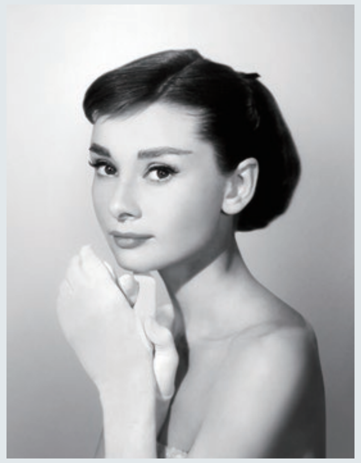
Staying Ahead of Change

ANNUAL REPORT 2018

For the year ended April 30, 2018

AIN HOLDINGS



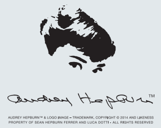
Hope, Beauty and Compassion

Starting in fiscal 2018, AIN HOLDINGS selected Audrey Hepburn as its communication icon.

As an actress, Audrey Hepburn embodies beauty, vigor and glamour, and as a mother, strength and purity. She is also seen as an independent woman with elegance and grace. In her later years, Audrey Hepburn was a UNICEF Goodwill Ambassador. In that role and through other humanitarian work, she became known for her kindness, warmth and compassion in the way she treated others. Even today, she remains one of the world's best-loved actresses.

To live life to the full and with the level of generosity that Audrey Hepburn displayed over the years is the dream of many people. AIN HOLDINGS is no different. We want to contribute to society as a company that supports people everywhere, making that an integral part of the way we do business, just as Audrey Hepburn led her life.

We have chosen her image and words to represent the AIN Group, which will be used widely to connect with customers across the Group through advertising and posters in *ainz & tulpe* stores and in our dispensing pharmacies.



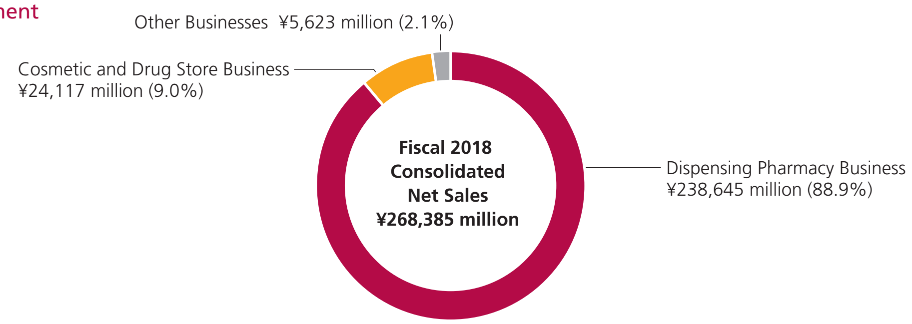
Contents

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.

AIN HOLDINGS operates Japan's leading dispensing pharmacy business and a unique cosmetic and drug store business focused on women. Over the years, we have achieved sustained growth by expanding these businesses while consistently anticipating and responding flexibly to changes in the operating environment.

▶ Net Sales by Segment

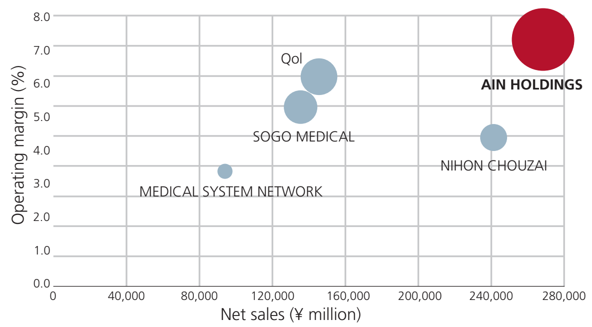


Dispensing Pharmacy Business

The leader in Japan's dispensing pharmacy market

The dispensing pharmacy sector is one of Japan's few growth markets. We aim to reinforce our position as the dominant player in the sector by responding to new demands on dispensing pharmacies and by playing a key role in society as part of Japan's healthcare system.

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



Notes:
1. Net sales and operating margin are compiled by AIN HOLDINGS based on each company's summary of financial statements for FY 3/18 (AIN HOLDINGS: FY 4/18) .
2. Size of circle is proportional to market capitalization as of July 31, 2018.

Cosmetic and Drug Store Business

Beauty products account for more than 80% of store merchandise

We are rolling out new retail formats for women under our *ainz & tulpe* brand. Brand power and earnings are both increasing by the year, thanks to a strategy of opening new stores in prime locations in the Tokyo metropolitan area and using interesting retail displays that keep customers coming back. We are confident our cosmetic and drug store business will become a second key source of earnings for the AIN Group.

ainz & tulpe Grand Emio TOKOROZAWA

Kiichi Otani
President and Representative Director

Staying Ahead of Change

Record operating income and net income

For fiscal 2018, ended April 30, 2018, we reported net sales of ¥268,385 million, up 8.2% year on year, operating income of ¥19,622 million, up 34.7%, and profit attributable to owners of parent of ¥10,567 million, up 32.9%. Profits were a record high. The dispensing pharmacy business did not face revisions to drug prices or dispensing fees in fiscal 2018, and internal measures implemented to address the previous round of revisions in April 2016 yielded significant results. The cosmetic and drug store business moved into profit, one year earlier than our April 2019 target. That reflected a strong performance by existing stores opened through 2017, as well as an improvement in brand power and store profitability.

The dispensing pharmacy sector stands at a major turning point
Pharmacies now allowed on hospital sites, business conditions becoming more challenging

Japan's dispensing pharmacy sector stands at a major turning point. One reason is the end of restrictions on dispensing pharmacies on hospital sites, although private pharmacies are still not allowed inside hospital buildings. Before the ban was lifted in 2016, the key to success in the sector was opening dispensing pharmacies in prime locations near hospitals, providing easy access for patients. However, that dynamic no longer holds true, as pharmacies located within hospital sites have a clear advantage over those located outside hospitals. Large public hospitals are currently leading efforts to attract pharmacies to their premises, and the shift to onsite dispensing pharmacies, including at private hospitals, is likely to accelerate over the next two or three years.

Revisions to dispensing fees are also driving far-reaching changes to existing approaches in the sector. In the April 2018 revisions, dispensing fees were reduced, and changes to technical fees are set to have a significant impact on earnings at major dispensing pharmacy operators, including the AIN Group. In addition, small and medium size dispensing pharmacy companies face the prospect of being forced out of business or selling their operations. Many are struggling to adapt to the government's vision for patient-focused pharmacies, and they are also finding it hard to attract enough pharmacists and identify successors to run their businesses.

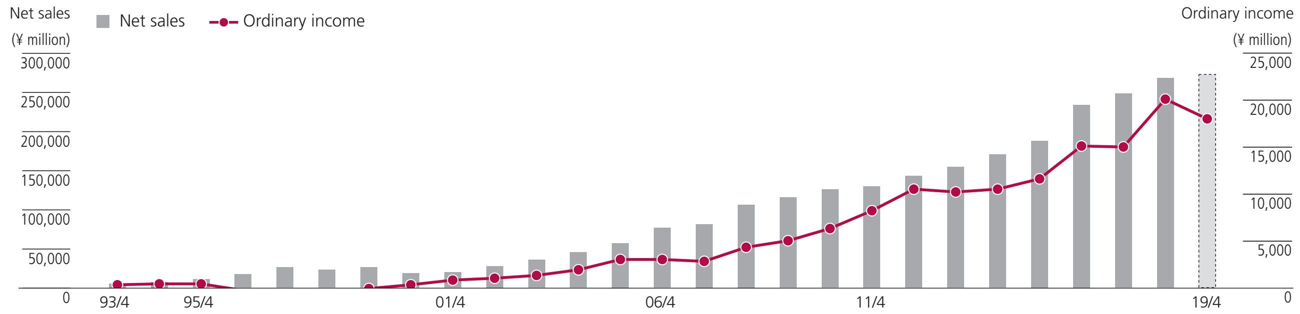
However, those developments are likely to trigger sector restructuring, which we view as an opportunity to reinforce our position as the dominant player in the dispensing pharmacy sector.

Dispensing pharmacy business growth strategy
Leverage advantages in quality, personnel and finances to become the pharmacy chain of choice

The deregulation of onsite pharmacies presents a significant risk for dispensing pharmacies located in prime locations near hospitals, as they could struggle to attract business if patients choose to use pharmacies on hospital premises. However, as a relatively late entrant to the sector, we operate only a handful of dispensing pharmacies near major university hospitals nationwide. That means the recent end to restrictions on onsite pharmacies offers the AIN Group new market opportunities.

Hospitals that want pharmacies to locate on their premises are looking for companies with sound finances and good prospects for long-term viability. Onsite pharmacies also have to be open 24 hours throughout the year, and pharmacies at large hospitals need a large staff of skilled and experienced pharmacists who can handle complex medicines such as anticancer drugs.

▶ History of Growth



Topics

Fiscal 1995	Fiscal 2001	Fiscal 2006	Fiscal 2011	Fiscal 2019 (plan)
• Opened pharmacies in prime locations • Built modern dispensing system • Opened drug stores with dispensing pharmacy functions	• Opened pharmacies across Japan • Rebuilt the drug store chain • Improved efficiency and safety at pharmacies	• Actively opened pharmacies, used M&A • Established WHOLESALE STARS • Expanded the *ainz & tulpe* chain	• Promoted sales of generic drugs • Created Yubari home healthcare model • Tightened cost control	• Open pharmacies in prime locations including on hospital premises, M&A • Increase pharmacy capabilities • Recruit and train personal • Expand the *ainz & tulpe* chain

At the Ain Pharmacy Engaru, which was opened on the premises of the Engaru-Kosei General Hospital in Hokkaido in April 2018, we have deployed 21 pharmacists and 17 administrative staff. Opening pharmacies in regional areas like Engaru requires significant upfront investment, including the cost of securing accommodation for employees. From a cost perspective as well, only a handful of companies in the sector have the resources to open onsite pharmacies in regional areas on a sustained basis.

I believe AIN HOLDINGS is well-placed to meet all those criteria, thanks to our efforts over the years to expand our business, increase the quality and number of pharmacists, and build a sound financial base. Our track record in fostering close links with medical institutions as part of our pharmacy opening program also gives us a competitive advantage in the sector. I believe those strengths will start to yield clear results over the next two or three years.

There is considerable demand for onsite pharmacies from major hospitals. They also fit the government's vision for patient-focused dispensing pharmacies, allowing us to leverage the AIN Group's strengths. And they could generate solid profits if the onsite pharmacy business gains momentum. Given those factors, we aim to respond appropriately to developments in onsite pharmacies as the leading company in the sector. We plan to open more than 10 onsite pharmacies each year, mainly in the Tokyo area and at large regional hospitals. We raised capital through a share issue in August 2017. The funds will mainly be used to facilitate the opening of dispensing pharmacies on hospital sites. In other words, to invest in growth.

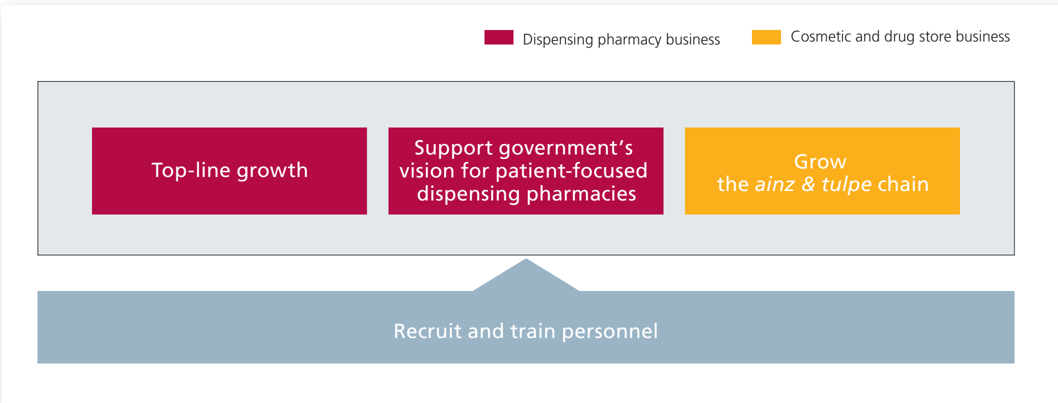
We will also use the funds to improve efficiency in pharmacy operations, such as investing in automation, in order to boost profitability at existing pharmacies and across our dispensing pharmacy network as a whole.

Dispensing pharmacy business growth strategy
Continue to use strategic M&A deals

Some investors have asked us whether we are slowing down our M&A activity. As a company that has aggressively expanded its business using M&A, many investors appear to see the number of M&A deals as a proxy for the AIN Group's growth.

In fiscal 2018, we acquired 11 dispensing pharmacies through M&A deals. That represents a significant decline from numbers in recent years, but it reflects careful due diligence of each potential deal based on more rigorous criteria than before. » See pages 10-11 for more details M&A deals are vital to driving growth in our business and we will continue to use them strategically, provided they offer real value for money.

▶ AIN Group's growth strategy



Dispensing pharmacy business growth strategy
Leverage all the Group's resources to secure the necessary personnel

One of the reasons we are now the leader in the dispensing pharmacy sector is our continuous emphasis on recruiting the best dispensing pharmacists. That has been our focus since the first days of the Company.

In April 2018, we hired 279 new pharmacists, which fell short of our target. That disappointing result prompted us to strengthen our recruitment systems. » See pages 14-15 for more details Specifically, we are stepping up efforts across the Group, such as giving a greater role in recruitment to personnel responsible for pharmacy operations, including area managers and pharmacy managers. We aim to hire at least 400 pharmacists in fiscal 2019. Going forward, we will devote even more energy to hiring and training pharmacists in order to increase corporate value and drive sustained growth.

Cosmetic and drug store business growth strategy
Stand out in the market and strengthen the brand

Our cosmetic and drug store business is performing well, with profits at existing *ainz & tulpe* stores growing at an average rate of 20%. Profits are up by around 50% at new format stores that were opened from 2015 as part of our push into the Tokyo metropolitan market, such as *ainz & tulpe* SHINJUKU HIGASHIGUCHI.

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

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%

Fiscal 2018		(¥ million)
	AIN HOLDINGS	Average of 3 competitors
Market capitalization	282,859	59,386
Cash on hand in banks	63,779	20,940
Interest-bearing debt	19,303	42,335
Net cash	45,551	(20,723)
Shareholders' equity ratio	52.7%	31.3%

Notes:
1. Market capitalization data are as of July 31, 2017 and July 31, 2018.
2. Interest-bearing debt = Short- and long-term debts + Corporate bonds (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 2017 and fiscal 2018.

One factor behind that growth is our success in attracting more customer traffic. We are starting to see concrete results from our decision to select prime locations for all *ainz & tulpe* stores, and from efforts to increase brand visibility. Also, in the previous fiscal year, new store opening costs weighed heavily on profits, but that negative factor dropped out in the fiscal year under review. We also worked to optimize purchasing costs. Overall, we reduced costs in the cosmetic and drug store business by several hundred million yen.

