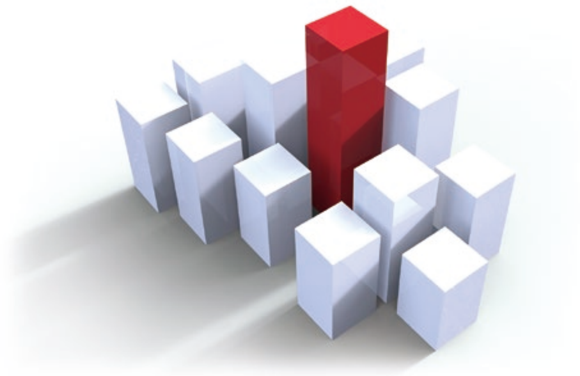


Raising Our Game

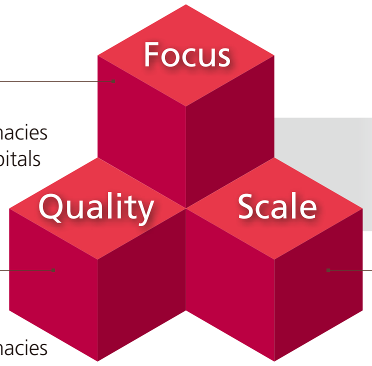
ANNUAL REPORT 2017

For the year ended April 30, 2017

AIN HOLDINGS

The Leader in Japan's Dispensing Pharmacy Sector

» See pages 6-13 for more details



Focusing on dispensing pharmacies located near hospitals

Raising the quality of dispensing pharmacies and pharmacists

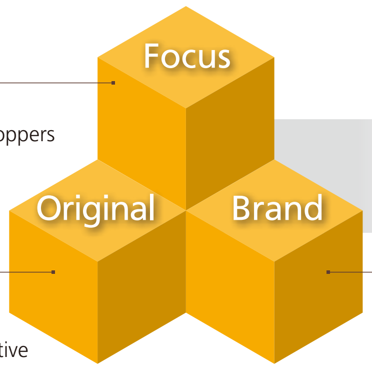
Expanding the pharmacy network

Remain competitive after sector restructuring

Become the dominant player in the sector

Transforming the Drug and Cosmetic Store Business into the Group's Second Earnings Pillar

» See pages 14-17 for more details



Targeting young female shoppers

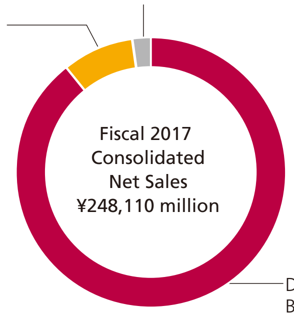
Developing original brands, creating a distinctive product lineup

Increasing brand visibility by opening stores in prime urban locations

Establish unique retail formats

Create a highly profitable business

Net Sales by Segment



Other Businesses ¥4,925 million 2.0%

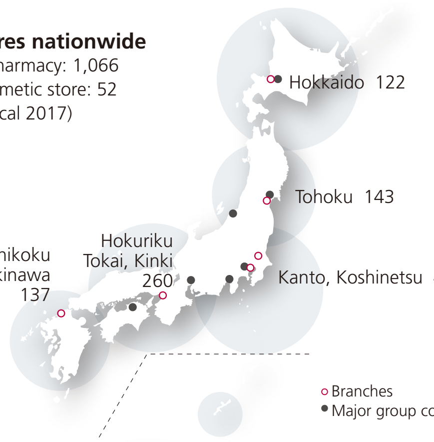
Drug and Cosmetic Store Business ¥21,383 million 8.6%

Dispensing Pharmacy Business ¥221,801 million 89.4%

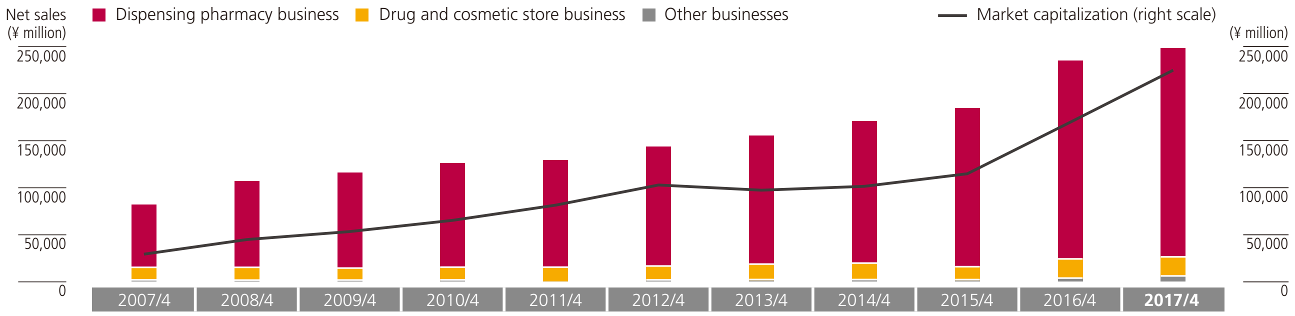
Scale of Business

—Our store network

1,118 stores nationwide
Dispensing pharmacy: 1,066
Drug and cosmetic store: 52
(As of end-fiscal 2017)



History of Growth



	2007/4	2008/4	2009/4	2010/4	2011/4	2012/4	2013/4	2014/4	2015/4	2016/4	2017/4
M&A deals	1 M&A (18 stores)	2 M&As (91 stores)	1 M&A (3 stores)	— (3 stores)	6 M&As (35 stores)	9 M&As (28 stores)	11 M&As (38 stores)	13 M&As (26 stores)	15 M&As (119 stores)	23 M&As (110 stores)	38 M&As (182 stores)
Revisions to medical expenses		+0.17% -5.20%		+0.52% -5.75%		+0.46% -6.0%		+0.22% -2.65%		+0.17% -7.77%	

Dispensing fees / Drug prices

Sound Financial Structure

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

Fiscal 2016 (¥ million)	AIN HOLDINGS	Average of 3 competitors
Market capitalization	224,807	60,368
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%

Fiscal 2017 (¥ million)	AIN HOLDINGS	Average of 3 competitors
Market capitalization	252,075	64,212
Cash on hand in banks	29,775	15,401
Interest-bearing debt	27,402	46,819
Net cash	2,371	(31,418)
Shareholders' equity ratio	38.4%	28.1%

Notes:
1. Market capitalization data are as of July 29, 2016 and July 31, 2017.
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.

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.

Number of AIN Group dispensing pharmacies rises past 1,000. Drug and cosmetic store business starting to build brand power.

Kiichi Otani
President and
Representative Director

Given current conditions in Japan's dispensing pharmacy sector » See pages 6-7 for more details, we believe the key to growth lies in the pursuit of business scale. From that perspective, fiscal 2017, ended April 30, 2017, marked a major milestone for the AIN Group. The number of dispensing pharmacies in our network reached 1,066 (as of April 30, 2017), reinforcing our position as the largest company in the sector.

For fiscal 2017, we reported net sales of ¥248,110 million, up 5.6% year on year, operating income of ¥14,563 million, down 0.4%, and profit attributable to owners of parent of ¥7,949 million, up 0.4%. Although sales rose year on year, they fell short of our start-of-year target. In the dispensing pharmacy business, we projected sales of roughly ¥15 billion from individual drugs, but volumes were half the level of our assumption. There was also a large impact on sales from drug price revisions. In the drug and cosmetic store business, sales were affected by delays to the opening of *ainz & tulpe* stores and by weak sales growth in the *AYURA* brand and online channels.

However, we made good progress on reinforcing our business base to support sustained growth. In the dispensing pharmacy business, income from technical fees, an indicator of the strength of dispensing pharmacies, exceeded our target three months ahead of schedule, highlighting how we have reinforced frontline operations. We expect profits to grow steadily in fiscal 2018, ending April 30, 2018, when there are no scheduled revisions to dispensing fees and drug prices. In the drug and cosmetic store business, we established a foothold to build our brands, opening *ainz & tulpe* stores in retail facilities and in street-front locations, such as *ainz & tulpe* GINZA NAMIKIDORI, with a particular focus on the Tokyo metropolitan area. » See pages 17 for more details

Two businesses are supporting the Group's stable growth

Some investors ask me why AIN HOLDINGS operates two businesses – dispensing pharmacies and drug and cosmetic stores. The reasons are twofold: our presence in other fields enhances the diversity of our business portfolio, and we believe it is important to explore promising opportunities in different fields to support the Group's sustained growth.

In the dispensing pharmacy business, the AIN Group is the leading player in Japan, but like any company in the dispensing pharmacy sector, we are exposed to the impact of revisions to dispensing fees and drug prices, which in principle are revised once every two years in line with government policy. We therefore need multiple growth drivers to support long-term growth and generate stable earnings on a Groupwide basis.

Steady growth in the dispensing pharmacy business has given us the scope to take on new challenges with our drug and cosmetic store business, but dispensing pharmacies remain our core business. Over the medium and long term, we expect the dispensing pharmacy business to continue to account for roughly 90% of Group earnings. We are aiming to make the drug and cosmetic store business profitable by the fiscal year ending April 30, 2019. By lifting the operating margin to 10%, we aim to transform the drug and cosmetic store business into a second key source of earnings.

Continuing to grow our business to meet society's expectations

Japan's dispensing pharmacy market is worth ¥7.9 trillion, but it is projected to reach ¥10 trillion in the medium to long term. The ratio of prescriptions filled outside hospitals (the non-hospital dispensing ratio) now exceeds 71% and dispensing pharmacies are being called on to play a greater role in the provision of local healthcare. On the other hand, the dispensing pharmacy sector is poised for a major realignment. Some companies in the sector will probably fall by the wayside, but we view sector realignment as an excellent opportunity for a new phase of growth. Until now, we have achieved sustained growth by improving the quality of services and pursuing business scale. During that process, attracting and training personnel has become one of the Group's strengths, feeding into a positive cycle of service quality improvement and rising earnings. Our operating environment is likely to become even more challenging, but that will be the ideal opportunity to prove our business strategy is on the right track.

In Hokkaido, the AIN Group's original market, conditions were not necessarily conducive to business expansion, including from the standpoint of attracting pharmacists. We therefore adopted an M&A strategy to grow our business and increase earnings. Ultimately, that has proven to be the best approach. We plan to continue actively using M&A deals to drive growth in our business. With M&A deals, we carefully narrow down acquisition targets based on the size of sales and by negotiating a fair price in line with changing conditions in the sector. After rigorous due diligence, dispensing pharmacies that become part of the AIN Group are rapidly integrated into our network and systems, helping them to make a positive contribution to earnings as soon as possible. That process is another one of our strengths as a Group.

We are channeling business resources into opening dispensing pharmacies located near hospitals. Those pharmacies offer greater convenience for patients due to their close links with local hospitals and accessibility, making them ideal centers for the provision of local healthcare. Profitability is also higher than at pharmacies in other locations. » See pages 8-9 for more details We plan to expand our network of dispensing pharmacies located near hospitals while closing locations with poor profitability to create a leaner chain of pharmacies.

Providing full support to pharmacists and upgrading pharmacy operations

Pharmacists are the lifeblood of our dispensing pharmacy business. From the earliest days of the Company, we have consistently focused on hiring and training pharmacists as a matter of priority. In the fiscal year ended April 30, 2017, we hired 307 pharmacists, or roughly 10% of all newly graduated pharmacists recruited in the sector. Approximately 4,500 pharmacists now work for the AIN Group. Our hiring record and approach to recruitment is highly regarded by university and college students, which has a significant positive knock-on effect in recruiting and training the next generation of pharmacists.

The government is promoting its vision for patient-focused dispensing pharmacies. In May 2017, to address new demands on the sector arising from that policy, we integrated our personnel recruitment, training and management systems, which had been separate until that point. The government's vision calls for dispensing pharmacies with primary care functions and advanced pharmaceutical management capabilities. In response, we are implementing a range of initiatives to enhance the skills of our pharmacists, including teaming up with university hospitals and social medical corporations to develop and implement sophisticated healthcare simulation training programs. We are also recruiting local pharmacy staff in each area and increasing the number of regular employees on our main career track who can be assigned to posts nationwide, ensuring the optimal use of human resources.

In the AIN Group, a large number of our regular employees, myself included, are qualified as pharmacists. In conjunction with efforts to improve pharmacy chain operations, we are continuing to implement our pharmacy-led project aimed at increasing operational efficiency at existing pharmacies, which encourages frontline pharmacists to identify areas for improvement at each pharmacy, backed by support from head office. The project has helped us optimize inventories and find efficiencies in other areas, making a significant contribution to earnings.

The pharmacy-led project has also been successful in encouraging frontline pharmacists to think for themselves, which partly reflects my own background as a pharmacist, allowing me to oversee the project from the standpoint of frontline staff. One of the most important jobs of senior management is to create a working environment that motivates employees. Our goal at AIN HOLDINGS is to make sure, first and foremost, that employees are happy working for us. We have built a reputation as a Company that looks after its employees by providing maternity and childcare leave and an extensive package of other benefits, resulting in a low employee turnover rate and stable business operations.

