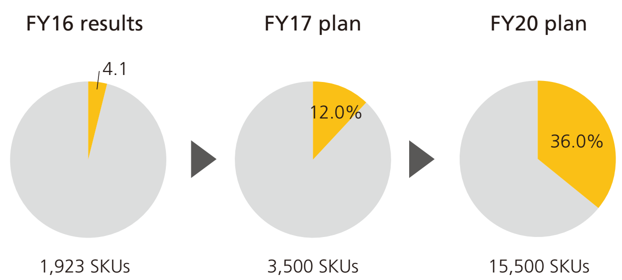
AYURA

We acquired the *AYURA* brand from Shiseido Company, Limited in 2015. The brand is still available in department stores, but we have also started selling it at the *ainz & tulpe* SHINJUKU HIGASHIGUCHI and the *ainz & tulpe* Le trois in Sapporo. Over the next fiscal year, we plan to push ahead with rebranding, including possible changes to how the brand is sold and the product lineup.

Drug and cosmetic store business: Medium-term growth plan



Original products' sales composition and plan



(As of July 28, 2016)

AIN HOLDINGS 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 HOLDINGS. 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.

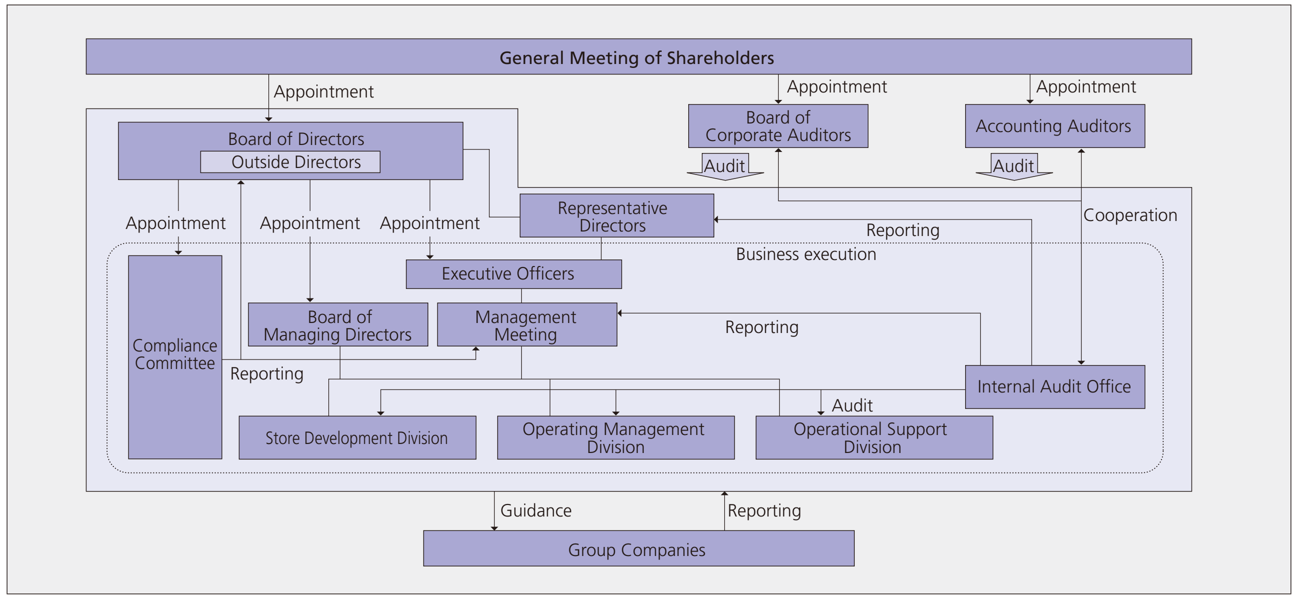
We have adopted a corporate auditor system to oversee not only key management decisions and the business execution of directors, but also general corporate management. In order to ensure the effective mutual management oversight of directors, the Board of Directors convenes more than once a month, while 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	10 (including 3 outside directors)
Number of corporate auditors	3 (including 2 outside corporate auditors)
Board of Directors meetings in fiscal 2015	Number of meetings: 16 (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:	81%
Outside Corporate Auditor attendance at Board of Directors meetings:	100%
Board of Corporate Auditor meetings in fiscal 2016	Number of meetings: 16 Examples of resolutions: Audit policy, audit plans and business division audits
Management meetings in fiscal 2016	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, Seiichiro Sato and Yasuyuki Hamada 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 10 members, including three 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 was appointed as an outside director to broadly contribute to the Company's activities by providing advice to the Board of Directors and other bodies and by monitoring business execution, drawing on his extensive knowledge and experience as the manager of a major trading company. Mr. Mori is judged to be a highly independent and objective appointment, as he has no affiliation with the parent company, its subsidiaries, major corporate shareholders or key customers of the Group.
Seiichiro Sato	Seiichiro Sato was appointed as an outside director to broadly contribute to the Company's activities by providing advice to the Board of Directors and other bodies and by monitoring business execution, drawing on his specialist knowledge and experience from working in the legal and planning departments of a major retailer. Mr. Sato previously worked for Ito-Yokado Co., Ltd., which has a business relationship and lease contracts with the Company. However, he is judged to be a sufficiently independent appointment, as the interdependence of Ito-Yokado Co., Ltd. and the Company is low due to a minimal level of business between the two companies.
Yasuyuki Hamada	Yasuyuki Hamada was appointed as an outside director to broadly contribute to the Company's activities by providing advice to the Board of Directors and other bodies and by monitoring business execution. Although Mr. Hamada has no experience of business management, he is able to draw on his specialist knowledge and experience as an academic, particularly in the field of economics and finance. Since April 2010, Mr. Hamada has been an emeritus professor at Hokkaido University, which has received donations from the Company in the past. However, he is judged to be a sufficiently independent appointment, as the purpose of the donations was limited and they were not directly related to Mr. Hamada's research activities.

Reasons for selection of outside corporate auditors	
Akira Ibayashi	Akira Ibayashi was appointed as an outside corporate auditor to contribute to improvements in sound and efficient business management, drawing on his specialist knowledge from working at financial institutions and his experience in business management.
Osamu Muramatsu	Osamu Muramatsu was appointed as an outside corporate auditor to contribute to improvements in sound and efficient business management, drawing on his specialist knowledge from working at a major securities firm, experience in business management and track record as an outside auditor for the Group.

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 22nd Ordinary General Meeting of Shareholders held on July 30, 1991.The actual amount each year is determined within this limit via discussions among the corporate auditors.

The amount of remuneration for directors and corporate auditors for the year ended April 2016 is as follows:

Item	Total remuneration (¥ million)	Remuneration by type (¥ million)		Number of eligible individuals
		Basic remuneration	Bonus	
Directors (excluding outside directors)	202	175	27	10
Corporate auditors (excluding outside corporate auditors)	6	6	–	1
Outside directors and outside corporate auditors	17	17	–	5

STATUS OF ACCOUNTING AUDITS

Three certified public accountants from ERNST & YOUNG SHINNIHON LLC conducted the accounting audits of AIN HOLDINGS based on the Companies Act and Financial Instruments and Exchange Act. Audit fees for the year ended April 2016 are as follows:

(¥ thousand)

	Compensation paid for audit certification activities	Compensation paid for * non-audit activities
The Company	41,700	3,710
Consolidated subsidiaries	–	–
Total	41,700	3,710

*The Company pays fees to ERNST & YOUNG SHINNIHON LLC for advisory services related to compliance with the Act on the Use of Numbers to Identify a Specific Individual in the Administrative Procedure.

(As of July 29, 2016)

*Figures in brackets show the number of AIN HOLDINGS shares held as of April 30, 2016.

BOARD OF DIRECTORS

Kiichi Otani

President and Representative Director
(3,238,400 shares)

July 1980 President and Representative Director of Otani Corporation (now AIN HOLDINGS INC.)
November 1981 Director of newly established Daiichi Medical Testing Laboratories Co., Ltd. (Asahikawa, now AIN HOLDINGS INC.)
July 1983 President and Representative Director of Daiichi Medical Testing Laboratories Co., Ltd.
May 1985 Managing Director of the Company
May 1988 President and Representative Director (current post)
June 2009 Director of Seven Health Care Co., Ltd. (now Seven Bi no Garden Co., Ltd.)