Over the last few years, we have exited suburban drug store locations and focused on establishing new *ainz & tulpe* formats. Our store opening program will continue to target the fast-growing Tokyo metropolitan market.

Our new retail formats are aimed at young women as part of a strategy to stand apart from conventional drug stores and department stores. We want to create fun and interesting stores with a wide choice of cosmetics and original brand products that encourage women to stay and browse for a couple of hours.

One area we want to improve is the ratio of original brands, which currently accounts for about 10% of products in our stores. We also plan to expand the business by accelerating the pace of store openings. Our goal is to increase sales from the current ¥25 billion to ¥50 billion as soon as possible, while also achieving a profit margin of 7%. The cosmetic and drug store business achieved a profit margin of 2.7% in fiscal 2018, which followed losses of ¥866 million in fiscal 2017. For fiscal 2019, our goal is to grow the business to generate segment operating income of ¥1 billion.

Actively implementing ESG initiatives
Fulfilling our corporate social responsibility

AIN HOLDINGS takes a proactive stance on environmental, social and governance (ESG) issues. We have reinforced corporate governance in various ways, such as appointing outside directors, overhauling the Board of Directors and its decision-making processes, promoting women to senior positions, and actively disclosing information. We also launched a pharmacy-led project in 2012 in which frontline pharmacists are taking the initiative in improving operational efficiency at more than 1,000 pharmacies. The head office plays a supporting role in the bottom-up project, which is yielding results in various areas. From a social perspective, moves by the dispensing pharmacy business to improve its capabilities will help strengthen and enhance local healthcare provision and address challenges associated with Japan's aging society. Another area we are focusing on is empowering women, who make up a large proportion of our employees. We are putting in place maternity and childcare leave systems that make it easier for them to return to work and increasing the ratio of women in management positions. We are also actively creating better workplace environments that motivate all our employees. Our long-term contribution to society can also be seen in our support for joint research and course endowments at universities and research institutions and through sponsorships for sports teams, events and organizations. Meanwhile, the cosmetic and drug store business is constantly working to improve its stores, products and services to help people lead healthier and fuller lives.

Going forward, we plan to step up our ESG activities with the help of experts in the field.

Basic policy on shareholder returns
Investing in growth and paying stable dividends

The AIN Group's growth potential is attractive for investors. We plan to continue investing in growth to increase corporate value and meet the expectations of all shareholders and investors.

For the fiscal year ended April 30, 2018, we paid a full-year dividend of ¥50 per share. For the next fiscal year, we plan to increase the dividend to ¥55.

We will continue to pay stable dividends in line with earnings, while also aiming to maintain a dividend payout ratio at least 20%.

Navigating turbulent times
Aiming to live up to our name as Japan's leading dispensing pharmacy group

Starting Fiscal 2018, we chose Audrey Hepburn as the person to represent our brand. Even 25 years after she passed away, Audrey Hepburn remains hugely popular among many generations due to her performance in many famous movies, which showed her maturing from a young woman into a confident adult. She remained beautiful and elegant into her later years, while also working tirelessly to help the disadvantaged through her UNICEF humanitarian activities. Those characteristics encapsulate our vision for the *ainz & tulpe* brand in our cosmetic and drug store business and our dispensing pharmacy business, which plays a vital role in healthcare provision in Japan.

As already outlined above, Japan's dispensing pharmacy sector stands at a major turning point. However, as the leading player in the sector, we believe our competitive advantages will remain intact. Despite our leading position, the AIN Group's market share currently stands at 3%, so there is still substantial room for us to grow. And while brand visibility and profits are improving steadily in the cosmetic and drug store business, our next challenge is to grow the business into a second key source of earnings.

Leveraging the AIN Group's unique strengths, we will work to meet the needs of patients and create attractive retail environments that exceed the expectations of customers.

We remain convinced that those strengths can only come from maximizing the potential of our employees and strategically harnessing their capabilities.

We want to live up to our name as the leading dispensing pharmacy and cosmetics and drug store group in Japan – for customers, employees and all our other stakeholders – and everyone in the AIN Group will work together to realize that goal. I hope we can count on your continued support and trust for many years ahead.

July 31, 2018

Kiichi Otani
President and Representative Director

Operating environment

A major turning point in the market

The dispensing pharmacy business is our core business, generating roughly 90% of sales. Based on scale, the quality of our pharmacies, earnings and other measures, we are the leader in Japan's dispensing pharmacy market.

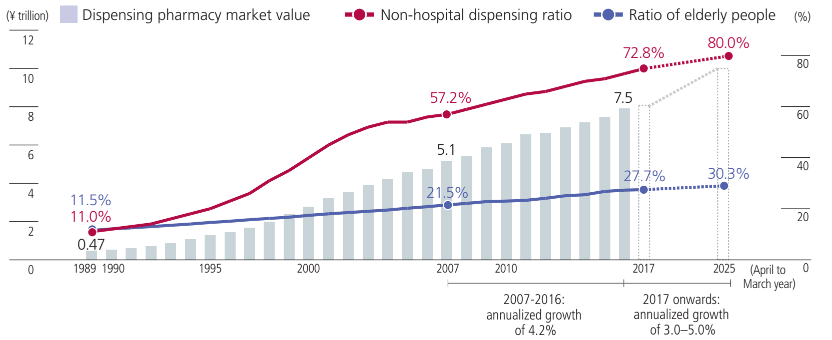
The market is one of only a few in Japan with prospects for growth over the medium to long term. However, the dispensing pharmacy business faces various risks, such as pressure from government policy requiring pharmacies to play a greater role in healthcare, revisions to dispensing fees and a shortage of qualified pharmacists. Those factors mean the sector is heading for a major turning point – a period of full-blown restructuring. In this section, we look at the characteristics of Japan's dispensing pharmacy market and the key points of our business strategy.

Dispensing pharmacy business growth strategy of the AIN Group

A growth market

Japan's dispensing pharmacy market has developed in unique ways, driven by factors such as the government's efforts to promote non-hospital dispensing services under a policy launched in 1994. The government is aiming to curb national healthcare costs, but per capita spending continues to rise due to Japan's aging society, increasingly advanced medical treatments and the launch of new drugs. The dispensing pharmacy market in Japan was worth roughly ¥8 trillion as of March 31, 2017, but we estimate the market is on track to reach ¥10 trillion.

▶ Market growth

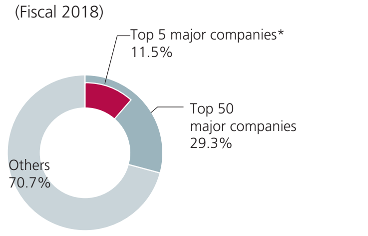


Source: AIN HOLDINGS estimates, based on data from the Japan Pharmaceutical Association, dispensing cost trends issued by the Ministry of Health, Labour and Welfare, Population Estimates of the Ministry of Internal Affairs and Communications Statistical Bureau, and Cabinet Office White Paper on the Aging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

A fragmented market

Japan's dispensing pharmacy sector is fragmented, with the top five companies accounting for only 11.5% of the market, including the Group's leading share of about 3%. Approximately 30% of pharmacies in Japan are run by individuals. As the shortage of pharmacists becomes more acute and small operators struggle to keep up with regulatory changes, we expect the pace of M&A activity and business closures to accelerate in the sector. Those broader trends, along with recent changes to rules that allow onsite dispensing pharmacies, mean there is still significant room for growth in the market for the AIN Group.

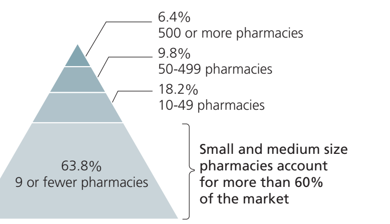
▶ Dispensing pharmacy company market share (Fiscal 2018)



*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, 2018) and FY2016 dispensing fee statistics released by the Ministry of Health, Labour and Welfare.

▶ Market structure —Breakdown by company size



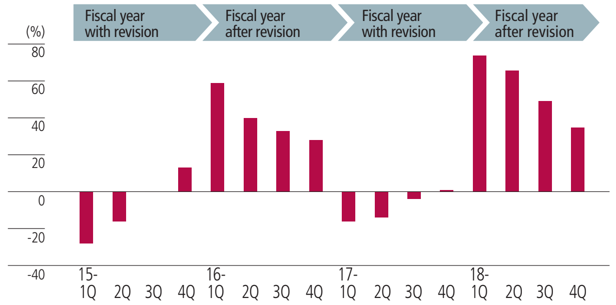
Notes:1. The above figure dose not include1.7% of no response.
2. AIN HOLDINGS estimates based on data from a random survey conducted by the Ministry of Health, Labour and Welfare in August 2016 (1,000 dispensing pharmacies surveyed, 46.7% response rate).

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

Dispensing fee revisions once every two years

In principle, the government revises drug prices and dispensing fees once every two years. After revisions in April 2018, the next round is scheduled for April 2020, but we expect the government to announce additional revisions before then to adjust for a planned increase in consumption tax in October 2019. Profits tend to drop sharply at dispensing pharmacies in years when revisions are carried out. However, in response, we implement measures to improve pharmacy efficiency and enhance the skills of our pharmacists, supporting an early recovery in profits and a strong rebound in earnings in the year after drug price and dispensing fee revisions.

▶ Impact of drug price and dispensing fee revisions on profits

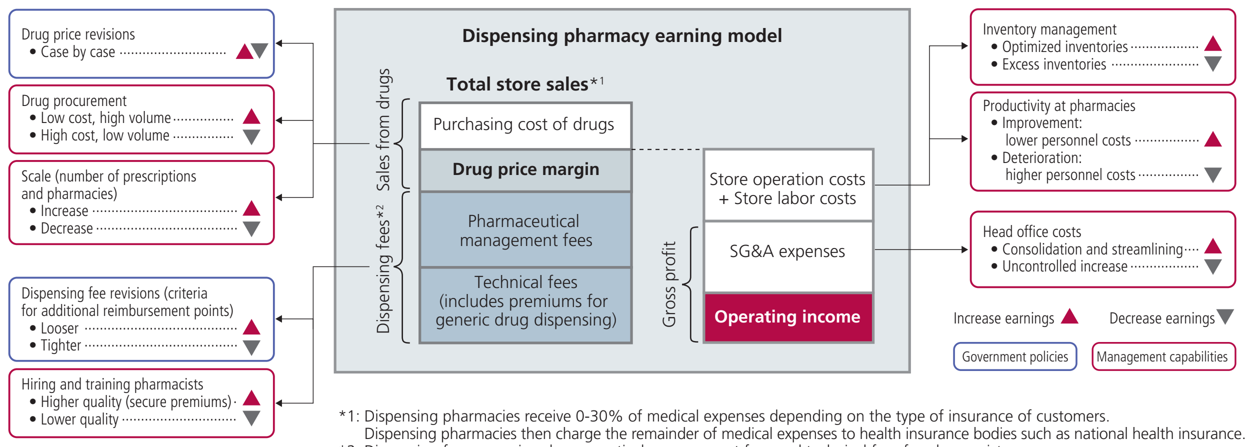


Note:
Graph shows year-on-year change in the consolidated operating income of AIN HOLDINGS from fiscal 2015 to fiscal 2018.

Dispensing pharmacy earnings model

Dispensing pharmacies are being asked to play a radically different role in healthcare provision to address Japan's super-aging society and rising healthcare expenses. Pharmacies now need to provide higher quality services, such as the management of left over medicines, cooperation with healthcare providers and support for patient health management. The government is revising dispensing fees in a way that only pharmacies capable of providing these services will be able to generate profits.

▶ Factors that affect dispensing pharmacy profitability



*1: Dispensing pharmacies receive 0-30% of medical expenses depending on the type of insurance of customers. Dispensing pharmacies then charge the remainder of medical expenses to health insurance bodies such as national health insurance.
*2: Dispensing fees comprise pharmaceutical management fees and technical fees for pharmacists. These fees are added depending on the services at pharmacies.

Pharmacies located near hospitals are the most common format

Japan has three main types of dispensing pharmacy: pharmacies located near hospitals, pharmacies not located near hospitals, and drug stores with dispensing pharmacy functions. People are free to choose any type of dispensing pharmacy to fill their prescription, regardless of their health insurance provider. However, dispensing pharmacies located near hospitals are the most common in Japanese cities, as limited car use means they are more convenient for patients. Many pharmacies near hospitals also satisfy the government's conditions for primary care dispensing pharmacies. Onsite pharmacies which were permitted from October 2016 are also included in this category.

AIN Pharmacy ENGARU

Top-line growth

Changing our pharmacy opening strategy

Achieving growth in the dispensing pharmacy business largely depends on responding appropriately to changes in government policy. Key to success is securing prime locations for new pharmacies and recruiting and training pharmacists. » See pages 13-14 for more details

Until now, our strategy has been to channel management resources into dispensing pharmacies located near hospitals and grow our business by opening new pharmacies and using M&A. That approach reflected the realities of Japan's social environment and systems, which made dispensing pharmacies located near hospitals the best option for patients and our business. » See page 9 for more details For example, pharmacies located on prime sites near hospitals are much more profitable than those in other locations.

In October 2016, the regulation was changed to allow dispensing pharmacies to open on hospital sites. In other words, the dispensing pharmacy sector now has the opportunity to use an even closer prime location. New onsite dispensing pharmacies are likely to lead to a dramatic drop in the number or prescriptions filled by existing pharmacies located near hospitals, potentially undermining profitability. However, the risk to our business from onsite pharmacies is limited, because as a relatively late entrant to the market, our network includes only a handful of dispensing pharmacies located near major hospitals, which are leading the push for onsite pharmacies. The deregulation of onsite drug dispensing is major opportunity for the AIN Group.

Onsite pharmacies are beneficial for all parties. Hospitals receive rental income from the pharmacy operator, and the closer links between the hospital and pharmacy reduce the risk of dispensing errors and other issues, as well as improve cooperation in areas such as home healthcare provision. Onsite pharmacies will give companies like AIN HOLDINGS the chance to leverage their competitive advantages, such as highly skilled pharmacists, and also lead to higher prescription volumes and additional reimbursement points. However, companies that want to open onsite pharmacies will have to show hospitals they can keep pharmacies open 24 hours and secure sufficient numbers of well-trained pharmacists. Hospitals will also look at their ability to sustain operations over the long-term, backed by access to funds and a sound financial position. Only a handful of companies in the sector will be able to meet those requirements. We believe AIN HOLDINGS is one of those companies, and we plan to open 10 onsite pharmacies each year.

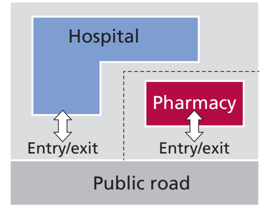
Japanese dispensing pharmacies have a different role and earnings structure to their counterparts in the US and other countries due to contrasting social welfare systems and business conditions. Japan has a system of universal healthcare. The system does not restrict treatment to certain hospitals or pharmacies based on the type of insurance held by patients or other criteria, allowing them to choose when and where they want their illness or injury to be treated. Also, because prescription refills are not permitted in Japan, the elderly and patients with serious conditions have to make regular and frequent visits to hospital. That means onsite pharmacies fit the government's vision for patient-focused dispensing pharmacies in terms of both convenience and their capacity to provide high-quality, reliable services. Amid strong demand from hospitals, we have already started developing our strategy, which will be geared towards opening new pharmacies in onsite locations.

