Converting Challenges to Opportunities

ANNUAL REPORT 2019

For the year ended April 30, 2019

AIN HOLDINGS

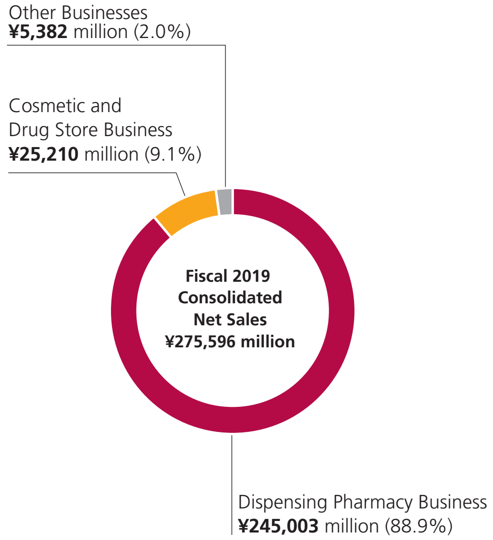
Profile

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

The dispensing pharmacy sector is one of Japan's few growth markets and it now stands at a major turning point, with deregulation and other developments set to drive far-reaching change in market structure. We aim to respond to new demands on dispensing pharmacies by playing a key role in Japan's local healthcare infrastructure and reinforce our position as the dominant player in the sector. In the cosmetic and drug store business, we are opening new format stores under our *ainz & tulpe* brand in prime locations in urban markets. The brand is growing stronger each year thanks to appealing retail spaces that keep customers engaged, raising expectations that the business can become a long-term growth driver for the Group.

Going forward, the AIN Group will continue working to increase corporate value as a company that contributes to society and supports people everywhere.

▶ Net Sales by Segment



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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.

Message from the President

Kiichi Otani
President and Representative Director

Raising our game to convert challenges into opportunities

Japan marked a major turning point in May 2019 with the beginning of the new Reiwa era. AIN HOLDINGS also faces a crucial moment in its history.

Until now, the key to growth in Japan's dispensing pharmacy sector has been securing prime locations that are convenient for patients (dispensing pharmacies near hospitals). However, the logic of that strategy has changed, as restrictions on opening dispensing pharmacies on hospital sites have been lifted, creating opportunities for even better locations. At the same time, demands on dispensing pharmacies are also changing and pharmacists increasingly need more value-added skills. For some time, we have been enhancing our dispensing pharmacies and upgrading the capabilities of our pharmacists to ensure the Group is well-placed to fully leverage its strengths as the sector is transformed. The major changes ahead will be a "Big Bang" for the dispensing pharmacy sector in Japan, which we view as an opportunity for the Group.

In the cosmetic and drug store business, our new store formats, launched in 2015, are shaking up the sector. Going forward, we plan to expand the business further to transform it into a long-term growth driver for the Group.

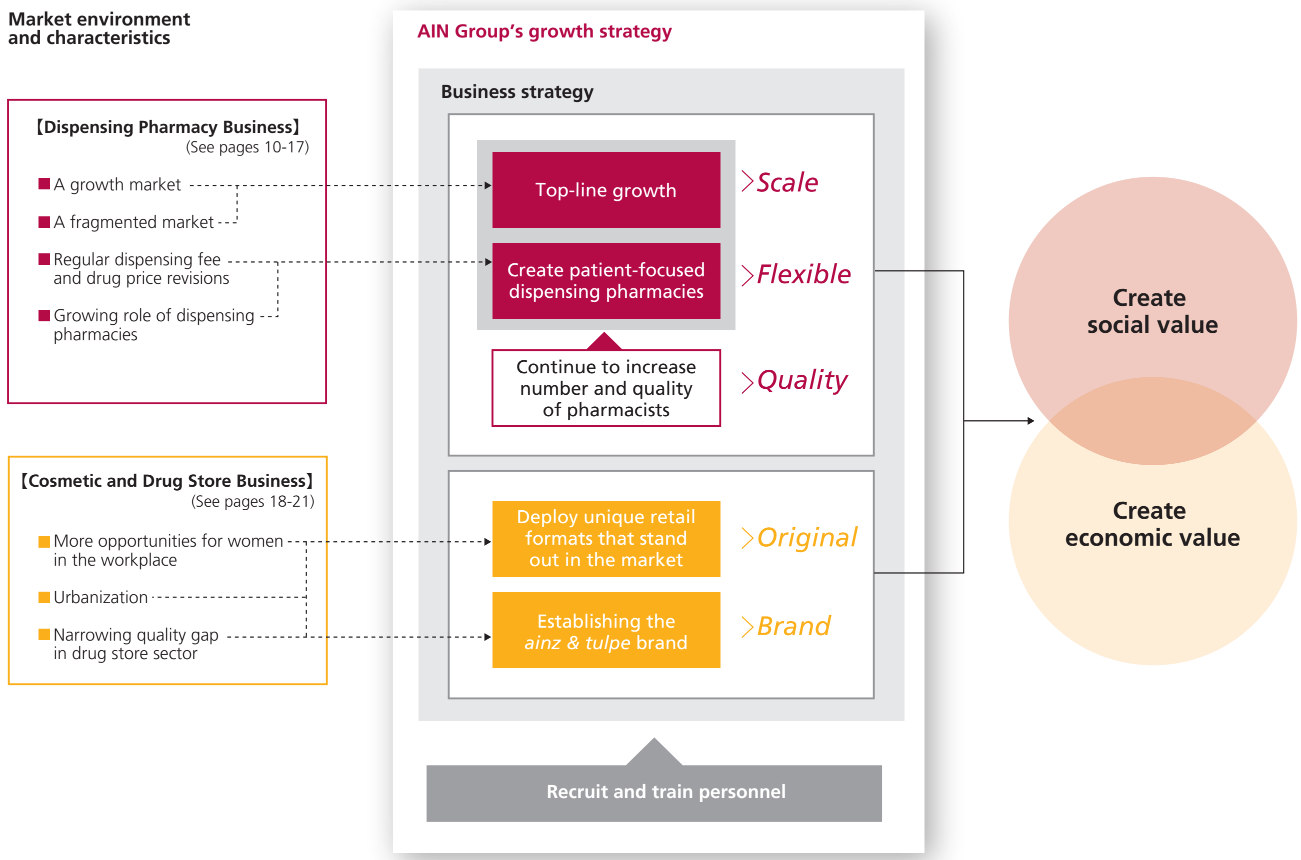
Internal efforts mitigated the impact of the tough earnings environment

For fiscal 2019, ended April 30, 2019, we reported net sales of ¥275,596 million, up 2.7% year on year, operating income of ¥16,067 million, down 18.1%, and profit attributable to owners of parent of ¥9,029 million, down 14.6%.

The dispensing pharmacy business was hit hard by new standards for technical fees and other criteria following drug price and dispensing fee revisions in April 2018. Combined with cuts to drug prices, the impact was greater than under previous revisions, leading to a particularly challenging earnings environment for the business. However, the AIN Group was less affected than competitors, and our financial position remains healthy. That relatively solid performance underscores the success of our growth strategy – pursuing scale and enhancing the capabilities of dispensing pharmacies.

The cosmetic and drug store business is now consistently profitable thanks to growing awareness of our new *ainz & tulpe* store formats and strategies to build a unique position in the market. Our store network continues to grow steadily. In April 2019, we returned to the Kansai market with the opening of two new stores. We are now working towards the targets in our medium-term management plan: net sales of ¥45,000 million and an operating margin of 7% in fiscal 2022, ending April 30, 2022.

▶ AIN Group's growth strategy



Leveraging our competitive advantages to prevail in the pharmacy sector "Big Bang"

We entered the dispensing pharmacy sector in 1993. That relatively late entry to the market means we have only six pharmacies located near major university hospitals. However, because pharmacies can now be located on hospital sites, that lack of prime locations near university hospitals is now becoming an advantage. That is because we can strategically open pharmacies at hospitals without worrying about competing against existing AIN Pharmacies near the same hospital. In the fiscal year under review, we won a number of bids to open onsite pharmacies, mainly at leading university hospitals across Japan.

We are well-placed to expand our network of onsite pharmacies by leveraging our powerful competitive advantages to appeal to hospital operators. AIN Group has two key advantages over competitors.

- **Human resources:** The AIN Group has a large number of highly skilled pharmacists capable of understanding and dealing with the advanced level of healthcare provided by major university hospitals. In the fiscal year under review, we recruited 257 pharmacists, missing our target. However, we are switching to a new recruitment strategy that focuses on showcasing the Group's strengths, such as our success in winning bids for onsite pharmacies. That new strategy is already yielding results, with the number of students applying for pharmacist positions more than doubling year on year. In fiscal 2020, we expect to hire more than 400 newly graduated pharmacists. » See pages 16-17 for more details
- **Sound financial position:** When hospitals put out bids for onsite pharmacies, they are looking for companies that can sustainably operate the pharmacy for a long period. That's because the contracts are long term, running to nearly 20 years. In March 2019, Japan Credit Rating Agency, Ltd. (JCR) upgraded its credit rating for AIN HOLDINGS from A- (Positive) to A (Stable), underscoring our sound financial position.

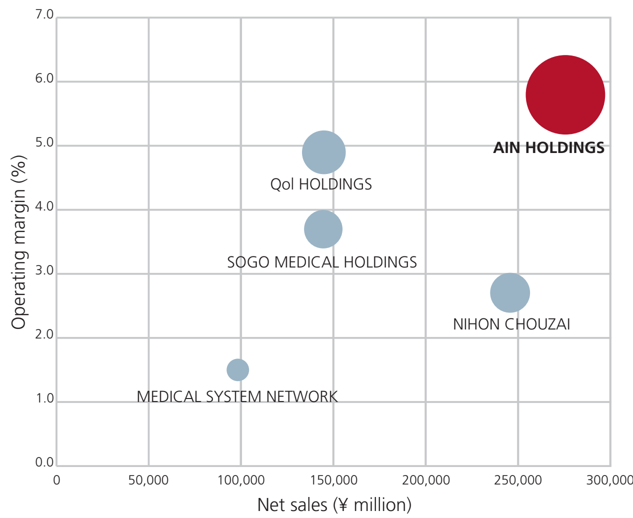
▶ Sound financial structure
—Comparison of financial indexes among major companies operating dispensing pharmacies in Japan

Fiscal 2018	AIN HOLDINGS	Average of 3 competitors (¥ million)
Market capitalization	282,859	59,386
Cash on hand in banks	63,779	20,940
Interest-bearing debt	19,303	42,811
Net cash	44,476	(21,871)
Shareholders' equity ratio	52.7%	31.3%

Fiscal 2019	AIN HOLDINGS	Average of 3 competitors (¥ million)
Market capitalization	211,860	55,842
Cash on hand in banks	48,091	20,284
Interest-bearing debt	12,277	43,594
Net cash	35,814	(23,310)
Shareholders' equity ratio	54.9%	32.3%

Notes:
1. Market capitalization data are as of July 31, 2018 and July 31, 2019.
2. Interest-bearing debt =Short- and long-term debts + Corporate bonds
3. Net cash = Cash on hand and in banks – Interest-bearing debt
4. 3 competitors: NIHON CHOUZAI Co., Ltd., SOGO MEDICAL HOLDINGS CO., LTD., Qol HOLDINGS Co., Ltd.
Source: Compiled by AIN HOLDINGS from the above companies' financial results for fiscal 2018 and fiscal 2019.

▶ 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 3/19 (AIN HOLDINGS: FY 4/19).
2. Size of circle is proportional to market capitalization as of July 31, 2019.

Pharmacies located on hospital sites fit with the government's vision for patient-focused dispensing pharmacies, and they can also keep up with advances in healthcare. We will therefore continue to open pharmacies with a sense of urgency and fulfill our responsibility as a provider of local healthcare services as the leading company in the sector.

The sector is likely to be deregulated further in order to reduce healthcare costs and ensure the quality of local healthcare provision. That could involve innovations such as online drug guidance services and digital prescriptions. As the sector leader, we are actively trialing these new approaches to prepare for future changes in dispensing pharmacy operations.

Overcoming challenges by expanding the business and upgrading our capabilities

The dispensing pharmacy business faces fluctuations in earnings due to regular revisions to dispensing fees and drug prices. Those revisions are also making it increasingly harder to generate profits. However, we aim to overcome those challenges by continuing to expand our business and by upgrading the capabilities of our dispensing pharmacies and the skills of our pharmacists.

We plan to use our human resources more effectively, such as redeploying pharmacists to different locations, as well as build a leaner pharmacy network by exiting from inefficient sites. We will also continue to cut costs to make dispensing pharmacy operations more efficient, aiming to ensure each pharmacy is profitable on a standalone basis. One example of the measures we are implementing is our unique pharmacy-led project. Under the project, which is yielding concrete results, each pharmacy works to reduce inventories and increase efficiency by improving workflow and other areas of store operations.

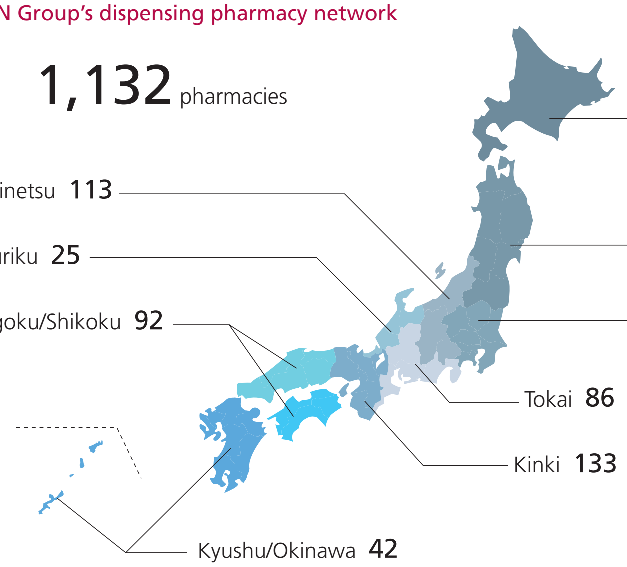
In addition to new pharmacy openings, we will also aggressively expand the business through M&A, while carefully conducting due diligence on each deal. In the fiscal year under review, 134 dispensing pharmacies became part of the AIN Group. The next round of dispensing revisions could raise the bar even higher for dispensing pharmacies, but that should also spur sector restructuring, opening up more opportunities for M&A deals.

Cosmetic and drug store business consistently profitable due to new store formats

Our new *ainz & tulpe* formats feature completely redesigned retail spaces that encourage women customers to stay and browse for an hour. Since the launch of the new formats, we have consciously created a beauty product lineup targeting young women. That approach has helped us stand out from the crowd of existing drug stores. Another strength of the business is that frontline operations – *ainz & tulpe* stores – are the driving force behind changes in the product lineup, ensuring merchandise continues to evolve. That keeps shoppers interested and coming back, leading to an increase in repeat customers and average spend per customer.

We continue to improve store operations by sharing popular products and ideas across the *ainz & tulpe* chain, leading to the establishment of new retail styles. Compared with when we launched the new formats, it now takes less time for stores to become profitable. Our latest stores tend to see a steep rise in profits in the second year of operation. The growing power of our brand means we now receive a lot of requests to open *ainz & tulpe* stores in retail facilities.