Hiromi Kato

Executive Vice President and Representative Director
(28,600 shares)

April 1973 Joined Iwasaki Publishing Co., Ltd.
May 1983 Joined Daiichi Medical Testing Laboratories Co., Ltd. (Asahikawa, now AIN HOLDINGS INC.)
April 1989 General Manager of Administrative Department
July 1992 Director
May 1995 General Manager of Personnel Department
July 1996 Managing Director
September 1996 General Manager of Management Department
May 2003 Senior Managing Director
May 2012 Executive Vice President and Representative Director (current post)

Masahito Sakurai

Representative Senior Managing Director
(1,000 shares)

April 1972 Joined Ministry of Health and Welfare (now Ministry of Health, Labour and Welfare)
April 1987 Head of Administration Section, Fund for Drug ADR Relief
July 1996 Head of Air Protection Section, Japan Environment Agency
July 1998 Head of Regional Medical Affairs Office for Tokai Hokuriku
January 2001 Retired from Ministry of Health and Welfare
February 2001 Commissioner of All-Japan Federation of National Health Insurance Organizations
October 2008 Joined the Company
July 2009 Senior Managing Director
November 2015 Senior Managing Director and Representative Director (current post)

Shoichi Shudo

Representative Senior Managing Director
In charge of development
(10,400 shares)

April 1978 Joined Sapporo Medical Testing Laboratories Co., Ltd.
March 1982 Joined Daiichi Medical Testing Laboratories Co., Ltd. (Asahikawa, now AIN HOLDINGS INC.)
May 1993 Head of Corporate Planning Division
July 2000 Director
May 2003 Managing Director
May 2004 General Manager of Dispensing Pharmacy Business
May 2012 Senior Managing Director
November 2015 Senior Managing Director and Representative Director (current post)

Toshihide Mizushima

Representative Senior Managing Director
In charge of business operations and business support
(27,600 shares)

April 1982 Joined SSP Co., Ltd.
April 1986 Joined Otani Corporation (now AIN HOLDINGS INC.)
July 2000 Director
February 2001 General Manager of Drug and Cosmetic Store Business
May 2003 Managing Director
June 2009 President and Representative Director of Seven Health Care Co., Ltd. (now Seven Bi no Garden Co., Ltd.)
May 2012 Senior Managing Director of the Company, Director of Seven Bi no Garden Co., Ltd. (current post)
November 2015 Senior Managing Director and Representative Director of the Company (current post)

Miya Oishi

Managing Director
Senior General Manager, Operations Department
(1,000 shares)

September 1990 Joined KYOEIDO Co., Ltd.
July 1993 Director of DAICHIKU Co., Ltd. (current post)
July 2008 Representative Director of same company
April 2011 Vice President and Representative Director of AIN MEDICAL SYSTEMS INC. (now AIN HOLDINGS INC.)
February 2012 President and Representative Director of same company
July 2012 Director of the Company
July 2014 Managing Director (current post)
November 2015 President and Representative Director of AIN PHARMACIEZ INC. (current post)

Rieko Kimei

Director
Head of Personnel Department
(6,000 shares)

April 1986 Joined The Daiei, Inc.
December 1995 Joined Daiichi Medical Testing Laboratories Co., Ltd. (now AIN HOLDINGS INC.)
May 2003 General Manager of Drug and Cosmetic Store Business, Merchandising Business
May 2004 General Manager of Personnel Department
August 2009 Executive Officer
July 2014 Director (current post)
July 2016 President and Representative Director of AYURA LABORATORIES INC. (current post)

Ko Mori

Director Outside Independent
(- shares)

April 1971 Joined Marubeni Corporation
April 2002 Executive Officer and General Manger of Chemicals Division
April 2004 Managing Executive Officer
June 2006 Representative Director and Senior Managing Executive Officer, Materials Division
June 2007 President and Representative Director of Marubeni Safenet Co., Ltd.
July 2012 Director of the Company (current post)

Seiichiro Sato

Director Outside Independent
(- shares)

April 1982 Joined the Finance Ministry (now the Ministry of Finance)
October 1998 Joined Price Waterhouse & Co. (now PricewaterhouseCoopers LLC)
September 2001 Joined Yamato Mutual Life Insurance Co. (now The Prudential Gibraltar Financial Life Insurance Co., Ltd.)
September 2003 Joined Ito-Yokado Co., Ltd.
December 2008 Joined Seven & i Holdings Co., Ltd.
July 2015 Outside Director of the Company (current post)

Yasuyuki Hamada

Director Outside Independent
(2,000 shares)

April 1991 Professor of Faculty of Economics, Hokkaido University
April 1997 Special Assistant for the president of same university
April 2003 Professor of Advanced Scientific Research Center, Hokkaido University (concurrent post)
April 2010 President of Sapporo International University
Emeritus Professor of Hokkaido University
April 2014 President and Charman of Dohto University
December 2014 President of Hamanasu Foundation (current post)
July 2015 Outside Director of the Company (current post)

CORPORATE AUDITORS

Koichi Kawamura

Corporate Auditor (full-time)
(5,000 shares)

October 1985 Joined Daiichi Medical Testing Laboratories Co., Ltd. (now AIN HOLDINGS INC.)
July 1997 Auditor
May 2003 General Manager of Administrative Department
July 2012 Corporate Auditor (current post)

Akira Ibayashi

Corporate Auditor Outside
(- shares)

April 1963 Joined The Hokkaido Bank, Ltd.
June 2001 Director, Executive Officer and Deputy President
June 2003 Retired from The Hokkaido Bank, Ltd.
July 2012 Outside Corporate Auditor of the Company (current post)

Osamu Muramatsu

Corporate Auditor Outside Independent
(- shares)

April 1972 Joined Nomura Securities Co., Ltd.
June 1994 Head of Sapporo Branch
June 1996 Director
October 2007 Retired from Nomura Securities Co., Ltd.
August 2011 President and Representative Director of Executive Partners, Inc.
June 2012 Outside Corporate Auditor of Asahi Pharmacy Co., Ltd. (current post)

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

BUSINESS ENVIRONMENT SURROUNDING THE AIN HOLDINGS GROUP

The core business of the AIN HOLDINGS 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 2016, the average drug price was reduced by 5.57%. Including special reductions for high-cost drugs, the average drug price was cut by 7.77%. Also, under dispensing fee revisions, the role of pharmacies located near hospitals was reevaluated, but in order to realize patient-focused non-hospital dispensing services, pharmacists and dispensing pharmacies are now being required to play a primary care role in healthcare provision.

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. 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, 2016, corporate earnings in Japan improved amid largely steady production activity and consumer spending. However, the impact of the Kumamoto Earthquake in 2016 is a potential risk for the economy going forward.

In this economic environment, the Group worked to expand its business and increase earnings. Specifically, the Group opened new dispensing pharmacies and used M&A to expand the business. It also developed its urban drug and cosmetic store business.

In addition, effective from November 1, 2015, the Group moved to a holding company structure. By separating the Group's management and business execution functions, the Group aims to enhance corporate governance, clarify the authority and responsibility of each business segment and promote greater management autonomy, creating the foundations for further business expansion.

For the fiscal year under review, net sales rose 25.0% year on year to ¥234,843 million and operating income increased 27.7% to ¥14,619 million.

Profit attributable to owners of parent increased 27.8% to ¥7,917 million, a record high.

As of the end of the fiscal year, the number of stores in the Group totaled 933, a net increase of 123 stores from the end of the previous fiscal year.

BUSINESS RESULTS BY SEGMENT

Dispensing Pharmacy Business

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

To ensure our pharmacists and dispensing pharmacies fulfill their role at the heart of local communities, the Group continues to build links with local healthcare service providers, mainly in the area of home-based dispensing, step up the integration and continuous management of drug information using patient medication notebooks and other means, and promote wider use of generic drugs.

The shortage of pharmacists in the healthcare sector is becoming more serious. To address this issue, the Group is working to attract new graduates, with 375 new pharmacist graduates joining the Group in April 2016. The Group is also upgrading pharmacist training programs to enhance their capabilities so that they can fill their role as primary care pharmacists.

In business development, the Group continued to push ahead with business expansion by opening new dispensing pharmacies and using M&A, including the acquisition of NP HOLDINGS Co., Ltd. (Takamatsu-shi, Kagawa Prefecture) in November 2015. NP HOLDINGS is the largest dispensing pharmacy chain in the Shikoku region and is now a subsidiary of the Group.

During the fiscal year under review, the Group opened 142 dispensing pharmacies, including M&A deals, and closed 15 dispensing pharmacies, resulting in a total of 881.