M&A deals are a vital part of our growth strategy. Together with our pharmacy opening program, we will continue to use M&A to increase sales based on rigorous due diligence and an emphasis on investment efficiency.

Dispensing pharmacies now permitted on hospital sites

Before

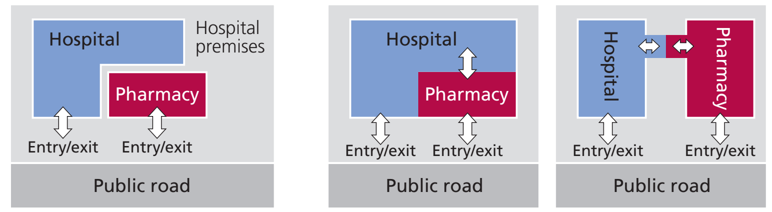
Dispensing pharmacies separated from hospitals by fences or other barriers to prevent direct entry from hospitals



After

Barriers removed to improve convenience for patients
Pharmacies now permitted to be located on the same premises as hospitals

The following cases are still not permitted:



Located inside the same building

Connected by a private road or passage

AIN Pharmacy SHINDAIMAE

AIN Pharmacy ASAHIKAWAIDAI
(Scheduled to open in October 2018)

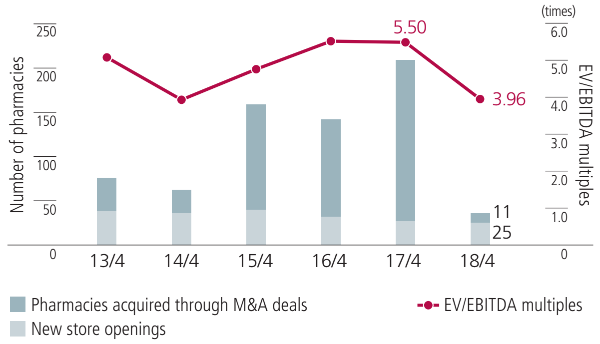
Merits of onsite dispensing pharmacies

For hospitals	For AIN HOLDINGS
Rental income	Convenient and cost-competitive pharmacies
Reduces dispensing errors, other risks	Opportunity to leverage quality of pharmacists, other competitive advantages
Closer cooperation in home healthcare and provision of other local health services	Higher volume of prescriptions, additional reimbursement points

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

AIN Group's new store openings, pharmacies acquired through M&A deals and EV/EBITDA multiples



Changes to AIN Group's M&A criteria

	M&A criteria (Before)	M&A criteria (From FY4/18)
Pharmacy size	Annual sales of ¥120 million or higher	Single pharmacy: Annual sales of at least ¥200 million Pharmacy chains: Annual sales of at least ¥120 million
EV/EBITDA multiple	5-7 times	5-7 times
Contribution to consolidated earnings	Fiscal year following deal	Fiscal year following deal
Potential risks	None	Onsite pharmacies Compliance issues

Supporting the government's vision for patient-focused dispensing pharmacies

Raising pharmacy standards further

We understand that our dispensing pharmacies play an important role in society. That is why we have implemented a range of measures over the years to raise the standards of our dispensing pharmacies and improve the skills of our pharmacists.

The government is currently promoting its vision for patient-focused dispensing pharmacies. As part of that approach, the government is stepping up its support for primary care dispensing pharmacies that can help deliver local healthcare services, such as adjusting the way additional reimbursement points are calculated for dispensing fees.

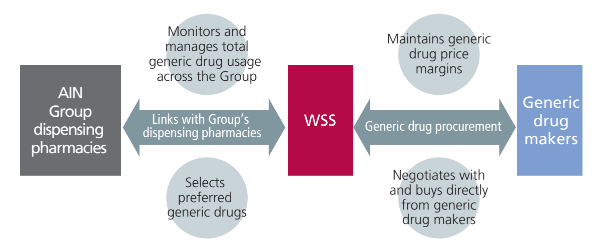
To fulfill that primary care role, dispensing pharmacies have to offer higher quality services, such as promoting generic drugs, managing left over medicines, managing patient health, cooperating with local healthcare providers, providing 24-hour dispensing services and supporting home-based healthcare, in addition to their traditional role of drug dispensing. » See page 13 for more details In order to deliver those services, our pharmacists need to improve their specialist skills and communicate more closely with patients and medical institutions.

Primary care dispensing pharmacies offer an excellent opportunity for the AIN Group to leverage its competitive advantages gained from raising the quality of its pharmacists and dispensing pharmacies – an area where we have led the industry. Those efforts to create primary care dispensing pharmacies will also help us meet the rigorous criteria for opening onsite dispensing pharmacies.

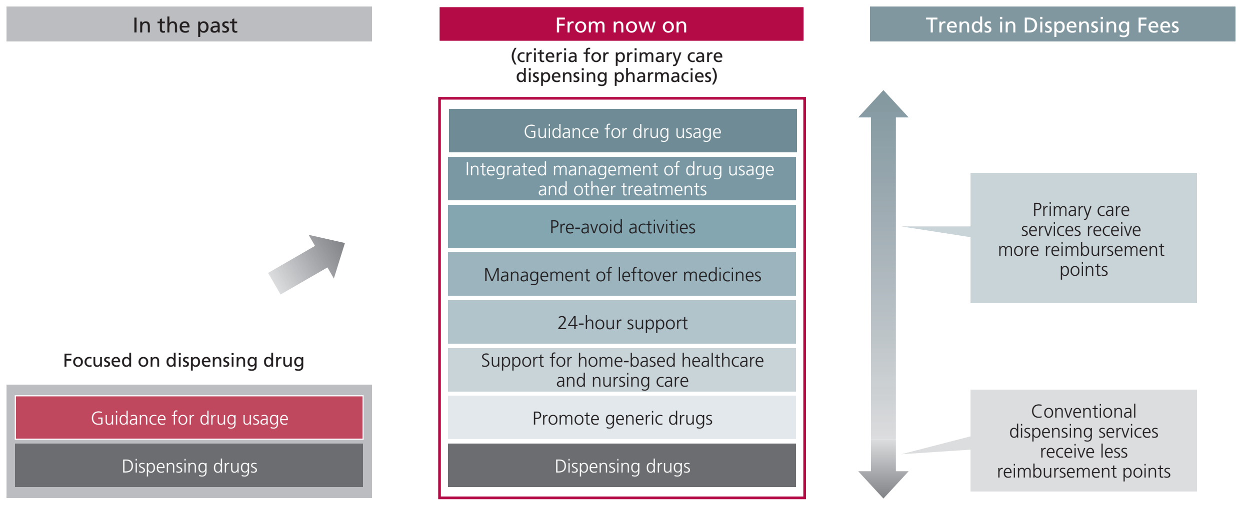
Consequently, we will actively work to convert all our dispensing pharmacies to the primary care format. In addition to internal training programs, our unique pharmacy-led project launched in 2012 is helping to lift standards. The project was launched to improve the efficiency of dispensing pharmacy operations based on input from pharmacists at each location. As the project has been rolled out across the Group, we have seen efficiency gains and an increase in the time pharmacists have to communicate with patients and medical institutions, as well as improvements in the way pharmacists think and act in frontline situations.

We are also seeing steady growth in home-based dispensing and generic drug dispensing. Growth in generic drug dispensing typically leads to a decline in sales in value terms, putting pressure on pharmacy profits. However, we established a generic drug wholesaling subsidiary called WHOLESALE STARS Co., Ltd. (WSS) in 2006, the year the government started actively promoting wider use of generic drugs. Through WSS, we negotiate prices and procure products directly with manufacturers. We already purchase more generic drugs than any other company in Japan and we have narrowed down our suppliers to just a few firms, further strengthening our buying power. WSS is one of our competitive advantages, because the subsidiary supports the Group's profits while also helping the government achieve its policy goals.

▶ Roles and merits of WSS

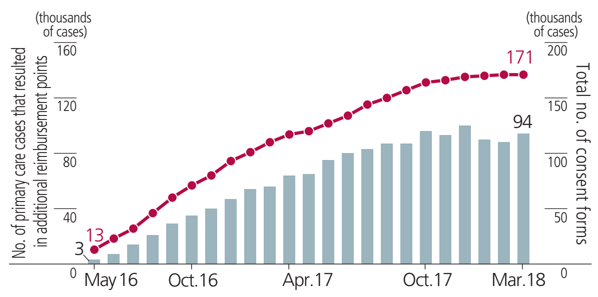


▶ The changing role of dispensing pharmacies



▶ AIN Group's initiatives for patient-oriented dispensing pharmacies

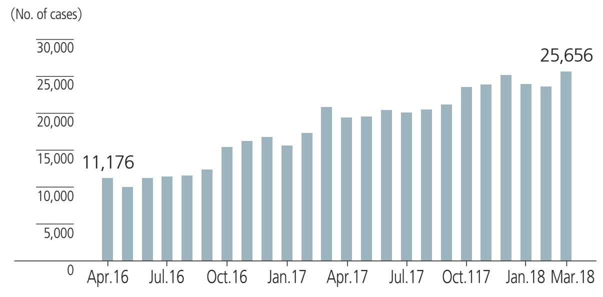
Provision of primary care services (monthly cases)



No. of primary care cases that resulted in additional reimbursement points
Total no. of patient consent forms

Data source: 1,018 dispensing pharmacies, excluding recently acquired pharmacies through M&A

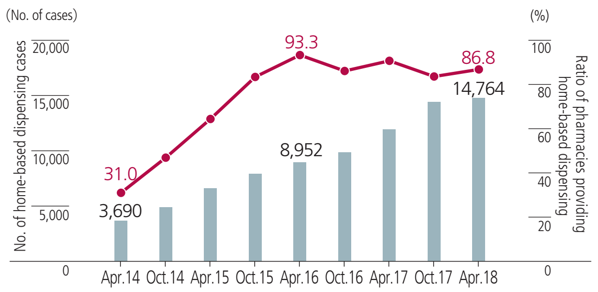
Prescription checks (monthly cases)



Number of prescription checks that resulted in additional reimbursement points

Data source: All pharmacies (number of pharmacies fluctuates each year due to pharmacy openings and closures)

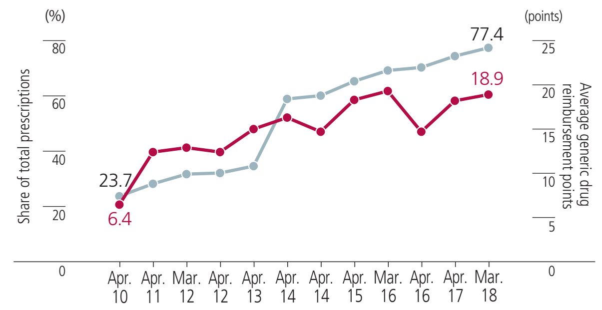
Home-based dispensing (monthly cases)



No. of home-based dispensing cases
Ratio of pharmacies providing home-based dispensing

Data source: 1,018 pharmacies, excluding recently acquired pharmacies through M&A and cases involving delivery of medicines only

Generic drug dispensing (monthly cases)



Share of total prescriptions
Average generic drug reimbursement points

Data source: Four main Group companies (AIN PHARMACIEZ, AIN MEDIO, DAICHIKU, Asahi Pharmacy)

Recruit and train personnel

Increasing headcount and improving pharmacist skills

To fulfill the new role envisioned for dispensing pharmacies and to generate sustained growth, companies in the sector need to recruit more pharmacists and improve the skills of existing staff. Dispensing pharmacies and companies that fail to do that are likely to fall by the wayside.

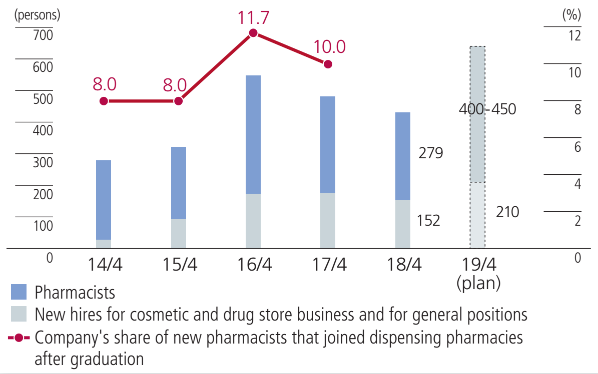
Since it was established, the AIN Group has consistently focused on hiring and training pharmacists. Our approach to recruitment is highly regarded by students and universities, thanks to our hiring track record and high-quality training systems. We also give pharmacists plenty of opportunities to fully demonstrate their skills due to the large number of complex prescriptions at our pharmacies. That reputation has helped us perform well in pharmacist recruitment. However, we need to increase headcount further to support our move into onsite dispensing pharmacies, which will require large teams of highly skilled pharmacists. Competition for pharmacists is also likely to become tougher in the sector.

To address those challenges, we started reinforcing our recruitment systems in April 2017 as a top management priority. We have transferred responsibility for recruitment activities from the personnel division to the operations division, aiming to use input from our pharmacies and leverage frontline capabilities in recruitment. Our aim is to use a broad company-wide approach, supported by improvements to our recruiter system and final interviews for candidates with area managers.

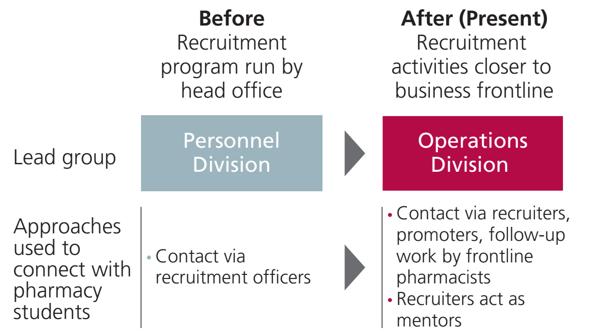
After joining the AIN Group, our pharmacists have access to a range of training programs tailored to their career stage. We also run a number of unique initiatives to improve the motivation and skills of our pharmacists. One initiative is our pharmacy-led project, launched in autumn 2012. Under this project, pharmacists at all our dispensing pharmacies are asked to identify new ways of increasing efficiency, improving profitability and enhancing service provision at existing pharmacies. Originally designed to strengthen pharmacy operations, the project has delivered real improvements in frontline capabilities, such as optimization of in inventory value and patient wait times. But the project has also clarified other issues that need to be addressed and has delivered clear results, helping to change thinking among frontline personnel and boost motivation, leading to a lower level of staff turnover.

The dispensing pharmacy sector faces a wave of restructuring as business conditions become tougher, but we view sector realignment as an excellent opportunity to drive top-line growth. We aim to meet society's expectations and create new value by continuing to expand our dispensing pharmacy business while increasing the number and quality of our pharmacists.