▶ AIN Group's dispensing pharmacy network




AIN Pharmacy HIGASHIWASHINOMIYA

(As of End-Fiscal 2019)

Tapping into that interest, we plan to open stores at a pace of more than 10 each year.

In fiscal 2020 we plan to launch an online site focused on providing support for customers who visit our physical stores. Our goal is to attract more customers by combining the advantages of physical and online shopping, such as making it easy for customers to buy products that were sold-out in store via the online channel.

Reinforcing the Group's business base – restructuring and branding

We are currently implementing a major restructuring program to rebuild the Group's business base. Our goal is create a corporate group that can increase its social value and economic value regardless of changes in the operating environment.

One focus of the reforms is IT strategy. Guided by the Information Technology Division, which was established in July 2018, we are overhauling business flow and logistics.

In September 2018, we set up new logistics centers for the cosmetic and drug store business in the Kanto area and Hokkaido to upgrade our logistics infrastructure. We are using the facilities, along with a newly created proprietary automated ordering system and store area-based order and delivery system, to further improve efficiency in store operations.

Given that the Group is likely to become even larger in the future, we will integrate separate IT systems used by the dispensing pharmacy business, cosmetic and drug store business, accounting, human resources, online sales and other departments to promote information sharing. An integrated system will also help us deal with security and efficiency issues.

Another area we are focusing on in the reforms is strengthening the Group brand. Pharmacies acquired through M&A deals are being rebranded as AIN Pharmacies and the dispensing pharmacy business has launched a nationwide TV advertising campaign for the first time. We want all our stakeholders, including hospitals, to get a clearer picture of who we are as a company, and the advertisings should also help us attract new pharmacists.

The Group is currently working to implement the whole restructuring program, which we hope to complete in the medium term, but that will not be end of our efforts, as the issues we are tackling will remain important.

Our dispensing pharmacy business and cosmetic and drug store business both help people lead healthy and full lives on a daily basis. That means our business activities must be highly transparent and anchored by a firm emphasis on compliance. That is why we are strengthening governance, including systemic improvements such as new nomination and remuneration committees established in May 2019.

A motivated workforce leads to value for stakeholders

The AIN Group Statement starts out with a commitment to ensuring, first and foremost, that employees are happy working for us. That thinking has underpinned our approach since the first days of the Company – in other words, satisfied employees are vital to our business. By doing that, I know we can provide value to customers, investors and other stakeholders. That is why our Group Statement goes on to say that the AIN Group is dedicated to improving the health and happiness of its customers.

To ensure our employees are satisfied, we are investing heavily to improve working conditions, such as adjusting the salary structure, including an increase in base pay, and improving welfare benefits. We are also actively encouraging women to take a more active role in the Group, as female employees account for around 80% of our workforce. Since March 2018, AIN PHARMACIEZ INC., one of the Group's core subsidiaries, has received the highest "Eruboshi" certification* in recognition of its efforts to support women's participation and career advancement in the workplace, highlighting how we are working to empower female employees. AIN PHARMACIEZ has also received "Kurumin" certification since 2015 from the Minister of Health, Labour and Welfare, recognizing its efforts to support parenting and childcare with systems that help female employees return to the workplace after giving birth and raising children.

*Companies receive certification if they meet certain requirements for male and female ratios in recruitment and managerial positions in order to create workplaces that allow women to achieve their full potential.

▶ KPIs related to social activities

	Fiscal 2017	Fiscal 2018	Fiscal 2019
Women in management positions*2	31.5%	30.9%	**31.2%**
Directors	16.7%	18.2%	**21.6%**
Executive officers	29.4%	31.3%	**29.2%**
Maternity leave (persons)	292	361	**342**
Childcare leave (persons)	417	420	**503**
Reduced working hours for childcare (persons)	420	501	**686**
Employees rehired at mandatory retirement age	-	-	**91.7%**
Non-Japanese employees (persons)	-	-	**117**

Notes:
1. Data are as of April 30, 2019
2. Management positions: section leaders and higher management grades in head office divisions, pharmacy managers and store managers

Meeting stakeholder expectations through growth

AIN HOLDINGS stands at a major turning point.

To overcome current challenges, continue growing and generating value as a corporate group, we have positioned the next three to five years as a period for proactive structural reforms. During that period, we will aggressively execute our strategies.

In our core dispensing pharmacy business, the market in Japan is already worth approximately ¥8 trillion. We forecast further expansion to ¥10 trillion, making it one of Japan's few growth markets. The Japanese government is pushing ahead with deregulation, which will lead to far-reaching changes in the market. We see that as an opportunity for further growth and we intend to build on our strengths to take advantage. Meanwhile, advances in technology are forcing hospitals, drug companies, and now dispensing pharmacy operators like the AIN Group, to make changes to the way they do business. We will need to upgrade the capabilities of our dispensing pharmacies and pharmacists to address advances in medical care and support aging communities, aiming to fulfill our role as a key part of local healthcare infrastructure.

In the retail sector, which includes drug stores, the gap in quality between companies is narrowing, making it harder to create physical stores that attract consumers. Against that backdrop, we will continue to expand our chain of new format stores under the *ainz & tulpe* brand to stand out in the market and help our customers lead beautiful, richer lives.

Investors are attracted to the AIN Group because of its growth potential. The Group has continued to grow in a changing environment through its own efforts, but we still see plenty of scope for further growth. We will continue to invest in growth to increase corporate value and meet the expectations of our investors.

Going forward, we will work to pay a stable dividend, based on a dividend payout ratio target of 20%.

I hope we can count on your continued support and understanding for many years head.

July 31, 2019

Kiichi Otani
President and Representative Director

Since it was founded, the AIN Group has flexibly adapted its business while consistently staying ahead of changes in the operating environment. That approach helped us become Japan's leading dispensing pharmacy company by sales in 2003 and has also supported 19 consecutive years of sales growth since fiscal 2001.

Going forward, we aim to leverage the strengths of our dispensing pharmacy business and cosmetic and drug store business to address issues faced by society and provide value to all stakeholders.

In this section, we look at the Group's key turning points and earnings trends.

■ Dispensing pharmacy business
■ Cosmetic and drug store business
■ Group

1969
Company founded as DAIICHI MEDICAL TESTING LABORATORIES INC. (outsourced clinical testing business)

1981
Established ASAHIKAWA DAIICHI MEDICAL TESTING LABORATORIES INC.

1980
Established OTANI INC.

Dispensing pharmacy business

1993
Started dispensing pharmacy business; Daiichi Pharmacy opened

1994
Rebranded all dispensing pharmacies under the AIN Pharmacy brand

2002
Acquired Imagawa Pharmacies, making AIN the leading dispensing pharmacy company by sales

2006
Established WHOLESALE STARS Co., Ltd. (pharmaceutical wholesaler focused on generic drugs)

WHOLESALE STARS

2011
Developed patient medication notebook app for smartphone users

2016
Dispensing pharmacy network reaches 1,000 sites

2019
Opened AIN Pharmacy TODAI (onsite pharmacy)

Group

1994
Listed on the JASDAQ market

1998
Sold clinical testing business; Changed company name to AIN PHARMACIEZ

AIN PHARMACIEZ

1999
Formed capital and business alliance with Marubeni Corporation

2005
Net sales exceed ¥50 billion

2008
Formed capital and business alliance with Seven & i Holdings Co., Ltd.

Net sales exceed ¥100 billion

2009
Relisted on the second section of the Tokyo Stock Exchange

2010
Listing moved to the first section of the Tokyo Stock Exchange

2013
Head office relocated to new building

2015
Changed company name to AIN HOLDINGS and adopted holding company structure

AIN HOLDINGS

2016
Net sales exceed ¥200 billion

2017
Increased capital through public offering and private placement

Cosmetic and drug store business

1980
Started drug store business; Opened first store, *OTANI DRUG*

1996
Rebranded all drug stores under the *ainz* brand

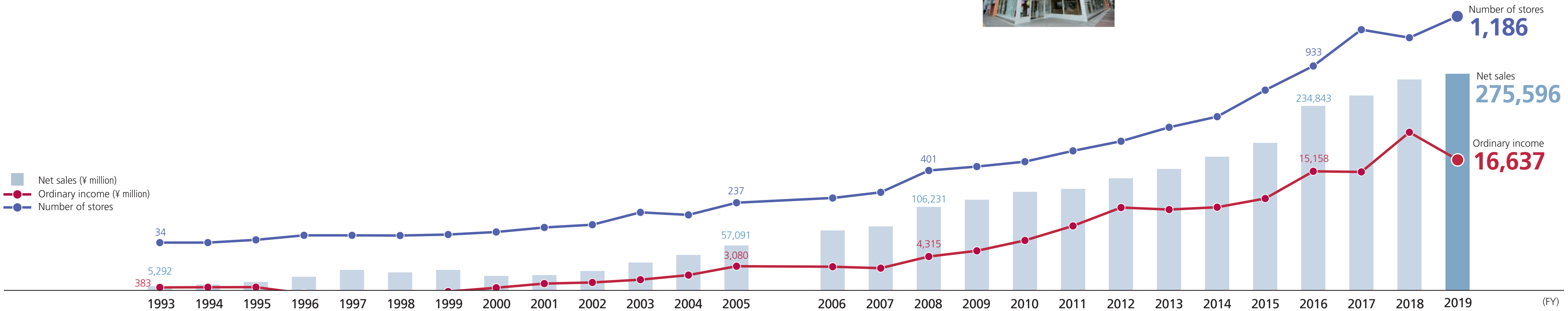
ainz アインズ

2002
Opened first *ainz & tulpe* store

2003
Started rolling out the *ainz & tulpe* brand nationwide

2015
Acquired shares in AYURA LABORATORIES Inc., making it a subsidiary;
First real move into new retail formats by opening *ainz & tulpe* SHINJUKU HIGASHIGUCHI and Le trois

2019
Opened 2 stores in Kansai



Business characteristics

Fundamental structural changes underway

The AIN Group is the leader in Japan's dispensing pharmacy sector, based on sales, the quality of pharmacies, earnings and other metrics. We are targeting sustained growth by expanding our business » See pages 12-13 and by increasing the quality and number of pharmacies and pharmacists to appropriately address changes in the operating environment » See pages 14-16.

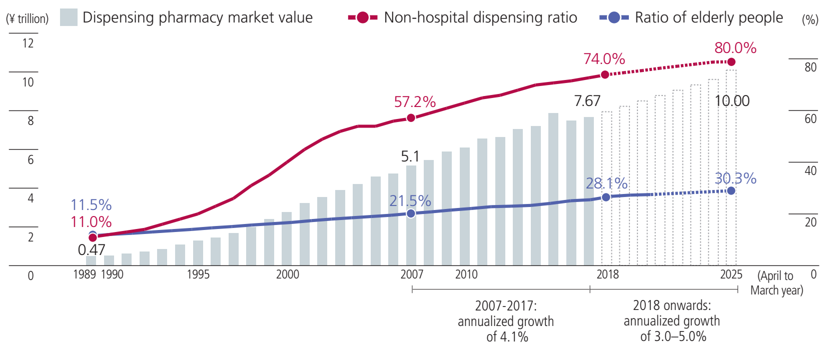
The dispensing pharmacy market is one of only a few in Japan with prospects for growth over the medium to long term. However, barriers to entry are high because the sector faces various risks, such as government policy calling on pharmacies to play a greater role in healthcare, revisions to standards for calculating dispensing fees, and a shortage of qualified pharmacists. The sector is also entering a period of full-blown restructuring spurred by deregulation.

In this section, we look at the key characteristics of Japan's dispensing pharmacy market and how it differs to the US market.

> 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 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 ¥7.7 trillion as of March 31, 2018, but we estimate the market is on track to reach ¥10 trillion.

▶ Market growth



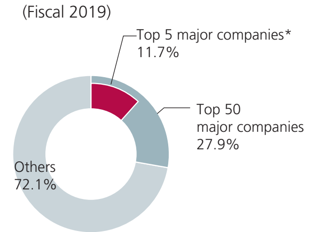
Source: AIN HOLDINGS estimates, based on data from the Japan Pharmaceutical Association, dispensing cost trends issued by the Ministry of Health, Labour and Welfare, Population Estimates of the Ministry of Internal Affairs and Communications Statistical Bureau, and Cabinet Office White Paper on the Aging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

> A fragmented market

Japan's dispensing pharmacy sector is fragmented, with the top five companies accounting for only around 10% 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. However, the Group's ability to respond to those changes means there is significant scope to increase market share.

▶ Dispensing pharmacy company market share

(Fiscal 2019)

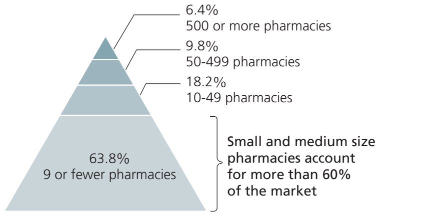


*Top 5 major companies:
AIN HOLDINGS INC., NIHON CHOUZAI Co., Ltd., KRAFT Inc., Qol HOLDINGS Co., Ltd., WELCIA HOLDINGS CO., LTD.