The dispensing pharmacy business reported sales and profit growth with sales rising 24.8% year on year to ¥211,009 million, and segment income increasing 33.0% to ¥19,219 million.

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.

Against this backdrop, the Group continued to open *ainz & tulpe* urban drug and cosmetic stores, strengthened merchandise lineups, particularly drug and cosmetics products, and worked to capture inbound demand. As a result, sales at existing drug and cosmetic stores increased year on year.

In addition, the Group is working to strengthen the *ainz & tulpe* format with the launch of two proprietary merchandise brands, *LIPS and HIPS* and *cocodecica*.

The Le trios retail facility (Chuo Ward, Sapporo), which was opened in September 2015, is steadily gaining ground as a landmark beauty destination, supported by efforts to promote it as a mixed-use integrated beauty complex in Sapporo's Odori area.

In addition, in February 2016, the Group opened *ainz & tulpe* NEW CHITOSE AIRPORT (Chitose-shi, Hokkaido) in the airport's international passenger terminal, in order to further strengthen efforts to capture inbound demand.

During the fiscal year under review, the Group opened a number of *ainz & tulpe* stores, including *ainz & tulpe* MARUI CITY YOKOHAMA (Nishi Ward, Yokohama), *ainz & tulpe* SHINJUKU HIGASHIGUCHI (Shinjuku Ward, Tokyo), *ainz & tulpe* Le trois (Chuo Ward, Sapporo), *ainz & tulpe* NEW CHITOSE AIRPORT (Chitose-shi, Hokkaido), and *ainz & tulpe* OMIYA MARUI (Omiya Ward, Saitama). At the same time, the Group closed nine stores, mainly in suburban

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	2016/4
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	**234,843**
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	**23,915**
Operating income	2,875	3,083	2,888	4,444	5,296	6,492	8,107	10,253	9,701	10,113	11,452	**14,619**
Profit attributable to owners of parent	930	1,215	1,010	1,615	2,127	3,131	3,916	4,899	5,075	5,259	6,197	**7,917**
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	**11,209**
Depreciation and amortization*1	458	648	773	968	1,119	1,286	1,560	1,749	2,212	2,258	2,553	**3,259**
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	**53,258**
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	**53,324**
Total assets	38,887	41,669	49,849	57,546	62,032	65,898	76,940	85,908	95,839	101,382	114,149	**139,888**
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	**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	**5,511**
Number of stores: Dispensing pharmacy business	193	218	247	356	375	397	448	494	560	616	754	**881**
Number of stores: Drug and cosmetic store business	44	43	43	45	46	49	53	56	61	59	56	**52**
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	**249.69**
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	**1,679.69**
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	**40.0**
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	**5,340**
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	**6.2**
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	**3.4**
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	**6.2**
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	**15.6**
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	**38.1**

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 – Non-controlling 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 = Profit attributable to owners of parent / Net sales × 100
*5: Return on assets = Profit attributable to owners of parent / Total assets (yearly average) × 100
*6: Return on equity = Profit attributable to owners of parent / Equity capital (yearly average) × 100

locations, resulting in a total of 52 stores.

The drug and cosmetic store business reported an increase in sales of 17.3% year on year to ¥20,884 million. However, segment loss was ¥459 million, compared with segment income of ¥117 million a year earlier.

Other Businesses

Net sales from other businesses rose 184.2% year on year to ¥2,949 million but segment loss was ¥1,142 million compared with the loss of ¥614 million a year earlier.

FINANCIAL POSITION

The balance of total assets at the end of the fiscal year under review increased by ¥25,738 million to ¥139,888 million.

This mainly reflected increases in cash on hand and in banks and increases in property, notes and accounts receivable – trade, inventories, plant and equipment such as land, buildings and structures, and goodwill due to the Group's business expansion through new store openings and M&A.

Consolidated current assets at the end of the fiscal year under review increased by ¥10,227 million to ¥56,593 million compared to ¥46,365 million at the end of the previous fiscal year. This mainly reflected cash on hand and in banks of ¥22,647 million, an increase of ¥3,093 million compared with the previous fiscal year, notes and accounts receivable of ¥12,385 million, an increase of ¥4,016 million due to business expansion.

Fixed assets at the end of the fiscal year under review increased by ¥15,510 million to ¥83,294 million compared to ¥67,783 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 ¥5,680 million to ¥28,153 million, while goodwill rose ¥6,997 million to ¥33,337 million.

Liabilities increased by ¥20,460 million to ¥86,563 million, compared with ¥66,103 million at the end of the previous fiscal year. This primarily reflected accounts payable of ¥39,987 million, up ¥8,161 million year on year, and long-term debt of ¥14,854 million, up ¥7,214 million year on year due to debt procurement to fund M&A deals.

The balance of current liabilities increased by ¥12,311 million from the previous year-end balance of ¥54,433 million to ¥66,744 million, and the balance of long-term liabilities increased by ¥8,148 million from the previous year-end balance of ¥11,669 million to ¥19,818 million.

Net assets increased by ¥5,278 million to ¥53,324 million compared to ¥48,046 million at the end of the previous fiscal year.

As a result of the above factors, the shareholders' equity ratio decreased 3.9 percentage points to 38.1%, compared with 42.0% at the end of the previous fiscal year. ROA improved 0.4 percentage points to 6.2%, while ROE rose 1.8 percentage points to 15.6%.

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 payments 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 ¥40 per share, compared with the previous fiscal year's ordinary dividend of ¥30.

In view of our profit forecasts, plans for investment and other factors, we intend to pay an ordinary dividend from retained earnings of ¥50 per share in the fiscal year ending April 30, 2017, an increase of ¥10 from the fiscal year ended April 30, 2016.

CASH FLOWS

In the fiscal year under review, cash and cash equivalents ("cash") increased ¥2,503 million (12.9%) year on year to ¥21,892 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 ¥21,352 million, an increase of 43.9% year on year.

The main items that were positive for cash flow were income before income taxes of ¥13,949 million, as well as depreciation and amortization of ¥3,259 million, amortization of goodwill of ¥2,938 million, and an increase in accounts payable of ¥3,031 million related to business expansion through new store openings and M&A. The main items that were negative for cash flow was income taxes paid of ¥4,579 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥20,877 million, an increase of 43.4% year on year.

This mainly reflected payments of ¥7,407 million for purchases of property, plant and equipment related to the opening of new urban drug stores, retail facilities and dispensing pharmacies, and ¥10,954 million for purchases of shares in subsidiaries due to changes in the scope of consolidation related to shares acquired in 28 companies through M&A deals.

Cash Flows from Financing Activities

Net cash provided by financing activities rose 441.2% year on year to ¥2,028 million.

This was mainly attributable to net short-term debt repayment of ¥2,085 million and net long-term debt procurement of ¥7,367 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 drugstore business in our drug and cosmetic store 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.

As the dispensing pharmacy business accounted for 89.9% of net sales in the fiscal year under review, we plan to continue the multi-store operation mainly based on dispensing pharmacies. Accordingly, the Group's operating results may be affected by the success or failure of the store opening policies and by trends in 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 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 takes all possible steps to protect personal data through personal information protection systems and the rigorous enforcement of rules on the handling of such information. Also, key subsidiary AIN PHARMACIEZ INC. has acquired 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 ¥22,647 million, compared with a total balance of short- and long-term debt of ¥20,544 million.