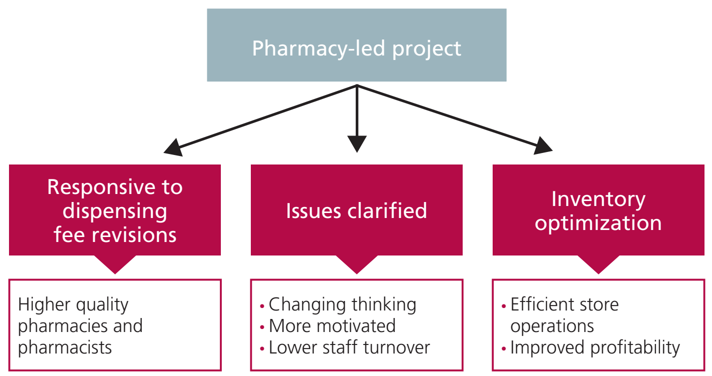
▶ Number of new pharmacist graduates hired



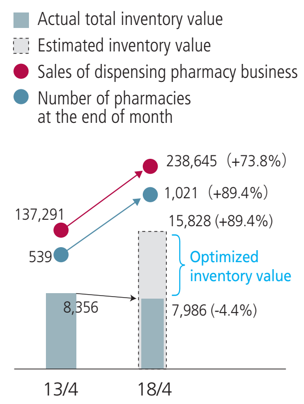
▶ Improvements to recruitment system



▶ Key outcomes from pharmacy-led project



Inventory optimization



Notes:
1. Inventory value is as of the end of April each year.
2. Inventory value shown left is largely unrelated to the value of inventories (products) shown on the balance sheet, as the balance sheet includes inventories from Group companies with different fiscal year-ends.
3. Estimated inventory value is a pro rata calculation using inventory value and the number of pharmacies as of end-April 2013.
4. Number of pharmacies and inventory value as of end-April 2013 is for four main Group companies: AIN PHARMACIEZ, AIN MEDIO, DAICHIKU and Asahi Chozai. Number of pharmacies and inventory value as of end-April 2018 is for all companies in the AIN Group.

A Message from the 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 employees

Pharmacists are being asked to play a greater role in healthcare in Japan's super-aging society. Specifically, pharmacists need to acquire specialist knowledge to handle and manage anticancer drugs and strong medicines used to treat pain. They also need to know how to run pharmacies that are sustainable and highly convenient for patients.

AIN HOLDINGS has been preparing for this operating environment for some time. In 2012, we launched a pharmacy-led project 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.

Deregulation in the dispensing pharmacy sector, which started with pharmacies located in the same premises as hospitals, means each one of our pharmacists needs to think more carefully about overall pharmacy operations as part of their job. Through their interaction with patients, our pharmacists have to decide themselves the best course of action to take for patients. That approach also leads to greater efficiency in pharmacy operations. These are fundamental aspects of a pharmacist's job, but personnel who can help improve pharmacy operations are highly valued in the AIN Group.

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.

ainz & tulpe SHINJUKU HIGASHIGUCHI

Standing out in the market

Creating a more distinct position in the market

Our efforts to establish new retail formats are starting to bear fruit.

The AIN Group has operated a drug store business since it was established, but a narrowing quality gap in retailing put pressure on margins. In response, in the last few years, we have exited suburban locations and rapidly switched to new retail formats. Today, our cosmetic and drug store business is focused on opening stores in highly convenient locations in the Tokyo metropolitan area under the *ainz & tulpe* brand.

Our first real move into new retail formats came in the fiscal year ended April 2016, when we opened two flagship *ainz & tulpe* stores: *ainz & tulpe* SHINJUKU HIGASHIGUCHI (Shinjuku, Tokyo; retail space: roughly 1,290m²) and *ainz & tulpe Le Trois* (Sapporo, Hokkaido; retail space: roughly 990m²). Both are large stores in prime urban locations, helping them attract considerable attention from shoppers.

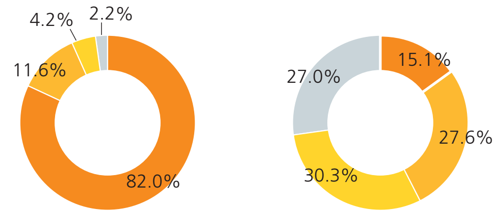
The main target of our new retail formats are women in their 20s and 30s with a strong interest and curiosity in the latest trends. We are also using the product lineup to create a unique position in the market for the *ainz & tulpe* brand, with cosmetics, accessories and other beauty products accounting for more than 80% of products on sale. The idea is to avoid direct competition with conventional drug stores, which typically sell a mix of pharmaceuticals, food and daily necessities at discounted prices. Our new retail formats also differ to traditional department stores.

To encourage women to spend a few hours browsing our stores, we are expanding our range of lounge wear and accessories to complement the existing cosmetics lineup. By creating merchandise lineups and in-store displays to attract young women, we are setting *ainz & tulpe* apart from conventional drug stores. That gives our retail formats better access to tenant opportunities in fashion retail malls and department stores.

Developing original brands is also part of our effort to stand out in the market. To coincide with the roll out of the new retail formats, we launched two original brands, a cosmetics brand called *LIPS and HIPS* and a beauty supply brand called *cocodecica*. We also acquired the popular *AYURA* cosmetics brand acquired from Shiseido Company, Limited. We are expanding the range of products under each brand, helping to lift the gross margin. We have also opened standalone *LIPS and HIPS* stores.

Going forward, we plan to further increase the ratio of products sold under original brands to create unique merchandise lineups and achieve high profit margins. We also aim to tap into the expertise and experience of the many pharmacists in the AIN Group to develop highly functional products, helping to increase the number of product categories in our original brands. We will also create flagship products with dominant brand positions.

Comparison of *ainz & tulpe* and general drug stores: product mix

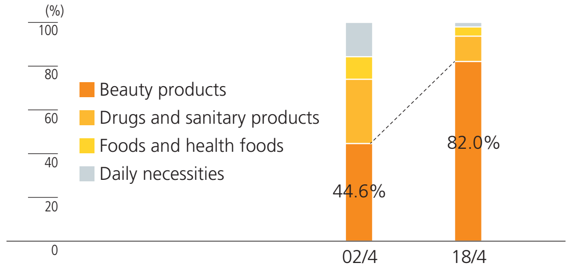


*1 Data is for the fiscal year ended April 2018
*2 Source: Monthly Report on the Current Survey of Commerce (May 2018), Ministry of Economy, Trade and Industry

Differences between *ainz & tulpe* and rival retail formats

	ainz & tulpe	Drug stores	Department stores
Customer base	Young women	Families, overseas visitors	High-income earners, including overseas visitors
Merchandise	Beauty products account for 80% of lineup	Daily necessities and food account for more than 80% of lineup	Brand products only
Pricing	Normal	Discount	Premium
Sales areas	• Customers can personally try various beauty products in store • Designed to encourage browsing for more than 1 hour	• Small retail areas, cluttered displays	• Brands sold through own boutique store, reducing convenience for shoppers

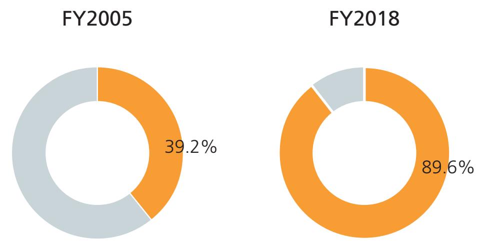
Product mix change of *ainz & tulpe*



Cosmetic and drug store business results of the AIN Group (¥ million)

	02/4	18/4
Sales	5,829	24,117
Gross profit	1,487	8,925
Sales ratio	25.5%	37.0%

AIN Group's cosmetic and drug stores by type



ainz & tulpe Odakyu Department Store Machida

LIPS and HIPS

AYURA

ainz & tulpe Colette Mare SAKURAGICHO

Brands

Establishing new brands

Awareness of the *ainz & tulpe* brand has been growing steadily since 2015, thanks to large stores opened in prime locations across Tokyo, such as Shinjuku and Ginza.

We are also opening smaller stores, such as *ainz & tulpe* KEIO DEPARTMENT STORE SHINJUKU (Shinjuku, Tokyo; retail space: roughly 260m^2). The success of these small stores, as well as large locations, is another key feature of our new retail formats. Property developers have been taking a close interest in the formats, because they can attract young shoppers and are easily adapted to different types of tenant locations. As a result, we have received numerous requests to open new stores in urban retail facilities, station shopping centers and other prime locations. In April 2018, we opened four new stores, including *ainz & tulpe* Odakyu Department Store Machida (Machida, Tokyo; retail space: roughly 500m^2), taking the total number of *ainz & tulpe* stores to 48.

The increase in brand visibility and positive feedback has given us more power in lease negotiations with property owners, which along with strong demand for our original brands, is supporting a significant improvement in the gross margin. We have also put significant trust in our frontline sales staff, who rapidly identify the latest interests and trends in our target consumer groups. That information is then used to design in-store sales areas and shared with other stores, helping to drive growth in customer traffic and profits at existing stores.

Strong growth in customer traffic and improving profits at existing stores ensured the cosmetic and drug store business moved into profit in fiscal 2018, one year earlier than planned.

Going forward, we will continue to open new stores in prime locations in the Tokyo metropolitan area while also relocating stores to other sites if needed, aiming to create stores that offer a fun retail experience for shoppers. We will also work to raise brand visibility further and create unique products and sales displays to avoid competition with conventional retail stores and cosmetics manufacturers.

In the cosmetics and drug store business, we are targeting sales of ¥50 billion and an operating margin of 7% in fiscal 2022, ending April 30, 2022. To achieve those targets, we will continue to aggressively expand the business, establish new retail formats and strengthen the *ainz & tulpe* brand, 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.

- **July 2015**
  ainz & tulpe SHINJUKU HIGASHIGUCHI
- **March 2016**
  ainz & tulpe OMIYA MARUI

- **June 2016**
  ainz & tulpe
  Colette Mare SAKURAGICHO-B1
- **November 2016**
  ainz & tulpe GINZA NAMIKIDORI

- **December 2016**
  ainz & tulpe
  Colette Mare SAKURAGICHO

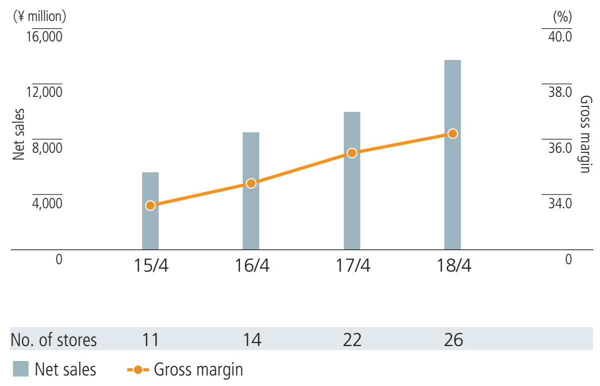
- **March 2017**
  ainz & tulpe
  KEIO DEPARTMENT STORE SHINJUKU

- **April 2017**
  ainz & tulpe YOKOHAMA JOINUS
- **August 2017**
  ainz & tulpe
  Odakyu Department Store Machida

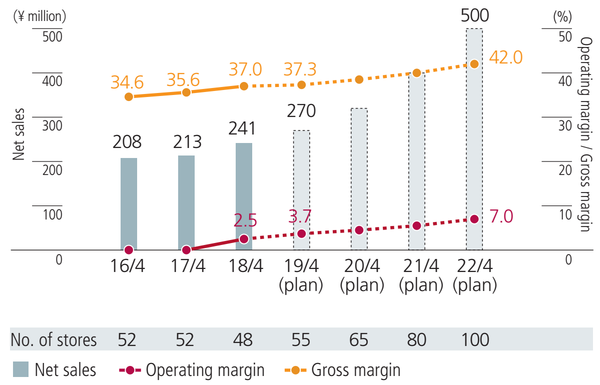
- **November 2017**
  ainz & tulpe MARUI KICHIJOJI

- **March 2018**
  ainz & tulpe
  Grand Emio TOKOROZAWA

Brand power: Stores opened in the Tokyo metropolitan area



Medium-term plan



A Message from the Executive Officer

Kaori Ishikawa

Executive Officer,
Division Manager of Cosmetic and Drug Store Operations

Expanding our chain of unique specialty stores with a broad range of cosmetics for a fast-changing market

Sales promotion strategies in Japan's cosmetics market have changed, with brands moving away from saturation advertising campaigns using TV commercials and other mainstream media to highly targeted promotions via social media. That has opened up the market to a raft of new products from less well-known manufacturers, and many of those products are gaining popularity among young women.

In response, we are rapidly adjusting our in-store displays by closely watching the latest trends and introducing products from emerging manufacturers. Thanks to that merchandising approach, *ainz & tulpe* is now recognized as a chain of specialty cosmetics stores that always stocks the latest trend-setting products.

As that reputation has become more widespread, we have been able to attract more customers, as well as improve our negotiating position with manufacturers in product purchasing. That in turn has supported higher sales of original brands – a key factor behind the move into profit in the cosmetic and drug store business. We aim to expand the business further by opening new stores based on this retail concept, focusing on major cities.

We are targeting sales of ¥50 billion, a gross margin of 42.0% and an operating margin of 7.0% in the fiscal year ending April 30, 2022. However, we are unlikely to achieve those goals with the current number of stores, SKUs and original brands. We will continue to open new stores, but to achieve our goals we also need to raise our game in other areas, such as pushing forward the development of private merchandise brands and working with national brands on product tie-ups.

Responding to ESG Issues

AIN HOLDINGS aims to create value by addressing social issues through its two core businesses – the dispensing pharmacy business, which plays a key role in society, and the cosmetic and drug store business, which helps people lead full lives through health and beauty.

We are implementing a range of initiatives covering the environment, society and corporate governance (ESG). In this section, we focus on the Group's social initiatives, which are backed by our business activities and strengths.

Environment

▶ Helping to reduce environmental impact

- Building a management system to ensure minimal use of resources
- Creating an environmental risk management system at Group companies and businesses
- Reducing environmental impact at outsourced manufacturers
- Raising environmental awareness at pharmacies and cosmetic and drug stores
- Reducing resource use and CO_2 emissions at pharmacies and cosmetic and drug stores

Society

▶ Addressing social issues

- Promoting diversity
- Empowering women — Case Study 1
- Creating better working environments — Case Study 1
- Implementing our pharmacy-led project to improve efficiency
- Providing endowments for university courses — Case Study 2
- Conducting joint research — Case Study 2

Governance

▶ Strengthening corporate governance

- Evaluating the effectiveness of the Board of Directors
- Reinforcing governance at pharmacies and cosmetic and drug stores — Case Study 3
- Adjusting the remuneration system for executives
- Tightening selection criteria for executive candidates
- Promoting diversity (increase of the female executive ratio)
- Strengthening risk management (including measures to reduce dispensing errors) — Case Study 3
- Reinforcing compliance

Society Case Study 1

Social issue: Empowering women / Improving workplace environments

AIN Group's initiatives: Creating better workplaces for women

AIN HOLDINGS has a particularly high ratio of female employees (79.5% as of April 30, 2018). That is one reason we are actively supporting women's participation and career advancement in the workplace. We have put in place systems to ensure our female employees can feel at ease about continuing to work for the AIN Group, even after major life events such as marriage or childbirth. We are also empowering women through training courses designed to support career advancement, aiming to increase the number of women in management positions. Our efforts in this area have been recognized by the government. AIN PHARMACIEZ, our main operating subsidiary, was awarded Kurumin certification in April 2015 due to its support for parenting and childcare. The company was also awarded the highest Level 3 Eruboshi certification in March 2018 for supporting women's participation and career advancement in the workplace Kurumin and Eruboshi marks are awarded by Japan's Ministry of Health, Labour and Welfare.