Source: AIN HOLDINGS estimates, based on data from DRUG Magazine (July 1, 2019) and FY2018 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

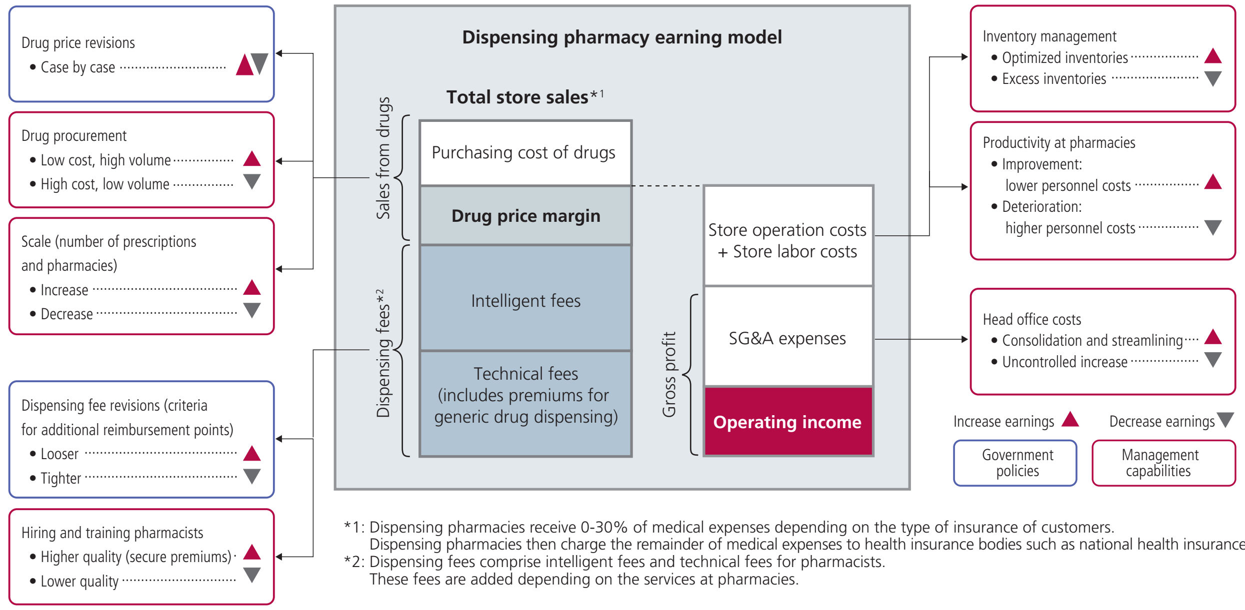
> Differences between Japan and the US

	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 pharmacies	74.0% (As of Mar. 2018)	100%
Drug prescriptions	Refills × Mail order ×	Refills ○ Mail order ○
Drug prices	Set by the government (Revised regularly)	Market price

> Dispensing pharmacy earnings model

Dispensing pharmacies are being asked to play a greater role in healthcare provision in response to 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

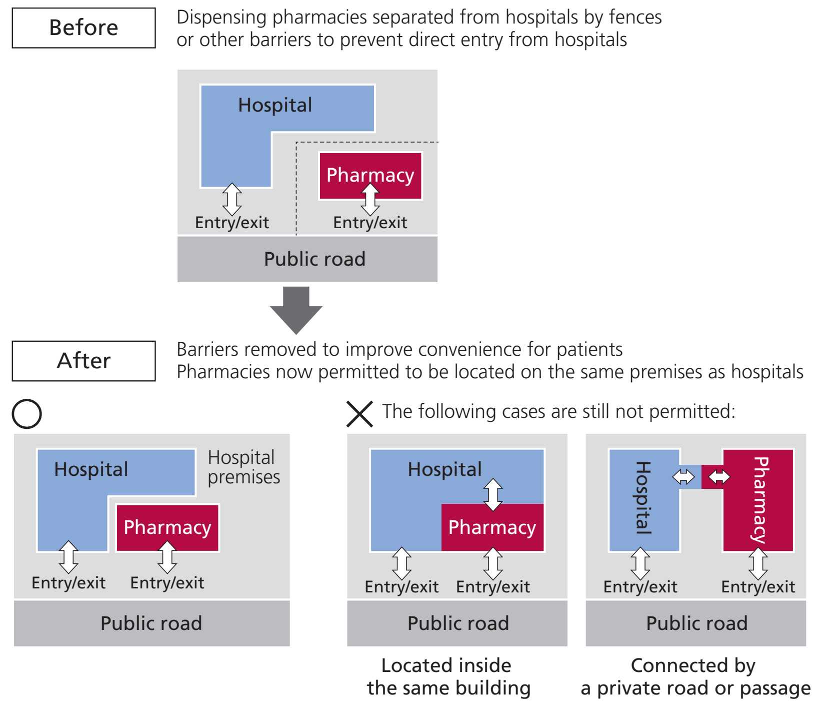


*1: Dispensing pharmacies receive 0-30% of medical expenses depending on the type of insurance of customers. Dispensing pharmacies then charge the remainder of medical expenses to health insurance bodies such as national health insurance.
*2: Dispensing fees comprise intelligent fees and technical fees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

> Dispensing pharmacies by type

Japan has four main types of dispensing pharmacy: pharmacies located near hospitals, pharmacies on hospital sites, 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 status. However, dispensing pharmacies located close to hospitals are the most popular in Japanese cities, which are less dependent on cars, meaning they are more convenient for patients, particularly those who have to visit hospital regularly, such as the elderly and patients with chronic illnesses. Many pharmacies near hospitals or on hospital sites also satisfy the government's conditions for primary care dispensing pharmacies, making them the most popular with patients.

▶ Onsite pharmacies



> Scale

Expanding the Business

Highest prescription volume in the domestic market

22,566 thousands

(fiscal 2019)

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 operating environment and healthcare system, which have made dispensing pharmacies located near hospitals the best option for patients and our business. For example, pharmacies on prime sites near hospitals are much more profitable than those in other locations.

However, the dispensing pharmacy market in Japan is starting to see some dynamic structural changes. One change came in October 2016, when regulations preventing dispensing pharmacies from opening on hospital sites were lifted. Hospitals, particularly university hospitals, are now actively seeking dispensing pharmacies to locate on their premises.

Japan's dispensing pharmacy market has some unique characteristics. The role of pharmacies and their earnings structure differ to pharmacies in the US and other countries » See page 10. In Japan, health insurance does not restrict hospital choice or medication. Also, patients generally have to make frequent visits to hospital because repeat prescriptions are not permitted. Given those conditions, onsite pharmacies are likely to be seen as the ultimate primary care dispensing pharmacies, not just because they are convenient for patients and fit the government's vision for patient-focused dispensing pharmacies, but because they can also keep up with further advances in healthcare.

New onsite pharmacies are likely to lead to a dramatic drop in the number of prescriptions filled by existing pharmacies located near hospitals. However, the risk to our business from onsite pharmacies is limited, because as a relatively late entrant to the market, the AIN Group has only six pharmacies located near university hospitals. Instead, we view onsite pharmacies as a major opportunity to increase market share.

There is strong demand for onsite pharmacies from hospitals. By attracting dispensing pharmacies to their premises, hospitals receive rental income from the pharmacy operator, while also creating closer links with the pharmacy, which reduces the risk of dispensing errors and other issues and deepens cooperation in areas such as advanced healthcare provision. Onsite pharmacies give companies like AIN HOLDINGS the chance to leverage competitive advantages such as the specialist skills of their pharmacists. Sales per pharmacy are also higher due to increased prescription volumes and more complex prescriptions. Advantages for patients include greater convenience and higher quality services » See page 13. However, there are only a few companies in the sector capable of consistently meeting the standards for opening onsite pharmacies. That is because companies have to meet strict criteria from hospitals showing that they can sustain operations, such as keeping pharmacies open 24 hours throughout the year, securing large numbers of highly skilled pharmacists, and maintaining a sound financial position.

AIN HOLDINGS is one of those companies, which is helping the Group steadily win contracts for onsite pharmacies. In fiscal 2019, we opened onsite pharmacies in a number of new locations, including the University of Tokyo Hospital (Tokyo, April 2019) and Asahikawa Medical University Hospital (Hokkaido, December 2018). In fiscal 2020, we are planning to open onsite pharmacies at Dokkyo Medical University Hospital (Tochigi Prefecture, April 2020), Okayama University Hospital (Okayama Prefecture, April 2020) and Tokushima University Hospital (Tokushima Prefecture, April 2020), as well as other locations. Going forward, we see the potential to open 10 onsite pharmacies each year.

M&A deals are also an important part of our growth strategy. Amid drastic changes in the operating environment, pharmacy operators that are unable to leverage economies of scale will face a difficult future. We therefore anticipate an increase in M&A activity across the sector. We will continue to actively pursue M&A deals, while retaining our emphasis on investment efficiency, and use both pharmacy openings and M&A to grow the Group's top line.

AIN Pharmacy Okayama University Hospital
(Scheduled to open in April 2020)

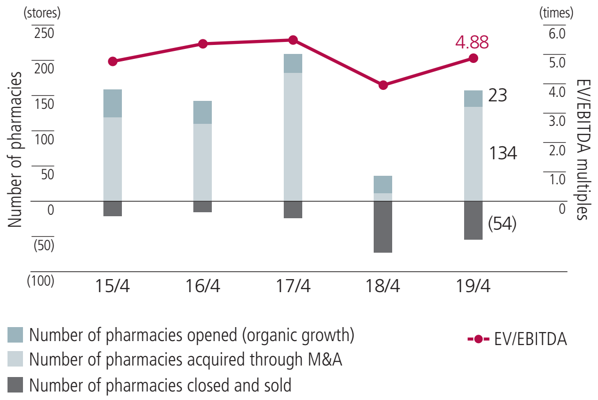
AIN Pharmacy Dokkyo Medical University Hospital
(Scheduled to open in April 2020)

AIN Pharmacy Tokushima University Hospital
(Scheduled to open in April 2020)

▶ Merits of onsite pharmacies

For patients	For pharmacies	For hospitals
◆ **Convenient**	◆ **High sales per pharmacy**	◆ **Profitable**
Closest to hospital, making them very convenient	High sales per pharmacy due to large volume of prescriptions and complex prescriptions	Receive rental income from onsite pharmacies
◆ **Well stocked**	◆ **Optimized inventories**	◆ **Higher-quality healthcare services**
Drugs usually in stock	Detailed understanding of prescription trends at adjacent hospital enables efficient inventory management	Higher quality of local healthcare services through advanced healthcare and support for hospitalization
◆ **Safe and reassuring**	◆ **Opportunity to leverage and improve specialist capabilities**	◆ **Lower risks**
Access to high-quality healthcare services, such as advanced healthcare and lower risk of prescription errors	More opportunities to leverage and improve specialist skills of pharmacists, such as prepare complex prescriptions, provide home-based dispensing and deal with advanced healthcare treatments	Close links with adjacent dispensing pharmacies help hospitals rapidly identify drug treatment side-effects and minimize risk of prescription errors

▶ Number of pharmacies and EV/EBITDA multiples



▶ Changes to AIN Group's M&A criteria

	M&A criteria (Before)	M&A criteria (From Fiscal 2018)
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

> Flexible

Adapting to Changes

Share of generic drugs

80.1%

(As of April 2019)

Since the Company was established, we have consistently raised the standards of our pharmacies and pharmacists, recognizing the importance of dispensing pharmacies in local healthcare infrastructure.

The government is calling for more primary care pharmacies that can support local healthcare provision, which means dispensing pharmacies and pharmacists need to play an even greater role. Also, each regular revision to dispensing fees is making it harder for dispensing pharmacies to generate profits.

To fulfill their primary care role, dispensing pharmacies have to offer higher quality services, such as promoting generic drugs, managing left over prescription medicines, managing patient health, working 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 15. In order to deliver those services, our pharmacists need to improve their specialist skills and communicate more closely with patients and medical institutions.

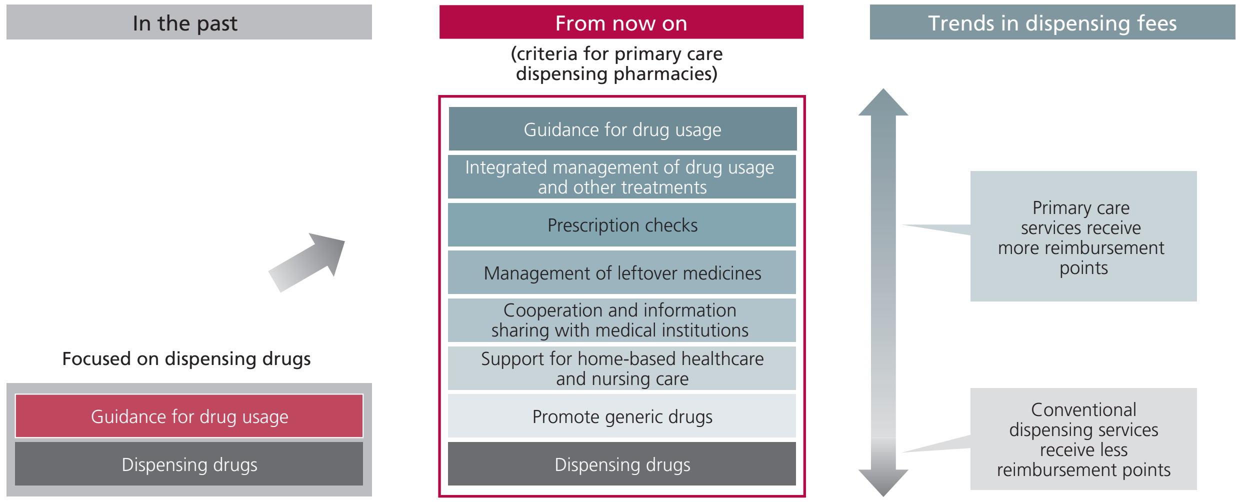
We aim to convert all our dispensing pharmacies to the primary care format, which offers an excellent opportunity to leverage our competitive advantages, such as the high level of specialization achieved by the AIN Group over the years. Those efforts to create primary care dispensing pharmacies will also help us meet the rigorous criteria for opening onsite pharmacies.

To improve the quality of dispensing pharmacies, we are conducting a range of internal training programs, as well as implementing our pharmacy-led project to raise standards » See pages 16-17. 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 spend communicating with patients and medical institutions, as well as improvements in the way pharmacists think and act in frontline situations. That has enhanced our ability to adapt to changes in the operating environment, including revisions to dispensing fees.

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 use our generic drug wholesaling subsidiary WHOLESALE STARS Co., Ltd. (WSS) to negotiate prices and procure generic drugs directly from 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.

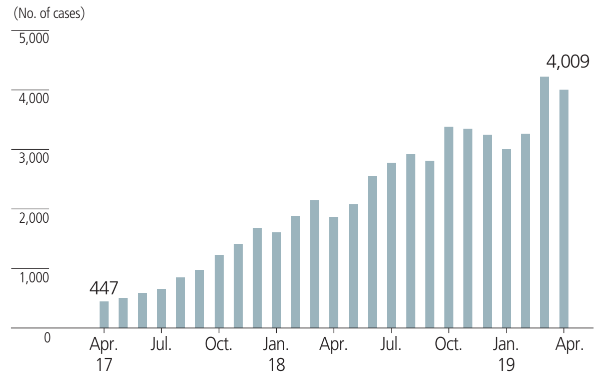
The AIN Group is actively implementing measures to support the government's goal of creating advanced healthcare services. For example, in June 2018 we started providing Japan's first online drug guidance services, and in March 2019 we joined a project trialing digital drug prescriptions. Going forward, we will continue to explore ways of creating new dispensing pharmacies to support advances in healthcare and communities with aging populations. We will also implement our IT strategy to rebuild the Group's IT infrastructure and increase earnings by improving the quality of dispensing pharmacies through further efficiency gains.

▶ The changing role of dispensing pharmacies



▶ AIN Group's initiatives for primary care dispensing pharmacies

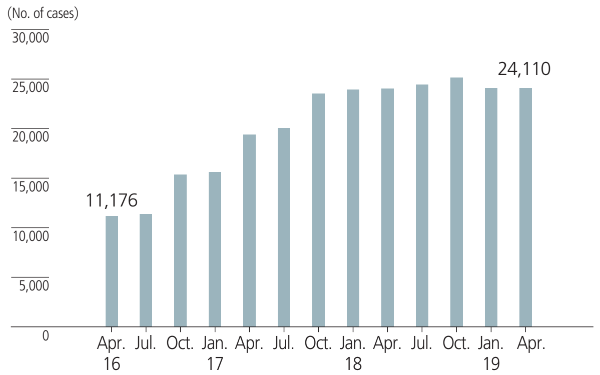
Tracing reports (monthly cases)



Tracing reports: Dispensing pharmacies receive additional reimbursement points for providing documents about patient prescription medicines and treatment regimes if that information is requested by medical institutions or if pharmacists approve the release of that information, provided patients give their consent.