We focus on the possibility of return on investment and seek to reduce interest-bearing debt through efficient investment in implementing M&A deals. 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 HOLDINGS INC.
CONSOLIDATED BALANCE SHEET
AS OF APRIL 30, 2016

ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1(1)) 2016
Current assets:			
Cash on hand and in banks (Notes 2 and 4)	¥ 22,647	¥ 19,553	$ 208,920
Notes and accounts receivable (Note 4)	12,385	8,369	114,252
Other accounts receivable	5,983	5,291	55,193
Inventories (Note 3)	10,984	9,909	101,328
Deferred tax assets (Note 10)	1,149	894	10,599
Short-term loans	639	739	5,894
Other current assets	2,806	1,765	25,885
Allowance for doubtful accounts	(3)	(157)	(27)
Total current assets	56,593	46,365	522,075
Property, plant and equipment (Note 6):			
Buildings and structures, net	14,694	11,678	135,553
Land	9,537	7,931	87,979
Construction in progress	813	519	7,500
Other property, plant and equipment, net	3,108	2,342	28,671
Total property, plant and equipment	28,153	22,472	259,714
Investments and other assets:			
Investments in securities (Notes 4 and 5)	2,677	2,872	24,695
Deferred tax assets (Note 10)	2,038	984	18,800
Net defined benefit asset (Note 9)	174	12	1,605
Long-term loans	1,801	1,369	16,614
Deposits and guarantees	10,013	9,710	92,370
Goodwill	33,337	26,340	307,536
Other intangible fixed assets	2,248	1,283	20,738
Other investments and other assets	4,086	3,262	37,693
Allowance for doubtful accounts	(1,237)	(522)	(11,411)
Total investments and other assets	55,141	45,311	508,680
Total assets	¥ 139,888	¥ 114,149	$ 1,290,479

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1(1)) 2016
Current liabilities:			
Accounts payable (Note 4)	¥ 39,987	¥ 31,826	$ 368,883
Short-term debt (Notes 4 and 7)	5,690	6,330	52,490
Accrued income taxes	4,448	2,320	41,033
Deposits received	10,112	9,052	93,284
Allowance for bonuses to employees	1,633	1,353	15,064
Allowance for bonuses to directors	13	11	119
Reserve for reward obligations	390	338	3,597
Provision for sales returns	15	-	138
Other current liabilities	4,452	3,199	41,070
Total current liabilities	66,744	54,433	615,719
Long-term liabilities:			
Long-term debt (Notes 4 and 7)	14,854	7,640	137,029
Lease obligations	1,198	1,341	11,051
Net defined benefit liability (Note 9)	2,228	1,636	20,553
Other long-term liabilities	1,537	1,052	14,178
Total long-term liabilities	19,818	11,669	182,822
Net Assets: (Note 11)			
Shareholders' equity			
Common stock (Note 14)	8,682	8,682	80,092
Authorized - 44,000,000 shares in 2016 and 2015			
Issued - 31,888,212 shares in 2016 and 2015			
Capital surplus	6,367	7,872	58,736
Retained earnings	38,605	31,639	356,134
Treasury stock (180,595 shares in 2016 and 2015)	(419)	(419)	(3,865)
Total shareholders' equity	53,237	47,776	491,116
Accumulated other comprehensive income:			
Unrealized holding (losses) gains on securities	(63)	227	(581)
Remeasurments of defined benefit plans	84	(75)	774
Total accumulated other comprehensive income	21	151	193
Non-controlling interests	65	118	599
Total net assets	53,324	48,046	491,918
Total liabilities and net assets	¥ 139,888	¥ 114,149	$ 1,290,479

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED APRIL 30, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2016	2015	2016
Net sales (Note 15)	¥ 234,843	¥ 187,904	$ 2,166,448
Cost of sales	196,308	158,943	1,810,959
Gross profit	38,535	28,961	355,488
Selling, general and administrative expenses	23,915	17,509	220,618
Operating income (Note 15)	14,619	11,452	134,861
Other income (expense):			
Interest and dividend income	94	99	867
Gains on investments in partnership	143	108	1,319
Commissions received	72	50	664
Real estate rental revenue	186	159	1,715
Consignment income	189	157	1,743
Technical advisory fee	63	54	581
Co-sponsor fee	157	-	1,448
Penalty income	68	-	627
Gain on bargain purchase	58	-	535
Interest expenses	(96)	(84)	(885)
Losses on sales of accounts receivables	(78)	(81)	(719)
Rent expenses on real estates	(87)	(88)	(802)
Provision of allowance for doubtful accounts	(282)	(282)	(2,601)
Losses on disposal and sales of fixed assets	(409)	(345)	(3,773)
Impairment losses on fixed assets	(856)	(371)	(7,896)
Directors' retirement benefits	(8)	(106)	(73)
Other, net	116	111	1,070
	(669)	(619)	(6,171)
Profit before income taxes	13,949	10,832	128,680
Income taxes (Note 10):			
Current	6,698	4,428	61,789
Deferred	(710)	143	(6,549)
	5,987	4,571	55,230
Profit	7,961	6,260	73,440
Profit attributable to non-controlling interests	44	63	405
Profit attributable to owners of parent	¥ 7,917	¥ 6,197	$ 73,035

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED APRIL 30, 2016

	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 1(1))
	2016	2015	2016
Profit	¥ 7,961	¥ 6,260	$ 73,440
Other comprehensive income:			
Unrealized holding (losses) gains on securities	(290)	192	(2,675)
Remeasurements of defined benefit plans, net of tax	160	(16)	1,476
Total other comprehensive (loss) income	(130)	175	(1,199)
Total comprehensive income	7,831	6,436	72,241
Comprehensive income attributable to owners of parent	7,786	6,372	71,826
Comprehensive income attributable to non-controlling interests	44	63	405

See accompanying notes.

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2016

	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)	Non-controlling interests	Total net assets
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
Profit attributable to owners of parent	-	-	-	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
Profit attributable to owners of parent	-	-	-	7,917	-	7,917	-	-	-	-	7,917
Cash dividends paid	-	-	-	(951)	-	(951)	-	-	-	-	(951)
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-
Purchase of shares of consolidated subsidiaries	-	-	(1,505)	-	-	(1,505)	-	-	-	-	(1,505)
Net change in items other than those in shareholders' equity	-	-	-	-	-	-	(290)	160	(130)	(52)	(182)
Net changes during the year	-	-	(1,505)	6,965	-	5,460	(290)	160	(130)	(52)	5,278
Balance at April 30, 2016	31,888	¥ 8,682	¥ 6,367	¥ 38,605	¥ (419)	¥ 53,237	¥ (63)	¥ 84	¥ 21	¥ 65	¥ 53,324

	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)	Non-controlling interests	Total net assets
Balance at April 30, 2015	$ 80,092	$ 72,619	$ 291,872	$ (3,865)	$ 440,738	$ 2,094	$ (691)	$ 1,392	$ 1,088	$ 443,228
Profit attributable to owners of parent	-	-	73,035	-	73,035	-	-	-	-	73,035
Cash dividends paid	-	-	(8,773)	-	(8,773)	-	-	-	-	(8,773)
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-
Purchase of shares of consolidated subsidiaries	-	(13,883)	-	-	(13,883)	-	-	-	-	(13,883)
Net change in items other than those in shareholders' equity	-	-	-	-	-	(2,675)	1,476	(1,199)	(479)	(1,678)
Net changes during the year	-	(13,883)	64,252	-	50,369	(2,675)	1,476	(1,199)	(479)	48,690
Balance at April 30, 2016	$ 80,092	$ 58,736	$ 356,134	$ (3,865)	$ 491,116	$ (581)	$ 774	$ 193	$ 599	$ 491,918

See accompanying notes.

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2016

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1(1)) 2016
Cash flows from operating activities:			
Profit before income taxes	¥ 13,949	¥ 10,832	$ 128,680
Depreciation and amortization	3,259	2,553	30,064
Impairment losses on fixed assets	856	371	7,896
Amortization of goodwill	2,938	2,278	27,103
Increase in allowance for doubtful accounts	565	419	5,212
Increase in reserve for reward obligations	48	6	442
Increase in net defined benefit liability	164	114	1,512
Increase in allowance for bonuses to employees	104	130	959
Interest and dividend income	(94)	(99)	(867)
Interest expenses	96	84	885
Gains on investments in partnerships	(143)	(108)	(1,319)
Gains on donations of property, plant and equipment	(24)	(12)	(221)
Gain on bargain purchase	(58)	-	(535)
Losses on disposal and sales of fixed assets	384	324	3,542
Decrease in accounts receivable	236	455	2,177
Decrease in inventories	495	969	4,566
Increase in other assets	(194)	(214)	(1,789)
(Increase) decrease in other accounts receivable	(600)	414	(5,535)
Increase in accounts payable	3,031	1,544	27,961
Increase (decrease) in other liabilities	917	(117)	8,459
Subtotal	25,932	19,948	239,225
Interest and dividends received	93	100	857
Interest paid	(94)	(82)	(867)
Income taxes paid	(4,579)	(5,126)	(42,241)
Net cash provided by operating activities	21,352	14,839	196,974
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(7,407)	(2,848)	(68,330)
Proceeds from sales of property, plant and equipment	709	98	6,540
Payments for purchases of investments in securities	(10)	(145)	(92)
Proceeds from sales of investments in securities	260	559	2,398
Purchases of subsidiaries' shares resulting in obtaining controls	(10,954)	(10,024)	(101,051)
Payments for loans receivable	(960)	(2,233)	(8,856)
Proceeds from collections of loans receivable	74	2,655	682
Payments for purchase of intangible fixed assets	(2,509)	(926)	(23,145)
Increase in other investments	(298)	(1,862)	(2,749)
Proceeds from withdrawal of time deposits	223	260	2,057
Other, net	(2)	(92)	(18)
Net cash used in investing activities	(20,877)	(14,560)	(192,592)
Cash flows from financing activities:			
Net repayments from short-term debts	(2,085)	(1,593)	(19,234)
Proceeds from long-term debts	12,987	8,650	119,806
Repayments of long-term debts	(5,619)	(5,082)	(51,835)
Repayments of lease obligations	(710)	(646)	(6,549)
Payments for purchase of treasury stock	-	(1)	-
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,591)	-	(14,677)
Cash dividends paid	(951)	(951)	(8,773)
Net cash provided by financing activities	2,028	374	18,708
Net increase in cash and cash equivalents	2,503	653	23,090
Cash and cash equivalents at beginning of year	19,389	18,735	178,865
Cash and cash equivalents at end of the year (Note 2)	¥ 21,892	¥ 19,389	$ 201,955