The AIN Group as a whole is also actively working to create better workplace environments to motivate its employees. To ensure our personnel achieve a proper work-life balance, we are encouraging them to take more paid holidays and cut back overtime hours. In addition to setting up personnel support systems, we are focusing on creating workplaces where our employees can actually use those systems.

▶ Ratio of women in management positions

All management positions*2	30.9%
Directors	16.7%
Executive officers	31.3%
General managers	18.2%

▶ Number of employees taking maternity, childcare and reduced working hours for childcare (employees)

Maternity leave	341
Childcare leave	512
Reduced working hours for childcare	630

Notes:
1. Data is for the fiscal year ended April 2018
2. All management positions: section leaders and higher management grades in head office divisions, pharmacy managers and store managers

Society Case Study 2

Social issue: Supporting advances in healthcare, improving quality of dispensing pharmacies

AIN Group's initiatives: University course endowments and joint research projects

Cooperation between pharmacists – who stand at the frontline of healthcare – and educational and research institutions, will play a vital role in driving the development of the medical and pharmaceutical sectors. AIN HOLDINGS is actively working with the University of Tokyo, Kyoto University, Osaka University, Sapporo Medical University and Asahikawa Medical University through course endowments and joint research projects to support research and development in the medical and pharmaceutical fields.

As part of efforts to improve local healthcare provision, we have also teamed up with universities and other partners to carry out advanced clinical simulations. Specifically, we are running simulations with Hokkaido University and Caress Sapporo to acquire knowledge and technologies for home healthcare, a promising growth field.

Advanced clinical simulations

Governance Case Study 3

Social issue: Strengthening risk management/ Reinforcing compliance

AIN Group's initiatives: Reinforcing compliance in pharmacy operations

Dispensing errors are an inherent risk in pharmacy operations. We view dispensing errors as an issue that can affect the public's trust in the AIN Group, so we respond rapidly to address any problem that arises. Written on the back of every employee name badge is the process that should be followed in the event of a dispensing error or complaint from a patient, ensuring our customers receive an immediate response (See the photograph lower right). In addition, supervising pharmacists, who are responsible for managing pharmacy operations, are required to contact the Company through a direct hotline in the event of a compliance violation in their pharmacy, in order to limit any damage from misconduct or other issues.

PDA devices to prevent selection of incorrect drugs from shelves

Preparations to ensure an immediate response by all staff

(As of July 27, 2018)

Corporate Governance

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.

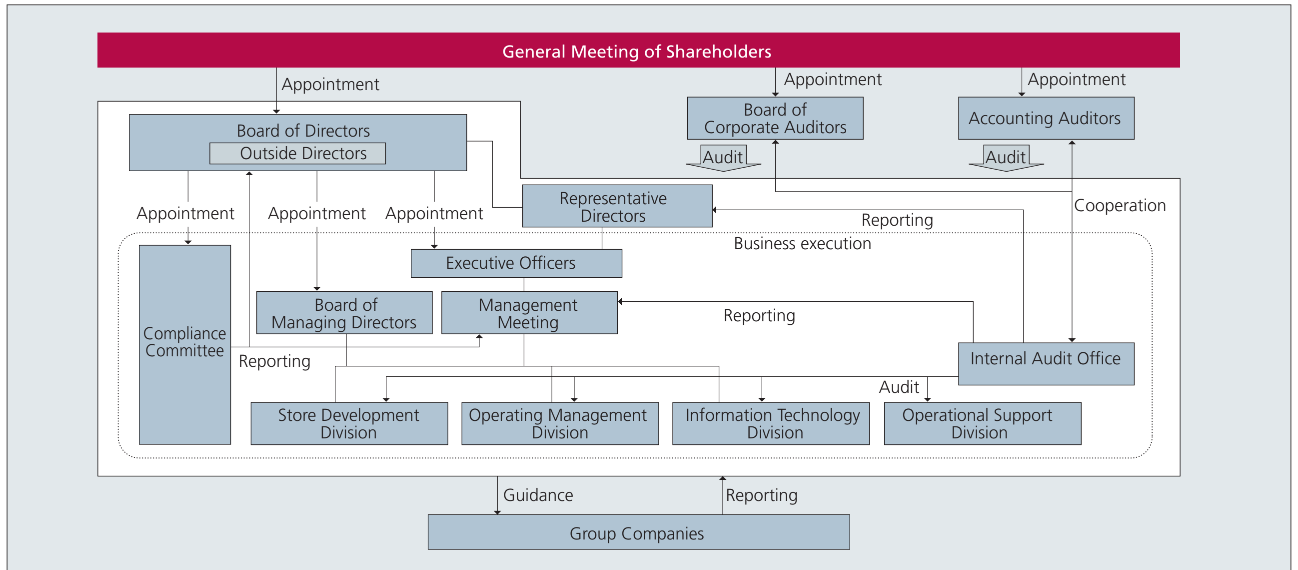
To minimize potential risks, the Internal Audit Office ensures comprehensive compliance with basic pharmacy regulations, while the Safety Policy Office conducts analysis and implements measures to prevent drug dispensing errors.

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	12 (including 4 outside directors)
Number of corporate auditors	3 (including 2 outside corporate auditors)
Board of Directors meetings*	Number of meetings: 12 Examples of resolutions: Annual budget, issues related to new businesses, store openings
Outside Director attendance at Board of Directors meetings*	97.8%
Outside Corporate Auditor attendance at Board of Directors meeting*	91.7%
Board of Corporate Auditor meetings*	Number of meetings: 12 Examples of resolutions: Audit policy, audit plans and business division audits
Management meetings*	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, Shigeki Kimura and Noriko Endo 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

*Data is for the fiscal year ended April 2018.



OUTSIDE DIRECTORS AND OUTSIDE CORPORATE AUDITORS

The Board of Directors is comprised of twelve members, including four outside directors. Two of the Company's three corporate auditors are outside corporate auditors. There are no conflicts of interest between the Company and its outside directors and outside corporate auditors. The outside directors and outside corporate auditors have a number of functions and roles to fulfill in the Group's corporate governance system. Drawing on their specialist knowledge and experience, they contribute to the Group's business strategy, discussions on board resolutions, and internal control mainly by monitoring business execution and providing input at meetings of the Board of Directors from a neutral, independent and objective standpoint.

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

Reasons for selection of outside directors	
Ko Mori	Mr. Ko Mori was appointed as an outside director to broadly contribute to the Company's activities by providing advice to the Board of Directors and other bodies and by monitoring business execution, drawing on his extensive knowledge and experience as the manager of a major trading company. Mr. Mori is judged to be a highly independent and objective appointment, as he has no affiliation with the parent company, its subsidiaries, major corporate shareholders or key customers of the Group.
Yasuyuki Hamada	Mr. Yasuyuki Hamada was appointed as an outside director to broadly contribute to the Company's activities by providing advice to the Board of Directors and other bodies and by monitoring business execution. Although Mr. Hamada has no experience of business management, he is able to draw on his specialist knowledge and experience as an academic, particularly in the field of economics and finance. Since April 2010, Mr. Hamada has been an emeritus professor at Hokkaido University, which has received donations from the Company in the past. However, he is judged to be a sufficiently independent appointment, as the purpose of the donations was limited and they were not directly related to Mr. Hamada's research activities.
Shigeki Kimura	Mr. Shigeki 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.
Noriko Endo	Ms. Noriko Endo 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 activities, drawing on her extensive knowledge and experience from positions in the editing department of an economics magazine and a public research institution, as well as knowledge gained from market research in Japan and overseas. Ms. Endo previously worked for the Company in an advisory capacity, but the level of mutual dependence between Ms. Endo and the Company is low, as her contract was completed at the end of May 2018. There are no other affiliations that raise questions about Ms. Endo's independence from the Company's senior management team. Ms. Endo is judged to have no conflicts of interest with ordinary shareholders and has been designated as an independent officer.

Reasons for selection of outside corporate auditors	
Akira Ibayashi	Mr. 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	Mr. 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 2018 is as follows:

Item	Total remuneration (¥ million)	Remuneration by type (¥ million)		Number of eligible individuals
		Basic remuneration	Bonus	
Directors (excluding outside directors)	181	141	39	6
Corporate auditors (excluding outside corporate auditors)	7	7	–	1
Outside directors and outside corporate auditors	21	21	–	4

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 2018 are as follows:

(¥ thousand)

	Compensation paid for audit certification activities	Compensation paid for * non-audit activities
The Company	39,700	–
Consolidated subsidiaries	7,500	–
Total	47,200	–

(As of July 27, 2018)

*Figures in brackets show the number of AIN HOLDINGS shares held as of April 30, 2018.

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. (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)

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
(9,400 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, business support and information technology
(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 Cosmetic and Drug Store Business
May 2003	Managing Director
May 2012	Senior Managing Director of the Company
November 2015	Senior Managing Director and Representative Director of the Company (current post)
July 2018	Head of Information and Technology Division (current post)

Miya Oishi

Managing Director
Senior General Manager, Operations Department
(5,000 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
In charge 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 Cosmetic and Drug 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)

Hidehiro Awaji

Director
(4,600 shares)

December 1983	Joined Daiichi Medical Testing Laboratories Co., Ltd. (now AIN HOLDINGS INC.)
December 2000	Manager of Tohoku Branch
May 2004	Manager of Hokkaido Branch
August 2009	Executive Officer
May 2010	Senior General Manager for Western Japan
November 2015	Managing Director of AIN PHARMACIEZ INC., responsible for Western Japan
May 2018	Senior Managing Director of AIN PHARMACIEZ INC., responsible for Western Japan (current post)
July 2018	Director of the Company (current post)

Masato Sakai

Director
(7,400 shares)

April 1995	Joined Nisshin Oil Mills, Ltd.
January 1999	Joined the Company
May 2004	Manager of Tohoku Branch
May 2006	Head of Corporate Planning Office
July 2011	Executive Officer
June 2014	President and Representative Director of Asahi Pharmacy Co., Ltd. (current post)
December 2016	Director of AIN PHARMACIEZ INC., responsible for Eastern Japan (current post)
July 2018	Director of the Company (current post)

Ko Mori

Director Outside Independent
(- shares)

April 1971	Joined Marubeni Corporation
April 2002	Executive Officer and General Manager 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 Chairman 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.
July 2017	Outside Director of the Company (current post)

Noriko Endo

Director Outside Independent
(200 shares)

June 1994	Joined DIAMOND, Inc.
April 2004	Head and Director of Tokyo Office, Kyushu University
April 2006	Deputy Editor of Diamond Weekly, DIAMOND, Inc.
September 2013	Visiting Researcher at Policy Alternatives Research Institute, University of Tokyo (current post)
April 2015	Project Professor, Graduate School of Media and Governance, Keio University (current post)
July 2018	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)
July 2016	Outside Corporate Auditor of the Company (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.

In drug price revisions in April 2018, the average drug price declined 1.36% on a government expenses basis and 6.17% on a drug price basis (including exceptional special reductions for high-cost drugs, the declines were 1.65% and 7.48%, respectively). Furthermore, the role of pharmacies located near hospitals was reviewed, with primary care dispensing pharmacies and pharmacists receiving a higher evaluation as part of government efforts to drive a structural shift from dispensing focused only on dispensing drugs to dispensing focused on services that contribute to local healthcare services.

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, 2018, the Japanese economy improved at a moderate pace amid signs of a pickup in consumer spending and improving corporate earnings and employment conditions.

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 cosmetic and drug store business.

For the fiscal year under review, net sales rose 8.2% year on year to ¥268,385 million, operating income increased 34.7% to ¥19,622 million, ordinary income increased 33.5% to ¥20,129 million and profit attributable to owners of parent increased 32.9% year on year to ¥10,567 million.

As of the end of the fiscal year, the number of stores in the Group totaled 1,077, a net decrease of 41 stores from the end of the previous fiscal year.

Effective from the fiscal year under review, the Group has changed the name of the drug and cosmetic store business to the cosmetic and drug store business. This is a change in name only and does not affect segment information.

BUSINESS RESULTS BY SEGMENT

Dispensing Pharmacy Business

To ensure our pharmacists and dispensing pharmacies fulfill their primary care role, the Group continues to build links with local medical service providers, strengthen pharmaceutical management and guidance based on the integrated 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 279 new pharmacist graduates joining the Group in April 2018. 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. Store operations are also being overhauled.

During the fiscal year under review, the dispensing pharmacy business reported sales and profit growth with sales rising 7.6% year on year to ¥238,645 million and segment income increasing 18.6% to ¥22,668 million.

During the same period, the Group opened 36 new dispensing pharmacies, including those acquired through M&A deals, and closed 73 pharmacies, resulting in a total of 1,029.

Cosmetic and Drug Store Business

In the cosmetic and drug 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* cosmetic and drug stores in the Tokyo metropolitan area and worked to make stores more appealing by refurbishing existing stores and strengthening merchandise lineups, particularly cosmetics and drug products. Earnings also improved, supported by lower costs due to greater business efficiency and by an increase in the gross margin due to active efforts to develop *LIPS and HIPS*, *cocodecica* and other original brands and an overhaul of procurement activities.

As a result, for the fiscal year under review, the cosmetic and drug store business reported an increase in sales of 12.8% year on year to ¥24,117 million. And segment income was ¥657 million, compared with segment loss of ¥866 million a year earlier. During the fiscal year under review, the Group opened the *ainz & tulpe* Odakyu Department Store Machida (Machida City, Tokyo), *ainz & tulpe* MARUI KICHIJOJI (Musashino City, Tokyo), *ainz & tulpe* Grand Emio TOKOROZAWA (Tokorozawa City, Saitama) and *ainz* Grand Emio TOKOROZAWA (Tokorozawa City, Saitama) and closed eight stores, resulting in a total of 48 cosmetic and drug stores at the end of the fiscal year.

Other Businesses

Net sales from other businesses rose 14.2% year on year to ¥5,623 million and segment loss was ¥1,164 million compared with the loss of ¥1,496 million a year earlier.