Creating Systems and Products to Build Brand Power

The drug and cosmetic store business is narrowing its target customer group to women in their 20s and 30s and accelerating efforts to establish new retail formats. By creating completely new formats, our strategy is to avoid the impact of price competition and the narrowing quality gap in the retail market. We continue to focus on building brands and opening stores in carefully selected prime locations. For example, in November 2016, we opened a new standalone store in Tokyo's Ginza shopping district to target both local demand and inbound demand from overseas visitors.

We also need to launch hit products that help build our brands. In autumn 2017, we plan to release a new beauty serum marketed under our *AYURA* brand, and we will recruit personnel to lead the development of new products in apparel accessories. Our goal is to grow the strong-performing *LIPS and HIPS* range and other original brands to lift the proprietary brand sales ratio.

As part of those efforts, we overhauled our organization in May 2017 to create a more effective product branding process. The result is a new Design and Sales Promotion Division that brings together all aspects of brand building into a single team under my direct supervision. I will head up the team as it sets out and works toward clear objectives.

The AIN Group contains a large number of people who have studied pharmacology, so our drug and cosmetic store business is in a relatively strong position when it comes to product ingredients and functionality. We are also working to win and retain the trust of customers by reducing the ratio of part-time staff in our stores and by ensuring well-trained employees carefully communicate product efficacy and functions to customers. That approach sits at the heart of our strategy. Just like our dispensing pharmacy business, our employees hold the key to growth in the drug and cosmetic store business.

Taking the Group to a new level, backed by our strong financial position

On the financial side, we are focusing on operating income, ordinary income and the balance sheet. In particular, we are keeping a close eye on the Group's debt ratio. Learning from past issues with cash flow, we now put great emphasis on ensuring the Group has a stable financial position. Compared with peers, the AIN Group has very healthy finances with no net debt, making it easy for us to secure funding for M&A deals or other moves if needed. However, based on the current size and pace of our M&A strategy, we intend to fund acquisitions using cash flow alone. If we do take on more debt, we plan to maintain the shareholders' equity ratio at 40%. Our aim is to ensure our financial position matches our position as the leading company in the dispensing pharmacy sector.

In the fiscal year ended April 30, 2017, we raised the full-year dividend to ¥50 per share, an increase of ¥10 from the previous fiscal year. We have set a dividend payout ratio of 20%, as we are currently putting priority on investing in growth, such as opening new pharmacies and stores. We are aggressively acquiring other companies because we view current conditions in the sector as a good opportunity to go on the offensive. As a result, goodwill amortization costs are rising but not at a pace that undermines our financial position. We want to reward shareholders for their support by increasing the share price. We continue to target ROE of 15%. The Group's net assets are also growing, so we want to increase earnings at an even faster pace. Our goal is to generate consolidated net sales of more than ¥300 billion as soon as possible, leading to a higher operating margin.

Business expansion has enhanced the Group's ability to generate earnings. At the same time, our employees are growing as individuals and developing their skills, setting the stage for an exciting new phase in the company's development as we take on new challenges. Going forward, we plan to extend our network of dispensing pharmacies to all areas of Japan to play a key role in all the local communities we serve. In the drug and cosmetic store business, we will expand new retail formats and build *ainz & tulpe* into a powerful brand.

I hope we can count on your understanding and support as we roll out this strategy over the medium and long term.

July 31, 2017

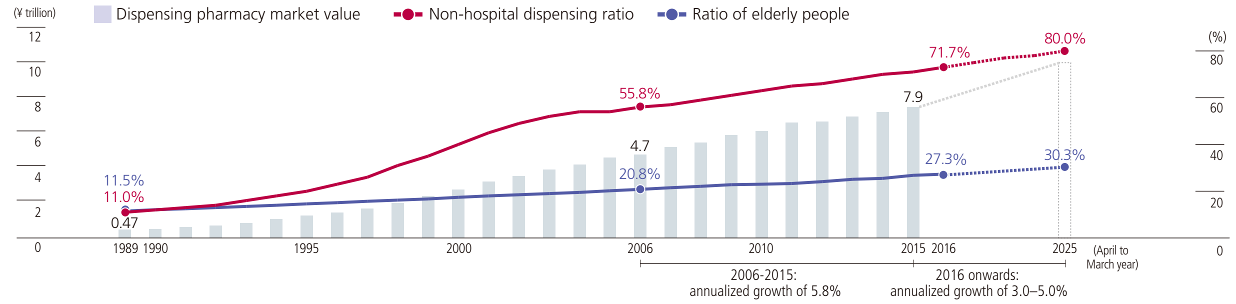
Kiichi Otani
President and Representative Director

Dispensing Pharmacy Business | Main Characteristics of the Market

Q What are the main characteristics of Japan's dispensing pharmacy market?

A **The dispensing pharmacy sector is closely regulated but is one of Japan's few growth markets. It is about to enter a period of consolidation.**

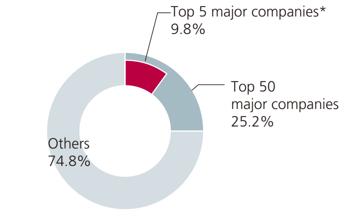
Market growth



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.

Dispensing pharmacy company market share

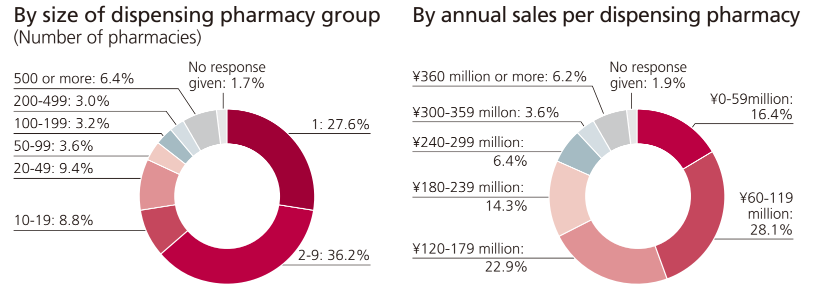
(Fiscal 2017)



*Top 5 major companies: AIN HOLDINGS INC., NIHON CHOUZAI Co., Ltd., KRAFT Inc., Qol Co., Ltd., WELCIA HOLDINGS CO., LTD.

Source: AIN HOLDINGS estimates, based on data from DRUG Magazine (July 1,2017) and FY2016 dispensing fee statistics released by the Ministry of Health, Labour and Welfare.

Breakdown of the market



Note: AIN HOLDINGS estimates based on data from a random survey conducted by the Ministry of Health, Labour and Welfare in August 2016 (1,000 dispensing pharmacies surveyed, 46.7% response rate).

Source: Report on Creating Dispensing Pharmacies for Patients, Ministry of Health, Labour and Welfare, March 31, 2017

The dispensing pharmacy sector is one of only a few markets in Japan with prospects for growth over the medium to long term. However, companies operate under a number of restrictions, as the government determines drug prices and dispensing fees through adjustments once every two years*.

* Drug prices and dispensing fees are revised regularly, usually once every two years. However, the operating environment is likely to become even more challenging due to government plans for three successive years of revisions: April 2018 (regular revision), October 2019 (adjustments related to an increase in consumption tax) and April 2020 (regular revision).

Japan's dispensing pharmacy market has developed in unique ways, supported by factors such as the government's efforts to promote non-hospital dispensing services under a policy launched in 1994. We expect the market to continue expanding, driven by Japan's super aging society, the ongoing shift to non-hospital dispensing services and the launch of new drugs. National healthcare policy is focused on disease prevention, but as society ages and medical treatments become more advanced, we are seeing a clear increase in healthcare costs per person. Also, hospitals still fill around 30% of prescriptions, which equates to around ¥2 trillion in prescription value. More prescriptions are likely to be filled outside hospitals as the government works to curb national medical expenses. The dispensing pharmacy market in Japan was worth roughly ¥7.9 trillion in fiscal 2015, but we expect those underlying trends to spur sustained annual growth of 3 to 5%, putting the market on track to reach ¥10 trillion over the medium term.

The dispensing pharmacy sector is fragmented, with the top five companies accounting for only around 10% of the market, including the AIN Group's leading share of roughly 3%. As of March 31, 2016, there were approximately 58,000 pharmacies in Japan, but most are run by small-scale family businesses. We believe the sector is about to enter a major phase of consolidation, with the severe shortage of pharmacists, tough new requirements on dispensing pharmacies and other changes in the operating environment spurring M&A deals or forcing smaller companies out of business. As more hospitals are rebuilt and relocated, we also see scope for further growth in dispensing pharmacies located near hospitals, an area where we are targeting management resources. » See pages 8-9 for more details That offers the AIN Group significant potential to increase market share.

Meanwhile, the government is changing the direction of its social insurance policy as part of wider efforts to curb the continued rise in national medical expenses. As part of those changes, it has adjusted the reimbursement point system for dispensing fees to encourage growth in primary care dispensing pharmacies, which are being given a greater role to play in local healthcare provision. » See pages 10-11 for more details The government is also actively promoting wider use of generic drugs. As of February 28, 2017, generic drugs accounted for an average of 68.5% of all prescriptions in Japan. The government aims to increase that ratio to 80.0% by September 2020 by awarding dispensing pharmacies additional reimbursement points (premiums) for generic drug dispensing. The future of dispensing pharmacies will partly 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.

» See pages 10-11 for more details

After implementing strategies that anticipated these developments in our operating environment, we view current conditions in the sector as a business opportunity.

Dispensing Pharmacy Business | Pursuing of Top-line Growth

Q **Why does the AIN Group focus on dispensing pharmacies located near hospitals?**

A **Pharmacies near hospitals are more convenient for patients and generate higher margins than other types of pharmacies.**

Dispensing pharmacies located near hospitals in the Group

About 99%

AIN Pharmacy EBETSU

Differences between Japan and the US

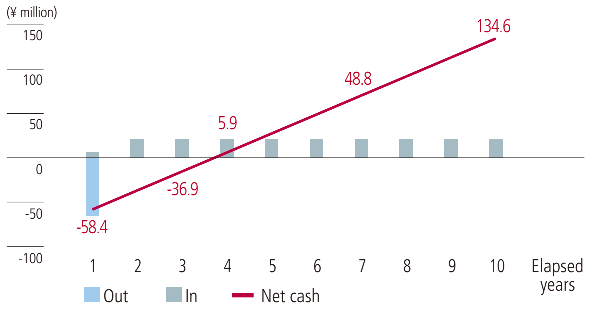
	Japan	US
Medical insurance (patient cost)	Universal healthcare (10-30%)	Private health insurance (depends on contract terms)
Freedom to select hospitals / pharmacies	No restrictions	Affiliated service providers
Non-hospital dispensing ratio	70%	100%
Drug prescriptions	Refills × Mail order ×	Refills ○ Mail order ○
Drug prices	Set by the government (Usually revised once every two years)	Market price

Advantages of dispensing pharmacies located near hospitals

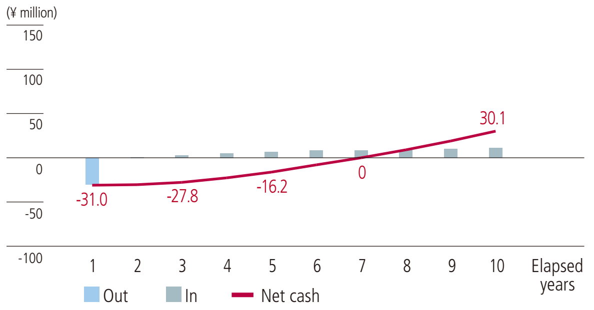
For patients	For dispensing pharmacies
Convenient Regular visitors to hospitals, such as the elderly and patients with chronic disorders, tend to use dispensing pharmacies near hospitals because of the convenience	**High margins** Margins tend to be high due to a large, steady volume of prescriptions and a large number of complex prescriptions
Well stocked Drugs usually in stock	**Efficient inventory management** Close links with local hospitals enable efficient inventory management
Safe and reassuring Regular information sharing with local hospitals mitigates risk related to inappropriate combinations of prescribed drugs and dispensing errors, supporting a high level of safety and peace of mind for patients.	**Increase in specialization** Higher volume of prescriptions than drugstores with dispensing pharmacy functions, giving pharmacists more experience and greater specialization.

Comparison of earnings model

■ Dispensing pharmacies located near hospitals
(payout period: four years)



■ Drug stores with dispensing pharmacy functions
(payout period: seven years)



In simple terms, the outlook for our dispensing pharmacy business depends on how well it can adjust to changes in government policy. Our ability to adapt relies on two key factors: the location of our pharmacies and pharmacist recruitment » See pages 12-13 for more details. About 99% of our dispensing pharmacies are located near hospitals, the result of a conscious strategy to select and channel management resources into those locations. Our approach reflects realities in Japan's social environment and systems that make dispensing pharmacies located near hospitals the best option for patients, and for the AIN Group.