Data source: All pharmacies

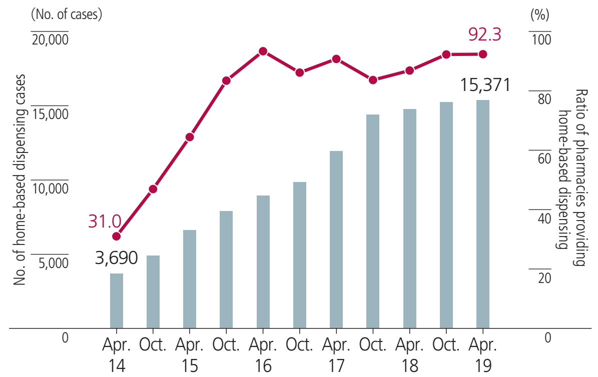
Prescription checks (monthly cases)



Prescription checks: Dispensing pharmacies receive additional reimbursement points for providing prescription checks to the health insurance doctor who wrote the prescription to prevent unintended double medication and pharmaceutical interactions.

Data source: All pharmacies

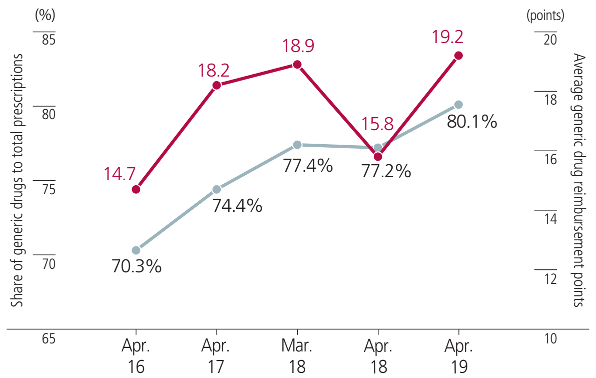
Home-based dispensing (monthly cases)



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

Data source: 930 pharmacies, excluding recently acquired pharmacies through M&A and cases involving delivery of medicines only as of April 2019

Generic drug dispensing (monthly cases)



Share of generic drugs to total prescriptions*1
Average generic drug reimbursement points*2

Data source: *1: All pharmacies
*2: Three main Group companies (AIN PHARMACIEZ, Asahi Pharmacy, DAICHIKU)

> Quality

Improving Pharmacist Standards and Increasing Headcount

Number of primary care pharmacists

1,420

(As of April 30, 2019)

Dispensing pharmacies and companies that struggle to recruit enough pharmacists and improve their skills are likely to fall by the wayside. The AIN Group is no exception. More than ever, we need to secure pharmacists and enhance their capabilities to support business expansion and fulfill the new role envisioned for dispensing pharmacies.

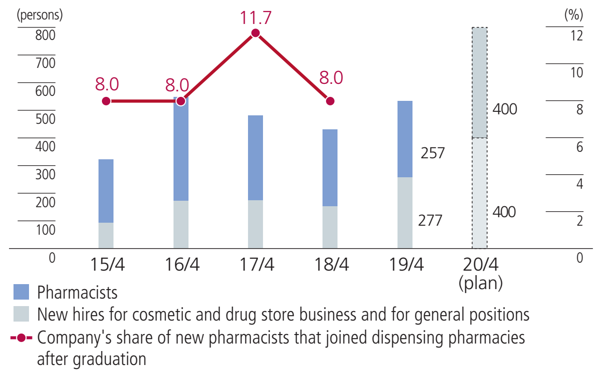
AIN HOLDINGS has consistently focused on hiring and training pharmacists since it was established. Our approach to recruitment is highly regarded by students and universities, thanks to our hiring track record and high-quality training systems. We also give pharmacists plenty of opportunities to fully 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 continued business expansion, including our move into onsite pharmacies, which will require large teams of highly skilled pharmacists. Competition for acquiring pharmacists is also likely to become tougher in the sector.

To address those challenges, we are stepping up recruitment activities to draw attention to the AIN Group's competitive advantages, including our ability to keep up with recent trends in the sector such as the government's vision for patient-focused dispensing pharmacies and advances in healthcare. The president of AIN HOLDINGS and other senior managers are now closely involved in the Group's recruitment efforts, not just the personnel department.

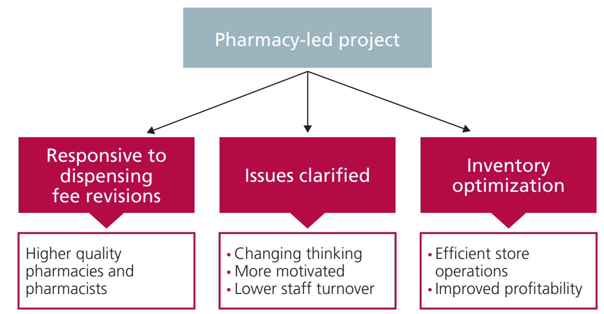
After joining the AIN Group, pharmacists have access to a range of training programs tailored to their career stage. We also run a number of unique initiatives to improve the motivation and skills of our pharmacists. One initiative is our pharmacy-led project, launched in autumn 2012. Under this Groupwide project, pharmacists draw on their own frontline experience to further improve efficiency, profitability and service provision at our dispensing pharmacies. The pharmacy-led project has reduced patient wait times, as well as lifted profitability through inventory optimization and other measures. But the project has also clarified other issues at dispensing pharmacies and delivered clear improvements, helping to change thinking among frontline personnel and boost motivation, leading to a lower level of staff turnover. Moreover, in April 2019, we upgraded our personnel systems, which included pay increases and better employee welfare benefits. Our aim is to support the Group's recruitment efforts with measures that further increase employee motivation and improve flexibility in the workplace.

The dispensing pharmacy sector is about to enter a phase of restructuring triggered by changes in the operating environment. However, sector restructuring offers major growth opportunities for the AIN Group. Going forward, we will continue to expand the dispensing pharmacy business, improve the quality of our dispensing pharmacies and pharmacists and continue generating value to satisfy the expectations of investors and all our other stakeholders.

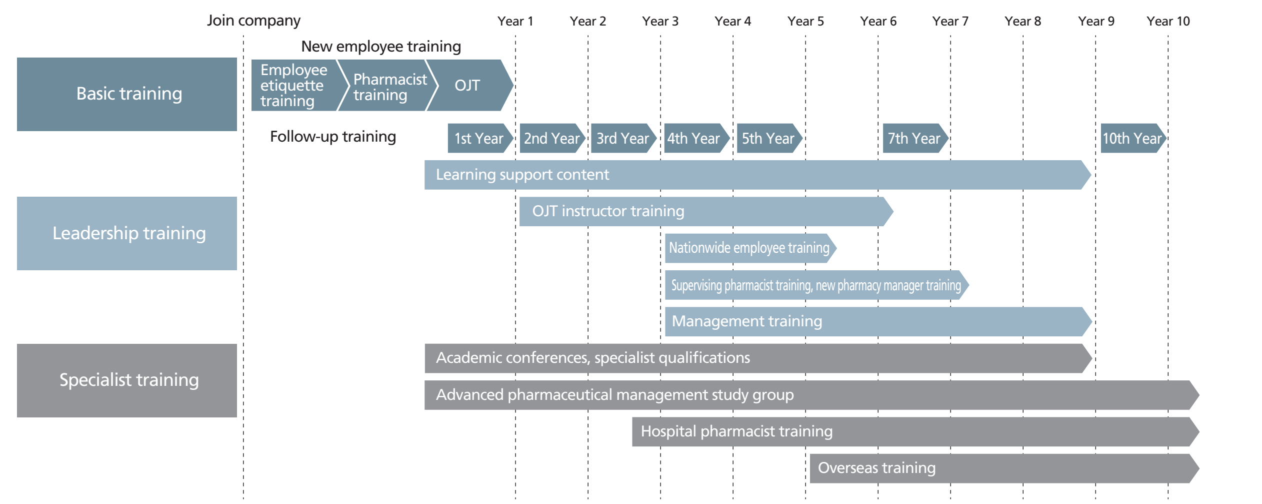
Number of new pharmacist graduates hired



Key outcomes from pharmacy-led projects



Training programs for pharmacists



A Message from the Managing Director

Miya Oishi
Managing Director in charge of Dispensing Pharmacy Operating Management

Fulfilling the role set out in the government's vision for patient-focused dispensing pharmacies

Staff at AIN pharmacies strive to provide personalized, friendly services to each patient that comes through the door. That means they regularly have to prove their skills and qualities as pharmacists. The AIN Group is made up of individuals who always want to do their best and build lasting relationships with patients as the last medical professional they interact with each day. On any given day, our pharmacists might have to use advanced pharmaceutical management skills, offer patient-focused services and provide health advice.

In recent years, we have seen changes in the health of Japanese people, progress in how drugs are evaluated and developed, and shifts in public thinking about healthcare. On top of that, pharmacists in Japan are being asked to play a different role in healthcare provision. New intelligent fee structures and tougher evaluation criteria for dispensing pharmacies have been introduced by the government to encourage them to adapt to those changes. Meanwhile, Japan's changing and maturing healthcare sector and deregulation could offer even more opportunities for pharmacists. We expect the government's vision for patient-focused dispensing pharmacies to expand the role and responsibilities of pharmacists.

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

With onsite pharmacies now permitted, hospitals and local communities are looking to pharmacies to play an even greater role in areas such as advanced pharmaceutical management, cooperation with hospital pharmaceutical departments and 24-hour services throughout the year. To meet those expectations, the AIN Group will use the pharmacy-led project to increase the quality of pharmacist activities and provide services to patients nationwide as a key part of Japan's healthcare infrastructure.

ainz & tulpe bono SAGAMIONO

> *Original*

Deploying Unique Retail Formats

Beauty products account for 82.9% of sales

The cosmetic and drug store business is the AIN Group's other core business. We have operated a drug store business since the Company was established, but we changed our strategic approach a few years ago in response to a narrowing quality gap and falling margins in the retail sector. In April 2015 we started rolling out new retail formats under the *ainz & tulpe* brand. In the last few years, we have exited suburban locations and rapidly switched to new retail formats, with new store openings focused on highly convenient locations in urban markets.

Our first real move into new retail formats came in July 2015, when we opened the *ainz & tulpe* SHINJUKU HIGASHIGUCHI (Shinjuku, Tokyo; retail space: roughly 1,290m²). The large flagship store significantly raised the visibility of the *ainz & tulpe* brand among young women. The store is also recognized as a trend-setter in cosmetics and fashions, thanks partly to its dominant position in terms of sales volume. We are now making final adjustments to the style of our innovative retail formats.

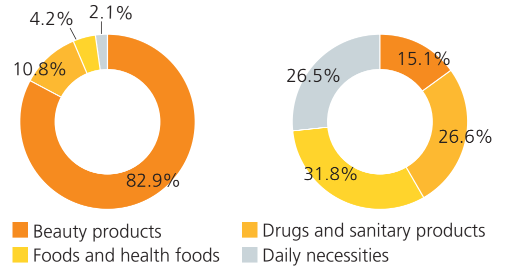
The main target of our new retail formats is women in their late-20s and 30s with a strong interest and curiosity in the latest trends. We have one simple concept – create stores where women customers would be happy to browse for an hour.

To achieve that, we have given stores plenty of freedom to make their own decisions on merchandise lineups and store operations. Beauty products such as cosmetics and accessories account for more than 80% of our lineup. We are also expanding our range of lounge wear and beauty supplies and developing original brands. We have launched an original cosmetics brand called *LIPS and HIPS* and a beauty supply brand called *cocodecica*. We have also turned round the *AYURA* cosmetics brand, which was acquired from Shiseido Company, Limited. We are expanding the range of products under each brand, helping to lift the gross margin. Manufacturers have welcomed our emphasis on providing value rather than selling products at low prices. With their support, we are expanding our lineup of exclusive *ainz & tulpe* versions of national brand products, which is another way we can stand out in the retail market. Going forward, we plan to work more closely with manufacturers to develop tie-in products, as well as our own in-house products.

Another strength we have in the cosmetic and drug store business is the ability to rapidly introduce new products, thanks to the considerable discretion given to each store. That freedom of movement allows stores to adjust merchandise lineups and change retail displays on a weekly basis to keep customers interested and to put more focus on trending items. That operational flexibility drives sales growth and helps stores remain highly profitable. Approaches that are successful at individual stores are immediately rolled out to other stores in the *ainz & tulpe* chain. We avoid competing directly with conventional drug stores, which typically sell a mix of drugs, food and daily necessities at discounted prices. Our unique retail formats are also different to traditional department stores. 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.

Going forward, we aim to tap into the expertise and experience of the many pharmacists in the AIN Group to develop health and beauty products and new product ideas with the kind of functionality that appeals to our customers. 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 2019
*2 Source: Monthly Report on the Current Survey of Commerce (May 2019), Ministry of Economy, Trade and Industry

Differences between *ainz & tulpe* and other retail formats

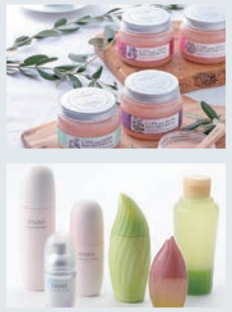
	ainz & tulpe	Drug stores	Department stores
Customer base	Young women	Families, overseas visitors	High-income earners, including overseas visitors
Merchandise	Beauty products account for over 80% of lineup	Daily necessities and food account for more than 80% of lineup	Brand products only
Pricing	Normal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

Store operations that foster uniqueness

The management division decides which new products to launch, but each store has the authority to decide how to display them. That allows stores to rapidly implement all aspects of merchandise and display design and select trending items to focus on store displays, while taking into account conditions such as the store's location and its customer segments.

Management division

Decides which new products to launch



Stores

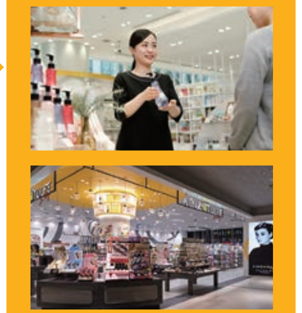
Managers at each store hold merchandise meetings once or twice a week to gather data on popular items and sales trends at their stores and across the *ainz & tulpe* chain. Each store rapidly implements all aspects of merchandising and display design using information gained from the meetings, taking into account the store's location and its customer segments.

Preliminary research into popular items

Merchandise meetings

Change merchandise and displays once or twice a week

Create stores where women customers would be happy to browse for an hour




LIPS and HIPS

ainz & tulpe SHIBUYA KOEN DORI


LIPS and HIPS Clenz Series

AYURA

> *Brand*

Establishing the *ainz & tulpe* Brand to Drive Growth

Returned to the Kansai market with two new stores:

- *ainz & tulpe* ABENO Hoop
- *ainz & tulpe* UMEDA HEP FIVE

In fiscal 2019, ended April 30, 2019, the cosmetic and drug store business reported sales of ¥25,210 million, up 4.5%, and segment income of ¥972 million, up 48.0% year on year. That was supported by a strong performance at existing stores and a more rapid move into profitability at new stores. The power of the *ainz & tulpe* brand has grown significantly and our business model is now capable of reliably generating profits.