AIN HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2016 AND 2015

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 HOLDINGS 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, 2016, which was ¥108.4 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 61 and 37 subsidiaries as of April 30, 2016 and 2015, 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, AIN PHARMACIEZ INC. and MEDIWEL Corp. close its accounts on April 30. The account closing date for eight consolidated subsidiaries in the dispensing pharmacy business is the end of February. The account closing dates for three consolidated subsidiaries in the dispensing pharmacy business are the end of June, September and October, respectively. 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 on or after April 1, 1998 and to facilities and structures acquired on or after April 1, 2016. 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, five 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) Provision for sales returns

As a provision for losses associated with sales returns, the Company and its consolidated subsidiaries record an estimated loss amount considering past return rates and distribution in the market.

(13) Retirement benefits

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

The Company and some of its consolidated subsidiaries 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.

(14) Income taxes

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

(15) Amounts per share of common stock

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

Diluted earnings 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 non-controlling interests, and the number of common stock outstanding at the year end.

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

(16) Consumption taxes

The Company and its consolidated subsidiaries are accounted for using the tax excluded method. With regard to consumption taxes and other taxes that are not subject to deduction, the related expenses are reported in the fiscal year in which they are incurred.

However, consumption taxes and other taxes that are not subject to deduction but related to fixed assets are recorded in "Other investments and other assets" within "Investments and other assets" and amortized using the straight-line method.

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

(17) Changes in accounting policies

Application of the Accounting Standard for Business Combinations
The Company has applied "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("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), and other standards from the fiscal year ended April 30, 2016. As a result, the accounting method has been changed to record the difference associated with a change in the Company's ownership interest in a subsidiary as capital surplus in the case where the Company retains control over the subsidiary, and to record acquisition-related costs as expenses for the fiscal year in which the costs were incurred. Furthermore, for business combinations carried out on or after the beginning of the fiscal year ended April 30, 2016, the accounting method was retroactively changed to reflect the revised acquisition cost allocation resulting from the finalization of the provisional accounting treatment in the consolidated financial statements of the period in which the business combination occurs. In addition, the Company has changed its presentation of net income and related items, and renamed "minority interests" as "non-controlling interests." The consolidated financial statements for the year ended April 30, 2015, have been reclassified to reflect this change.

Application of "Revised Accounting Standard for Business Combinations" and other standards is in accordance with the transitional measures provided for in Article 58-2 (4) of "Revised Accounting Standard for Business Combinations," Article 44-5 (4) of "Revised Accounting Standard for Consolidated Financial Statements," and Article 57-4 (4) of "Revised Accounting Standard for Business Divestitures." The Company has continued to apply the standards from the beginning of the fiscal year ended April 30, 2016.

As a result, capital surplus as of April 30, 2016, decreased by ¥1,505 million ($13,883 thousand). In addition, operating income and ordinary income for the fiscal year ended April 30, 2016 each decreased by ¥724 million ($6,678 thousand), and profit before income taxes decreased by ¥720 million ($6,642 thousand).

In the consolidated statement of cash flows for the year ended April 30, 2016, cash flows related to purchase or sale of shares of subsidiaries not affecting the scope of consolidation are classified into "Cash flows from financing activities," while cash flows related to expenses arising from purchase of shares of subsidiaries affecting the scope of consolidation are classified into "Cash flows from operating activities."

As a result, net assets and earnings per share for the year ended April 30, 2016 decreased by ¥47.47 ($0.43) and ¥21.55 ($0.19), respectively.

Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016
Following revisions to the Corporation Tax Act, the Company and its consolidated subsidiaries have applied the "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (Practical Issues Task Force No. 32), and have changed its depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

(18) Unapplied accounting standards

Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 revised on March 28, 2016)
The practical guidance on accounting standards and auditing standards (sections related to accounting treatment) for tax effect accounting, issued by the Japanese Institute of Certified Public Accountants, is to be transferred to the competence of ASBJ. For the sake of the said transfer, "Implementation Guidance on Recoverability of Deferred Tax Assets (Implementation Guidance)" has been issued by ASBJ, based in principle on the framework used in the Japanese Institute of Certified Public Accountants Audit Committee Report No. 66, "Audit Treatment on Determining the Recoverability of Deferred Tax Assets," where the recoverability is assessed in accordance with the five categories of a corporate entity. The Implementation Guidance made certain necessary changes in the criteria for these categories and also in the treatment of the amount of deferred tax assets. The Implementation Guidance thereby provides the guidelines in applying the "Accounting Standards for Tax Effect Accounting," by the Business Accounting Council, in view of recoverability of deferred tax assets.

Changes in the criteria for the five categories and in the treatment of the amount of deferred tax assets
(a) Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
(b) Category requirements for (Category 2) and (Category 3)
(c) Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
(d) Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
(e) Treatment in cases that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

The Company and its consolidated subsidiaries intend to adopt the Implementation Guidance from the fiscal year beginning on May 1, 2016.

Effects of adoption of the Implementation Guidance are currently evaluated.

(19) Reclassification and restatement

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

2. Cash and cash equivalents

(1) Reconciliations of cash on hand and in banks shown in the consolidated balance sheet and cash and cash equivalents shown in the consolidated statement of cash flows as of and for the years ended April 30, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash on hand and in banks	¥ 22,647	¥ 19,553	$ 208,920
Less: Time deposits with maturities exceeding three months	(755)	(164)	(6,964)
Cash and cash equivalents	¥ 21,892	¥ 19,389	$ 201,955

(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, 2016 and 2015 due to the acquisition of shares

(i) Acquisition of shares of 24 companies in the dispensing pharmacy business and four other companies for the year ended April 30, 2016

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
	2016	2016
Current assets	¥ 11,344	$ 104,649
Fixed assets	3,315	30,581
Goodwill	9,190	84,778
Current liabilities	(8,155)	(75,230)
Long-term liabilities	(1,668)	(15,387)
Acquisition cost of the companies	14,026	129,391
Cash and cash equivalents held by the companies	(3,071)	(28,330)
Net disbursement due to the acquisition	¥ 10,954	$ 101,051

(ii) 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
	2015
Current assets	¥ 5,312
Fixed assets	2,549
Goodwill	8,266
Current liabilities	(3,498)
Long-term liabilities	(932)
Acquisition cost of the companies	11,697
Cash and cash equivalents held by the companies	(1,672)
Net disbursement due to the acquisition	¥ 10,024

3. Inventories

Inventories at April 30, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Merchandise	¥ 10,661	¥ 9,747	$ 98,348
Supplies	323	162	2,979
	¥ 10,984	¥ 9,909	$ 101,328

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 eight 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, 2016 and 2015 are summarized in the following table:

Assets	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Carrying value			
Cash on hand and in banks	¥ 22,647	¥ 19,553	$ 208,920
Notes and accounts receivable	12,385	8,369	114,252
Other accounts receivable	5,983	5,291	55,193
Investment in securities	1,408	1,885	12,988
Deposits and guarantees	9,956	9,577	91,845
Total	52,382	44,676	483,228
Fair value			
Cash on hand and in banks	22,647	19,553	208,920
Notes and accounts receivable	12,385	8,369	114,252
Other accounts receivable	5,983	5,291	55,193
Investment in securities	1,438	1,918	13,265
Deposits and guarantees	9,970	9,408	91,974
Total	52,425	44,540	483,625
Difference			
Cash on hand and in banks	-	-	-
Notes and accounts receivable	-	-	-
Other accounts receivable	-	-	-
Investment in securities	29	33	267
Deposits and guarantees	14	(168)	129
Total	¥ 43	¥ (135)	$ 396