11-YEAR FINANCIAL SUMMARY

(¥ million)

	2008/4	2009/4	2010/4	2011/4	2012/4	2013/4	2014/4	2015/4	2016/4	2017/4	2018/4
For the year:											
Net sales	106,231	115,387	125,495	129,387	142,790	154,560	170,225	187,904	234,843	248,110	268,385
Selling, general and administrative expenses	9,203	9,948	10,744	11,981	12,839	14,740	15,635	17,509	23,915	27,529	28,370
Operating income	4,444	5,296	6,492	8,107	10,253	9,701	10,113	11,452	14,619	14,563	19,622
Profit attributable to owners of parent	1,615	2,127	3,131	3,916	4,899	5,075	5,259	6,197	7,917	7,949	10,567
Capital expenditures	1,914	2,891	2,573	2,750	5,870	7,235	6,328	6,413	11,209	4,786	5,311
Depreciation and amortization	968	1,119	1,286	1,560	1,749	2,212	2,258	2,553	3,259	3,687	3,596
At the end of the year:											
Equity capital*1	12,040	16,071	21,445	29,450	33,695	38,312	42,122	47,928	53,258	60,105	96,697
Total net assets	12,707	16,109	21,492	29,498	33,745	38,356	42,240	48,046	53,324	60,178	96,733
Total assets	57,546	62,032	65,898	76,940	85,908	95,839	101,382	114,149	139,888	156,323	183,435
Number of shares outstanding (shares)	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	34,079,508
Number of employees (persons)	2,582	2,741	2,918	3,104	3,326	3,551	3,806	4,429	5,511	6,469	6,498
Number of stores: Dispensing pharmacy business	356	375	397	448	494	560	616	754	881	1,066	1,029
Number of stores: Drug and cosmetic store business	45	46	49	53	56	61	59	56	52	52	48
Per share information (¥):											
Net income*2	71.18	85.37	114.04	127.83	153.67	159.18	165.04	195.45	249.69	250.71	310.08
Net assets*2	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	2,729.44
Cash dividends*2	10.0	15.0	20.0	22.5	25.0	30.0	30.0	30.0	40.0	50.0	50.0
Stock information (based on the closing price as of April 30) (¥):											
Stock price	1,490	1,481	2,920	3,115	4,290	4,765	4,495	4,245	5,340	7,720	7,300
Ratios (%):											
Operating margin	4.2	4.6	5.2	6.3	7.2	6.3	5.9	6.1	6.2	5.9	7.3
Return on sales*3	1.5	1.8	2.5	3.0	3.4	3.3	3.1	3.3	3.4	3.2	3.9
Return on assets (ROA)*4	3.0	3.6	4.9	5.5	6.0	5.6	5.3	5.8	6.2	5.4	6.2
Return on equity (ROE)*5	14.2	15.1	16.7	15.4	15.5	14.1	13.1	13.8	15.6	14.0	13.5
Shareholders' equity ratio	20.9	25.9	32.5	38.3	39.2	40.0	41.5	42.0	38.1	38.4	52.7

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

*1: Equity capital = Total net assets – Non-controlling interests

*2: 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.

*3: Return on sales = Profit attributable to owners of parent / Net sales × 100

*4: Return on assets = Profit attributable to owners of parent / Total assets (yearly average) × 100

*5: 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 ¥27,112 million from the end of the previous fiscal year to ¥183,435 million. That mainly reflected an increase in cash and deposits from the public offering and private placements.

Current assets at the end of the fiscal year under review totaled ¥96,169 million, an increase of ¥30,749 million from ¥65,420 million at the end of the previous fiscal year. This mainly reflected an increase of ¥34,004 million in cash on hand and in banks to ¥63,779 million.

Fixed assets at the end of the fiscal year under review totaled ¥87,162 million, a decline of ¥3,740 million from ¥90,902 million at the end of the previous fiscal year. The Company's assets increased through investment in new stores and expansion in the asset base at consolidated subsidiaries that become part of the Group through M&A deals, but in the fiscal year under review, the decline in fixed assets mainly reflected a lack of M&A deals.

The balance of current liabilities at the end of the fiscal year under review was ¥70,235 million, a decline of ¥2,720 million from ¥72,955 million at the end of the previous fiscal year, while the balance of long-term liabilities was ¥16,467 million, down ¥6,721 million from ¥23,188 million a year earlier.

As a result, the balance of total liabilities was ¥86,702 million, a decline of ¥9,441 million from ¥96,144 million at the end of the previous fiscal year.

The balance of net assets at the end of the fiscal year under review was ¥96,733 million, an increase of ¥36,555 million from ¥60,178 million at the end of the previous fiscal year. As a result, the shareholders' equity ratio increased 14.3 percentage points to 52.7%, compared with 38.4% at the end of the previous fiscal year. ROA improved 0.8 of a percentage point to 6.2% and ROE declined 0.5 of a percentage point to 13.5%.

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, the same as the previous fiscal year.

In view of our profit forecasts, plans for investment and other factors, we intend to pay an ordinary dividend from retained earnings of ¥55 per share in the fiscal year ending April 30, 2019.

CASH FLOWS

In the fiscal year under review, cash and cash equivalents ("cash") increased ¥33,998 million (116.3%) year on year to ¥63,233 million. This reflected operating cash flow generated by dispensing pharmacy and cosmetic and drug store businesses, which was mainly used to actively invest in new store openings and M&A. Some cash was also retained to provide constant access to a certain level of funds.

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

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥21,656 million, compared with net cash provided of ¥18,409 million in the previous fiscal year.

The main items that were positive for cash flow were income before income taxes of ¥17,852 million, as well as depreciation and amortization of ¥3,596 million and amortization of goodwill of ¥3,937 million related to business expansion through new store openings and M&A.

The main item negative for cash flow was income taxes paid of ¥5,487 million.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥5,281 million, compared with net cash used of ¥11,183 million in the previous fiscal year.

This mainly reflected payments of ¥3,134 million for purchases of property, plant and equipment related to the opening of new cosmetic and drug stores and dispensing pharmacies, and ¥1,310 million for purchases of shares in subsidiaries due to changes in the scope of consolidation related to shares acquired in seven companies through M&A deals.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥17,623 million, compared with net cash provided of ¥116 million in the previous fiscal year.

The main cash inflow was ¥27,631 million from the issue of new shares and sale of treasury stock related to a public offering and private placements.

The main cash outflows were net repayment of ¥7,775 million from short-term and long-term debt repayment and proceeds, and ¥1,585 million for cash dividends paid.

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 the 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 cosmetic and drug 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 88.9% of net sales in the fiscal year under review, we plan to continue the multi-store operation mainly based on dispensing pharmacies. Accordingly, the Group's operating results may be affected by the success or failure of the store opening policies 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 cosmetic and drug 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 ¥63,779 million, compared with a total balance of short- and long-term debt of ¥18,228 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, 2018

ASSETS	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1(1)) 2018
Current assets:			
Cash on hand and in banks (Notes 2 and 4)	¥ 63,779	¥ 29,775	$ 582,989
Notes and accounts receivable (Note 4)	10,466	9,990	95,667
Other accounts receivable	7,751	9,402	70,850
Inventories (Note 3)	9,580	11,668	87,568
Deferred tax assets (Note 10)	1,611	1,166	14,725
Short-term loans	641	632	5,859
Other current assets	2,470	2,829	22,577
Allowance for doubtful accounts	(131)	(44)	(1,197)
Total current assets	96,169	65,420	879,058
Property, plant and equipment (Note 6):			
Buildings and structures, net	14,934	15,365	136,508
Land	10,041	9,958	91,782
Construction in progress	118	316	1,078
Other property, plant and equipment, net	2,759	2,823	25,219
Total property, plant and equipment	27,853	28,464	254,597
Investments and other assets:			
Investment securities (Notes 4 and 5)	2,375	2,435	21,709
Deferred tax assets (Note 10)	2,216	2,167	20,255
Net defined benefit asset (Note 9)	9	22	82
Long-term loans	789	1,194	7,212
Deposits and guarantees	11,339	10,443	103,647
Goodwill	38,011	40,939	347,449
Other intangible fixed assets	2,121	2,170	19,387
Other investments and other assets	2,985	3,378	27,285
Allowance for doubtful accounts	(540)	(312)	(4,936)
Total investments and other assets	59,309	62,438	542,129
Deferred Assets:			
Share issuance cost	103	-	941
Total deferred assets	103	-	941
Total assets	¥ 183,435	¥ 156,323	$ 1,676,736

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1(1)) 2018
Current liabilities:			
Accounts payable (Note 4)	¥ 38,728	¥ 39,325	$ 354,003
Short-term debt (Notes 4 and 7)	6,717	7,596	61,398
Accrued income taxes	4,947	2,898	45,219
Deposits received	12,675	14,223	115,859
Allowance for bonuses to employees	1,911	1,903	17,468
Allowance for bonuses to directors	16	16	146
Reserve for reward obligations	420	410	3,839
Provision for sales returns	6	14	54
Other current liabilities	4,810	6,566	43,967
Total current liabilities	70,235	72,955	642,001
Long-term liabilities:			
Long-term debt (Notes 4 and 7)	11,511	18,254	105,219
Lease obligations	632	958	5,776
Net defined benefit liability (Note 9)	2,625	2,331	23,994
Other long-term liabilities	1,698	1,644	15,521
Total long-term liabilities	16,467	23,188	150,521
Net Assets: (Note 11)			
Shareholders' equity			
Common stock (Note 14)	21,894	8,682	200,127
Authorized - 44,000,000 shares in 2018 and 2017			
Issued - 35,428,212 shares in 2018 and 31,888,212 shares in 2017			
Capital surplus	20,500	6,367	187,385
Retained earnings	54,268	45,286	496,051
Treasury stock (688 shares in 2018 and 180,644 shares in 2017)	(1)	(419)	(9)
Total shareholders' equity	96,662	59,918	883,564
Accumulated other comprehensive income:			
Unrealized holding gains on securities	84	86	767
Remeasurments of defined benefit plans	(50)	101	(457)
Total accumulated other comprehensive income	34	187	310
Non-controlling interests	36	73	329
Total net assets	96,733	60,178	884,213
Total liabilities and net assets	¥ 183,435	¥ 156,323	$ 1,676,736

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED APRIL 30, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2018	2017	2018
Net sales (Note 15)	¥ 268,385	¥ 248,110	$ 2,453,244
Cost of sales	220,392	206,017	2,014,552
Gross profit	47,993	42,092	438,692
Selling, general and administrative expenses	28,370	27,529	259,323
Operating income	19,622	14,563	179,360
Other income (expense):			
Interest and dividend income	101	108	923
Gains on investments in partnership	136	63	1,243
Commissions received	61	44	557
Real estate rental revenue	181	193	1,654
Consignment income	201	149	1,837
Technical advisory fee	70	62	639
Gains on sales of fixed assets	76	11	694
Gains on sales of investment securities	8	264	73
Gain on transfer of business	59	32	539
Refund of premium for cancelled insurance	31	63	283
Interest expenses	(117)	(143)	(1,069)
Losses on sales of accounts receivables	(71)	(67)	(648)
Rent expenses on real estates	(88)	(89)	(804)
Provision of allowance for doubtful accounts	(200)	-	(1,828)
Losses on disposal and sales of fixed assets	(624)	(488)	(5,703)
Impairment losses on fixed assets	(1,175)	(453)	(10,740)
Directors' retirement benefits	(127)	(11)	(1,160)
Bad debts written off	-	(216)	-
Loss on valuation of investments in capital	(440)	-	(4,021)
Other, net	148	220	1,352
	(1,770)	(255)	(16,179)
Profit before income taxes	17,852	14,307	163,180
Income taxes (Note 10):			
Current	7,863	6,040	71,873
Deferred	(540)	310	(4,936)
	7,322	6,350	66,928
Profit	10,530	7,956	96,252
(Loss) profit attributable to non-controlling interests	(37)	7	(338)
Profit attributable to owners of parent	¥ 10,567	¥ 7,949	$ 96,590

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED APRIL 30, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2018	2017	2018
Profit	¥ 10,530	¥ 7,956	$ 96,252
Other comprehensive income:			
Unrealized holding (losses) gains on securities	(1)	149	(9)
Remeasurements of defined benefit plans, net of tax	(152)	16	(1,389)
Total other comprehensive (loss) income	(153)	166	(1,398)
Total comprehensive income	10,376	8,122	94,844
Comprehensive income attributable to owners of parent	10,413	8,115	95,182
Comprehensive (loss) income attributable to non-controlling interests	(37)	7	(338)

See accompanying notes.

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2018

	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, 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
Issuance of new shares	3,540	13,212	13,212	-	-	26,424	-	-	-	-	26,424
Profit attributable to owners of parent	-	-	-	10,567	-	10,567	-	-	-	-	10,567
Cash dividends paid	-	-	-	(1,585)	-	(1,585)	-	-	-	-	(1,585)
Acquisition of treasury stock	-	-	-	-	(0)	(0)	-	-	-	-	(0)
Disposal of treasury stock	-	-	921	-	418	1,339	-	-	-	-	1,339
Net change in items other than those in shareholders' equity	-	-	-	-	-	-	(1)	(152)	(153)	(37)	(190)
Net changes during the year	3,540	13,212	14,133	8,982	417	36,744	(1)	(152)	(153)	(37)	36,554
Balance at April 30, 2018	35,428	¥ 21,894	¥ 20,500	¥ 54,268	¥ (1)	¥ 96,662	¥ 84	¥ (50)	¥ 34	¥ 36	¥ 96,733

	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, 2017	$ 79,360	$ 58,199	$ 413,948	$ (3,829)	$ 547,696	$ 786	$ 923	$ 1,709	$ 667	$ 550,073
Issuance of new shares	120,767	120,767	-	-	241,535	-	-	-	-	241,535
Profit attributable to owners of parent	-	-	96,590	-	96,590	-	-	-	-	96,590
Cash dividends paid	-	-	(14,488)	-	(14,488)	-	-	-	-	(14,488)
Acquisition of treasury stock	-	-	-	(0)	(0)	-	-	-	-	(0)
Disposal of treasury stock	-	8,418	-	3,820	12,239	-	-	-	-	12,239
Net change in items other than those in shareholders' equity	-	-	-	-	-	(9)	(1,389)	(1,398)	(338)	(1,736)
Net changes during the year	120,767	129,186	82,102	3,811	335,868	(9)	(1,389)	(1,398)	(338)	334,131
Balance at April 30, 2018	$ 200,127	$ 187,385	$ 496,051	$ (9)	$ 883,564	$ 767	$ (457)	$ 310	$ 329	$ 884,213

See accompanying notes.