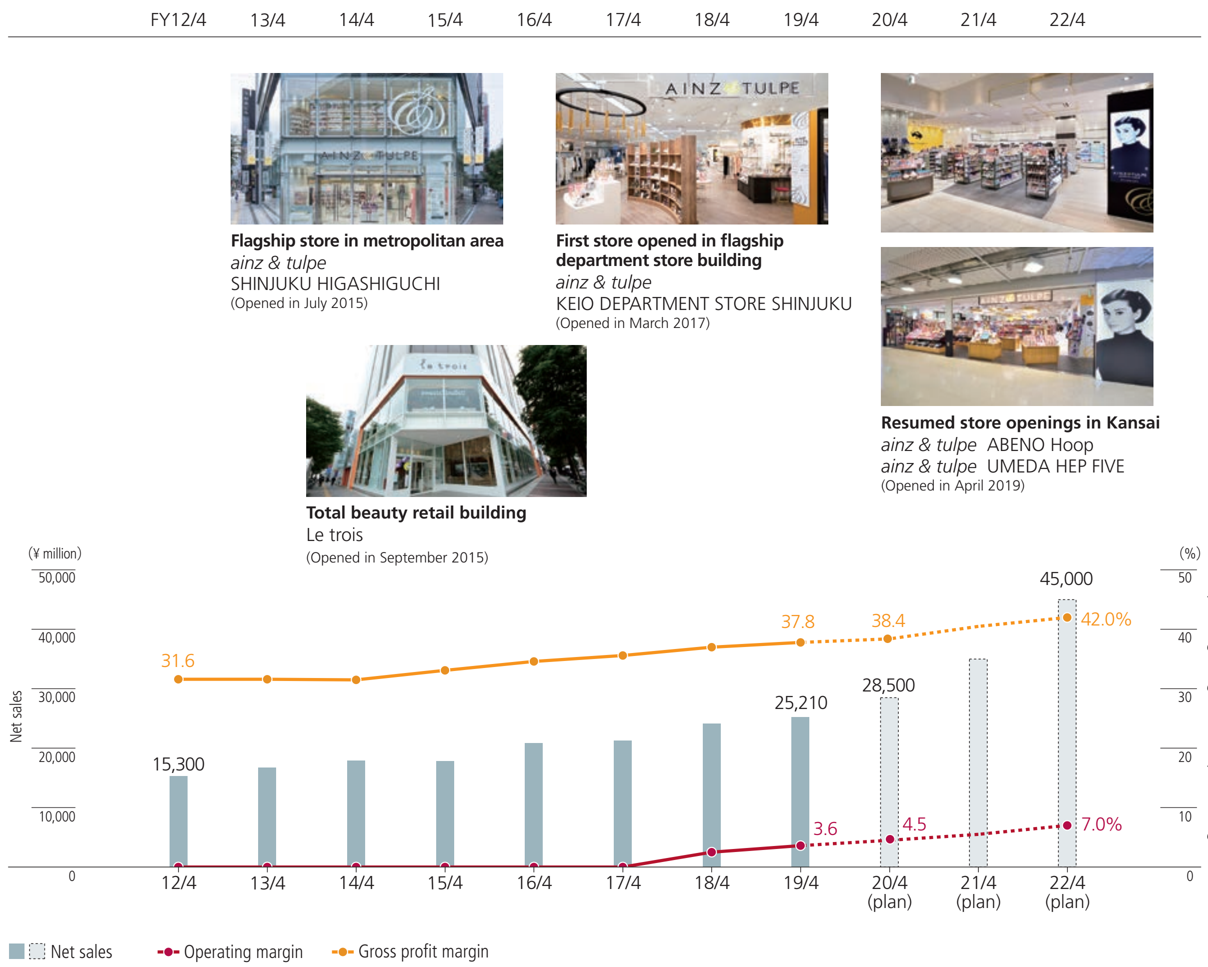
Since 2015, we have opened a string of large flagship stores in prime locations in the metropolitan area, including Shinjuku and Ginza in central Tokyo. In fiscal 2019 we opened seven stores in major cities, including a return to the Kansai market, where we opened two stores. We closed one suburban store, taking the total number of *ainz & tulpe* stores to 54. 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, illustrated by the success of compact stores like *ainz & tulpe* KEIO DEPARTMENT STORE SHINJUKU (Shinjuku, Tokyo; retail space: roughly 260m^2). We have received numerous requests to open new stores in urban retail facilities, station retail spaces and other prime locations. Given that demand, we plan to continue opening stores at a steady pace, including in the Kansai area.

We are upgrading logistics infrastructure in the cosmetic and drug store business as part of the Group's broader IT and logistics reforms. Specifically, we have opened two proprietary logistics centers, one in the Kanto area and the other in Hokkaido. We have also linked logistics with a new automated ordering system and a store area-based order and delivery system to further improve efficiency in store operations. On the other hand, we are rebuilding our online retail presence. Our new website, which we plan to launch during fiscal 2020, is designed to work s eamlessly with our physical *ainz & tulpe* stores and an *ainz & tulpe* app.

Going forward, we will continue to open new flagship stores in prime locations and refurbish existing stores to create fun retail experiences for our customers. We aim to strengthen and raise the visibility of the *ainz & tulpe* brand, so that in the long term our *ainz & tulpe* retail formats and brand are recognized as one and the same.

In the cosmetic and drug store business, we are targeting sales of ¥45,000 million and an operating margin of 7% in fiscal 2022, ending April 30, 2022. We will continue to aggressively develop the business and create unique retail areas as part of our strategy of avoiding direct competition with existing retail stores and cosmetics manufacturers. By improving profitability, we aim to transform the cosmetic and drug store business into the AIN Group's medium- to long-term growth driver.

▶ Expansion of *ainz & tulpe*



A Message from the Executive Officer

Kaori Ishikawa

Executive Officer,
Division Manager of Cosmetic and Drug Store Operating Management

Creating stores where women customers are happy to browse for an hour

Our *ainz & tulpe* stores are designed around a simple concept – create retail spaces where women customers would be happy to browse for an hour. Based on that concept, we aim to stand apart from rival drug store chains by taking a different approach to conventional retail trends and leveraging our unique store operations, which are tailored to the characteristics of each location.

We are also responding to much faster changes in consumer needs, which are being driven by rapid growth in the use of social media, particularly among young women. To ensure our customers keep coming back, we work to stay on top of the latest trends, source products from emerging manufacturers and create in-store displays that are frequently updated with new merchandise. Thanks to that merchandising approach, *ainz & tulpe* is now recognized as a chain of specialist 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.

Building on strong momentum at our stores in Sapporo and the Tokyo metropolitan area, we returned to the Kansai market in fiscal 2019 with the opening of two new stores. In fiscal 2020, we aim to open more stores in major urban markets, including Kyoto and Nagoya. Along with the expansion of our physical store network, we plan to launch a new online site in fiscal 2020 to meet all the needs of consumers.

We aim to grow the cosmetic and drug store business further by aggressively opening new stores in major cities nationwide and by continuing to develop national brand tie-in products and expand our range of original products.

(As of July 30, 2019)

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.

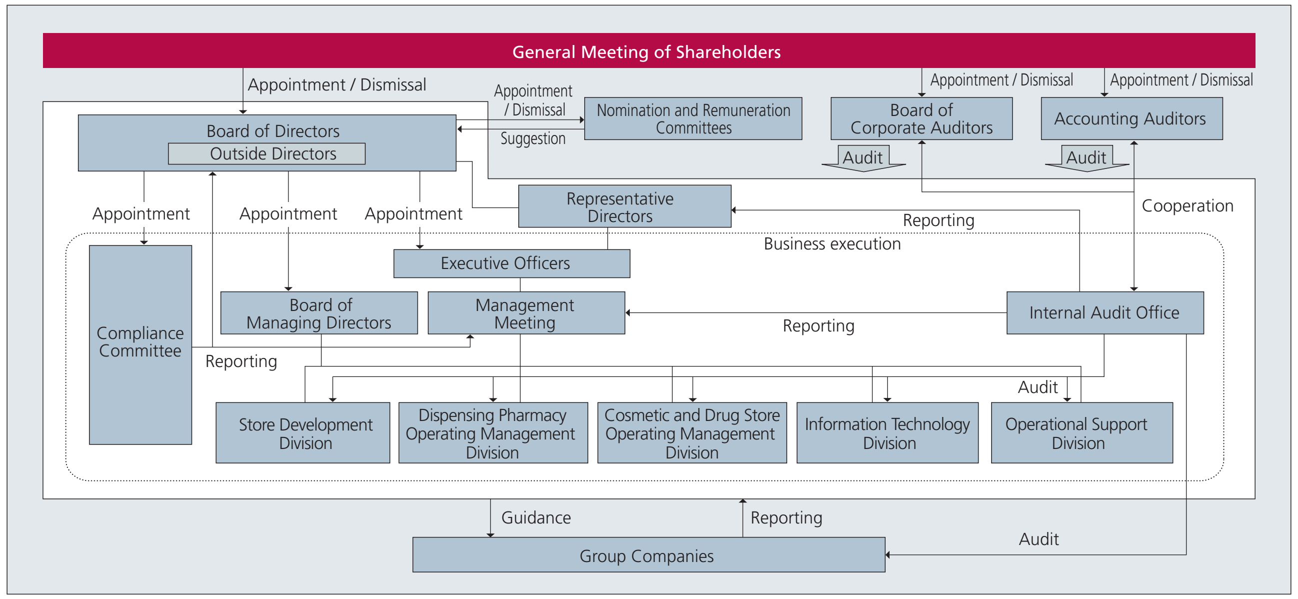
As part of efforts to enhance corporate governance, we have established a Compliance Committee to promote and embed systems that ensure compliance with business ethics, laws and regulations. The committee is made up of all the Company's directors and auditors and legal advisors.

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*	100%
Board of Corporate Auditor meetings*	Number of meetings: 12 Examples of resolutions: Audit policy, audit plans and business division audits
Management meetings*	51
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, Noriko Endo and Junro Ito 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 2019.

Corporate governance structure



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.
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.
Junro Ito	Mr. Junro Ito 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 of environmental, social and corporate governance (ESG) issues and his experience leading group companies as the director of a major retailer. The major retailer is one of the Company's major shareholders, but it's holding is less than 10%. In addition, one of the Company's subsidiaries has a leasing contract with the major retailer, but the level of mutual dependence is judged to be low as the value of the contract is negligible. There are no other affiliations that raise questions about Mr. Ito's independence from the Company's senior management team. Mr. Ito 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 2019 is as follows:

Item	Total remuneration (¥ million)	Remuneration by type (¥ million)		Number of eligible individuals
		Basic remuneration	Bonus	
Directors (excluding outside directors)	174	146	28	6
Corporate auditors (excluding outside corporate auditors)	7	7	0	1
Outside directors	15	15	–	3
Outside corporate auditors	11	11	–	2

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 2019 are as follows:

(¥ million)

	Compensation paid for audit certification activities	Compensation paid for non-audit activities
The Company	39	–
Consolidated subsidiaries	7	–
Total	46	–

Board of Directors and Corporate Auditors

(As of July 30, 2019)

*Figures in brackets show the number of AIN HOLDINGS shares held as of April 30, 2019.

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	Representative Senior Managing Director (current post)

Shoichi Shudo

Representative Senior Managing Director
In charge of Store Development
(9,500 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	Division Manager of Dispensing Pharmacy Business
May 2012	Senior Managing Director
November 2015	Representative Senior Managing Director in charge of store development (current post)

Toshihide Mizushima

Representative Senior Managing Director
In charge of Operating Management,
Operational 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	Division Manager of Cosmetic and Drug Store Business
May 2003	Managing Director
May 2012	Senior Managing Director
November 2015	Representative Senior Managing Director (current post)
July 2018	In charge of operating management, operational support and information technology (current post)

Miya Oishi

Managing Director
In charge of Dispensing Pharmacy Operating Management
(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)
May 2019	In charge of Dispensing Pharmacy Operating Management (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)
July 2018	In charge of Personnel Department (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
Division Manager of Store Development
(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)
May 2019	Division Manager of Store Development (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	Outside Director of the Company (current post)

Yasuyuki Hamada

Director Outside Independent
(2,000 shares)

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

Noriko Endo

Director Outside Independent
(- 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)
June 2019	Outside Director of Hankyu Hanshin Holdings, Inc. (current post) Outside Director of VLC HOLDINGS CO., LTD. (current post)

Junro Ito

Director Outside Independent
(- shares)

August 1990	Joined Seven-Eleven Japan Co., Ltd.
May 2009	Director of Seven and i Holdings Co., Ltd. (current post) Executive Officer, Senior Officer, Corporate Development Division, Seven and i Holdings Co., Ltd.
April 2011	Senior Officer, CSR Management Division, Seven and i Holdings Co., Ltd.
May 2016	Given responsibility for all Group companies of Seven and i Holdings Co., Ltd.
July 2016	Senior Officer, Affiliate Company Division Seven and i Holdings Co., Ltd.
December 2016	Managing Executive Officer, General Manager, Corporate Development Division, Seven and i Holdings Co., Ltd.
March 2018	Director, Ito-Yokado Co., Ltd. (current post)
July 2019	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)
August 2018	Chairman of Executive Partners Inc. (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 between companies in the sector is likely to widen due to developments in the operating environment amid deregulation and changes to systems such as dispensing fee reimbursements. 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 intelligent fees and technical fees for pharmacists.

BUSINESS OVERVIEW FOR THE FISCAL YEAR UNDER REVIEW

During the fiscal year ended April 30, 2019, 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 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 further developed its cosmetic and drug store business.

In addition, as part of promoting work style reforms, the Group has decided to implement a new system that allows employees to select their prescribed working hours. The new system, which will come into effect from April 2020, is designed to create working environments better suited to the lifestyles of each employee. Going forward, the Group will continue to put in place systems that promote work style reforms in line with the increasingly diverse lifestyles and values of employees, not limited to their parenting and nursing care commitments.

For the fiscal year under review, net sales rose 2.7% year on year to ¥275,596 million, operating income decreased 18.1% to ¥16,067 million, ordinary income declined 17.3% to ¥16,637 million and profit attributable to owners of parent decreased 14.6% year on year to ¥9,029 million.

As of the end of the fiscal year, the number of stores in the Group totaled 1,186, a net increase of 109 stores from the end of the previous fiscal year.

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 257 new pharmacist graduates joining the Group in April 2019. 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 continued to overhaul dispensing pharmacy operations and push ahead with business expansion by opening new dispensing pharmacies and using M&A deals, including making two companies subsidiaries of the Group, KOM MEDICAL INC. (Sanjo, Niigata Prefecture) and TSUCHIYA YAKUHIN INC. (Nagano, Nagano Prefecture).

During the fiscal year under review, the dispensing pharmacy business reported sales of ¥245,003 million, up 2.7% year on year, and segment income of ¥18,331 million, down 19.1%.

During the same period, the Group opened 157 new dispensing pharmacies, including those acquired through M&A deals, and closed 54 pharmacies, resulting in a total of 1,132.