Conditions in Japan's dispensing pharmacy sector are very different to those in the US and other countries due to contrasting social environments and systems. Japan has a system of universal healthcare. The system does not restrict treatment or drug dispensing to certain hospitals or pharmacies based on the type of medical insurance held by patients or other criteria, allowing them to choose when and where they want their illness or injury to be treated.

Japan also has three main types of dispensing pharmacy: pharmacies located near hospitals, pharmacies not located near hospitals and drug stores with dispensing pharmacy functions. Patients are free to choose any type of pharmacy, but in urban markets in Japan, where cars are not used widely for daily errands, most patients tend to visit dispensing pharmacies located near hospitals immediately after their visit to the doctor. That reflects the significant benefits for patients who use those pharmacies and a sense of familiarity, because local hospitals dispensed drugs to patients before the non-hospital dispensing system was introduced. We expect this format to remain popular over the medium and long term, as many pharmacies near hospitals satisfy the government's conditions for primary care dispensing pharmacies, » See pages 10-11 for more details rather than drugstores with dispensing pharmacy functions.

Dispensing pharmacies near hospitals also offer significant merits for our business, such as much higher average prescription prices and prescription volumes than other types of pharmacy, supporting higher margins. Other merits include close links with local hospitals, helping pharmacies manage onsite drug inventories more efficiently. Pharmacists also gain experience and improve their skills, as they have to handle a high volume of complex prescriptions. By focusing on dispensing pharmacies located near hospitals, we can fully leverage our competitive advantages as a Group that recruits large numbers of skilled pharmacists and operates a nationwide pharmacy chain.

Over the medium and long term, we will continue to channel management resources into dispensing pharmacies located near hospitals through new pharmacy openings and M&A deals, 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.

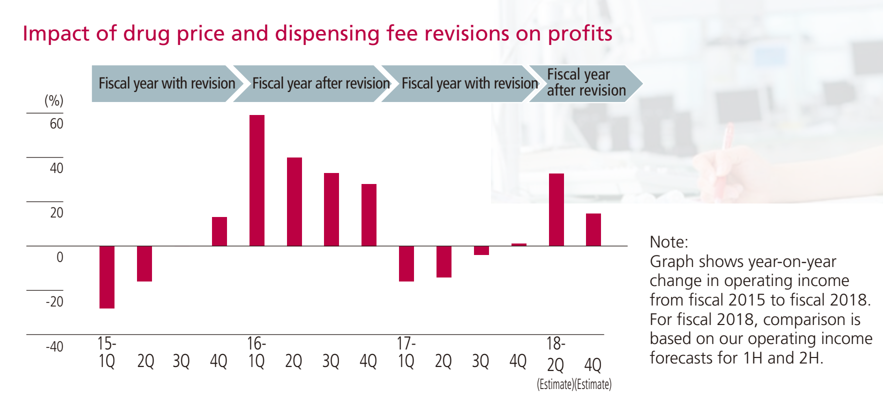
AIN Pharmacy Fujisawa SST

AIN Pharmacy NEWoMan SHINJUKU

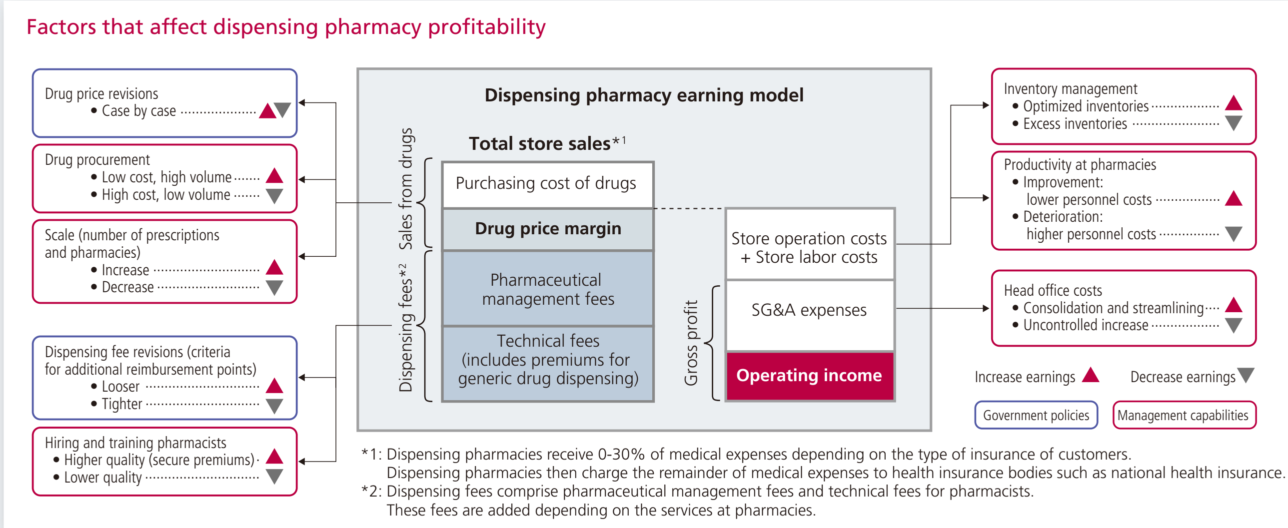
Dispensing Pharmacy Business | Responding to Changes in Business Environment

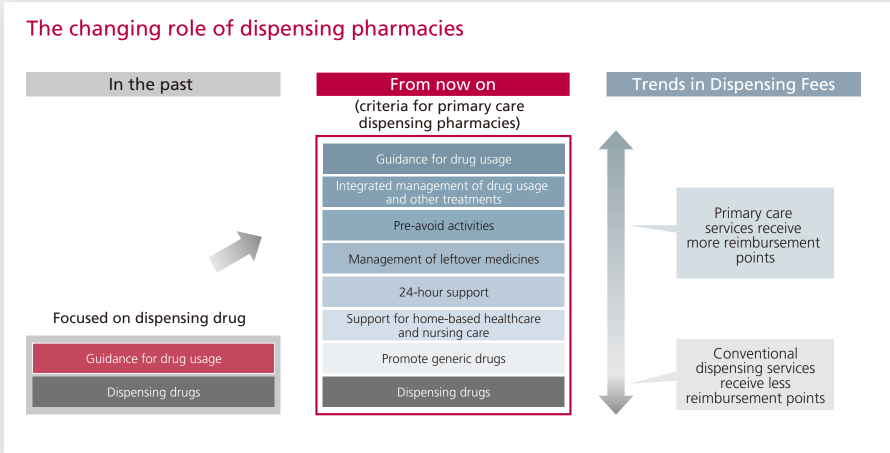
Q What factors affect profitability in the dispensing pharmacy sector?

A The ability to respond to challenges in the operating environment, such as continuous revisions to dispensing fees and drug prices and a shortage of trained pharmacists, has a large impact on profitability.



Earnings=
Drug price margins
+
Technical fees

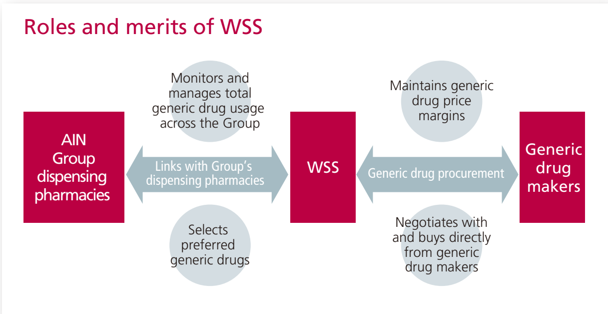




Revisions to dispensing fees and drug prices, usually implemented once every two years, lead to lower drug prices and tighter standards for dispensing fees. To remain competitive in the face of those changes, we need a strategy that mitigates the impact of revisions to both drug prices and dispensing fees. Profits in the dispensing pharmacy business tend to decline temporarily in the fiscal year when the review is carried out, followed by a large recovery in earnings in the following fiscal year when there are no changes to drug prices or dispensing fees. The entire dispensing pharmacy sector is at the mercy of this cycle. However, profits are increasingly under pressure at dispensing pharmacies that cannot respond to those changes.

Profits at dispensing pharmacies are derived from two main sources: drug price margins and dispensing fees.

The drug price margin is dictated by price negotiations with drug wholesalers. Under current conditions in the sector, companies will struggle to increase sales per pharmacy due to continuous revisions to drug prices and limited prospects for significant growth in the number of patients using dispensing pharmacies located near hospitals. That is why we need to expand our business through M&A deals and other means. The AIN Group sources original drugs from major wholesalers, but in the case of generic drugs, we negotiate prices and procure products directly from manufacturers through our own dedicated generic drug wholesaler, WHOLESALE STARS Co., Ltd. (WSS). We established WSS in 2006, when the government started actively promoting wider use of generic drugs. We procure more generic drugs than any other company in Japan and



we have narrowed down our suppliers to only a few firms, further strengthening our buying power. That helps us secure large drug price margins for generic drugs, which is one of the AIN Group's competitive advantages.

With dispensing fees, the government is using revisions as a tool to push through its vision for a new role for dispensing pharmacies, aiming to address issues such as Japan's aging society and rising national medical expenses. Those revisions are having a large impact on our operations. Dispensing fee revisions since April 2014 clearly reflect the government's policy of favoring dispensing pharmacies that can help curb national medical expenses and support community-based healthcare. Criteria for securing additional reimbursement points were adjusted in line with that policy. Dispensing pharmacies now have to offer higher quality services, such as management of left over prescription medicines, patient health management, cooperation with local healthcare providers, 24-hour dispensing services and home-based healthcare, in addition to their traditional role of drug dispensing.

Dispensing fees are gradually being revised so that only dispensing pharmacies that provide these services will be able to generate profits. Conditions for companies in the sector are therefore likely to become even more challenging as it becomes harder to secure technical fees. Against that backdrop, the ability to attract pharmacists and provide high-quality training will create a gap in competitiveness between companies in the sector.

To respond to the impact of revisions, we are encouraging pharmacists at each pharmacy to identify areas for improvement in frontline operations. By taking on-board their ideas, we are optimizing inventories, enhancing the working environment for pharmacists and improving staff retention rates as part of sustained efforts to boost earnings and increase corporate value.

Dispensing Pharmacy Business | Committed to Quality Improvement

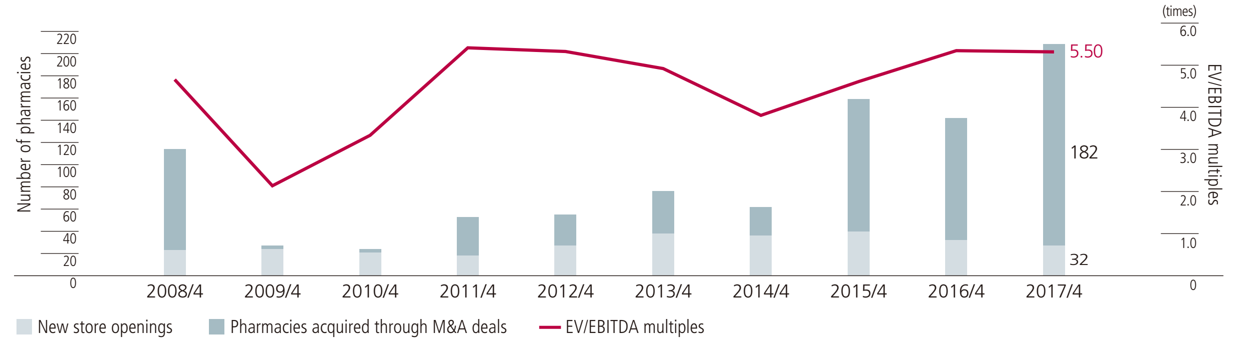
Q **What is the AIN Group doing to stay competitive in the dispensing pharmacy business?**

A **We are expanding the business and raising operational quality, giving us the ability to respond to any change in our operating environment.**

2017 AIN Group's initiation ceremony

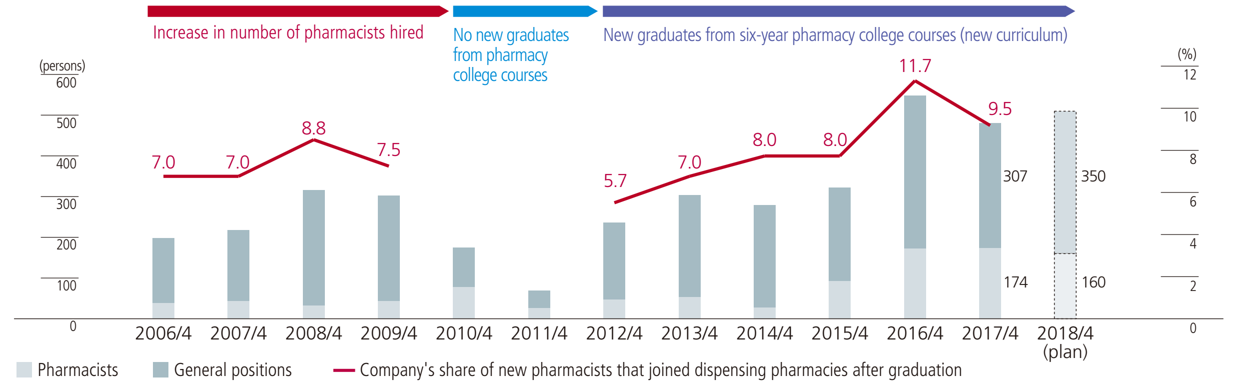
Company's share of new pharmacists that joined dispensing pharmacies after graduation
9.5%
(As of Apr. 2017)

New store openings, pharmacies acquired through M&A deals and EV/EBITDA multiples



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

Number of new pharmacist graduates hired



We anticipate a further increase in M&A activity as conditions in the dispensing pharmacy sector become tougher. The AIN Group has been actively opening new pharmacies 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 taking into account investment efficiency.