Liabilities

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Carrying value			
Accounts payable	¥ 39,987	¥ 31,826	$ 368,883
Short-term debt including current portion of long-term debt	5,690	6,330	52,490
Deposits received	10,112	9,052	93,284
Long-term debt	14,854	7,640	137,029
Total	70,644	54,849	651,697
Fair value			
Accounts payable	39,987	31,826	368,883
Short-term debt including current portion of long-term debt	5,696	6,332	52,546
Deposits received	10,112	9,052	93,284
Long-term debt	14,894	7,628	137,398
Total	70,691	54,840	652,130
Difference			
Accounts payable	-	-	-
Short-term debt including current portion of long-term debt	6	1	55
Deposits received	-	-	-
Long-term debt	40	(11)	369
Total	¥ 47	¥ (9)	$ 433

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 ¥1,268 million ($11,697 thousand) and ¥986 million as of April 30, 2016 and 2015, respectively, are not readily determinable.

The redemption schedule for monetary claims and securities with maturity dates as of April 30, 2016 and 2015 are summarized as follows:

	Millions of yen			
	2016			
	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	¥ 21,687	¥ -	¥ -	¥ -
Notes and accounts receivable	12,385	-	-	-
Other accounts receivable	5,983	-	-	-
Investment securities				
Debt securities	179	39	100	-
Deposits received	1,671	3,511	2,751	2,078
Total	¥ 41,907	¥ 3,551	¥ 2,851	¥ 2,078

	Thousands of U.S. dollars			
	2016			
	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	$ 200,064	$ -	$ -	$ -
Notes and accounts receivable	114,252	-	-	-
Other accounts receivable	55,193	-	-	-
Investment securities				
Debt securities	1,651	359	922	-
Deposits received	15,415	32,389	25,378	19,169
Total	$ 386,595	$ 32,758	$ 26,300	$ 19,169

	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

5. Securities

(1) The following tables summarize acquisition costs, carrying values and differences of securities with available fair values as of April 30, 2016 and 2015:

Other securities:

Securities with carrying values exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Acquisition cost			
Equity securities	¥ 147	¥ 716	$ 1,356
Bonds	-	-	-
Limited partnerships and similar investments	29	51	267
Other	-	-	-
Total	177	768	1,632
Carrying value			
Equity securities	223	1,034	2,057
Bonds	-	-	-
Limited partnerships and similar investments	35	70	322
Other	-	-	-
Total	259	1,105	2,389
Difference			
Equity securities	75	318	691
Bonds	-	-	-
Limited partnerships and similar investments	5	19	46
Other	-	-	-
Total	¥ 81	¥ 337	$ 747

Other securities:

Securities with carrying values not exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Acquisition cost			
Equity securities	¥ 605	¥ 22	$ 5,581
Bonds	319	349	2,942
Limited partnerships and similar investments	379	390	3,496
Other	19	19	175
Total	1,324	781	12,214
Carrying value			
Equity securities	431	20	3,976
Bonds	319	349	2,942
Limited partnerships and similar investments	379	390	3,496
Other	19	19	175
Total	1,149	779	10,599
Difference			
Equity securities	(174)	(2)	(1,605)
Bonds	-	-	-
Limited partnerships and similar investments	-	-	-
Other	(0)	(0)	(0)
Total	¥ (174)	¥ (2)	$ (1,605)

Equity securities included stocks of non-consolidated subsidiaries and affiliates of ¥114 million ($1,051thousand) and ¥114 million at April 30, 2016 and 2015, 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, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Total sales of other securities sold	¥ 0	¥ 229	$ 0
Related gains	-	7	-
Related losses	0	-	0

(3) The following table summarizes impairment losses on other securities in the years ended April 30, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Other securities with fair value	¥ -	¥ -	$ -
Other securities without fair value	0	6	0

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, 2016 and 2015, 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
	2016	2015	2016
Acquisition cost			
Buildings	¥ 68	¥ 68	$ 627
Other fixed assets	-	-	-
Intangible fixed assets	-	-	-
Total	68	68	627
Accumulated depreciation			
Buildings	64	61	590
Other fixed assets	-	-	-
Intangible fixed assets	-	-	-
Total	64	61	590
Impairment losses			
Buildings	-	-	-
Other fixed assets	-	-	-
Intangible fixed assets	-	-	-
Total	-	-	-
Net balance			
Buildings	4	7	36
Other fixed assets	-	-	-
Intangible fixed assets	-	-	-
Total	¥ 4	¥ 7	$ 36

Future minimum lease payments as of April 30, 2016 and 2015 for finance leases currently accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Due within one year	¥ 11	¥ 9	$ 101
Due after one year	1	12	9
Total	¥ 12	¥ 22	$ 110

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
	2016	2015	2016
Lease expense	¥ 13	¥ 23	$ 119
Reversal of impairment losses for leased assets	-	-	-
Depreciation	3	6	27
Interest expense	3	10	27
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
	2016	2015	2016
Due within one year	¥ 1,293	¥ 584	$ 11,928
Due after one year	10,244	4,807	94,501
Total	¥ 11,538	¥ 5,392	$ 106,439

7. Short-term debt and long-term debt

Short-term debt and long-term debt at April 30, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term bank loans with a weighted-average interest rate of 0.7%	¥ 77	¥ 1,964	$ 710
Current portion of long-term debt with a weighted-average interest rate of 0.3%	5,612	4,365	51,771
Current portion of lease obligation with a weighted-average interest rate of 1.1%	668	628	6,162
Long-term debt (2017-2034) with a weighted-average interest rate of 0.3%	14,854	7,640	137,029
Lease obligation (2017-2022) with a weighted-average interest rate of 1.3%	1,198	1,341	11,051
Total	¥ 22,410	¥ 15,940	$ 206,734

At April 30, 2016 and 2015, 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
	2016	2015	2016
Buildings	¥ 56	¥ -	$ 516
Land	23	-	212
Investments in securities	5	5	46
Total	¥ 85	¥ 5	$ 784

Liabilities corresponding to collateral:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Accounts payable	¥ 0	¥ 1	$ 0
Long-term debt	39	-	359
Total	¥ 40	¥ 1	$ 369

The aggregate annual maturities of long-term debt at April 30, 2016 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2017	¥ 5,612	$ 51,771
2018	4,991	46,042
2019	4,293	39,603
2020	2,750	25,369
2021	1,551	14,308

The aggregate annual maturities of lease obligations at April 30, 2016 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2017	¥ 668	$ 6,162
2018	522	4,815
2019	343	3,164
2020	215	1,983
2021	83	765

8. Sales, disposal and impairment of fixed assets

(1) Gains and losses on sales of fixed assets for the years ended April 30, 2016 and 2015 are as follows:

Gains on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Buildings and structures	¥ 17	¥ 10	$ 156
Land	4	3	36
Other property, plant and equipment	1	8	9
Total	¥ 24	¥ 21	$ 221

Losses on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Buildings and structures	¥ 0	¥ 4	$ 0
Land	107	31	987
Construction in progress	1	12	9
Other property, plant and equipment	9	0	83
Other intangible fixed assets	-	0	-
Total	¥ 119	¥ 49	$ 1,097

(2) Losses on disposal of fixed assets for the years ended April 30, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Buildings and structures	¥ 192	¥ 224	$ 1,771
Construction in progress	6	1	55
Other property, plant and equipment	14	7	129
Goodwill	-	7	-
Other intangible fixed assets	2	15	18
Deposits and guarantees	42	12	387
Other investments and other assets	5	5	46
Disposal cost	25	21	230
Total	¥ 290	¥ 296	$ 2,675

(3) For the years ended April 30, 2016 and 2015, the Company recognized impairment losses for the following property groups:

		Millions of yen		Thousands of U.S. dollars
		2016	2015	2016
Property group	Description of assets			
Stores	Store facilities	¥ 641	¥ 224	$ 5,913
Stores	Land	-	11	-
Stores and Leasehold properties	Store facilities	-	135	-
Real estate	Land	47	-	433
Stores and real estate	Store facilities and land	167	-	1,540
	Total	¥ 856	¥ 371	$ 7,896