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 that backdrop, the Group continued to open *ainz & tulpe* cosmetic and drug stores in the Tokyo metropolitan area and resumed its store opening program in the Kansai area. In addition, the Group worked to make stores more appealing by refurbishing existing stores and strengthening merchandise lineups, particularly cosmetic and drug products. As a result, sales from existing stores increased year on year, while sales from stores opened in the previous fiscal year made a significant contribution to overall sales in the segment. Earnings also improved, supported by active efforts to develop *LIPS and HIPS*, *cocodecica* and other original brands and by an overhaul of procurement activities in the previous year.

As a result, for the fiscal year under review, the cosmetic and drug store business reported sales and profit growth with sales rising 4.5% year on year to ¥25,210 million and segment income increasing 48.0% to ¥972 million.

During the same period, the Group opened *ainz & tulpe* stores: *ainz & tulpe* HIGASHI IKEBUKURO (Toshima Ward, Tokyo), *ainz & tulpe* olinas KINSHICHO (Sumida Ward, Tokyo), *ainz & tulpe* SHIBUYA KOEN DORI (Shibuya Ward, Tokyo) , *ainz & tulpe* SOKA

11-YEAR FINANCIAL SUMMARY

(¥ million)

	2009/4	2010/4	2011/4	2012/4	2013/4	2014/4	2015/4	2016/4	2017/4	2018/4	2019/4
For the year:											
Net sales	115,387	125,495	129,387	142,790	154,560	170,225	187,904	234,843	248,110	268,385	**275,596**
Selling, general and administrative expenses	9,948	10,744	11,981	12,839	14,740	15,635	17,509	23,915	27,529	28,370	**29,295**
Operating income	5,296	6,492	8,107	10,253	9,701	10,113	11,452	14,619	14,563	19,622	**16,067**
Profit attributable to owners of parent	2,127	3,131	3,916	4,899	5,075	5,259	6,197	7,917	7,949	10,567	**9,029**
Capital expenditures	2,891	2,573	2,750	5,870	7,235	6,328	6,413	11,209	4,786	5,311	**9,919**
Depreciation and amortization	1,119	1,286	1,560	1,749	2,212	2,258	2,553	3,259	3,687	3,596	**3,903**
At the end of the year:											
Equity capital*1	16,071	21,445	29,450	33,695	38,312	42,122	47,928	53,258	60,105	96,697	**103,855**
Total net assets	16,109	21,492	29,498	33,745	38,356	42,240	48,046	53,324	60,178	96,733	**103,922**
Total assets	62,032	65,898	76,940	85,908	95,839	101,382	114,149	139,888	156,323	183,380	**189,021**
Number of shares outstanding (shares)	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	35,427,524	**35,427,484**
Number of employees (persons)	2,741	2,918	3,104	3,326	3,551	3,806	4,429	5,511	6,469	6,498	**7,662**
Number of stores: Dispensing pharmacy business	375	397	448	494	560	616	754	881	1,066	1,029	**1,132**
Number of stores: Cosmetic and drug store business	46	49	53	56	61	59	56	52	52	48	**54**
Per share information (¥):											
Earings*2	85.37	114.04	127.83	153.67	159.18	165.04	195.45	249.69	250.71	310.08	**254.87**
Net assets*2	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	**2,931.48**
Cash dividends*2	15.0	20.0	22.5	25.0	30.0	30.0	30.0	40.0	50.0	50.0	**55.0**
Stock information (based on the closing price as of April 30) (¥):											
Stock price	1,481	2,920	3,115	4,290	4,765	4,495	4,245	5,340	7,720	7,300	**8,840**
Ratios (%):											
Operating margin	4.6	5.2	6.3	7.2	6.3	5.9	6.1	6.2	5.9	7.3	**5.8**
Return on sales*3	1.8	2.5	3.0	3.4	3.3	3.1	3.3	3.4	3.2	3.9	**3.3**
Return on assets (ROA)*4	3.6	4.9	5.5	6.0	5.6	5.3	5.8	6.2	5.4	6.2	**4.8**
Return on equity (ROE)*5	15.1	16.7	15.4	15.5	14.1	13.1	13.8	15.6	14.0	13.5	**9.0**
Shareholders' equity ratio	25.9	32.5	38.3	39.2	40.0	41.5	42.0	38.1	38.4	52.7	**54.9**

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. Earnings 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

VARIE (Soka, Saitama Prefecture), *ainz & tulpe* FUCHU FORIS (Fuchu, Tokyo), *ainz & tulpe* ABENO Hoop (Abeno Ward, Osaka) and *ainz & tulpe* UMEDA HEP FIVE (Kita Ward, Osaka) and closed one store, resulting in a total of 54 cosmetic and drug stores at the end of the fiscal year.

Other Businesses
Net sales from other businesses decreased 4.3% year on year to ¥5,382 million and segment loss was ¥165 million compared with the loss of ¥1,164 million a year earlier.

FINANCIAL POSITION

The balance of total assets at the end of the fiscal year increased by ¥5,641 million from the end of the previous fiscal year to ¥189,021 million. That mainly reflected a decline in cash on hand and in banks due to the repayment of loans and income taxes paid, which outweighed an increase in fixed assets such as inventories, land and buildings, as well as goodwill, due to new store openings and M&A.

Current assets at the end of the fiscal year under review totaled ¥85,446 million, a decrease of ¥9,111 million from ¥94,557 million at the end of the previous fiscal year. This mainly reflected a decline in cash on hand and in banks of ¥15,688 million to ¥48,091 million.

Fixed assets at the end of the fiscal year under review totaled ¥103,515 million, an increase of ¥14,797 million from ¥88,718 million at the end of the previous fiscal year. This was mainly due to investment in new stores and an increase in fixed assets and goodwill related to consolidated subsidiaries that became part of the Group through M&A deals.

The balance of current liabilities at the end of the fiscal year under review was ¥73,744 million, an increase of ¥3,794 million from ¥69,950 million at the end of the previous fiscal year, while the balance of long-term liabilities was ¥11,355 million, down ¥5,341 million from ¥16,696 million a year earlier.

As a result, the balance of total liabilities was ¥85,099 million, a decline of ¥1,547 million from ¥86,646 million at the end of the previous fiscal year.

The balance of net assets at the end of the fiscal year under review was ¥103,922 million, an increase of ¥7,189 million from ¥96,733 million at the end of the previous fiscal year. As a result, the shareholders' equity ratio increased 2.2 percentage points to 54.9%, compared with 52.7% at the end of the previous fiscal year. ROA declined 1.4 percentage points to 4.8% and ROE dropped 4.5 percentage points to 9.0%.

BASIC POLICIES FOR PROFIT DISTRIBUTION

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

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

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

For the fiscal year under review, the Company paid a full-year dividend of ¥55 per share, an increase of ¥5 per share from 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, 2020.

CASH FLOWS

In the fiscal year under review, cash and cash equivalents ("cash") decreased ¥15,737 million year on year to ¥47,495 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 ¥14,788 million, compared with net cash provided of ¥21,656 million in the previous fiscal year.

The main items that were positive for cash flow were income before income taxes of ¥15,624 million, as well as depreciation and amortization of ¥3,903 million and amortization of goodwill of ¥4,183 million related to business expansion through new store openings and M&A.

The main item negative for cash flow was income taxes paid of ¥9,341 million.

Cash Flows from Investing Activities
Net cash used in investing activities was ¥19,985 million, compared with net cash used of ¥5,281 million in the previous fiscal year.

This mainly reflected payments of ¥13,246 million for purchases of shares in subsidiaries due to changes in the scope of consolidation related to shares acquired in 12 companies through M&A deals, ¥3,761 million for purchases of property, plant and equipment related to the opening of new cosmetic and drug stores and dispensing pharmacies, and ¥4,469 million for payments of leasehold and guarantee deposits.

Cash Flows from Financing Activities
Net cash used in financing activities was ¥10,681 million, compared with net cash provided of ¥17,623 million in the previous fiscal year.

The main cash outflows were net repayment of ¥8,369 million from short-term and long-term debt repayment and proceeds, and ¥1,771 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 companies 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 ¥48,091 million, compared with a total balance of short- and long-term debt of ¥11,556 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, 2019

ASSETS	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars (Note 1(1)) 2019
Current assets:			
Cash on hand and in banks (Notes 2 and 4)	¥ 48,091	¥ 63,779	$ 430,614
Notes and accounts receivable (Note 4)	12,771	10,466	114,353
Other accounts receivable	8,438	7,751	75,555
Inventories (Note 3)	12,898	9,580	115,490
Short-term loans	236	641	2,113
Other current assets	3,012	2,470	26,969
Allowance for doubtful accounts	(2)	(131)	(17)
Total current assets	85,446	94,557	765,096
Property, plant and equipment (Note 6):			
Buildings and structures, net	16,352	14,934	146,418
Land	10,394	10,041	93,069
Construction in progress	283	118	2,534
Other property, plant and equipment, net	3,155	2,759	28,250
Total property, plant and equipment	30,186	27,853	270,290
Investments and other assets:			
Investment securities (Notes 4 and 5)	1,795	2,375	16,072
Deferred tax assets (Note 10)	4,284	3,772	38,359
Net defined benefit asset (Note 9)	15	9	134
Long-term loans	1,351	789	12,097
Deposits and guarantees	15,133	11,339	135,503
Goodwill	45,249	38,011	405,166
Other intangible fixed assets	2,327	2,121	20,836
Other investments and other assets	4,853	2,985	43,454
Allowance for doubtful accounts	(1,683)	(540)	(15,069)
Total investments and other assets	73,328	60,864	656,590
Deferred Assets:			
Share issuance cost	59	103	528
Total deferred assets	59	103	528
Total assets	¥ 189,021	¥ 183,380	$ 1,692,523

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars (Note 1(1)) 2019
Current liabilities:			
Accounts payable (Note 4)	¥ 44,794	¥ 38,728	$ 401,092
Short-term debt (Notes 4 and 7)	5,571	6,717	49,883
Accrued income taxes	3,261	4,947	29,199
Deposits received	12,737	12,675	114,049
Allowance for bonuses to employees	2,139	1,911	19,152
Allowance for bonuses to directors	17	16	152
Reserve for reward obligations	450	420	4,029
Provision for sales returns	-	6	-
Other current liabilities	4,772	4,525	42,729
Total current liabilities	73,744	69,950	660,315
Long-term liabilities:			
Long-term debt (Notes 4 and 7)	5,985	11,511	53,590
Lease obligations	401	632	3,590
Net defined benefit liability (Note 9)	2,977	2,625	26,656
Other long-term liabilities	1,989	1,927	17,809
Total long-term liabilities	11,355	16,696	101,674
Net Assets: (Note 11)			
Shareholders' equity			
Common stock (Note 13)	21,894	21,894	196,042
Authorized - 44,000,000 shares in 2019 and 2018			
Issued - 35,428,212 shares in 2019 and 2018			
Capital surplus	20,500	20,500	183,560
Retained earnings	61,526	54,268	550,913
Treasury stock (728 shares in 2019 and 688 shares in 2018)	(2)	(1)	(17)
Total shareholders' equity	103,920	96,662	930,515
Accumulated other comprehensive income:			
Unrealized holding (losses) gains on securities	(6)	84	(53)
Remeasurments of defined benefit plans	(59)	(50)	(528)
Total accumulated other comprehensive (loss) income	(65)	34	(582)
Non-controlling interests	67	36	599
Total net assets	103,922	96,733	930,533
Total liabilities and net assets	¥ 189,021	¥ 183,380	$ 1,692,523

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED APRIL 30, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2019	2018	2019
Net sales (Note 14)	¥ 275,596	¥ 268,385	$ 2,467,729
Cost of sales	230,233	220,392	2,061,541
Gross profit	45,363	47,993	406,187
Selling, general and administrative expenses	29,295	28,370	262,311
Operating income	16,067	19,622	143,866
Other income (expense):			
Interest and dividend income	109	101	976
Gains on investments in partnership	17	136	152
Commissions received	38	61	340
Real estate rental revenue	274	181	2,453
Consignment income	158	201	1,414
Technical advisory fee	68	70	608
Gains on sales of fixed assets	38	76	340
Gains on sales of investment securities	7	8	62
Gain on transfer of business	312	59	2,793
Refund of premium for cancelled insurance	23	31	205
Gain on sales of investments in capital	550	-	4,924
Interest expenses	(125)	(117)	(1,119)
Losses on sales of accounts receivables	(71)	(71)	(635)
Rent expenses on real estates	(95)	(88)	(850)
Provision of allowance for doubtful accounts	(24)	(200)	(214)
Losses on disposal and sales of fixed assets	(695)	(624)	(6,223)
Impairment losses on fixed assets	(766)	(1,175)	(6,858)
Directors' retirement benefits	-	(127)	-
Loss on valuation of investments in capital	-	(440)	-
Other, net	(265)	148	(2,372)
	(442)	(1,770)	(3,957)
Profit before income taxes	15,624	17,852	139,899
Income taxes (Note 10):			
Current	6,794	7,863	60,834
Deferred	(230)	(540)	(2,059)
	6,564	7,322	58,775
Profit	9,060	10,530	81,124
Profit (loss) attributable to non-controlling interests	30	(37)	268
Profit attributable to owners of parent	¥ 9,029	¥ 10,567	$ 80,847

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED APRIL 30, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2019	2018	2019
Profit	¥ 9,060	¥ 10,530	$ 81,124
Other comprehensive income:			
Unrealized holding losses on securities	(91)	(1)	(814)
Remeasurements of defined benefit plans, net of tax	(8)	(152)	(71)
Total other comprehensive loss	(99)	(153)	(886)
Total comprehensive income	8,960	10,376	80,229
Comprehensive income attributable to owners of parent	8,929	10,413	79,951
Comprehensive income (loss) attributable to non-controlling interests	30	(37)	268

See accompanying notes.