We will also extend our competitive lead in the sector by recruiting large numbers of high-quality pharmacists and by raising the quality of pharmacy operations. To ensure our dispensing pharmacies fulfill their role as primary care pharmacies supporting the provision of local healthcare services, 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. 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-size companies. However, thanks to our track record in the sector and growing awareness of our high-quality training system, we have been able to hire enough staff. Our pharmacists undergo an extensive and sustained training program tailored to the current stage in their careers. They also have opportunities to build up their experience because the AIN Group has many dispensing pharmacies that handle a large number of complex prescriptions. In this way, we can attract large numbers of high-quality pharmacists, allowing us to contribute to the government's policy of community healthcare while also boosting profits by securing more reimbursement points.

The entire sector is facing headwinds, but we expect tougher conditions in the operating environment to trigger a wave of restructuring. Sector restructuring will be a major growth driver for our business, and we are ready to capitalize on any opportunity that arises.

A Message from Managing Director

Miya Oishi
Managing Director and Senior General Manager, Operations Department

Our pharmacy-led project to improve efficiency and services is also enhancing the skills of our staff

When we launched our dispensing pharmacy business, our aim was to become the industry standard in Japan. That is why we focused on developing systemized manual-based dispensing pharmacy operations. However, as our focus on safety intensified and the business expanded, the number of operational manuals increased. That led to longer wait times for patients, resulting in lower-quality services.

To address that issue, we launched a pharmacy-led project in 2012 to radically overhaul dispensing pharmacy operations. We asked our pharmacy staff to explore ways of improving efficiency and providing the best-possible services to patients by identifying, acting on and then revisiting the most important aspects of pharmacy operations, while also ensuring compliance with all laws and regulations.

Efficiency gains in operations naturally feed through to improvements in profitability, but the "Think, Act and Think Again" cycle is also accelerating the personal growth and development of our dispensing pharmacy staff, translating into improvements that go beyond what we could achieve by simply following operational manuals.

The main job of dispensing pharmacists is to deal with patients. They have to decide the best course of action through their interactions with those patients. That it is an integral part of a pharmacist's job, but it is also one way that patients, the government and other stakeholders assess the quality of services we provide to the local community.

The government is calling on the dispensing pharmacy sector to raise the level of service provision. Through our pharmacy-led project, we are working to raise the quality of dispensing pharmacist activities and provide services to patients nationwide as a key part of Japan's healthcare infrastructure.

Drug and Cosmetic Store Business | Creating New Retail Formats

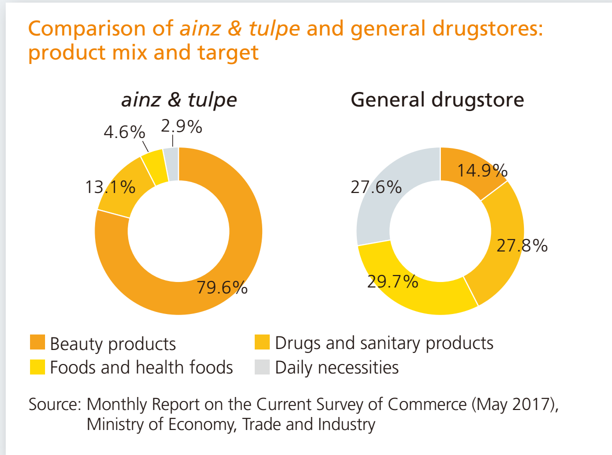
Q How are the AIN Group's new retail formats different to those of other companies?

A **Our stores stand out in the market by targeting female customers with a unique lineup of original products.**

ainz & tulpe Colette Mare SAKURAGICHO

LIPS and HIPS

LIPS and HIPS ROOM



LIPS and HIPS sales area in *ainz & tulpe* Colette Mare SAKURAGICHO

The AIN Group started actively rolling out new retail formats in fiscal 2016. We stepped up our store opening program with two new flagship *ainz & tulpe* stores: SHINJUKU HIGASHIGUCHI (Shinjuku, Tokyo; retail space: 1,290m^2) and *Le trois* (Sapporo, Hokkaido; retail space: 1,490m^2). After clearly setting out our strategic direction, we are now channeling management resources into urban *ainz & tulpe* drug and cosmetics stores and rapidly developing new retail formats. Over the last few years, we have also exited suburban store locations, where a narrowing quality gap in retailing has put pressure on margins.

The main target of our new retail format strategy is women in their 20s and 30s with a strong curiosity in the latest trends. We are also aiming to use our product lineup to stand out in the market. Our goal is to create a unique range of merchandise with high margins by creating original brands that eventually account for a high ratio of store sales. Conventional drugstores in Japan typically sell a mix of pharmaceuticals, food and daily necessities at discounted prices, but at *ainz & tulpe*, cosmetics account for over 70% of products on sale, with accessories and other beauty products making up the remainder. In other words, *ainz & tulpe* is not competing directly with drugstores. To encourage female customers to spend one or two hours in our stores, we are expanding our range of beauty supplies and accessories to complement the existing cosmetics lineup. Another strength of our retail formats is that we have better access to tenant opportunities in fashion retail malls and department stores than conventional drugstores.

To coincide with the roll out of the retail formats, we launched a new original cosmetics brand called *LIPS and HIPS* and a new beauty supply brand called *cocodecica*. We also acquired the *AYURA* cosmetics brand. We continue to develop new products in all three brands, leading to changes in the product mix that are lifting the gross margin. Demand for *LIPS and HIPS* products is especially strong. In response, we started sales of branded lounge outfits and opened a standalone *LIPS and HIPS* store in fiscal 2017.

Going forward, we plan to leverage the expertise and experience of our pharmacists to develop highly functional products to increase the number of product categories sold under our original brands. Our goal is to rapidly expand the product lineup, build powerful brands and create popular hit products to lift the gross margin and attract even more shoppers to our drug and cosmetic stores. In the fiscal year ended April 30, 2017, we sold 1,600 SKUs (Stock Keeping Units) of our new brands, accounting for 6.7% of sales in the drug and cosmetic store business. Our goal is to increase the gross margin further by raising the visibility of our original brands and growing sales.

cocodecica

AYURA

Drug and Cosmetic Store Business | Building Brand Power

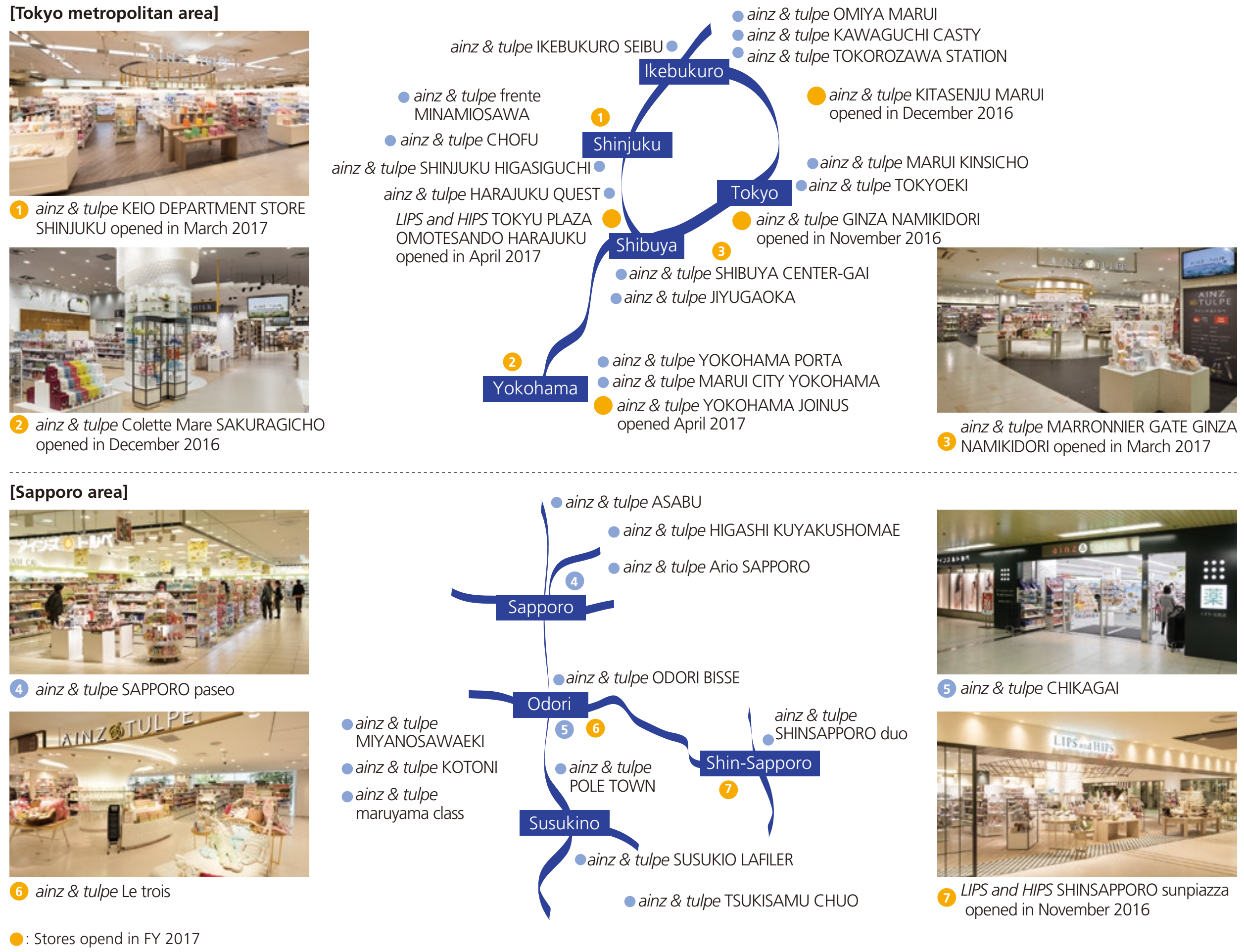
Q **What is the AIN Group doing to stay competitive in the drug and cosmetic store business?**

A **We are opening stores in prime locations in urban markets and reinforcing our brands.**

ainz & tulpe GINZA NAMIKIDORI

Store ratio located in Tokyo and Sapporo areas
71.2%
Store opening in FY 2018 (Plan)
6stores

Store opening program focused on the Tokyo metropolitan and Sapporo areas



The SHINJUKU HIGASHIGUCHI store boosted the visibility of our *ainz & tulpe* brand in one stroke. We have since received a large number of requests to open new stores in urban retail facilities, station shopping centers and other prime locations, as *ainz & tulpe* is now seen as attractive brand for young shoppers. That has given us more power in rent negotiations with property owners, which along with strong demand for our original brands, is supporting an improvement in the gross margin. In the fiscal year ended April 30, 2017, we focused on the Sapporo and Tokyo metropolitan areas, opening nine new stores in those markets, including the *ainz & tulpe* MARRONNIER GATE GINZA store (Ginza, Tokyo; retail space: 400m^2). We now operate a total of 52 stores in our drug and cosmetic store business.

We will continue to open new stores in prime locations in Tokyo to raise brand visibility, while also creating new original products and retail areas to build a distinct position in the market that does not put us in direct competition with other retailers or cosmetics companies. By steadily increasing sales through our *ainz & tulpe* stores, we expect leading makers of cosmetics brands to request retail space in our stores.

We are aiming to make the drug and cosmetic stores business profitable in the fiscal year ending April 30, 2019. Looking further ahead, we plan to continue actively developing the business to grow it into a second key source of earnings for the Group. We plan to roll out new formats and raise brand visibility so that in the long term our *ainz & tulpe* retail format and original brands are recognized in their own right. Everyone in the business is pushing themselves to achieve those objectives.

A Message from Division Manager

Kaori Ishikawa
Division Manager,
Drug and Cosmetic Store Operations Division

Our product development strategy for proprietary merchandise brands

We started developing proprietary brands in the fiscal year ended April 2015. Our initial plan was to create new brands to coincide with the opening of our *Le trois* beauty retail complex in September 2015, but we made rapid progress and launched the brands two months early in July 2015.

One of the brands, *LIPS and HIPS*, has seen a steady improvement in visibility over the last two years. The next step is to create highly functional *LIPS and HIPS* products that are also a hit with customers. We plan to use those products to further raise brand visibility, helping to drive growth in sales volume for other *LIPS and HIPS* product lines and proprietary brands.