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	Thousands of U.S. dollars
	2016	2016
Balance as of May 1, 2015	¥ 1,724	$ 15,904
Service costs	282	2,601
Interest cost on retirement benefit obligation	11	101
Actuarial gains incurred	(101)	(931)
Pension and severance payments	(85)	(784)
Increases due to a newly consolidated subsidiary	469	4,326
Other	(0)	(0)
Balance as of April 30, 2016	¥ 2,300	$ 21,217

	Millions of yen
	2015
Balance as of April 30, 2014	¥ 2,087
Cumulative effect of changes in accounting policies	(600)
Balance as of May 1, 2014	1,486
Service costs	235
Interest cost on retirement benefit obligation	10
Actuarial losses incurred	86
Pension and severance payments	(92)
Other	(1)
Balance as of April 30, 2015	¥ 1,724

(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
	2016	2016
Balance as of May 1, 2015	¥ 493	$ 4,547
Expected return on plan assets	6	55
Actuarial losses incurred	(32)	(295)
Business owner's contribution	102	940
Pension and severance payments	(11)	(101)
Increases due to a newly consolidated subsidiary	213	1,964
Balance as of April 30, 2016	¥ 772	$ 7,121

	Millions of yen
	2015
Balance as of May 1, 2014	¥ 406
Expected return on plan assets	3
Actuarial gains incurred	21
Business owner's contribution	91
Pension and severance payments	(28)
Balance as of April 30, 2015	¥ 493

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

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Balance as of May 1, 2015	¥ 392	$ 3,616
Retirement benefit expenses	135	1,245
Business owner's contribution	(27)	(249)
Pension and severance payments	(71)	(654)
Other	96	885
Balance as of April 30, 2016	¥ 525	$ 4,843

	Millions of yen
	2015
Balance as of May 1, 2014	¥ 246
Retirement benefit expenses	66
Business owner's contribution	(34)
Pension and severance payments	(24)
Other	138
Balance as of April 30, 2015	¥ 392

(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
	2016	2015	2016
Funded retirement benefit obligation	¥ 969	¥ 758	$ 8,939
Plan assets	(895)	(590)	(8,256)
Subtotal	73	167	673
Unfunded retirement benefit obligation	1,981	1,455	18,274
Net of liability and asset reported on the consolidated balance sheet	2,054	1,623	18,948
Net defined benefit liability	2,228	1,636	20,553
Net defined benefit asset	(174)	(12)	(1,605)
Net of liability and asset reported on the consolidated balance sheet	¥ 2,054	¥ 1,623	$ 18,948

(5) Retirement benefit expenses for the years ended April 30, 2016 and 2015 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service costs	¥ 282	¥ 235	$ 2,601
Interest cost on retirement benefit obligation	11	10	101
Expected return on plan assets	(6)	(3)	(55)
Amortization of actuarial losses	69	77	636
Amortization of prior service costs	(34)	(34)	(313)
Retirement benefit expenses calculated under the simplified method	135	66	1,245
Other	3	-	27
Retirement benefit expenses	¥ 461	¥ 352	$ 4,252

(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
	2016	2015	2016
Unrecognized actuarial gains	¥ (72)	¥ 64	$ (664)
Total	¥ (72)	¥ 64	$ (664)

(b) Accumulated

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized prior service costs	¥ (82)	¥ (117)	$ (756)
Unrecognized actuarial gains	89	231	821
Total	¥ 6	¥ 113	$ 55

(7) Plan assets

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

	2016	2015
Bonds	7%	7%
Stocks	4%	5%
General account	63%	60%
Other	26%	28%
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, 2016 and 2015 are principally as follows:

	2016	2015
Weighted average discount rate	0.46%	0.91%
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, 2016 and 2015 were 31.7% and 35.3%, 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, 2016 and 2015:

	2016	2015
Statutory tax rate	31.7%	35.3%
Non-deductible expenses	0.5	0.6
Per capita inhabitant tax	1.0	1.8
Amortization of goodwill	5.4	6.9
Valuation allowance	0.5	0.1
Tax credits on tax system to expand income	(0.5)	(2.4)
Tax credits on tax system for promoting equipments and investment to improve productivity	(0.5)	(0.3)
Different tax rates applied to foreign subsidiaries	3.9	-
Other	0.9	0.2
Effective tax rates	42.9%	42.2%

(2) Significant components of deferred tax assets and liabilities as of April 30, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Impairment losses	¥ 291	¥ 254	$ 2,684
Excess of depreciation	442	305	4,077
Excess of allowance for bonuses	510	417	4,704
Excess of reserve for rewards obligation	133	110	1,226
Net defined benefit liabilities	558	438	5,147
Other	1,773	911	16,356
Sub-total deferred tax assets	3,708	2,439	34,206
Valuation allowance	383	354	3,533
Total deferred tax assets	3,324	2,084	30,664
Deferred tax liabilities:			
Capitalized removal costs	(131)	(94)	(1,208)
Net unrealized holding gains on securities	(0)	(106)	(0)
Other	(125)	(102)	(1,153)
Total deferred tax liabilities	(257)	(303)	(2,370)
Net deferred tax assets	¥ 3,067	¥ 1,780	$ 28,293

(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.15, 2016) and the "Act to Amend the Local Taxation Act, etc." (Act No.13, 2016) were enacted in the Diet on March 29, 2016.

Accordingly, the statutory tax rate of 32.0% previously used for calculating deferred income tax assets and deferred income tax liabilities, which are reversed on or after May 1, 2016, is changed to 30.0% for temporary differences expected to be reversed from May 1, 2016 to April 30, 2017 and 29.7% for temporary differences expected to be reversed after April 30, 2017.

As a result of this change, net deferred tax assets decreased by ¥89 million ($821 thousand), deferred income taxes and unrealized holding gains on securities increased by ¥87 million ($802 thousand) and ¥2 million ($18 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 17 and 22 banks as of April 30, 2016 and 2015, respectively, to finance working capital requirements. The outstanding balances of such overdrafts as of April 30, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Total overdraft available	¥ 23,870	¥ 25,260	$ 220,202
Amount utilized	38	1,960	350
Outstanding balance	¥ 23,832	¥ 23,300	$ 219,852

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 ¥811 million ($7,481 thousand) and ¥1,153 million as of April 30, 2016 and 2015, respectively.

14. Amounts per share

Net assets per share at April 30, 2016 and 2015 and basic and diluted earnings per share for the years then ended are as follows:

	Yen		U.S. dollars
	2016	2015	2016
Net assets per share	¥1,679.69	¥1,511.57	$ 15.49
Basic earnings per share	249.69	195.45	2.30
Diluted earnings per share	-	-	-
Cash dividends per share attributable to the year	40	30	0.36

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, 2016 and 2015 is summarized as follows:

	Millions of yen					
	2016					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 211,009	¥ 20,884	¥ 2,949	¥ 234,843	¥ -	¥ 234,843
Intersegment sales	-	-	350	350	(350)	-
Total sales	211,009	20,884	3,299	235,193	(350)	234,843
Segment income (loss)	19,219	(459)	(1,142)	17,617	(2,459)	15,158
Segment assets	¥ 139,120	¥ 7,384	¥ 9,882	¥ 156,387	¥ (16,499)	¥ 139,888
Other						
Depreciation and amortization	¥ 2,070	¥ 262	¥ 376	¥ 2,710	¥ 171	¥ 2,881
Amortization of goodwill	2,921	-	16	2,938	-	2,938
Impairment losses	520	151	-	672	184	856
Increase of tangible and intangible assets	5,607	1,108	3,353	10,068	322	10,390

	Thousands of U.S. dollars					
	2016					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	$ 1,946,577	$ 192,656	$ 27,204	$ 2,166,448	$ -	$ 2,166,448
Intersegment sales	-	-	3,228	3,228	(3,228)	-
Total sales	1,946,577	192,656	30,433	2,169,677	(3,228)	2,166,448
Segment income (loss)	177,297	(4,234)	(10,535)	162,518	(22,684)	139,833
Segment assets	$ 1,283,394	$ 68,118	$ 91,162	$ 1,442,684	$ (152,204)	$ 1,290,479
Other						
Depreciation and amortization	$ 19,095	$ 2,416	$ 3,468	$ 25,000	$ 1,577	$ 26,577
Amortization of goodwill	26,946	-	147	27,103	-	27,103
Impairment losses	4,797	1,392	-	6,199	1,697	7,896
Increase of tangible and intangible assets	51,725	10,221	30,931	92,878	2,970	95,848