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2019

	Thousands of shares	Millions of yen				
		Shareholders' equity				
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 30, 2017	31,888	¥ 8,682	¥ 6,367	¥ 45,286	¥ (419)	¥ 59,918
Issuance of new shares	3,540	13,212	13,212	-	-	26,424
Profit attributable to owners of parent	-	-	-	10,567	-	10,567
Cash dividends paid	-	-	-	(1,585)	-	(1,585)
Acquisition of treasury stock	-	-	-	-	(0)	(0)
Disposal of treasury stock	-	-	921	-	418	1,339
Net change in items other than those in shareholders' equity	-	-	-	-	-	-
Net changes during the year	3,540	13,212	14,133	8,982	417	36,744
Balance at April 30, 2018	35,428	21,894	20,500	54,268	(1)	96,662
Profit attributable to owners of parent	-	-	-	9,029	-	9,029
Cash dividends paid	-	-	-	(1,771)	-	(1,771)
Acquisition of treasury stock	-	-	-	-	(0)	(0)
Net change in items other than those in shareholders' equity	-	-	-	-	-	-
Net changes during the year	-	-	-	7,257	(0)	7,257
Balance at April 30, 2019	35,428	¥ 21,894	¥ 20,500	¥ 61,526	¥ (2)	¥ 103,920

	Millions of yen				
	Accumulated other comprehensive income (loss)				
	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	¥ 86	¥ 101	¥ 187	¥ 73	¥ 60,178
Issuance of new shares	-	-	-	-	26,424
Profit attributable to owners of parent	-	-	-	-	10,567
Cash dividends paid	-	-	-	-	(1,585)
Acquisition of treasury stock	-	-	-	-	(0)
Disposal of treasury stock	-	-	-	-	1,339
Net change in items other than those in shareholders' equity	(1)	(152)	(153)	(37)	(190)
Net changes during the year	(1)	(152)	(153)	(37)	36,554
Balance at April 30, 2018	84	(50)	34	36	96,733
Profit attributable to owners of parent	-	-	-	-	9,029
Cash dividends paid	-	-	-	-	(1,771)
Acquisition of treasury stock	-	-	-	-	(0)
Net change in items other than those in shareholders' equity	(91)	(8)	(99)	30	(68)
Net changes during the year	(91)	(8)	(99)	30	7,188
Balance at April 30, 2019	¥ (6)	¥ (59)	¥ (65)	¥ 67	¥ 103,922

	Thousands of U.S. dollars (Note 1(1))				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 30, 2018	$ 196,042	$ 183,560	$ 485,924	$ (8)	$ 865,526
Profit attributable to owners of parent	-	-	80,847	-	80,847
Cash dividends paid	-	-	(15,857)	-	(15,857)
Acquisition of treasury stock	-	-	-	(0)	(0)
Net change in items other than those in shareholders' equity	-	-	-	-	-
Net changes during the year	-	-	64,980	(0)	64,980
Balance at April 30, 2019	$ 196,042	$ 183,560	$ 550,913	$ (17)	$ 930,515

	Thousands of U.S. dollars (Note 1(1))				
	Accumulated other comprehensive income (loss)				
	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, 2018	$ 752	$ (447)	$ 304	$ 322	$ 866,162
Profit attributable to owners of parent	-	-	-	-	80,847
Cash dividends paid	-	-	-	-	(15,857)
Acquisition of treasury stock	-	-	-	-	(0)
Net change in items other than those in shareholders' equity	(814)	(71)	(886)	268	(608)
Net changes during the year	(814)	(71)	(886)	268	64,362
Balance at April 30, 2019	$ (53)	$ (528)	$ (582)	$ 599	$ 930,533

See accompanying notes.

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2019	2018	2019
Cash flows from operating activities:			
Profit before income taxes	¥ 15,624	¥ 17,852	$ 139,899
Depreciation and amortization	3,903	3,596	34,948
Amortization of goodwill	4,183	3,937	37,455
Loss on sales of shares of subsidiaries and associates	149	-	1,334
Impairment losses on fixed assets	766	1,175	6,858
Loss on valuation of investments in capital	-	440	-
Gain on sales of investments in capital	(550)	-	(4,924)
(Decrease) increase in allowance for doubtful accounts	(155)	313	(1,387)
Increase in net defined benefit liability	186	157	1,665
Gain on transfer of business	(312)	(59)	(2,793)
Increase in allowance for bonuses to employees	152	0	1,361
Interest and dividend income	(109)	(101)	(976)
Interest expenses	125	117	1,119
Gains on investments in partnerships	(17)	(135)	(152)
Loss on valuation of investment securities	179	-	1,602
Losses on disposal and sales of fixed assets	656	548	5,873
Decrease (increase) in accounts receivable	843	(25)	7,548
(Increase) decrease in inventories	(2,054)	2,278	(18,391)
Decrease in other assets	335	64	2,999
(Increase) decrease in other accounts receivable	(407)	1,685	(3,644)
Increase (decrease) in accounts payable	1,685	(1,076)	15,087
Decrease in other liabilities	(1,038)	(3,611)	(9,294)
Subtotal	24,146	27,157	216,207
Interest and dividends received	109	104	976
Interest paid	(125)	(117)	(1,119)
Income taxes paid	(9,341)	(5,487)	(83,640)
Net cash provided by operating activities	14,788	21,656	132,414
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(3,761)	(3,134)	(33,676)
Proceeds from sales of property, plant and equipment	783	421	7,011
Purchases of subsidiaries' shares resulting in obtaining controls	(13,246)	(1,310)	(118,606)
Payments for loans receivable	(118)	(404)	(1,056)
Proceeds from collections of loans receivable	626	482	5,605
Proceeds from collections of investments in capital	850	1	7,611
Payments for purchase of intangible fixed assets	(1,228)	(574)	(10,995)
Payments of leasehold and guarantee deposits	(4,469)	(1,369)	(40,016)
Proceeds from refund of leasehold and guarantee deposits	808	718	7,234
Increase in other investments	(820)	(217)	(7,342)
Proceeds from withdrawal of time deposits	616	152	5,515
Other, net	(27)	(46)	(241)
Net cash used in investing activities	(19,985)	(5,281)	(178,948)
Cash flows from financing activities:			
Net repayments from short-term debts	(1,599)	(119)	(14,317)
Repayments of long-term debts	(6,771)	(7,656)	(60,628)
Repayments of lease obligations	(539)	(646)	(4,826)
Proceeds from issuance of common shares	-	26,292	-
Proceeds from sales of treasury stock	-	1,339	-
Cash dividends paid	(1,771)	(1,585)	(15,857)
Other, net	0	(0)	0
Net cash (used) provided by financing activities	(10,681)	17,623	(95,639)
Net (decrease) increase in cash and cash equivalents	(15,878)	33,998	(142,174)
Cash and cash equivalents at beginning of year	63,233	29,234	566,198
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	140	-	1,253
Cash and cash equivalents at end of the year (Note 2)	¥ 47,495	¥ 63,233	$ 425,277

See accompanying notes.

AIN HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2019 AND 2018

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, 2019, which was ¥111.68 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 68 and 73 subsidiaries as of April 30, 2019 and 2018, 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. and Hiro Corporation Ltd. close its accounts on April 30. The account closing date for seven consolidated subsidiaries in the dispensing pharmacy business is the end of January. The account closing dates for seven 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 June 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 value 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 1.5% and 1.4% for the year ended April 30, 2019 and 2018, respectively.

(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) Unapplied accounting standards

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.

(19) Reclassification and restatement

Partial Amendments to Accounting Standard for Tax Effect Accounting
The Company and its consolidated subsidiaries have adopted “Partial Amendments of Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) (the “Partial Amendments”) from the begging of the fiscal year ended April 30, 2019. As such, deferred tax assets and deferred tax liabilities are included within investments and other assets and long-term liabilities, respectively, and related income tax disclosures have been expanded.

As a result, the total of ¥1,611 million of deferred tax assets in current assets and ¥55 million of other current liabilities in current liabilities, and ¥229 million of other current liabilities in current liabilities previously presented in consolidated balance sheet as of April 30, 2018 have been reclassified and included with in ¥3,772 million of deferred tax assets in investments and other assets and ¥1,927 million of other long-term liabilities in long-term liabilities, respectively.

Also, “Note 10 Income Taxes” in the Notes to the consolidated financial statements has been expanded in accordance with Note 8 and Note 9 of Interpretive Notes to Accounting for Tax Effect Accounting. However, comparative information for the year ended April 30, 2018 has not been disclosed in Note 10 in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments.

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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash on hand and in banks	¥ 48,091	¥ 63,779	$ 430,614
Less: Time deposits with maturities exceeding three months	(595)	(546)	(5,327)
Cash and cash equivalents	¥ 47,495	¥ 63,233	$ 425,277

(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, 2019 and 2018 due to the acquisition of shares

(i) Acquisition of shares of 12 companies in the dispensing pharmacy business for the year ended April 30, 2019

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
	2019	2019
Current assets	¥ 9,799	$ 87,741
Fixed assets	3,553	31,814
Goodwill	11,568	103,581
Current liabilities	(7,127)	(63,816)
Long-term liabilities	(1,760)	(15,759)
Acquisition cost of the companies	16,033	143,561
Cash and cash equivalents held by the companies	(2,786)	(24,946)
Net disbursement due to the acquisition	¥ 13,246	$ 118,606

(ii) Acquisition of shares of seven companies in the dispensing pharmacy business 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
	2018
Current assets	¥ 1,129
Fixed assets	311
Goodwill	1,274
Current liabilities	(917)
Long-term liabilities	(137)
Acquisition cost of the companies	1,660
Historical costs of shares of affiliates that are not accounted for by the equity method	(2)
Gain on step acquisition	(49)
Cash and cash equivalents held by the companies	(298)
Net disbursement due to the acquisition	¥ 1,310

3. Inventories

Inventories at April 30, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Merchandise	¥ 12,673	¥ 9,372	$ 113,476
Supplies	225	208	2,014
	¥ 12,898	¥ 9,580	$ 115,490

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 16 years from the account closing date, 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, 2019 and 2018 are summarized in the following table:

Assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Carrying value			
Cash on hand and in banks	¥ 48,091	¥ 63,779	$ 430,614
Notes and accounts receivable	12,771	10,466	114,353
Other accounts receivable	8,438	7,751	75,555
Investment securities	1,074	1,521	9,616
Deposits and guarantees	15,079	11,282	135,019
Total	85,454	94,800	765,168
Fair value			
Cash on hand and in banks	48,091	63,779	430,614
Notes and accounts receivable	12,771	10,466	114,353
Other accounts receivable	8,438	7,751	75,555
Investment securities	1,080	1,524	9,670
Deposits and guarantees	15,047	11,211	134,733
Total	85,429	94,732	764,944
Difference			
Cash on hand and in banks	-	-	-
Notes and accounts receivable	-	-	-
Other accounts receivable	-	-	-
Investment securities	6	3	53
Deposits and guarantees	(31)	(70)	(277)
Total	¥ (25)	¥ (67)	$ (223)

Liabilities

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Carrying value			
Accounts payable	¥ 44,794	¥ 38,728	$ 401,092
Short-term debt including current portion of long-term debt	5,571	6,717	49,883
Deposits received	12,737	12,675	114,049
Long-term debt	5,985	11,511	53,590
Total	69,089	69,633	618,633
Fair value			
Accounts payable	44,794	38,728	401,092
Short-term debt including current portion of long-term debt	5,570	6,717	49,874
Deposits received	12,737	12,675	114,049
Long-term debt	5,974	11,486	53,492
Total	69,077	69,608	618,526
Difference			
Accounts payable	-	-	-
Short-term debt including current portion of long-term debt	(0)	(0)	(0)
Deposits received	-	-	-
Long-term debt	(11)	(24)	(98)
Total	¥ (11)	¥ (24)	$ (98)

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 ¥720 million ($6,446 thousand) and ¥854 million as of April 30, 2019 and 2018, respectively, are not readily determinable.

The redemption schedule for monetary claims and securities with maturity dates as of April 30, 2019 and 2018 are summarized as follows:

	Millions of yen			
	2019			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	¥ 47,289	¥ -	¥ -	¥ -
Notes and accounts receivable	12,771	-	-	-
Other accounts receivable	8,438	-	-	-
Investment securities				
Debt securities	155	-	-	-
Deposits received	2,433	4,235	2,557	5,907
Total	¥ 71,086	¥ 4,235	¥ 2,557	¥ 5,907

	Thousands of U.S. dollars			
	2019			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	$ 423,433	$ -	$ -	$ -
Notes and accounts receivable	114,353	-	-	-
Other accounts receivable	75,555	-	-	-
Investment securities				
Debt securities	1,387	-	-	-
Deposits received	21,785	37,920	22,895	52,892
Total	$ 636,515	$ 37,920	$ 22,895	$ 52,892

	Millions of yen			
	2018			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten 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

5. Securities

(1) The following tables summarize acquisition costs, carrying values and differences of securities with available fair values as of April 30, 2019 and 2018:

Other securities:

Securities with carrying values exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Acquisition cost			
Equity securities	¥ 147	¥ 369	$ 1,316
Bonds	-	-	-
Limited partnerships and similar investments	1	9	8
Other	-	-	-
Total	149	378	1,334
Carrying value			
Equity securities	355	589	3,178
Bonds	-	-	-
Limited partnerships and similar investments	1	13	8
Other	-	-	-
Total	357	603	3,196
Difference			
Equity securities	207	219	1,853
Bonds	-	-	-
Limited partnerships and similar investments	0	4	0
Other	-	-	-
Total	¥ 207	¥ 224	$ 1,853

Other securities:

Securities with carrying values not exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Acquisition cost			
Equity securities	¥ 692	¥ 396	$ 6,196
Bonds	155	160	1,387
Limited partnerships and similar investments	70	451	626
Other	15	9	134
Total	934	1,018	8,363
Carrying value			
Equity securities	476	297	4,262
Bonds	155	160	1,387
Limited partnerships and similar investments	70	451	626
Other	14	9	125
Total	717	918	6,420
Difference			
Equity securities	(216)	(99)	(1,934)
Bonds	-	-	-
Limited partnerships and similar investments	-	-	-
Other	(0)	(0)	(0)
Total	¥ (216)	¥ (99)	$ (1,934)

Stocks of non-consolidated subsidiaries and affiliates were ¥50 million ($447 thousand) and ¥162 million at April 30, 2019 and 2018, 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, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total sales of other securities sold	¥ 21	¥ 84	$ 188
Related gains	7	8	62
Related losses	8	5	71

(3) The following table summarizes impairment losses on other securities in the years ended April 30, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Other securities with fair value	¥ 177	¥ 1	$ 1,584
Other securities without fair value	2	0	17

6. Leases

Remaining lease expenses for non-cancellable operating lease transactions are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Due within one year	¥ 1,957	¥ 1,502	$ 17,523
Due after one year	14,180	8,463	126,969
Total	¥ 16,138	¥ 9,966	$ 144,502

7. Short-term debt and long-term debt

Short-term debt and long-term debt at April 30, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Short-term bank loans with a weighted-average interest rate of 0.4%	¥ 20	¥ 56	$ 179
Current portion of long-term debt with a weighted-average interest rate of 0.2%	5,550	6,661	49,695
Current portion of lease obligation with a weighted-average interest rate of 1.1%	318	443	2,847
Long-term debt (2020-2034) with a weighted-average interest rate of 0.3%	5,985	11,511	53,590
Lease obligation (2020-2023) with a weighted-average interest rate of 0.8%	401	632	3,590
Total	¥ 12,277	¥ 19,304	$ 109,930

The aggregate annual maturities of long-term debt at April 30, 2019 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2020	¥ 5,550	$ 49,695
2021	3,671	32,870
2022	1,597	14,299
2023	535	4,790
2024	53	474

The aggregate annual maturities of lease obligations at April 30, 2019 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2020	¥ 318	$ 2,847
2021	291	2,605
2022	90	805
2023	14	125
2024	5	44

8. Sales, disposal and impairment of fixed assets

(1) Gains and losses on sales of fixed assets for the years ended April 30, 2019 and 2018 are as follows:

Gains on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings and structures	¥ 28	¥ 16	$ 250
Land	3	2	26
Other property, plant and equipment	5	14	44
Goodwill	-	41	-
Other intangible fixed assets	0	0	0
Other investments and other assets	-	1	-
Total	¥ 38	¥ 76	$ 340

Losses on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings and structures	¥ 60	¥ 55	$ 537
Land	190	50	1,701
Other property, plant and equipment	5	3	44
Goodwill	8	-	71
Other intangible fixed assets	11	0	98
Other investments and other assets	0	42	0
Total	¥ 277	¥ 153	$ 2,480