As a company that operates a chain of dispensing pharmacies, functionality is very important to us. The value of our proprietary brands is derived from the input of AIN Group pharmacists, who ensure our products use only high-grade ingredients and demonstrate clear efficacy.

To help us accelerate in-house development, we are hiring people who have experience in product development at manufacturing companies. Going forward, we plan to step up efforts to create products that customers really want by bringing full-time store staff onto our product development teams to use their direct feedback from customers. We will also train human resources to reinforce in-house development capabilities.

My mission is to increase the gross margin in the drug and cosmetic store business and rapidly put the business on a profitable footing.

I will not be able to achieve my mission if focus only on developing new original brands. Brand development is important, but we also need to tackle other areas, such as raising the visibility of the *ainz & tulpe* brand in order to reinforce our negotiating position in product procurement and develop collaborative relationships with external brands.

(As of July 28, 2017)

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.

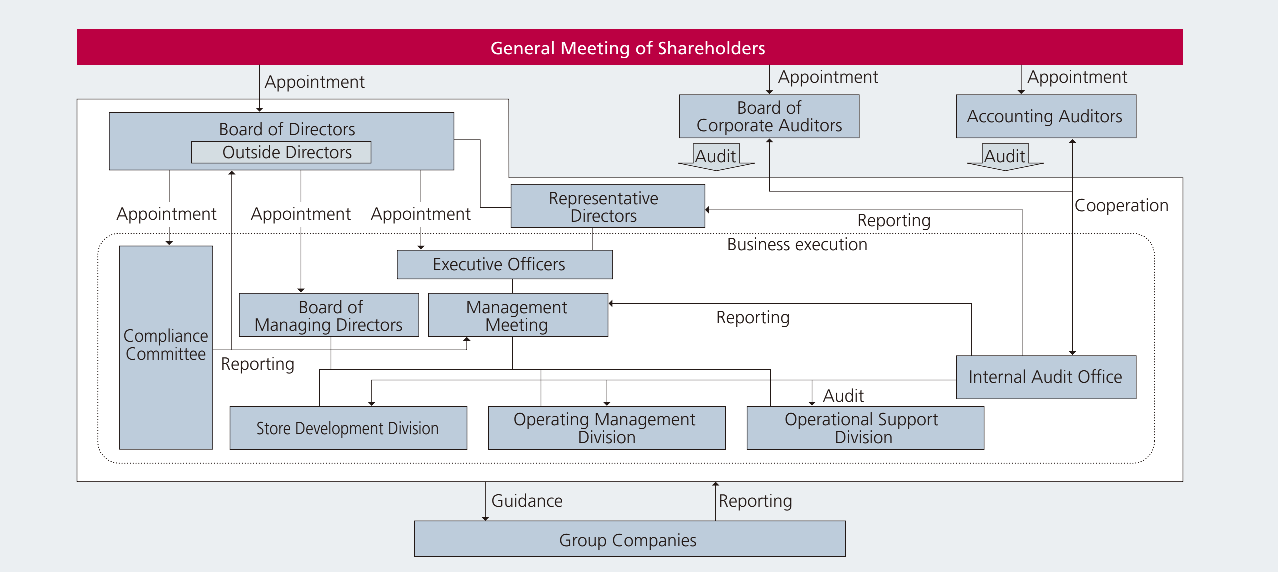
We have adopted a corporate auditor system to oversee not only key management decisions and the business execution of directors, but also general corporate management. In order to ensure the effective mutual management oversight of directors, the Board of Directors convenes more than once a month, while 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	9 (including 3 outside directors)
Number of corporate auditors	3 (including 2 outside corporate auditors)
Board of Directors meetings in fiscal 2017	Number of meetings: 12 Examples of resolutions: Annual budget, issues related to new businesses, store openings
Outside Director attendance at Board of Directors meetings:	97%
Outside Corporate Auditor attendance at Board of Directors meetings:	100%
Board of Corporate Auditor meetings in fiscal 2017	Number of meetings: 12 Examples of resolutions: Audit policy, audit plans and business division audits
Management meetings in fiscal 2017	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, Yasuyuki Hamada and Shigeki Kimura and outside corporate auditor Osamu Muramatsu 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 nine 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. Three 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	Mr. 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.
Yasuyuki Hamada	Mr. 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.
Shigeki Kimura	Mr. Kimura 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 accounting department of a major retailer. Mr. Sato works for Seven-Eleven Japan 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 Seven-Eleven Japan Co., Ltd. And the Company is low due to a minimal level of business between the two companies. He has no special interest in the Company.

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 2017 is as follows:

Item	Total remuneration (¥ million)	Remuneration by type (¥ million)		Number of eligible individuals
		Basic remuneration	Bonus	
Directors (excluding outside directors)	181	152	28	7
Corporate auditors (excluding outside corporate auditors)	6	6	–	1
Outside directors and outside corporate auditors	19	19	–	5

STATUS OF ACCOUNTING AUDITS

Three certified public accountants from ERNST & YOUNG SHINNIHON LLC conducted the accounting audits of AIN HOLDINGS based on the Companies Act and Financial Instruments and Exchange Act. Audit fees for the year ended April 2017 are as follows:

(¥ thousand)

	Compensation paid for audit certification activities	Compensation paid for * non-audit activities
The Company	36,200	–
Consolidated subsidiaries	7,500	–
Total	43,700	–

(As of July 28, 2017)

*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.

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.
May 2012	Senior Managing Director of the Company, Director of Seven Bi no Garden Co., Ltd. (former Seven Health Care Co., Ltd.)
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)

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)

Shigeki Kimura

Director Outside Independent
(- shares)

March 1986	Joined Seven-Eleven Japan Co., Ltd.
March 2014	Executive Officer,
	Manager of Accounting Management Department,
	Manager of Corporate Policy Department
December 2016	Executive Officer, Senior Officer of Corporate Development Office of Seven & i Holdings Co., Ltd. (current post)
December 2016	Executive Officer,
	Manager of Secretarial Office of Seven-Eleven Japan Co., Ltd. (current post)
July 2017	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, 2017, consumer spending in the Japanese economy picked up overall against a backdrop of improving employment conditions, and corporate earnings improved amid an upturn in production and capital investment.

In this economic environment, the AIN HOLDINGS Group (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.

For the fiscal year under review, net sales rose 5.6% year on year to ¥248,110 million, operating income decreased 0.4% to ¥14,563 million, ordinary income decline 0.5% to ¥15,080 million and profit attributable to owners of the parent increased 0.4% year on year to ¥7,949 million.

As of the end of the fiscal year, the number of stores in the Group totaled 1,118, a net increase of 185 stores from the end of the previous fiscal year.

BUSINESS RESULTS BY SEGMENT

Dispensing Pharmacy Business

In drug price and dispensing fee revisions in April 2016, 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 key role at the heart of local communities.

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 307 new pharmacist graduates joining the Group in April 2017. The Group is also upgrading pharmacist training programs to enhance their capabilities so that they can fill their role as pharmacists at the heart of the community.

In business development, the Group pushed ahead with business expansion by opening new dispensing pharmacies and using M&A deals.

In December 2016, AOI Pharmacy Corporation (Sendai-shi, Miyagi Prefecture), which operates a total of 115 dispensing pharmacies across Japan, became a subsidiary of the Group. As a result, the Group now operates a network of more than 1,000 dispensing pharmacies in Japan's 47 prefectures. The Group intends to use the acquisition of the company to further strengthen its network of dispensing pharmacies to support local healthcare provision.

During the fiscal year under review, the Group opened 209 dispensing pharmacies, including pharmacies acquired from AOI Pharmacy Corporation and other M&A deals, and closed 24, resulting in a total of 1,066. As a result, the dispensing pharmacy business reported sales of ¥221,801 million, up 5.1% year on year, and segment income of ¥19,110 million, down 0.6% year on year.

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 stores and worked to make stores more appealing by refurbishing existing stores and strengthening merchandise lineups, particularly drug and cosmetics products.

We also actively developed proprietary merchandise brands such as *LIPS and HIPS* and *cocodecica*, leading to an increase in profit margins.

For the fiscal year under review, the drug and cosmetic store business reported an increase in sales of 2.4% year on year to ¥21,383 million. However, segment loss was ¥866 million, compared with segment loss of ¥459 million a year earlier.

During the fiscal year under review, the Group opened *ainz & tulpe* Colette Mare SAKURAGICHO-B1 (Naka Ward, Yokohama), *ainz & tulpe* GINZA NAMIKIDORI (Chuo Ward, Tokyo), *ainz & tulpe* KITASENJU MARUI (Adachi Ward, Tokyo), *ainz & tulpe* Colette Mare SAKURAGICHO (Naka Ward, Yokohama), *ainz & tulpe* MARRONNIER GATE GINZA (Chuo Ward, Tokyo), *ainz & tulpe* KEIO DEPARTMENT STORE SHINJUKU (Shinjuku Ward, Tokyo) and *ainz & tulpe* YOKOHAMA JOINUS (Nishi Ward, Yokohama), as well as *LIPS and HIPS* Style Store SHINSAPPORO Sunpiazza (Atsubetsu Ward, Sapporo) and *LIPS and HIPS* TOKYU PLAZA OMOTESANDO HARAJUKU (Shibuya Ward, Tokyo), which mainly sells original brands. Nine stores were also closed, resulting in a total of 52 cosmetic and drugs stores at the end of the fiscal year.

Other Businesses

Net sales from other businesses rose 67.0% year on year to ¥4,925 million and segment loss was ¥1,496 million compared with the loss of ¥1,142 million a year earlier.

11-YEAR FINANCIAL SUMMARY

(¥ million)

	2007/4	2008/4	2009/4	2010/4	2011/4	2012/4	2013/4	2014/4	2015/4	2016/4	2017/4
For the year:											
Net sales	81,307	106,231	115,387	125,495	129,387	142,790	154,560	170,225	187,904	234,843	**248,110**
Selling, general and administrative expenses	7,970	9,203	9,948	10,744	11,981	12,839	14,740	15,635	17,509	23,915	**27,529**
Operating income	2,888	4,444	5,296	6,492	8,107	10,253	9,701	10,113	11,452	14,619	**14,563**
Profit attributable to owners of parent	1,010	1,615	2,127	3,131	3,916	4,899	5,075	5,259	6,197	7,917	**7,949**
Capital expenditures*1	1,620	1,914	2,891	2,573	2,750	5,870	7,235	6,328	6,413	11,209	**4,786**
Depreciation and amortization*1	773	968	1,119	1,286	1,560	1,749	2,212	2,258	2,553	3,259	**3,687**
At the end of the year:											
Equity capital*2	10,710	12,040	16,071	21,445	29,450	33,695	38,312	42,122	47,928	53,258	**60,105**
Total net assets	11,326	12,707	16,109	21,492	29,498	33,745	38,356	42,240	48,046	53,324	**60,178**
Total assets	49,849	57,546	62,032	65,898	76,940	85,908	95,839	101,382	114,149	139,888	**156,323**
Number of shares outstanding (shares)	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	**31,707,568**
Number of employees (persons)	1,947	2,582	2,741	2,918	3,104	3,326	3,551	3,806	4,429	5,511	**6,469**
Number of stores: Dispensing pharmacy business	247	356	375	397	448	494	560	616	754	881	**1,066**
Number of stores: Drug and cosmetic store business	43	45	46	49	53	56	61	59	56	52	**52**
Per share information (¥):											
Net income*3	44.67	71.18	85.37	114.04	127.83	153.67	159.18	165.04	195.45	249.69	**250.71**
Net assets*3	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	**1,895.63**
Cash dividends*3	9.0	10.0	15.0	20.0	22.5	25.0	30.0	30.0	30.0	40.0	**50.0**
Stock information (based on the closing price as of April 30) (¥):											
Stock price	1,500	1,490	1,481	2,920	3,115	4,290	4,765	4,495	4,245	5,340	**7,720**
Ratios (%):											
Operating margin	3.6	4.2	4.6	5.2	6.3	7.2	6.3	5.9	6.1	6.2	**5.9**
Return on sales*4	1.2	1.5	1.8	2.5	3.0	3.4	3.3	3.1	3.3	3.4	**3.2**
Return on assets (ROA)*5	2.2	3.0	3.6	4.9	5.5	6.0	5.6	5.3	5.8	6.2	**5.4**
Return on equity (ROE)*6	9.6	14.2	15.1	16.7	15.4	15.5	14.1	13.1	13.8	15.6	**14.0**
Shareholders' equity ratio	21.5	20.9	25.9	32.5	38.3	39.2	40.0	41.5	42.0	38.1	**38.4**

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

FINANCIAL POSITION

The balance of total assets at the end of the fiscal year under review increased by ¥16,435 million to ¥156,323 million.

This mainly reflected increases in cash on hand and in banks and increases in property, 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 ¥8,827 million to ¥65,420 million compared to ¥56,593 million at the end of the previous fiscal year. This mainly reflected cash on hand and in banks of ¥29,775 million, an increase of ¥7,127million compared with the previous fiscal year and inventories of ¥11,668 million, an increase of ¥683 million due to business expansion.