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2018

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1(1)) 2018
Cash flows from operating activities:			
Profit before income taxes	¥ 17,852	¥ 14,307	$ 163,180
Depreciation and amortization	3,596	3,687	32,870
Amortization of goodwill	3,937	3,654	35,987
Impairment losses on fixed assets	1,175	453	10,740
Loss on valuation of investments in capital	440	-	4,021
Increase (decrease) in allowance for doubtful accounts	313	(15)	2,861
Increase in net defined benefit liability	157	233	1,435
Increase in allowance for bonuses to employees	0	197	0
Interest and dividend income	(101)	(108)	(923)
Interest expenses	117	143	1,069
Gains on investments in partnerships	(135)	(52)	(1,234)
Gains on sales of investment securities	(2)	(263)	(18)
Losses on disposal and sales of fixed assets	548	477	5,009
(Increase) decrease in accounts receivable	(25)	5,369	(228)
Bad debts expenses	-	216	-
Decrease in inventories	2,278	449	20,822
Decrease in other assets	64	2,536	585
Decrease (increase) in other accounts receivable	1,685	(2,820)	15,402
Decrease in accounts payable	(1,076)	(4,340)	(9,835)
(Decrease) increase in other liabilities	(3,668)	2,007	(33,528)
Subtotal	27,157	26,135	248,235
Interest and dividends received	104	112	950
Interest paid	(117)	(143)	(1,069)
Income taxes paid	(5,487)	(7,695)	(50,155)
Net cash provided by operating activities	21,656	18,409	197,952
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(3,134)	(2,415)	(28,647)
Proceeds from sales of property, plant and equipment	421	513	3,848
Proceeds from sales of investment securities	84	869	767
Purchases of subsidiaries' shares resulting in obtaining controls	(1,310)	(9,697)	(11,974)
Payments for loans receivable	(404)	(349)	(3,692)
Proceeds from collections of loans receivable	482	448	4,405
Payments for purchase of intangible fixed assets	(574)	(1,032)	(5,246)
(Increase) decrease in other investments	(868)	13	(7,934)
Proceeds from withdrawal of time deposits	152	534	1,389
Other, net	(128)	(68)	(1,170)
Net cash used in investing activities	(5,281)	(11,183)	(48,272)
Cash flows from financing activities:			
Net repayments from short-term debts	(119)	(391)	(1,087)
Proceeds from long-term debts	-	11,729	-
Repayments of long-term debts	(7,656)	(9,217)	(69,981)
Repayments of lease obligations	(646)	(735)	(5,904)
Proceeds from issuance of common shares	26,292	-	240,329
Proceeds from sales of treasury stock	1,339	-	12,239
Cash dividends paid	(1,585)	(1,268)	(14,488)
Other, net	(0)	(0)	(0)
Net cash provided by financing activities	17,623	116	161,087
Net increase in cash and cash equivalents	33,998	7,342	310,767
Cash and cash equivalents at beginning of year	29,234	21,892	267,221
Cash and cash equivalents at end of the year (Note 2)	¥ 63,233	¥ 29,234	$ 577,998

See accompanying notes.

AIN HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2018 AND 2017

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, 2018, which was ¥109.4 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

(2) Consolidated statement of cash flows

In preparing the consolidated statement of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(3) Basis of consolidation and accounting for investments in affiliates

The consolidated financial statements comprise the accounts of the Company and its 73 and 87 subsidiaries as of April 30, 2018 and 2017, 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., MEDIWEL Corp. and AYURA LABORATORIES INC. close its accounts on April 30. The account closing date for 10 consolidated subsidiaries in the dispensing pharmacy business is the end of January. The account closing dates for six consolidated subsidiaries in the dispensing pharmacy business are the end of February. The account closing dates for two consolidated subsidiaries in the dispensing pharmacy business are the end of August and September, respectively. The account closing date of other consolidated subsidiaries is the end of March 31. Financial statements as of these respective closing dates are used in preparing the consolidated financial statements. However, necessary adjustments are made to important transactions that occur between these subsidiaries' account closing dates and the account closing date for the consolidated financial statements.

(4) Securities

The Company and its consolidated subsidiaries examine the intent of holding each security and classify those securities other than equity securities issued by subsidiaries and affiliates: (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are carried at fair value and held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gains or losses, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost.
Cost of securities sold is determined by the moving average method.

(5) Inventories

Dispensed drugs were stated at lower of cost or market, cost being determined using the gross average method. Merchandise was stated at lower of cost or market, cost being determined using the retail method. Supplies were stated at cost determined using the last purchase method.

(6) Depreciation and amortization

Depreciation of property, plant and equipment other than leased assets is computed by the declining-balance method at rates based on the useful lives, except that the straight-line method is applied to buildings acquired on or after April 1, 1998 and to facilities 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 vaule of assets other than the land is the disposal value from which costs of disposal are deducted, and its value in use is calculated by discounting the future cash flows at a discount rate of 1.4%.

(8) *Deferred charges*

Amortization of share issuance cost is computed by the straight-line method over three years.

(9) Allowance for doubtful accounts

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

(10) Bonuses to employees

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

(11) Bonuses to directors

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

(12) Reserve for reward obligations

In terms of the estimated redeemable amount of the purchase points given in the parent company's Cosmetic and Drug Store Business, the Company sets a reserve based on actual redemptions in the past.

(13) 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.

(14) 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.

(15) 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.

(16) 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.

(17) Consumption taxes

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

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

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

(18) Recoverability of deferred tax assets

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

(19) Unapplied accounting standards

Tax Effect Accounting
Implementation Guidance on Tax Effect Accounting (ASBJ Statement No. 28 issued February 16, 2018)
Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 revised February 16, 2018)
The treatment of future taxable temporary differences pertaining to shares of subsidiaries in the non-consolidated financial statements has been revised. Also, the treatment of recoverability of deferred tax assets in companies classified into Category 1 has been clarified.

The Company and its consolidated subsidiaries intend to adopt the Implementation Guidance from the beginning of the fiscal year ending April 30, 2019.

Effects of adoption of the Implementation Guidance are currently evaluated.

Revenue Recognition
Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 issued March 30, 2018)
Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 issued March 30, 2018)
The Accounting Standard and the Implementation Guidance provide comprehensive principles for revenue recognition. An entity applies the following five steps to recognize revenue.

1. Identify the contracts with a customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognize revenue when or as the performance obligation is satisfied

The Company and its consolidated subsidiaries intend to adopt the Accounting Standard and the Implementation Guidance from the beginning of the fiscal year ending April 30, 2022.

Effects of adoption of the Accounting Standard and the Implementation Guidance are currently evaluated.

(20) Reclassification and restatement

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

2. Cash and cash equivalents

(1) Reconciliations of cash on hand and in banks shown in the consolidated balance sheet and cash and cash equivalents shown in the consolidated statement of cash flows as of and for the years ended April 30, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash on hand and in banks	¥ 63,779	¥ 29,775	$ 582,989
Less: Time deposits with maturities exceeding three months	(546)	(540)	(4,990)
Cash and cash equivalents	¥ 63,233	¥ 29,234	$ 577,998

(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, 2018 and 2017 due to the acquisition of shares

(i) Acquisition of shares of seven companies in the dispensing pharmacy business and one other company for the year ended April 30, 2018

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
	2018	2018
Current assets	¥ 1,129	$ 10,319
Fixed assets	311	2,842
Goodwill	1,274	11,645
Current liabilities	(917)	(8,382)
Long-term liabilities	(137)	(1,252)
Acquisition cost of the companies	1,660	15,173
Historical costs of shares of affiliates that are not accounted for by the equity method	(2)	(18)
Gain on step acquisition	(49)	(447)
Cash and cash equivalents held by the companies	(298)	(2,723)
Net disbursement due to the acquisition	¥ 1,310	$ 11,974

(ii) 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
	2017
Current assets	¥ 9,019
Fixed assets	2,767
Goodwill	10,967
Current liabilities	(8,332)
Long-term liabilities	(3,347)
Acquisition cost of the companies	11,074
Cash and cash equivalents held by the companies	(1,377)
Net disbursement due to the acquisition	¥ 9,697

3. Inventories

Inventories at April 30, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Merchandise	¥ 9,372	¥ 11,402	$ 85,667
Supplies	208	266	1,901
	¥ 9,580	¥ 11,668	$ 87,568

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 cosmetic and drug 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 cosmetic and drug stores. 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 17 years from the date of borrowing, at the longest.

(c) Policies and systems for risk management
Management of credit risk (the risk that a business partner will default on its business transactions)

As the Company's notes and accounts receivable, which relate to sales, are mostly composed of prescription dispensing fees receivable from National Health Insurance associations and the Social Insurance Medical Care Fee Payment Fund, and most of other accounts receivable are also collected in a short period, no particular risk management is employed.

Securities held to maturity are based on the Company's Marketable Securities Investment Standards. Such investments are based on careful decisions, following internal screenings of investees and investment amounts. Furthermore, such investments are monitored regularly, determining the investee's financial status throughout the investment period to quickly determine and minimize potential repayment difficulties.

The Company manages default risk on lease deposits and guarantee deposits through the credit control upon making contract periods and regular credit screening.

Management of market risk (the risk of exchange and interest rate fluctuations)
The Company and its consolidated subsidiaries raise funds mainly through long-term debt. With regard to investment securities, the Company and its consolidated subsidiaries regularly check the financial conditions of the issuers of unlisted securities. The Company and its consolidated subsidiaries review on an ongoing basis the status of their holdings of listed securities, taking into consideration market conditions and their relationships with the issuing companies.

Management of liquidity risk associated with fund procurement (the risk of being unable to execute payments when due)
To manage liquidity risk, the Company and its consolidated subsidiaries create cash flow plans based on annual capital expenditures forecasts. These plans are updated each month, based on revised operating performance and forecast figures. To ensure the Company's ability to respond flexibly to sudden demands for funding in relation to M&A activities, the Company maintains a certain level of liquidity, including through issuance of new shares.

(2) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheet at April 30, 2018 and 2017 are summarized in the following table:

Assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Carrying value			
Cash on hand and in banks	¥ 63,779	¥ 29,775	$ 582,989
Notes and accounts receivable	10,466	9,990	95,667
Other accounts receivable	7,751	9,402	70,850
Investment securities	1,521	1,542	13,903
Deposits and guarantees	11,282	10,386	103,126
Total	94,800	61,096	866,544
Fair value			
Cash on hand and in banks	63,779	29,775	582,989
Notes and accounts receivable	10,466	9,990	95,667
Other accounts receivable	7,751	9,402	70,850
Investment securities	1,524	1,545	13,930
Deposits and guarantees	11,211	10,353	102,477
Total	94,732	61,066	865,923
Difference			
Cash on hand and in banks	-	-	-
Notes and accounts receivable	-	-	-
Other accounts receivable	-	-	-
Investment securities	3	2	27
Deposits and guarantees	(70)	(32)	(639)
Total	¥ (67)	¥ (30)	$ (612)

Liabilities

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Carrying value			
Accounts payable	¥ 38,728	¥ 39,325	$ 354,003
Short-term debt including current portion of long-term debt	6,717	7,596	61,398
Deposits received	12,675	14,223	115,859
Long-term debt	11,511	18,254	105,219
Total	69,633	79,400	636,499
Fair value			
Accounts payable	38,728	39,325	354,003
Short-term debt including current portion of long-term debt	6,717	7,606	61,398
Deposits received	12,675	14,223	115,859
Long-term debt	11,486	18,288	104,990
Total	69,608	79,444	636,270
Difference			
Accounts payable	-	-	-
Short-term debt including current portion of long-term debt	(0)	9	(0)
Deposits received	-	-	-
Long-term debt	(24)	34	(219)
Total	¥ (24)	¥ 43	$ (219)

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 ¥854 million ($7,806 thousand) and ¥892 million as of April 30, 2018 and 2017, respectively, are not readily determinable.

The redemption schedule for monetary claims and securities with maturity dates as of April 30, 2018 and 2017 are summarized as follows:

	Millions of yen			
	2018			
	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	¥ 63,240	¥ -	¥ -	¥ -
Notes and accounts receivable	10,466	-	-	-
Other accounts receivable	7,751	-	-	-
Investment securities				
Debt securities	155	5	-	-
Deposits received	2,134	4,444	2,470	2,289
Total	¥ 83,747	¥ 4,449	¥ 2,470	¥ 2,289

	Thousands of U.S. dollars			
	2018			
	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	$ 578,062	$ -	$ -	$ -
Notes and accounts receivable	95,667	-	-	-
Other accounts receivable	70,850	-	-	-
Investment securities				
Debt securities	1,416	45	-	-
Deposits received	19,506	40,621	22,577	20,923
Total	$ 765,511	$ 40,667	$ 22,577	$ 20,923

	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

5. Securities

(1) The following tables summarize acquisition costs, carrying values and differences of securities with available fair values as of April 30, 2018 and 2017:

Other securities:

Securities with carrying values exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Acquisition cost			
Equity securities	¥ 369	¥ 367	$ 3,372
Bonds	-	-	-
Limited partnerships and similar investments	9	17	82
Other	-	-	-
Total	378	384	3,455
Carrying value			
Equity securities	589	562	5,383
Bonds	-	-	-
Limited partnerships and similar investments	13	26	118
Other	-	-	-
Total	603	588	5,511
Difference			
Equity securities	219	195	2,001
Bonds	-	-	-
Limited partnerships and similar investments	4	9	36
Other	-	-	-
Total	¥ 224	¥ 204	$ 2,047

Other securities:

Securities with carrying values not exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Acquisition cost			
Equity securities	¥ 396	¥ 412	$ 3,619
Bonds	160	189	1,462
Limited partnerships and similar investments	451	411	4,122
Other	9	19	82
Total	1,018	1,034	9,305
Carrying value			
Equity securities	297	333	2,714
Bonds	160	189	1,462
Limited partnerships and similar investments	451	411	4,122
Other	9	19	82
Total	918	954	8,391
Difference			
Equity securities	(99)	(79)	(904)
Bonds	-	-	-
Limited partnerships and similar investments	-	-	-
Other	(0)	(0)	(0)
Total	¥ (99)	¥ (80)	$ (904)

Stocks of non-consolidated subsidiaries and affiliates were ¥162 million ($1,480 thousand) and ¥115 million at April 30, 2018 and 2017, 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, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total sales of other securities sold	¥ 84	¥ 869	$ 767
Related gains	8	264	73
Related losses	5	1	45

(3) The following table summarizes impairment losses on other securities in the years ended April 30, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Other securities with fair value	¥ 1	¥ -	$ 9
Other securities without fair value	0	-	0

6. Leases

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
	2018	2017	2018
Lease expense	¥ -	¥ 1	$ -
Reversal of impairment losses for leased assets	-	-	-
Depreciation	-	0	-
Interest expense	-	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		Thousands of U.S. dollars
	2018	2017	2018
Due within one year	¥ 1,502	¥ 1,508	$ 13,729
Due after one year	8,463	9,955	77,358
Total	¥ 9,966	¥ 11,463	$ 91,096

7. Short-term debt and long-term debt

Short-term debt and long-term debt at April 30, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Short-term bank loans with a weighted-average interest rate of 0.2%	¥ 56	¥ 151	$ 511
Current portion of long-term debt with a weighted-average interest rate of 0.3%	6,661	7,445	60,886
Current portion of lease obligation with a weighted-average interest rate of 1.1%	443	594	4,049
Long-term debt (2019-2034) with a weighted-average interest rate of 0.3%	11,511	18,254	105,219
Lease obligation (2019-2023) with a weighted-average interest rate of 1.2%	632	958	5,776
Total	¥ 19,304	¥ 27,403	$ 176,453

At April 30, 2018 and 2017, the carrying amounts of assets pledged as collateral for long-term debt are as follows:

Assets pledged as collateral:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Investment securities	¥ -	¥ 5	$ -
Total	¥ -	¥ 5	$ -

Liabilities corresponding to collateral:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Accounts payable	¥ -	¥ 1	$ -
Total	¥ -	¥ 1	$ -

The aggregate annual maturities of long-term debt at April 30, 2018 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2019	¥ 6,661	$ 60,886
2020	5,501	50,283
2021	3,697	33,793
2022	1,601	14,634
2023	539	4,926