(2) Losses on disposal of fixed assets for the years ended April 30, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings and structures	¥ 167	¥ 242	$ 1,495
Other property, plant and equipment	12	46	107
Goodwill	102	11	913
Other intangible fixed assets	79	48	707
Deposits and guarantees	18	84	161
Other investments and other assets	22	25	196
Disposal cost	15	13	134
Total	¥ 417	¥ 471	$ 3,733

(3) For the years ended April 30, 2019 and 2018, the Company recognized impairment losses for the following assets groups:

Description of assets	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Land	¥ 39	¥ 107	$ 349
Buildings and structures	451	695	4,038
Goodwill	185	297	1,656
Other	90	75	805
Total	¥ 766	¥ 1,175	$ 6,858

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 2019	Thousands of U.S. dollars 2019
Balance as of May 1, 2018	¥ 2,786	$ 24,946
Service costs	395	3,536
Interest cost on retirement benefit obligation	11	98
Actuarial losses incurred	98	877
Pension and severance payments	(164)	(1,468)
Other	208	1,862
Balance as of April 30, 2019	¥ 3,336	$ 29,871

	Millions of yen 2018
Balance as of May 1, 2017	¥ 2,462
Service costs	353
Interest cost on retirement benefit obligation	10
Actuarial losses incurred	103
Pension and severance payments	(154)
Other	12
Balance as of April 30, 2018	¥ 2,786

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

	Millions of yen 2019	Thousands of U.S. dollars 2019
Balance as of May 1, 2018	¥ 859	$ 7,691
Expected return on plan assets	6	53
Actuarial gains incurred	70	626
Business owner's contribution	103	922
Pension and severance payments	(44)	(393)
Other	76	680
Balance as of April 30, 2019	¥ 1,072	$ 9,598

	Millions of yen 2018
Balance as of May 1, 2017	¥ 808
Expected return on plan assets	6
Actuarial gains incurred	8
Business owner's contribution	96
Pension and severance payments	(59)
Balance as of April 30, 2018	¥ 859

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

	Millions of yen 2019	Thousands of U.S. dollars 2019
Balance as of May 1, 2018	¥ 689	$ 6,169
Retirement benefit expenses	192	1,719
Business owner's contribution	(8)	(71)
Pension and severance payments	(208)	(1,862)
Increases due to a newly consolidated subsidiary	157	1,405
Other	(124)	(1,110)
Balance as of April 30, 2019	¥ 697	$ 6,241

	Millions of yen 2018
Balance as of May 1, 2017	¥ 655
Retirement benefit expenses	170
Business owner's contribution	(22)
Pension and severance payments	(96)
Increases due to a newly consolidated subsidiary	9
Other	(28)
Balance as of April 30, 2018	¥ 689

(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 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Funded retirement benefit obligation	¥ 1,376	¥ 1,266	$ 12,320
Plan assets	(1,140)	(1,015)	(10,207)
Subtotal	235	251	2,104
Unfunded retirement benefit obligation	2,726	2,364	24,409
Net of liability and asset reported on the consolidated balance sheet	2,962	2,616	26,522
Net defined benefit liability	2,977	2,625	26,656
Net defined benefit asset	(15)	(9)	(134)
Net of liability and asset reported on the consolidated balance sheet	¥ 2,962	¥ 2,616	$ 26,522

(5) Retirement benefit expenses for the years ended April 30, 2019 and 2018 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service costs	¥ 395	¥ 353	$ 3,536
Interest cost on retirement benefit obligation	11	10	98
Expected return on plan assets	(6)	(6)	(53)
Amortization of actuarial losses (gains)	28	(10)	250
Amortization of prior service costs	(13)	(34)	(116)
Retirement benefit expenses calculated under the simplified method	192	170	1,719
Retirement benefit expenses	¥ 607	¥ 483	$ 5,435

(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
	2019	2018	2019
Prior service costs	¥ (13)	¥ (34)	$ (116)
Actuarial losses	0	(104)	0
Total	¥ (13)	¥ (139)	$ (116)

(b) Accumulated

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized prior service costs	¥ -	¥ (13)	$ -
Unrecognized actuarial gains	87	87	779
Total	¥ 87	¥ 74	$ 779

(7) Plan assets

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

	2019	2018
Bonds	22%	21%
Stocks	11%	13%
General account	46%	46%
Separate account	16%	15%
Other	5%	5%
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, 2019 and 2018 are principally as follows:

	2019	2018
Weighted average discount rate	0.48%	0.61%
Weighted average expected rate of return on plan assets	0.75%	0.75%
Expected rates of salary increase	1.00%-3.68%	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, 2019 and 2018 were 30.4% and 30.6%, respectively.

(1) The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for consolidated financial statement purposes for the years ended April 30, 2019 and 2018:

	2019	2018
Statutory tax rate	30.4%	30.6%
Non-deductible expenses	1.8	0.6
Per capita inhabitant tax	0.6	0.4
Amortization of goodwill	8.0	6.3
Valuation allowance	(3.8)	0.4
Tax credits on tax system to expand income	(0.0)	(0.0)
Different tax rates applied to consolidated subsidiaries	4.3	4.8
Other	0.7	(2.0)
Effective tax rates	42.0%	41.0%

(2) Significant components of deferred tax assets and liabilities as of April 30, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Impairment losses	¥ 407	¥ 422	$ 3,644
Excess of depreciation	734	582	6,572
Excess of allowance for bonuses	726	648	6,500
Excess of reserve for rewards obligation	153	143	1,369
Net defined benefit liabilities	1,028	901	9,204
Goodwill on transfer of business	479	440	4,289
Asset retirement obligations	352	326	3.151
Income taxes payable	309	463	2,766
Accrued expense	311	289	2,784
Net operating loss carryforwards	871	720	7,799
Allowance for doubtful accounts	524	217	4,691
Other	255	628	2,283
Sub-total deferred tax assets	6,156	5,784	55,121
Valuation allowance on net operating loss carryforwards	(801)	-	(7,172)
Valuation allowance on deductible temporary differences	(846)	-	(7,575)
Sub-total Valuation allowance	(1,648)	(1,586)	(14,756)
Total deferred tax assets	4,508	4,197	40,365
Deferred tax liabilities:			
Capitalized removal costs	(188)	(178)	(1,683)
Net unrealized holding gains on securities	(4)	(37)	(35)
Other accounts receivable	(248)	(423)	(2,220)
Other	(92)	(15)	(823)
Total deferred tax liabilities	(533)	(655)	(4,772)
Net deferred tax assets	¥ 3,974	¥ 3,542	$ 35,583

(3) The amounts of net operating loss carryforwards and its deferred tax assets by expiration date as of April 30, 2019 are summarized as follows:

	Millions of yen						
	2019						
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Net operating loss carryforwards (a)	¥ 0	¥ 10	¥ 17	¥ 24	¥ 19	¥ 799	¥ 871
Valuation allowance	(0)	(10)	(17)	(24)	(19)	(729)	(801)
Deferred tax assets	-	-	-	-	-	69	69

	Thousands of U.S. dollars						
	2019						
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Net operating loss carryforwards (a)	$ 0	$ 89	$ 152	$ 214	$ 170	$ 7,154	$ 7,799
Valuation allowance	(0)	(89)	(152)	(214)	(170)	(6,257)	(7,172)
Deferred tax assets	-	-	-	-	-	617	617

(a) The amount is determined by multiplying the corresponding net operating loss carryforwards by the effective statutory tax rate.

11. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law (the "Law"), in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, the legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized by resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

12. Commitment

The Company entered into overdraft agreements with 19 and 18 banks as of April 30, 2019 and 2018, respectively, to finance working capital requirements. The outstanding balances of such overdrafts as of April 30, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total overdraft available	¥ 23,400	¥ 21,450	$ 209,527
Amount utilized	20	32	179
Outstanding balance	¥ 23,379	¥ 21,418	$ 209,339

13. Amounts per share

Net assets per share at April 30, 2019 and 2018 and basic and diluted earnings per share for the years then ended are as follows:

	Yen		U.S. dollars
	2019	2018	2019
Net assets per share	¥2,931,48	¥2,729.44	$ 26.24
Basic earnings per share	254.87	310.08	2.28
Diluted earnings per share	-	-	-
Cash dividends per share attributable to the year	55	50	0.49

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.

14. 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, 2019 and 2018 are summarized as follows:

	Millions of yen					
	2019					
	Dispensing pharmacy	Cosmetic and Drug store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 245,003	¥ 25,210	¥ 5,382	¥ 275,596	¥ -	¥ 275,596
Intersegment sales	-	-	126	126	(126)	-
Total sales	245,003	25,210	5,508	275,722	(126)	275,596
Segment income (loss)	18,331	972	(165)	19,138	(2,500)	16,637
Segment assets	¥ 170,170	¥ 11,255	¥ 9,471	¥ 190,897	¥ (1,875)	¥ 189,021
Other						
Depreciation and amortization	¥ 2,538	¥ 315	¥ 305	¥ 3,159	¥ 218	¥ 3,378
Amortization of goodwill	4,165	-	18	4,183	-	4,183
Impairment losses	431	334	-	766	-	766
Increase of tangible and intangible assets	3,137	1,709	238	5,085	363	5,449

	Thousands of U.S. dollars					
	2019					
	Dispensing pharmacy	Cosmetic and Drug store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	$ 2,193,794	$ 225,734	$ 48,191	$ 2,467,729	$ -	$ 2,467,729
Intersegment sales	-	-	1,128	1,128	(1,128)	-
Total sales	2,193,794	225,734	49,319	2,468,857	(1,128)	2,467,729
Segment income (loss)	164,138	8,703	(1,477)	171,364	(22,385)	148,970
Segment assets	$ 1,523,728	$ 100,779	$ 84,804	$ 1,709,321	$ (16,789)	$ 1,692,523
Other						
Depreciation and amortization	$ 22,725	$ 2,820	$ 2,731	$ 28,286	$ 1,952	$ 30,247
Amortization of goodwill	37,294	-	161	37,455	-	37,455
Impairment losses	3,859	2,990	-	6,858	-	6,858
Increase of tangible and intangible assets	28,089	15,302	2,131	45,531	3,250	48,791

	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	¥ 155,516	¥ 9,943	¥ 10,016	¥ 175,476	¥ 7,903	¥ 183,380
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

Amortization of goodwill and unamortized balances by reporting segment as of and for the years ended April 30, 2019 and 2018 are summarized as follows:

	Millions of yen				
	2019				
	Dispensing pharmacy	Cosmetic and Drug store	Other	Adjustments	Consolidated
Amortization of goodwill	¥ 4,165	¥ -	¥ 18	¥ -	¥ 4,183
Unamortized balances of goodwill	45,127	-	122	-	45,249

	Thousands of U.S. dollars				
	2019				
	Dispensing pharmacy	Cosmetic and Drug store	Other	Adjustments	Consolidated
Amortization of goodwill	$ 37,294	$ -	$ 161	$ -	$ 37,455
Unamortized balances of goodwill	404,074	-	1,092	-	405,166

	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

15. Comprehensive income

Each component of other comprehensive loss for the years ended April 30, 2019 and 2018 was the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrealized holding (losses) gains on securities:			
(Losses) gains arising during the year	¥ (129)	¥ 1	$ (1,155)
Reclassification adjustments to gains (losses)	1	(2)	8
Amount before income tax effect	(127)	(1)	(1,137)
Income tax effect	36	0	322
Total unrealized holding losses on securities	(91)	(1)	(814)
Remeasurments of defined benefit plans:			
Losses arising during the year	(27)	(94)	(241)
Reclassification adjustments to gains (losses)	14	(44)	125
Amount before income tax effect	(13)	(139)	(116)
Income tax effect	4	(13)	35
Total remeasurments of defined benefit plans	(8)	(152)	(71)
Total other comprehensive loss	¥ (99)	¥ (153)	$ (886)

16. Quarterly Information

(1) Quarterly net sales for the year ended April 30, 2019 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2019	2019
Three months ended July 31, 2018	¥ 65,013	$ 582,136
Six months ended October 31, 2018	131,781	1,179,987
Nine months ended January 31, 2019	202,522	1,813,413
Twelve months ended April 30, 2019	275,596	2,467,729

(2) Quarterly income before income taxes and non-controlling interests for the year ended April 30, 2019 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2019	2019
Three months ended July 31, 2018	¥ 3,442	$ 30,820
Six months ended October 31, 2018	6,668	59,706
Nine months ended January 31, 2019	11,868	106,267
Twelve months ended April 30, 2019	15,624	139,899

(3) Quarterly profit attributable to owners of parent for the year ended April 30, 2019 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2019	2019
Three months ended July 31, 2018	¥ 1,851	$ 16,574
Six months ended October 31, 2018	3,639	32,584
Nine months ended January 31, 2019	6,781	60,718
Twelve months ended April 30, 2019	9,029	80,847

(4) Quarterly earnings per share for the year ended April 30, 2019 is as follows:

	Yen	U.S. dollars
	2019	2019
Three months ended July 31, 2018	¥ 52.27	$ 0.46
Six months ended October 31, 2018	102.73	0.91
Nine months ended January 31, 2019	191.41	1.71
Twelve months ended April 30, 2019	254.87	2.28

(5) Quarterly earnings per share for each accounting period of the year ended April 30, 2019 is as follows:

	Yen	U.S. dollars
	2019	2019
Three months ended July 31, 2018	¥ 52.27	$ 0.46
Three months ended October 31, 2018	50.46	0.45
Three months ended January 31, 2019	88.67	0.79
Three months ended April 30, 2019	63.46	0.56

Building a better working world

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, 2019, 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, 2019, 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, 2019
Sapporo, Japan

CORPORATE DATA
(Fiscal 2019)

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: 7,662
Non-consolidated: 143

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

STOCK INFORMATION
(Fiscal 2019)

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)

Number of Shareholders
4,024

Major Shareholders

(As of April 30, 2019)

Shareholders	Number of shares held (thousand shares)	Share-holding ratio*1 (%)
Kiichi Otani	3,238	9.14
Seven & i Holdings Co., Ltd.	2,750	7.76
GOLDMAN SACHS INTERNATIONAL (Standing agent: Goldman Sachs Japan Co., Ltd.)	1,695	4.79
Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd. (Marubeni Corporation account)*2	1,594	4.50
The Hokkaido Bank, Ltd.	1,472	4.15
MSIP CLIENT SECURITIES (Standing agent: Morgan Stanley MUFG Securities Co., Ltd.)	1,325	3.74
Japan Trustee Services Bank, Ltd. (Trust account)*3	1,133	3.20
North Pacific Bank, Ltd.	1,085	3.06
The Master Trust Bank of Japan, Ltd. (Trust account)*3	902	2.55
The Norinchukin Bank	600	1.69

Notes: 1. Shareholding ratios are calculated excluding 728 treasury shares.
2. Shares held in the Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd. (Marubeni Corporation account) are part of Marubeni Corporation's retirement benefit trust.
3. All shares held in Japan Trustee Services Bank, Ltd. (Trust Account) and The Master Trust Bank of Japan, Ltd. (Trust Account) are related to trust services.

AIN HOLDINGS