Fixed assets at the end of the fiscal year under review increased by ¥7,607 million to ¥90,902 million compared to ¥83,294 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 ¥310 million to ¥28,464 million, while goodwill rose ¥7,602 million to ¥40,939 million.

Liabilities increased by ¥9,580 million to ¥96,144 million, compared with ¥86,563 million at the end of the previous fiscal year. This is primarily due to an increase in short-term loans of ¥7,596 million (up ¥1,906 million year on year) and an increase in long-term debt of ¥ 18,254 million (up ¥34 million year on year).

The balance of current liabilities increased by ¥6,210 million from the previous year-end balance of ¥66,744 million to ¥72,955 million, and the balance of long-term liabilities increased by ¥3,370 million from the previous year-end balance of ¥19,818 million to ¥23,188 million.

Net assets increased by ¥6,854 million to ¥60,178 million compared to ¥53,324 million at the end of the previous fiscal year. As a result of the above factors, the shareholders' equity ratio increased 0.3 percentage points to 38.4%, compared with 38.1% at the end of the previous fiscal year. ROA decreased 0.8 percentage points to 5.4%, while ROE decreased 1.6 percentage points to 14.0%.

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 ¥50 per share, compared with the previous fiscal year's ordinary dividend of ¥40.

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, 2018.

CASH FLOWS

In the fiscal year under review, cash and cash equivalents ("cash") increased ¥7,342 million (33.5%) year on year to ¥29,234 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 ¥18,409 million, a decrease of 13.8% year on year.

The main items that were positive for cash flow were profit before income taxes of ¥14,307 million, as well as depreciation and amortization of ¥3,687 million, amortization of goodwill of ¥3,654 million, and a decrease in accounts receivable of ¥5,369 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 ¥7,695 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥11,183 million, a decrease of 46.4% year on year.

This mainly reflected payments of ¥2,415 million for purchases of property, plant and equipment related to the opening of new urban drug stores and dispensing pharmacies, and ¥9,697 million for purchases of subsidiaries' shares resulting in obtaining controls related to shares acquired in 40 companies through M&A deals.

Cash Flows from Financing Activities

Net cash provided by financing activities decreased 94.2% year on year to ¥116 million.

This was mainly attributable to net repayments from short-term debts of ¥391 million and net long-term debt procurement of ¥2,512 million. Cash dividends paid of ¥1,268 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 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 89.4% 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 including M&A 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. In addition, due to seasonal outbreaks of influenza and other conditions, the number of prescriptions filled may be affected by seasonal trends.

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 & tulpe* Point 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 ¥29,475 million, compared with a total balance of short- and long-term debt of ¥25,851 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.

8. Impact of consumption tax

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

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

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

AIN HOLDINGS INC.
CONSOLIDATED BALANCE SHEET
AS OF APRIL 30, 2017

ASSETS	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1(1)) 2017
Current assets:			
Cash on hand and in banks (Notes 2 and 4)	¥ 29,775	¥ 22,647	$ 267,544
Notes and accounts receivable (Note 4)	9,990	12,385	89,765
Other accounts receivable	9,402	5,983	84,481
Inventories (Note 3)	11,668	10,984	104,843
Deferred tax assets (Note 10)	1,166	1,149	10,477
Short-term loans	632	639	5,678
Other current assets	2,829	2,806	25,420
Allowance for doubtful accounts	(44)	(3)	(395)
Total current assets	65,420	56,593	587,833
Property, plant and equipment (Note 6):			
Buildings and structures, net	15,365	14,694	138,062
Land	9,958	9,537	89,477
Construction in progress	316	813	2,839
Other property, plant and equipment, net	2,823	3,108	25,366
Total property, plant and equipment	28,464	28,153	255,764
Investments and other assets:			
Investment securities (Notes 4 and 5)	2,435	2,677	21,879
Deferred tax assets (Note 10)	2,167	2,038	19,471
Net defined benefit asset (Note 9)	22	174	197
Long-term loans	1,194	1,801	10,728
Deposits and guarantees	10,443	10,013	93,835
Goodwill	40,939	33,337	367,858
Other intangible fixed assets	2,170	2,248	19,498
Other investments and other assets	3,378	4,086	30,353
Allowance for doubtful accounts	(312)	(1,237)	(2,803)
Total investments and other assets	62,438	55,141	561,038
Total assets	¥ 156,323	¥ 139,888	$ 1,404,645

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1(1)) 2017
Current liabilities:			
Accounts payable (Note 4)	¥ 39,325	¥ 39,987	$ 353,356
Short-term debt (Notes 4 and 7)	7,596	5,690	68,254
Accrued income taxes	2,898	4,448	26,040
Deposits received	14,223	10,112	127,801
Allowance for bonuses to employees	1,903	1,633	17,099
Allowance for bonuses to directors	16	13	143
Reserve for reward obligations	410	390	3,684
Provision for sales returns	14	15	125
Other current liabilities	6,566	4,452	58,999
Total current liabilities	72,955	66,744	655,539
Long-term liabilities:			
Long-term debt (Notes 4 and 7)	18,254	14,854	164,021
Lease obligations	958	1,198	8,608
Net defined benefit liability (Note 9)	2,331	2,228	20,945
Other long-term liabilities	1,644	1,537	14,772
Total long-term liabilities	23,188	19,818	208,356
Net Assets: (Note 11)			
Shareholders' equity			
Common stock (Note 14)	8,682	8,682	78,012
Authorized - 44,000,000 shares in 2017 and 2016			
Issued - 31,888,212 shares in 2017 and 2016			
Capital surplus	6,367	6,367	57,210
Retained earnings	45,286	38,605	406,918
Treasury stock (180,644 shares in 2017 and 180,595 shares in 2016)	(419)	(419)	(3,764)
Total shareholders' equity	59,918	53,237	538,395
Accumulated other comprehensive income:			
Unrealized holding gains (losses) on securities	86	(63)	772
Remeasurments of defined benefit plans	101	84	907
Total accumulated other comprehensive income	187	21	1,680
Non-controlling interests	73	65	655
Total net assets	60,178	53,324	540,731
Total liabilities and net assets	¥ 156,323	¥ 139,888	$ 1,404,645

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED APRIL 30, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2017	2016	2017
Net sales (Note 15)	¥ 248,110	¥ 234,843	$ 2,229,400
Cost of sales	206,017	196,308	1,851,172
Gross profit	42,092	38,535	378,219
Selling, general and administrative expenses	27,529	23,915	247,362
Operating income (Note 15)	14,563	14,619	130,856
Other income (expense):			
Interest and dividend income	108	94	970
Gains on investments in partnership	63	143	566
Commissions received	44	72	395
Real estate rental revenue	193	186	1,734
Consignment income	149	189	1,338
Technical advisory fee	62	63	557
Co-sponsor fee	-	157	-
Gain on sales of investment securities	264	-	2,372
Penalty income	-	68	-
Gain on bargain purchase	-	58	-
Refund of premium for cancelled insurance	63	13	566
Interest expenses	(143)	(96)	(1,284)
Losses on sales of accounts receivables	(67)	(78)	(602)
Rent expenses on real estates	(89)	(87)	(799)
Provision of allowance for doubtful accounts	-	(282)	-
Losses on disposal and sales of fixed assets	(488)	(409)	(4,384)
Impairment losses on fixed assets	(453)	(856)	(4,070)
Bad debts written off	(216)	-	(1,940)
Other, net	252	94	2,264
	(255)	(669)	(2,291)
Profit before income taxes	14,307	13,949	128,556
Income taxes (Note 10):			
Current	6,040	6,698	54,272
Deferred	310	(710)	2,785
	6,350	5,987	57,058
Profit	7,956	7,961	71,488
Profit attributable to non-controlling interests	7	44	62
Profit attributable to owners of parent	¥ 7,949	¥ 7,917	$ 71,426

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED APRIL 30, 2017

	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 1(1))
	2017	2016	2017
Profit	¥ 7,956	¥ 7,961	$ 71,488
Other comprehensive income:			
Unrealized holding gains (losses) on securities	149	(290)	1,338
Remeasurements of defined benefit plans, net of tax	16	160	143
Total other comprehensive income (loss)	166	(130)	1,491
Total comprehensive income	8,122	7,831	72,980
Comprehensive income attributable to owners of parent	8,115	7,786	72,917
Comprehensive income attributable to non-controlling interests	7	44	62

See accompanying notes.

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2017

	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, 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
Profit attributable to owners of parent	-	-	-	7,949	-	7,949	-	-	-	-	7,949
Cash dividends paid	-	-	-	(1,268)	-	(1,268)	-	-	-	-	(1,268)
Acquisition of treasury stock	-	-	-	-	(0)	(0)	-	-	-	-	(0)
Net change in items other than those in shareholders' equity	-	-	-	-	-	-	149	16	166	7	173
Net changes during the year	-	-	-	6,681	(0)	6,680	149	16	166	7	6,854
Balance at April 30, 2017	31,888	¥ 8,682	¥ 6,367	¥ 45,286	¥ (419)	¥ 59,918	¥ 86	¥ 101	¥ 187	¥ 73	¥ 60,178

	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, 2016	$ 78,012	$ 57,210	$ 346,886	$ (3,764)	$ 478,362	$ (566)	$ 754	$ 188	$ 584	$ 479,144
Profit attributable to owners of parent	-	-	71,426	-	71,426	-	-	-	-	71,426
Cash dividends paid	-	-	(11,393)	-	(11,393)	-	-	-	-	(11,393)
Acquisition of treasury stock	-	-	-	(0)	(0)	-	-	-	-	(0)
Net change in items other than those in shareholders' equity	-	-	-	-	-	1,338	143	1,491	62	1,554
Net changes during the year	-	-	60,032	(0)	60,023	1,338	143	1,491	62	61,586
Balance at April 30, 2017	$ 78,012	$ 57,210	$ 406,918	$ (3,764)	$ 538,395	$ 772	$ 907	$ 1,680	$ 655	$ 540,731

See accompanying notes.

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2017	2016	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 14,307	¥ 13,949	$ 128,556
Depreciation and amortization	3,687	3,259	33,129
Amortization of goodwill	3,654	2,938	32,833
Impairment losses on fixed assets	453	856	4,070
(Decrease) increase in allowance for doubtful accounts	(15)	565	(134)
Increase in net defined benefit liability	233	164	2,093
Increase in allowance for bonuses to employees	197	104	1,770
Interest and dividend income	(108)	(94)	(970)
Interest expenses	143	96	1,284
Gains on investments in partnerships	(52)	(143)	(467)
(Gains) loss on sales of investment securities	(263)	0	(2,363)
Gain on bargain purchase	-	(58)	-
Losses on disposal and sales of fixed assets	477	384	4,286
Decrease in accounts receivable	5,369	236	48,243
Bad debts expenses	216	-	1,940
Decrease in inventories	449	495	4,034
Decrease (increase) in other assets	2,536	(194)	22,787
Increase in other accounts receivable	(2,820)	(600)	(25,339)
(Decrease) increase in accounts payable	(4,340)	3,031	(38,997)
Increase in other liabilities	2,007	940	18,033
Subtotal	26,135	25,932	234,836
Interest and dividends received	112	93	1,006
Interest paid	(143)	(94)	(1,284)
Income taxes paid	(7,695)	(4,579)	(69,143)
Net cash provided by operating activities	18,409	21,352	165,414
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(2,415)	(7,407)	(21,700)
Proceeds from sales of property, plant and equipment	513	709	4,609
Proceeds from sales of investment securities	869	260	7,808
Purchases of subsidiaries' shares resulting in obtaining controls	(9,697)	(10,954)	(87,132)
Payments for loans receivable	(349)	(960)	(3,135)
Proceeds from collections of loans receivable	448	74	4,025
Payments for purchase of intangible fixed assets	(1,032)	(2,509)	(9,273)
Decrase (increase) in other investments	13	(298)	116
Proceeds from withdrawal of time deposits	534	223	4,798
Other, net	(68)	(13)	(611)
Net cash used in investing activities	(11,183)	(20,877)	(100,485)
Cash flows from financing activities:			
Net repayments from short-term debts	(391)	(2,085)	(3,513)
Proceeds from long-term debts	11,729	12,987	105,391
Repayments of long-term debts	(9,217)	(5,619)	(82,819)
Repayments of lease obligations	(735)	(710)	(6,604)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(1,591)	-
Cash dividends paid	(1,268)	(951)	(11,393)
Net cash provided by financing activities	116	2,028	1,042
Net increase in cash and cash equivalents	7,342	2,503	65,971
Cash and cash equivalents at beginning of year	21,892	19,389	196,711
Cash and cash equivalents at end of the year (Note 2)	¥ 29,234	¥ 21,892	$ 262,683

See accompanying notes.