The aggregate annual maturities of lease obligations at April 30, 2018 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2019	¥ 443	$ 4,049
2020	339	3,098
2021	187	1,709
2022	93	850
2023	12	109

8. Sales, disposal and impairment of fixed assets

(1) Gains and losses on sales of fixed assets for the years ended April 30, 2018 and 2017 are as follows:

Gains on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Buildings and structures	¥ 16	¥ 2	$ 146
Land	2	1	18
Other property, plant and equipment	14	8	127
Goodwill	41	-	374
Other intangible fixed assets	0	-	0
Other investments and other assets	1	-	9
Total	¥ 76	¥ 11	$ 694

Losses on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Buildings and structures	¥ 55	¥ 21	$ 502
Land	50	4	457
Other property, plant and equipment	3	10	27
Other intangible fixed assets	0	-	0
Other investments and other assets	42	3	383
Total	¥ 153	¥ 39	$ 1,398

(2) Losses on disposal of fixed assets for the years ended April 30, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Buildings and structures	¥ 242	¥ 155	$ 2,212
Other property, plant and equipment	46	23	420
Goodwill	11	158	100
Other intangible fixed assets	48	6	438
Deposits and guarantees	84	67	767
Other investments and other assets	25	3	228
Disposal cost	13	34	118
Total	¥ 471	¥ 449	$ 4,305

(3) For the years ended April 30, 2018 and 2017, the Company recognized impairment losses for the following property groups:

		Millions of yen		Thousands of U.S. dollars
		2018	2017	2018
Property group	Description of assets			
Stores	Buildings and structures	¥ 538	¥ 252	$ 4,917
	Buildings and structures, and goodwill	384	201	3,510
	Land, Buildings and structures, and goodwill	135	-	1,234
Real estate	Land	9	-	82
	Land, and Buildings and structures	108	-	987
	Total	¥ 1,175	¥ 453	$ 10,740

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 2018	Thousands of U.S. dollars 2018
Balance as of May 1, 2017	¥ 2,462	$ 22,504
Service costs	353	3,226
Interest cost on retirement benefit obligation	10	91
Actuarial losses incurred	103	941
Pension and severance payments	(154)	(1,407)
Other	12	109
Balance as of April 30, 2018	¥ 2,786	$ 25,466

	Millions of yen 2017
Balance as of May 1, 2016	¥ 2,300
Service costs	339
Interest cost on retirement benefit obligation	7
Actuarial gains incurred	(93)
Pension and severance payments	(113)
Other	¥ 21
Balance as of April 30, 2017	¥ 2,462

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

	Millions of yen 2018	Thousands of U.S. dollars 2018
Balance as of May 1, 2017	¥ 808	$ 7,385
Expected return on plan assets	6	54
Actuarial gains incurred	8	73
Business owner's contribution	96	877
Pension and severance payments	(59)	(539)
Balance as of April 30, 2018	¥ 859	$ 7,851

	Millions of yen 2017
Balance as of May 1, 2016	¥ 772
Expected return on plan assets	5
Actuarial losses incurred	(16)
Business owner's contribution	85
Pension and severance payments	(38)
Balance as of April 30, 2017	¥ 808

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

	Millions of yen 2018	Thousands of U.S. dollars 2018
Balance as of May 1, 2017	¥ 655	$ 5,987
Retirement benefit expenses	170	1,553
Business owner's contribution	(22)	(201)
Pension and severance payments	(96)	(877)
Increases due to a newly consolidated subsidiary	9	82
Other	(28)	(255)
Balance as of April 30, 2018	¥ 689	$ 6,297

	Millions of yen 2017
Balance as of May 1, 2016	¥ 525
Retirement benefit expenses	149
Business owner's contribution	(18)
Pension and severance payments	(71)
Increases due to a newly consolidated subsidiary	5
Other	64
Balance as of April 30, 2017	¥ 655

(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 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Funded retirement benefit obligation	¥ 1,266	¥ 1,190	$ 11,572
Plan assets	(1,015)	(952)	(9,277)
Subtotal	251	237	2,294
Unfunded retirement benefit obligation	2,364	2,071	21,608
Net of liability and asset reported on the consolidated balance sheet	2,616	2,309	23,912
Net defined benefit liability	2,625	2,331	23,994
Net defined benefit asset	(9)	(22)	(82)
Net of liability and asset reported on the consolidated balance sheet	¥ 2,616	¥ 2,309	$ 23,912

(5) Retirement benefit expenses for the years ended April 30, 2018 and 2017 comprised the following:

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Service costs	¥ 353	¥ 339	$ 3,226
Interest cost on retirement benefit obligation	10	7	91
Expected return on plan assets	(6)	(5)	(54)
Amortization of actuarial (gains) losses	(10)	28	(91)
Amortization of prior service costs	(34)	(34)	(310)
Retirement benefit expenses calculated under the simplified method	170	149	1,553
Retirement benefit expenses	¥ 483	¥ 484	$ 4,414

(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
	2018	2017	2018
Prior service costs	¥ (34)	¥ (34)	$ (310)
Actuarial (losses) gains	(104)	105	(950)
Total	¥ (139)	¥ 70	$ (1,270)

(b) Accumulated

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized prior service costs	¥ (13)	¥ (48)	$ (118)
Unrecognized actuarial gains (losses)	87	(16)	795
Total	¥ 74	¥ (64)	$ 676

(7) Plan assets

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

	2018	2017
Bonds	21%	7%
Stocks	13%	4%
General account	46%	47%
Separate account	15%	-
Other	5%	42%
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, 2018 and 2017 are principally as follows:

	2018	2017
Weighted average discount rate	0.61%	0.64%
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, 2018 and 2017 were 30.6%.

(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, 2018 and 2017:

	2018	2017
Statutory tax rate	30.6%	30.6%
Non-deductible expenses	0.6	1.0
Per capita inhabitant tax	0.4	0.7
Amortization of goodwill	6.3	6.6
Valuation allowance	0.4	0.4
Tax credits on tax system to expand income	(0.0)	(1.0)
Tax credits on tax system for promoting equipment and investment to improve productivity	-	(0.1)
Different tax rates applied to consolidated subsidiaries	4.8	3.9
Other	(2.0)	2.4
Effective tax rates	41.0%	44.4%

(2) Significant components of deferred tax assets and liabilities as of April 30, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Impairment losses	¥ 422	¥ 330	$ 3,857
Excess of depreciation	582	485	5,319
Excess of allowance for bonuses	648	596	5,923
Excess of reserve for rewards obligation	143	140	1,307
Net defined benefit liabilities	901	741	8,235
Goodwill on transfer of business	440	555	4,021
Asset retirement obligations	326	296	2,979
Income taxes payable	463	242	4,232
Accrued expense	289	194	2,641
Tax loss carryforwards	720	1,545	6,581
Other	845	282	7,723
Sub-total deferred tax assets	5,784	5,412	52,870
Valuation allowance	1,586	1,869	14,497
Total deferred tax assets	4,197	3,542	38,363
Deferred tax liabilities:			
Capitalized removal costs	(178)	(160)	(1,627)
Net unrealized holding gains on securities	(37)	(37)	(338)
Other accounts receivable	(423)	(309)	(3,866)
Other	(15)	(38)	(137)
Total deferred tax liabilities	(655)	(545)	(5,987)
Net deferred tax assets	¥ 3,542	¥ 2,997	$ 32,376

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 18 and 19 banks as of April 30, 2018 and 2017, respectively, to finance working capital requirements. The outstanding balances of such overdrafts as of April 30, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total overdraft available	¥ 21,450	¥ 23,950	$ 196,069
Amount utilized	32	32	292
Outstanding balance	¥ 21,418	¥ 23,918	$ 195,776

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 nil and ¥742 million as of April 30, 2018 and 2017, respectively.

14. Amounts per share

Net assets per share at April 30, 2018 and 2017 and basic and diluted earnings per share for the years then ended are as follows:

	Yen		U.S. dollars
	2018	2017	2018
Net assets per share	¥2,729.44	¥1,895.63	$ 24.94
Basic earnings per share	310.08	250.71	2.83
Diluted earnings per share	-	-	-
Cash dividends per share attributable to the year	50	50	0.45

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 Cosmetic and Drug 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 Cosmetic and Drug Store Business primarily consists of the management of cosmetic and drug 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, Cosmetic and Drug 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, 2018 and 2017 are summarized as follows:

	Millions of yen					
	2018					
	Dispensing pharmacy	Cosmetic and Drug store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 238,645	¥ 24,117	¥ 5,623	¥ 268,385	¥ -	¥ 268,385
Intersegment sales	-	-	278	278	(278)	-
Total sales	238,645	24,117	5,901	268,664	(278)	268,385
Segment income (loss)	22,668	657	(1,164)	22,161	(2,031)	20,129
Segment assets	¥ 155,572	¥ 9,943	¥ 10,016	¥ 175,532	¥ 7,903	¥ 183,435
Other						
Depreciation and amortization	¥ 2,229	¥ 334	¥ 387	¥ 2,951	¥ 191	¥ 3,143
Amortization of goodwill	3,910	-	27	3,937	-	3,937
Impairment losses	803	128	243	1,175	-	1,175
Increase of tangible and intangible assets	1,523	931	1,183	3,637	305	3,942

	Thousands of U.S. dollars					
	2018					
	Dispensing pharmacy	Cosmetic and Drug store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	$ 2,181,398	$ 220,447	$ 51,398	$ 2,453,244	$ -	$ 2,543,244
Intersegment sales	-	-	2,541	2,541	(2,541)	-
Total sales	2,181,398	220,447	53,939	2,455,795	(2,541)	2,543,244
Segment income (loss)	207,202	6,005	(10,639)	202,568	(18,564)	183,994
Segment assets	$ 1,422,047	$ 90,886	$ 91,553	$ 1,604,497	$ 72,239	$ 1,676,736
Other						
Depreciation and amortization	$ 20,374	$ 3,053	$ 3,537	$ 26,974	$ 1,745	$ 28,729
Amortization of goodwill	35,740	-	246	35,987	-	35,987
Impairment losses	7,340	1,170	2,221	10,740	-	10,740
Increase of tangible and intangible assets	13,921	8,510	10,813	33,244	2,787	36,032

	Millions of yen					
	2017					
	Dispensing pharmacy	Cosmetic and Drug 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

Amortization of goodwill and unamortized balances by reporting segment as of and for the years ended April 30, 2018 and 2017 are summarized as follows:

	Millions of yen				
	2018				
	Dispensing pharmacy	Cosmetic and Drug store	Other	Adjustments	Consolidated
Amortization of goodwill	¥ 3,910	¥ -	¥ 27	¥ -	¥ 3,937
Unamortized balances of goodwill	37,870	-	140	-	38,011

	Thousands of U.S. dollars				
	2018				
	Dispensing pharmacy	Cosmetic and Drug store	Other	Adjustments	Consolidated
Amortization of goodwill	$ 35,740	$ -	$ 246	$ -	$ 35,987
Unamortized balances of goodwill	346,160	-	1,279	-	347,449

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

16. Comprehensive income

Each component of other comprehensive income (loss) for the years ended April 30, 2018 and 2017 was the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrealized holding (losses) gains on securities:			
Gains arising during the year	¥ 1	¥ 480	$ 9
Reclassification adjustments to losses	(2)	(263)	(18)
Amount before income tax effect	(1)	217	(9)
Income tax effect	0	(67)	0
Total unrealized holding (losses) gains on securities	(1)	149	(9)
Remeasurments of defined benefit plans:			
(Losses) gains arising during the year	(94)	77	(859)
Reclassification adjustments to losses	(44)	(6)	(402)
Amount before income tax effect	(139)	70	(1,270)
Income tax effect	(13)	(54)	(118)
Total remeasurments of defined benefit plans	(152)	16	(1,389)
Total other comprehensive (loss) income	¥ (153)	¥ 166	$ (1,398)

17. Quarterly Information

(1) Quarterly net sales for the year ended April 30, 2018 are as follows:

	Millions of yen 2018	Thousands of U.S. dollars 2018
Three months ended July 31, 2017	¥ 66,095	$ 604,159
Six months ended October 31, 2017	132,342	1,209,707
Nine months ended January 31, 2018	200,043	1,828,546
Twelve months ended April 30, 2018	268,385	2,453,244

(2) Quarterly income before income taxes and non-controlling interests for the year ended April 30, 2018 is as follows:

	Millions of yen 2018	Thousands of U.S. dollars 2018
Three months ended July 31, 2017	¥ 3,983	$ 36,407
Six months ended October 31, 2017	8,104	74,076
Nine months ended January 31, 2018	14,003	127,998
Twelve months ended April 30, 2018	17,852	163,180

(3) Quarterly profit attributable to owners of parent for the year ended April 30, 2018 is as follows:

	Millions of yen 2018	Thousands of U.S. dollars 2018
Three months ended July 31, 2017	¥ 2,120	$ 19,378
Six months ended October 31, 2017	4,418	40,383
Nine months ended January 31, 2018	7,931	72,495
Twelve months ended April 30, 2018	10,567	96,590

(4) Quarterly earnings per share for the year ended April 30, 2018 is as follows:

	Yen 2018	U.S. dollars 2018
Three months ended July 31, 2017	¥ 66.88	$ 0.61
Six months ended October 31, 2017	134.91	1.23
Nine months ended January 31, 2018	235.74	2.15
Twelve months ended April 30, 2018	310.08	2.83

(5) Quarterly earnings per share for each accounting period of the year ended April 30, 2018 is as follows:

	Yen 2018	U.S. dollars 2018
Three months ended July 31, 2017	¥ 66.88	$ 0.61
Three months ended October 31, 2017	70.16	0.64
Three months ended January 31, 2018	104.40	0.95
Three months ended April 30, 2018	77.35	0.70

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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, 2018, 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, 2018, 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, 2018
Sapporo, Japan

CORPORATE DATA
(Fiscal 2018)

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
¥21,894 million

Number of Employees
Consolidated: 6,498
Non-consolidated: 139

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 2018)

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
35,428,212 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
5,360

Major Shareholders

(As of April 30, 2018)

Shareholders	Number of shares held (thousand shares)	Share-holding ratio (%)
Kiichi Otani	3,238	9.14
Seven & i Holdings Co., Ltd.	2,750	7.76
Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd. (Marubeni Corporation account)*3; Trust & Custody Services Bank, Ltd. as a Trustee of Retrust	1,594	4.50
The Hokkaido Bank, Ltd.	1,472	4.15
MSIP CLIENT SECURITIES	1,391	3.93
GOLDMAN SACHS INTERNATIONAL	1,186	3.35
North Pacific Bank, LTD.	1,085	3.06
Japan Trustee Services Bank, Ltd. (Trust account)	965	2.73
The Master Trust Bank of Japan, Ltd.	820	2.32
STATE STREET BANK AND TRUST COMPANY	789	2.23

Notes: 1. Kiichi Otani, who was a major shareholder at the end of the previous fiscal year, is no longer a major shareholder as of the end of the fiscal year under review.
2. The figure excludes 180,688 shares of the treasury stock owned by the Company.
3. 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.
4. All shares held in Japan Trustee Services Bank, Ltd. (Trust Account) are related to trust services.

AIN HOLDINGS