	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

Amortization of goodwill and unamortized balances by reporting segment as of and for the years ended April 30, 2016 and 2015 are summarized as follows:

	Millions of yen				
	2016				
	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	¥ 2,921	¥ -	¥ 16	¥ -	¥ 2,938
Unamortized balances of goodwill	33,111	-	226	-	33,337

	Thousands of U.S. dollars				
	2016				
	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	$ 26,946	$ -	$ 147	$ -	$ 27,103
Unamortized balances of goodwill	305,452	-	2,084	-	307,536

	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

16. Comprehensive income

Each component of other comprehensive income (loss) for the years ended April 30, 2016 and 2015 was the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized holding (losses) gains on securities:			
(Losses) gains arising during the year	¥ (428)	¥ 287	$ (3,948)
Reclassification adjustments to losses	0	(6)	0
Amount before income tax effect	(427)	280	(3,939)
Income tax effect	(137)	88	(1,263)
Total unrealized holding (losses) gains on securities	(290)	192	(2,675)
Remeasurments of defined benefit plans:			
Gains (losses) arising during the year	72	(64)	664
Reclassification adjustments to gains	34	43	313
Amount before income tax effect	107	(21)	987
Income tax effect	52	(4)	479
Total remeasurments of defined benefit plans	160	(16)	1,476
Total other comprehensive (loss) income	¥ (130)	¥ 175	$ (1,199)

17. Business combinations

For the year ended April 30, 2016
(1) Transaction under common control
(a) Overview of transaction

(i) Names and details of businesses subject to the business combination
All business units with the exception of the Company's Group management

(ii) Date of the business combination
November 1, 2015

(iii) Legal form of the business combination
An absorption-type split, with the Company as the Splitting Company and Ain Company Split Preparation Co., Ltd., a 100% subsidiary of the Company, as the Split Preparation Company

(iv) Name of the entity after the business combination
AIN PHARMACIEZ INC.

(v) Background of and objective of the business combination
In the dispensing pharmacy business, the AIN HOLDINGS 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 continual increases in corporate value in this manner.

(b) 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 treated the merger as a transaction under common control.

(2) Business combination through acquisition
(a) Business combinations

(i) Name of the acquired company and its business
Name of acquired company - NP HOLDINGS Co., Ltd.
Content of business - Group management and real estate leasing business

(ii) Main reasons for the business combination
Nishinihon Pharmacy Co., Ltd., and Setouchi Pharmacy Co., Ltd., subsidiaries of NP HOLDINGS Co., Ltd., operate 41 dispensing pharmacies centered on Kagawa Prefecture, solidly dominating that region.

In addition to internal workshops and study sessions, departmental meetings are held regularly for each specialized department. The company's business policies have many points in common with those of AIN HOLDINGS INC., such as contributing to regional healthcare through "dispensing pharmacies at the heart of local communities" and expanding patient services.

We welcome the NP HOLDINGS Group, Shikoku's leading dispensing pharmacy chain, into the AIN HOLDINGS Group. The addition enables us to strengthen our operations in the Shikoku region, where we have few pharmacies, as well as promoting the development of more pharmacies in the region than before. By also combining our mutual business expertise and enhancing patient services, we expect to augment the corporate value of the Group.

(iii) Date of the business combination
November 2, 2015

(iv) Legal form of the business combination
Acquisition of shares for cash consideration

(v) Name of the entity after the business combination
No changes were made to the name of NP HOLDINGS Co., Ltd.

(vi) Share of voting rights acquired
100%

(vii) Main grounds for decision to acquire the company
The Company acquired shares in NP HOLDINGS Co., Ltd. for cash consideration.

(b) Period of operations of the acquired company included in the consolidated financial statements
From October 1, 2015 to March 31, 2016

(c) Acquisition cost and consideration of the acquired business

Cash consideration for acquisition	¥5,400 million ($49,815 thousand)
Cost of acquisition	¥5,400 million ($49,815 thousand)

(d) Major acquisition-related costs

Advisory fees	¥201 million ($1,854 thousand)

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

(i) Amount of goodwill generated
¥3,356 million ($30,959 thousand)

(ii) 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 HOLDINGS Group's management resources and economies of scale.

(iii) Goodwill amortization method and term
Straight-line method over 15 years

(f) Amounts of assets and liabilities acquired on the date of the business combination

Current assets	¥3,038 million ($28,025 thousand)
Fixed assets	¥973 million ($8,976 thousand)
Total assets	¥4,011 million ($37,001 thousand)
Current liabilities	¥1,609 million ($14,843 thousand)
Fixed liabilities	¥358 million ($3,302 thousand)
Total liabilities	¥1,968 million ($18,154 thousand)

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 Inc. 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
Expenses related directly to acquisition	¥208 million
Cost of acquisition	¥11,697 million

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

(a) Amount of goodwill generated
¥8,266 million

(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

18. Quarterly Information

(1) Quarterly net sales for the year ended April 30, 2016 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Three months ended July 31, 2015	¥ 52,146	$ 481,051
Six months ended October 31, 2015	106,924	986,383
Nine months ended January 31, 2016	169,395	1,562,684
Twelve months ended April 30, 2016	234,843	2,166,448

(2) Quarterly income before income taxes and non-controlling interests for the year ended April 30, 2016 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Three months ended July 31, 2015	¥ 2,738	$ 25,258
Six months ended October 31, 2015	5,825	53,736
Nine months ended January 31, 2016	9,974	92,011
Twelve months ended April 30, 2016	13,949	128,680

(3) Quarterly profit attributable to owners of parent for the year ended April 30, 2016 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Three months ended July 31, 2015	¥ 1,533	$ 14,142
Six months ended October 31, 2015	3,295	30,396
Nine months ended January 31, 2016	5,531	51,023
Twelve months ended April 30, 2016	7,917	73,035

(4) Quarterly earnings per share for the year ended April 30, 2016 is as follows:

	Yen	U.S. dollars
	2016	2016
Three months ended July 31, 2015	¥ 48.35	$ 0.44
Six months ended October 31, 2015	103.93	0.95
Nine months ended January 31, 2016	174.44	1.60
Twelve months ended April 30, 2016	249.69	2.30

(5) Quarterly earnings per share for each accounting period of the year ended April 30, 2016 is as follows:

	Yen	U.S. dollars
	2016	2016
Three months ended July 31, 2015	¥ 48.35	$ 0.44
Three months ended October 31, 2015	55.58	0.51
Three months ended January 31, 2016	70.51	0.65
Three months ended April 30, 2016	75.25	0.69

Independent Auditor's Report

The Board of Directors
AIN HOLDINGS INC.

We have audited the accompanying consolidated financial statements of AIN HOLDINGS INC. (formerly AIN PHARMACIEZ INC.) and its consolidated subsidiaries, which comprise the consolidated balance sheet as at April 30, 2016, 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 HOLDINGS INC. (formerly AIN PHARMACIEZ INC.) and its consolidated subsidiaries as at April 30, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

July 29, 2016
Sapporo, Japan

CORPORATE DATA
(Fiscal 2016)

Corporate Name
AIN HOLDINGS 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: 5,511
Non-consolidated: 137

Business Lines
Planning, management and operation of the corporate Group, focused on dispensing pharmacy and drugstore operation, generic drug wholesaling, sales of cosmetics, and the Group's other businesses

STOCK INFORMATION
(Fiscal 2016)

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
3,817

Major Shareholders

(As of April 30, 2016)

Shareholders	Number of shares held (thousand shares)	Share-holding ratio (%)
Kiichi Otani	3,238	10.21
Seven & i Holdings Co., Ltd.	2,480	7.82
Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd. (Marubeni Corporation account)*[2]; Trust & Custody Services Bank, Ltd. as a Trustee of Retrust	1,594	5.03
The Hokkaido Bank, Ltd.	1,472	4.64
JPMC OPPENHEIMER JASDEC LENDING ACCOUNT	1,163	3.67
North Pacific Bank, LTD.	1,085	3.42
ML PRO SEGREGATION ACCOUNT	1,012	3.19
STATE STREET BANK AND TRUST COMPANY	974	3.07
Japan Trustee Services Bank, Ltd. (Trust Account)	812	2.56
The Norinchukin Bank	600	1.89

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.
3. All shares held in Japan Trustee Services Bank, Ltd. (Trust Account) are related to trust services.

AIN HOLDINGS