AIN HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2017 AND 2016

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, 2017, which was ¥111.29 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 87 and 61 subsidiaries as of April 30, 2017 and 2016, 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 11 consolidated subsidiaries in the dispensing pharmacy business is the end of January. The account closing dates for 11 consolidated subsidiaries in the dispensing pharmacy business are the end of February. The account closing date of other consolidated subsidiaries is the end of March 31. Financial statements as of these respective closing dates are used in preparing the consolidated financial statements. However, necessary adjustments are made to important transactions that occur between these subsidiaries’ account closing dates and the account closing date for the consolidated financial statements.

(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 attached to buildings 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) Recoverability of deferred tax assets

The Company and its consolidated subsidiaries have applied "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 revised on March 28, 2016) from the beginning of the fiscal year ended April 30, 2017.

(18) Reclassification and restatement

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

2. Cash and cash equivalents

(1) Reconciliations of cash on hand and in banks shown in the consolidated balance sheet and cash and cash equivalents shown in the consolidated statement of cash flows as of and for the years ended April 30, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash on hand and in banks	¥ 29,775	¥ 22,647	$ 267,544
Less: Time deposits with maturities exceeding three months	(540)	(755)	(4,852)
Cash and cash equivalents	¥ 29,234	¥ 21,892	$ 262,683

(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, 2017 and 2016 due to the acquisition of shares

(i) Acquisition of shares of 38 companies in the dispensing pharmacy business and one other company for the year ended April 30, 2017

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
	2017	2017
Current assets	¥ 9,019	$ 81,040
Fixed assets	2,767	24,862
Goodwill	10,967	98,544
Current liabilities	(8,332)	(74,867)
Long-term liabilities	(3,347)	(30,074)
Acquisition cost of the companies	11,074	99,505
Cash and cash equivalents held by the companies	(1,377)	(12,373)
Net disbursement due to the acquisition	¥ 9,697	$ 87,132

(ii) 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
	2016
Current assets	¥ 11,344
Fixed assets	3,315
Goodwill	9,190
Current liabilities	(8,155)
Long-term liabilities	(1,668)
Acquisition cost of the companies	14,026
Cash and cash equivalents held by the companies	(3,071)
Net disbursement due to the acquisition	¥ 10,954

3. Inventories

Inventories at April 30, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Merchandise	¥ 11,402	¥ 10,661	$ 102,453
Supplies	266	323	2,390
	¥ 11,668	¥ 10,984	$ 104,843

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 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, 2017 and 2016 are summarized in the following table:

Assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Carrying value			
Cash on hand and in banks	¥ 29,775	¥ 22,647	$ 267,544
Notes and accounts receivable	9,990	12,385	89,765
Other accounts receivable	9,402	5,983	84,481
Investment securities	1,542	1,408	13,855
Deposits and guarantees	10,386	9,956	93,323
Total	61,096	52,382	548,980
Fair value			
Cash on hand and in banks	29,775	22,647	267,544
Notes and accounts receivable	9,990	12,385	89,765
Other accounts receivable	9,402	5,983	84,481
Investment securities	1,545	1,438	13,882
Deposits and guarantees	10,353	9,970	93,027
Total	61,066	52,425	548,710
Difference			
Cash on hand and in banks	-	-	-
Notes and accounts receivable	-	-	-
Other accounts receivable	-	-	-
Investment securities	2	29	17
Deposits and guarantees	(32)	14	(287)
Total	¥ (30)	¥ 43	$ (269)

Liabilities

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Carrying value			
Accounts payable	¥ 39,325	¥ 39,987	$ 353,356
Short-term debt including current portion of long-term debt	7,596	5,690	68,254
Deposits received	14,223	10,112	127,801
Long-term debt	18,254	14,854	164,021
Total	79,400	70,644	713,451
Fair value			
Accounts payable	39,325	39,987	353,356
Short-term debt including current portion of long-term debt	7,606	5,696	68,343
Deposits received	14,223	10,112	127,801
Long-term debt	18,288	14,894	164,327
Total	79,444	70,691	713,846
Difference			
Accounts payable	-	-	-
Short-term debt including current portion of long-term debt	9	6	80
Deposits received	-	-	-
Long-term debt	34	40	305
Total	¥ 43	¥ 47	$ 386

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 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 ¥892 million ($8,015 thousand) and ¥1,268 million as of April 30, 2017 and 2016, respectively, are not readily determinable.

The redemption schedule for monetary claims and securities with maturity dates as of April 30, 2017 and 2016 are summarized as follows:

	Millions of yen			
	2017			
	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	¥ 29,295	¥ -	¥ -	¥ -
Notes and accounts receivable	9,990	-	-	-
Other accounts receivable	9,402	-	-	-
Investment securities				
Debt securities	179	10	-	-
Deposits received	2,086	3,735	2,518	2,102
Total	¥ 50,953	¥ 3,745	¥ 2,518	¥ 2,102

	Thousands of U.S. dollars			
	2017			
	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	$ 263,231	$ -	$ -	$ -
Notes and accounts receivable	89,765	-	-	-
Other accounts receivable	84,481	-	-	-
Investment securities				
Debt securities	1,608	89	-	-
Deposits received	18,743	33,560	22,625	18,887
Total	$ 457,839	$ 33,650	$ 22,625	$ 18,887

	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

5. Securities

(1) The following tables summarize acquisition costs, carrying values and differences of securities with available fair values as of April 30, 2017 and 2016:

Other securities:

Securities with carrying values exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Acquisition cost			
Equity securities	¥ 367	¥ 147	$ 3,297
Bonds	-	-	-
Limited partnerships and similar investments	17	29	152
Other	-	-	-
Total	384	177	3,450
Carrying value			
Equity securities	562	223	5,049
Bonds	-	-	-
Limited partnerships and similar investments	26	35	233
Other	-	-	-
Total	588	259	5,283
Difference			
Equity securities	195	75	1,752
Bonds	-	-	-
Limited partnerships and similar investments	9	5	80
Other	-	-	-
Total	¥ 204	¥ 81	$ 1,833

Other securities:

Securities with carrying values not exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Acquisition cost			
Equity securities	¥ 412	¥ 605	$ 3,702
Bonds	189	319	1,698
Limited partnerships and similar investments	411	379	3,693
Other	19	19	170
Total	1,034	1,324	9,291
Carrying value			
Equity securities	333	431	2,992
Bonds	189	319	1,698
Limited partnerships and similar investments	411	379	3,693
Other	19	19	170
Total	954	1,149	8,572
Difference			
Equity securities	(79)	(174)	(709)
Bonds	-	-	-
Limited partnerships and similar investments	-	-	-
Other	(0)	(0)	(0)
Total	¥ (80)	¥ (174)	$ (718)

Equity securities included stocks of non-consolidated subsidiaries and affiliates of ¥115 million ($1,033 thousand) and ¥114 million at April 30, 2017 and 2016, 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, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total sales of other securities sold	¥ 869	¥ 0	$ 7,808
Related gains	264	-	2,372
Related losses	1	0	8

(3) The following table summarizes impairment losses on other securities in the years ended April 30, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Other securities with fair value	¥ -	¥ -	$ -
Other securities without fair value	-	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, 2017 and 2016, 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
	2017	2016	2017
Acquisition cost			
Buildings	¥ -	¥ 68	$ -
Other fixed assets	-	-	-
Intangible fixed assets	-	-	-
Total	-	68	-
Accumulated depreciation			
Buildings	-	64	-
Other fixed assets	-	-	-
Intangible fixed assets	-	-	-
Total	-	64	-
Impairment losses			
Buildings	-	-	-
Other fixed assets	-	-	-
Intangible fixed assets	-	-	-
Total	-	-	-
Net balance			
Buildings	-	4	-
Other fixed assets	-	-	-
Intangible fixed assets	-	-	-
Total	¥ -	¥ 4	$ -

Future minimum lease payments as of April 30, 2017 and 2016 for finance leases currently accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Due within one year	¥ -	¥ 11	$ -
Due after one year	-	1	-
Total	¥ -	¥ 12	$ -

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
	2017	2016	2017
Lease expense	¥ 1	¥ 13	$ 8
Reversal of impairment losses for leased assets	-	-	-
Depreciation	0	3	0
Interest expense	0	3	0
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 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Due within one year	¥ 1,508	¥ 1,293	$ 13,550
Due after one year	9,955	10,244	89,450
Total	¥ 11,463	¥ 11,538	$ 103,001

7. Short-term debt and long-term debt

Short-term debt and long-term debt at April 30, 2017 and 2016 consisted of the following:

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Short-term bank loans with a weighted-average interest rate of 0.6%	¥ 151	¥ 77	$ 1,356
Current portion of long-term debt with a weighted-average interest rate of 0.3%	7,445	5,612	66,897
Current portion of lease obligation with a weighted-average interest rate of 1.1%	594	668	5,337
Long-term debt (2018-2034) with a weighted-average interest rate of 0.3%	18,254	14,854	164,021
Lease obligation (2018-2022) with a weighted-average interest rate of 1.2%	958	1,198	8,608
Total	¥ 27,403	¥ 22,410	$ 246,230

At April 30, 2017 and 2016, the carrying amounts of assets pledged as collateral for long-term debt are as follows:

Assets pledged as collateral:

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Buildings	¥ -	¥ 56	$ -
Land	-	23	-
Investment securities	5	5	44
Total	¥ 5	¥ 85	$ 44

Liabilities corresponding to collateral:

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Accounts payable	¥ 1	¥ 0	$ 8
Long-term debt	-	39	-
Total	¥ 1	¥ 40	$ 8

The aggregate annual maturities of long-term debt at April 30, 2017 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2018	¥ 7,445	$ 66,897
2019	6,721	60,391
2020	5,220	46,904
2021	3,704	33,282
2022	1,902	17,090

The aggregate annual maturities of lease obligations at April 30, 2017 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2018	¥ 594	$ 5,337
2019	426	3,827
2020	298	2,677
2021	159	1,428
2022	63	566

8. Sales, disposal and impairment of fixed assets

(1) Gains and losses on sales of fixed assets for the years ended April 30, 2017 and 2016 are as follows:

Gains on sales of fixed assets:

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Buildings and structures	¥ 2	¥ 17	$ 17
Land	1	4	8
Other property, plant and equipment	8	1	71
Total	¥ 11	¥ 24	$ 98

Losses on sales of fixed assets:

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Buildings and structures	¥ 21	¥ 0	$ 188
Land	4	107	35
Construction in progress	-	1	-
Other property, plant and equipment	10	9	89
Other intangible fixed assets	3	-	26
Total	¥ 39	¥ 119	$ 350

(2) Losses on disposal of fixed assets for the years ended April 30, 2017 and 2016 are as follows:

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Buildings and structures	¥ 155	¥ 192	$ 1,392
Construction in progress	-	6	-
Other property, plant and equipment	23	14	206
Goodwill	158	-	1,419
Other intangible fixed assets	6	2	53
Deposits and guarantees	67	42	602
Other investments and other assets	3	5	26
Disposal cost	34	25	305
Total	¥ 449	¥ 290	$ 4,034

(3) For the years ended April 30, 2017 and 2016, the Company recognized impairment losses for the following property groups:

Property group	Description of assets	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Stores	Store facilities	¥ 453	¥ 641	$ 4,070
Real estate	Land	-	47	-
Stores and real estate	Store facilities and land	-	167	-
	Total	¥ 453	¥ 856	$ 4,070

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 2017	Thousands of U.S. dollars 2017
Balance as of May 1, 2016	¥ 2,300	$ 20,666
Service costs	339	3,046
Interest cost on retirement benefit obligation	7	62
Actuarial gains incurred	(93)	(835)
Pension and severance payments	(113)	(1,015)
Other	21	188
Balance as of April 30, 2017	¥ 2,462	$ 22,122

	Millions of yen 2016
Balance as of May 1, 2015	¥ 1,724
Service costs	282
Interest cost on retirement benefit obligation	11
Actuarial gains incurred	(101)
Pension and severance payments	(85)
Increases due to a newly consolidated subsidiary	469
Other	(0)
Balance as of April 30, 2016	¥ 2,300

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

	Millions of yen 2017	Thousands of U.S. dollars 2017
Balance as of May 1, 2016	¥ 772	$ 6,936
Expected return on plan assets	5	44
Actuarial losses incurred	(16)	(143)
Business owner's contribution	85	763
Pension and severance payments	(38)	(341)
Balance as of April 30, 2017	¥ 808	$ 7,260

	Millions of yen 2016
Balance as of May 1, 2015	¥ 493
Expected return on plan assets	6
7,26Actuarial losses incurred	(32)
Business owner's contribution	102
Pension and severance payments	(11)
Increases due to a newly consolidated subsidiary	213
Balance as of April 30, 2016	¥ 772

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

	Millions of yen 2017	Thousands of U.S. dollars 2017
Balance as of May 1, 2016	¥ 525	$ 4,717
Retirement benefit expenses	149	1,338
Business owner's contribution	(18)	(161)
Pension and severance payments	(71)	(637)
Increases due to a newly consolidated subsidiary	5	44
Other	64	575
Balance as of April 30, 2017	¥ 655	$ 5,885

	Millions of yen 2016
Balance as of May 1, 2015	¥ 392
Retirement benefit expenses	135
Business owner's contribution	(27)
Pension and severance payments	(71)
Other	96
Balance as of April 30, 2016	¥ 525

(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 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Funded retirement benefit obligation	¥ 1,190	¥ 969	$ 10,692
Plan assets	(952)	(895)	(8,554)
Subtotal	237	73	2,129
Unfunded retirement benefit obligation	2,071	1,981	18,609
Net of liability and asset reported on the consolidated balance sheet	2,309	2,054	20,747
Net defined benefit liability	2,331	2,228	20,945
Net defined benefit asset	(22)	(174)	(197)
Net of liability and asset reported on the consolidated balance sheet	¥ 2,309	¥ 2,054	$ 20,747

(5) Retirement benefit expenses for the years ended April 30, 2017 and 2016 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service costs	¥ 339	¥ 282	$ 3,046
Interest cost on retirement benefit obligation	7	11	62
Expected return on plan assets	(5)	(6)	(44)
Amortization of actuarial losses	28	69	251
Amortization of prior service costs	(34)	(34)	(305)
Retirement benefit expenses calculated under the simplified method	149	135	1,338
Other	-	3	-
Retirement benefit expenses	¥ 484	¥ 461	$ 4,348

(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
	2017	2016	2017
Unrecognized actuarial gains	¥ (77)	¥ (72)	$ (691)
Total	¥ (77)	¥ (72)	$ (691)

(b) Accumulated

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized prior service costs	¥ (48)	¥ (82)	$ (431)
Unrecognized actuarial (losses) gains	(16)	89	(143)
Total	¥ (64)	¥ 6	$ (575)

(7) Plan assets

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

	2017	2016
Bonds	7%	7%
Stocks	4%	4%
General account	47%	63%
Other	42%	26%
Total	100%	100%

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

(8) Actuarial assumptions used in accounting for the Company's plans as of April 30, 2017 and 2016 are principally as follows:

	2017	2016
Weighted average discount rate	0.64%	0.46%
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, 2017 and 2016 were 30.6% and 31.7%, respectively.

(1) The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for consolidated financial statement purposes for the years ended April 30, 2017 and 2016:

	2017	2016
Statutory tax rate	30.6%	31.7%
Non-deductible expenses	1.0	0.5
Per capita inhabitant tax	0.7	1.0
Amortization of goodwill	6.6	5.4
Valuation allowance	0.4	0.5
Tax credits on tax system to expand income	(1.0)	(0.5)
Tax credits on tax system for promoting equipments and investment to improve productivity	(0.1)	(0.5)
Different tax rates applied to consolidated subsidiaries	3.9	3.9
Other	2.4	0.9
Effective tax rates	44.4%	42.9%

(2) Significant components of deferred tax assets and liabilities as of April 30, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Impairment losses	¥ 330	¥ 291	$ 2,965
Excess of depreciation	485	442	4,357
Excess of allowance for bonuses	596	510	5,355
Excess of reserve for rewards obligation	140	133	1,257
Net defined benefit liabilities	741	558	6,658
Other	1,690	1,773	15,185
Sub-total deferred tax assets	3,985	3,708	35,807
Valuation allowance	442	383	3,971
Total deferred tax assets	3,542	3,324	31,826
Deferred tax liabilities:			
Capitalized removal costs	(160)	(131)	(1,437)
Net unrealized holding gains on securities	(37)	(0)	(332)
Other	(347)	(125)	(3,117)
Total deferred tax liabilities	(545)	(257)	(4,897)
Net deferred tax assets	¥ 2,997	¥ 3,067	$ 26,929

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 19 and 17 banks as of April 30, 2017 and 2016, respectively, to finance working capital requirements. The outstanding balances of such overdrafts as of April 30, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total overdraft available	¥ 23,950	¥ 23,870	$ 215,203
Amount utilized	32	38	287
Outstanding balance	¥ 23,918	¥ 23,832	$ 214,915

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 ¥742 million ($6,667 thousand) and ¥811 million as of April 30, 2017 and 2016, respectively.

14. Amounts per share

Net assets per share at April 30, 2017 and 2016 and basic and diluted earnings per share for the years then ended are as follows:

	Yen		U.S. dollars
	2017	2016	2017
Net assets per share	¥1,895.63	¥1,679.69	$ 17.03
Basic earnings per share	250.71	249.69	2.25
Diluted earnings per share	-	-	-
Cash dividends per share attributable to the year	50	40	0.44

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, 2017 and 2016 is summarized as follows:

	Millions of yen					
	2017					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 221,801	¥ 21,383	¥ 4,925	¥ 248,110	¥ -	¥ 248,110
Intersegment sales	-	-	379	379	(379)	-
Total sales	221,801	21,383	5,305	248,489	(379)	248,110
Segment income (loss)	19,110	(866)	(1,496)	16,747	(1,666)	15,080
Segment assets	¥ 148,765	¥ 10,118	¥ 11,054	¥ 169,937	¥ (13,614)	¥ 156,323
Other						
Depreciation and amortization	¥ 2,299	¥ 357	¥ 400	¥ 3,058	¥ 201	¥ 3,260
Amortization of goodwill	3,625	-	29	3,654	-	3,654
Impairment losses	368	85	-	453	-	453
Increase of tangible and intangible assets	2,620	907	381	3,908	26	3,934

	Thousands of U.S. dollars					
	2017					
	Dispensing pharmacy	Drug and cosmetic store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	$ 1,993,000	$ 192,137	$ 44,253	$ 2,229,400	$ -	$ 2,229,400
Intersegment sales	-	-	3,405	3,405	(3,405)	-
Total sales	1,993,000	192,137	47,668	2,232,806	(3,405)	2,229,400
Segment income (loss)	171,713	(7,781)	(13,442)	150,480	(14,969)	135,501
Segment assets	$ 1,336,732	$ 90,915	$ 99,326	$ 1,526,974	$ (122,329)	$ 1,404,645
Other						
Depreciation and amortization	$ 20,657	$ 3,207	$ 3,594	$ 27,477	$ 1,806	$ 29,292
Amortization of goodwill	32,572	-	260	32,833	-	32,833
Impairment losses	3,306	763	-	4,070	-	4,070
Increase of tangible and intangible assets	23,542	8,149	3,423	35,115	233	35,349

	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

Amortization of goodwill and unamortized balances by reporting segment as of and for the years ended April 30, 2017 and 2016 are summarized as follows:

	Millions of yen				
	2017				
	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	¥ 3,625	¥ -	¥ 29	¥ -	¥ 3,654
Unamortized balances of goodwill	40,719	-	220	-	40,939

	Thousands of U.S. dollars				
	2017				
	Dispensing pharmacy	Drug and cosmetic store	Other	Adjustments	Consolidated
Amortization of goodwill	$ 32,572	$ -	$ 260	$ -	$ 32,833
Unamortized balances of goodwill	365,881	-	1,976	-	367,858

	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

16. Comprehensive income

Each component of other comprehensive income (loss) for the years ended April 30, 2017 and 2016 was the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized holding gains (losses) on securities:			
Gains (losses) arising during the year	¥ 480	¥ (428)	$ 4,313
Reclassification adjustments to (losses) gains	(263)	0	(2,363)
Amount before income tax effect	217	(427)	1,949
Income tax effect	(67)	137	(602)
Total unrealized holding gains (losses) on securities	149	(290)	1,338
Remeasurments of defined benefit plans:			
Gains arising during the year	77	72	691
Reclassification adjustments to (losses) gains	(6)	34	(53)
Amount before income tax effect	70	107	628
Income tax effect	(54)	52	(485)
Total remeasurments of defined benefit plans	16	160	143
Total other comprehensive income (loss)	¥ 166	¥ (130)	$ 1,491

17. Business combinations

For the year ended April 30, 2017
Business combination through acquisition
(1) Business combinations

(a) Name of the acquired company and its business
Name of acquired company - AOI Pharmacy Corporation
Content of business - Operating dispensing pharmacies

(b) Main reasons for the business combination
Through an aggressive launch strategy combining new openings and M&A activity, AOI Pharmacy Corporation (“AOI Pharmacy”) has developed a groupwide network of 115 dispensing pharmacies throughout Japan, where it contributes to the healthcare of individual communities. Through internal

training and study sessions, the company is working to reinforce its functionality as "primary care pharmacists and pharmacies." In this and its initiatives to enhance patient services, AOI Pharmacy shares our business policy in many respects.

By welcoming AOI Pharmacy to the AIN HOLDINGS Group ("the Group"), our dispensing pharmacies now number more than 1,000. We aim to expand our pharmacy network still further, and at the same time, by combining our mutual business experience and enhancing patient services, we intend to enhance the corporate value of the Group by providing a nationwide regional healthcare infrastructure.

(c) Date of the business combination
December 26, 2016

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

(e) Name of the entity after the business combination
No changes were made to the name of AOI Pharmacy Corporation

(f) Share of voting rights acquired
100%

(g) Main grounds for determining the acquiring company
The Company acquired shares in AOI Pharmacy Corporation for cash consideration.

(2) Period of operations of the acquired company included in the consolidated financial statements
From October 1, 2016 to March 31, 2017

(3) Acquisition cost and consideration of the acquired business

Cash consideration for acquisition	¥5,210 million ($46,814 thousand)
Cost of acquisition	¥5,210 million ($46,814 thousand)

(4) Major acquisition-related costs

Advisory fees	¥171 million ($1,536 thousand)

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

(a) Amount of goodwill generated
¥6,271 million ($56,348 thousand)

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

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

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

Current assets	¥5,444 million ($48,917 thousand)
Fixed assets	¥1,623 million ($14,583 thousand)
Total assets	¥7,068 million ($63,509 thousand)
Current liabilities	¥5,111 million ($45,925 thousand)
Fixed liabilities	¥3,018 million ($27,118 thousand)
Total liabilities	¥8,130 million ($73,052 thousand)

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 determining the acquiring 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
Cost of acquisition	¥5,400 million

(d) Major acquisition-related costs

Advisory fees	¥201 million

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

(i) Amount of goodwill generated
¥3,356 million

(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
Fixed assets	¥973 million
Total assets	¥4,011 million
Current liabilities	¥1,609 million
Fixed liabilities	¥358 million
Total liabilities	¥1,968 million

18. Quarterly Information

(1) Quarterly net sales for the year ended April 30, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Three months ended July 31, 2016	¥ 57,819	$ 519,534
Six months ended October 31, 2016	116,844	1,049,905
Nine months ended January 31, 2017	182,100	1,636,265
Twelve months ended April 30, 2017	248,110	2,229,400

(2) Quarterly income before income taxes and non-controlling interests for the year ended April 30, 2017 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Three months ended July 31, 2016	¥ 2,482	$ 22,302
Six months ended October 31, 2016	5,298	47,605
Nine months ended January 31, 2017	9,896	88,920
Twelve months ended April 30, 2017	14,307	128,556

(3) Quarterly profit attributable to owners of parent for the year ended April 30, 2017 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Three months ended July 31, 2016	¥ 1,371	$ 12,319
Six months ended October 31, 2016	2,855	25,653
Nine months ended January 31, 2017	5,438	48,863
Twelve months ended April 30, 2017	7,949	71,426

(4) Quarterly earnings per share for the year ended April 30, 2017 is as follows:

	Yen	U.S. dollars
	2017	2017
Three months ended July 31, 2016	¥ 43.25	$ 0.38
Six months ended October 31, 2016	90.07	0.80
Nine months ended January 31, 2017	171.53	1.54
Twelve months ended April 30, 2017	250.71	2.25

(5) Quarterly earnings per share for each accounting period of the year ended April 30, 2017 is as follows:

	Yen	U.S. dollars
	2017	2017
Three months ended July 31, 2016	¥ 43.25	$ 0.38
Three months ended October 31, 2016	46.82	0.42
Three months ended January 31, 2017	81.46	0.73
Three months ended April 30, 2017	79.18	0.71

Independent Auditor's Report

The Board of Directors
AIN HOLDINGS INC.

We have audited the accompanying consolidated financial statements of AIN HOLDINGS INC. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at April 30, 2017, 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. and its consolidated subsidiaries as at April 30, 2017, 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 31, 2017
Sapporo, Japan

CORPORATE DATA
(Fiscal 2017)

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: 6,469
Non-consolidated: 142

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 2017)

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
3,450

Major Shareholders

(As of April 30, 2017)

Shareholders	Number of shares held (thousand shares)	Share-holding ratio (%)
Kiichi Otani	3,238	10.16
Seven & i Holdings Co., Ltd.	2,480	7.78
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	5.00
The Hokkaido Bank, Ltd.	1,472	4.62
JPMC OPPENHEIMER JASDEC LENDING ACCOUNT	1,163	3.65
North Pacific Bank, LTD.	1,085	3.40
Japan Trustee Services Bank, Ltd. (Trust Account)	1,016	3.19
ML PRO SEGREGATION ACCOUNT	945	2.97
MSIP CLIENT SECURITIES	846	2.66
GOLDMAN SACHS INTERNATIONAL	842	2.64

Notes: 1. The figure excludes 180,644 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